S. HRG. 102-1032

NORTH AMERICAN FREE TRADE AGREEMENT

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

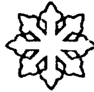
ONE HUNDRED SECOND CONGRESS

SECOND SESSION

ON

LABOR ISSUES, BUSINESS AND LABOR VIEWS, AND AGRICULTURE AND ENERGY ISSUES CONCERNING NAFTA

SEPTEMBER 8, 10, 22, and 30, 1992



Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
64-026—CC WASHINGTON : 1993

S. 361-18

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-040173-9

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CONTENTS

TUESDAY, SEPTEMBER 8, 1992

OPENING STATEMENTS

	Page
Bentsen, Hon. Lloyd, a U.S. Senator from Texas, chairman, Committee on Finance	1
Packwood, Hon. Bob, a U.S. Senator from Oregon	3
Baucus, Hon. Max, a U.S. Senator from Montana	5
Durenberger, Hon. Dave, a U.S. Senator from Minnesota	6
Danforth, Hon. John C., a U.S. Senator from Missouri	7
Grassley, Hon. Charles E., a U.S. Senator from Iowa	8
Riegle, Hon. Donald, a U.S. Senator from Michigan	9
Chafee, Hon. John H., a U.S. Senator from Rhode Island	11
Bradley, Hon. Bill, a U.S. Senator from New Jersey	11
Symms, Hon. Steve, a U.S. Senator from Idaho	12

COMMITTEE PRESS RELEASE

Bentsen Calls Hearings on NAFTA, U.S. Trade Representative Hills to Testify, Chairman Says 1

ADMINISTRATION WITNESS

Hills, Hon. Carla A., U.S. Trade Representative, Washington, DC 14

THURSDAY, SEPTEMBER 10, 1992

(LABOR ISSUES)

OPENING STATEMENTS

Bentsen, Hon. Lloyd, a U.S. Senator from Texas, chairman, Committee on Finance	52
Packwood, Hon. Bob, a U.S. Senator from Oregon	53
Roth, Hon. William V., Jr., a U.S. Senator from Delaware	54
Moynihan, Hon. Daniel Patrick, a U.S. Senator from New York	55
Baucus, Hon. Max, a U.S. Senator from Montana	56
Breaux, Hon. John, a U.S. Senator from Louisiana	57
Chafee, Hon. John H., a U.S. Senator from Rhode Island	58
Grassley, Hon. Charles E., a U.S. Senator from Iowa	59

COMMITTEE PRESS RELEASE

Senate Finance Committee to Examine Labor Issues Behind NAFTA, Senator Bentsen Concerned About Displaced Workers 51

Page

ADMINISTRATION WITNESSES

Martin, Hon. Lynn M., Secretary, U.S. Department of Labor, Washington, DC, accompanied by Delbert Spurlock, Deputy Secretary, U.S. Department of Labor; Ms. Shellyn McCaffrey, Deputy Under Secretary for International Affairs, U.S. Department of Labor, Fran McNaught, Assistant Secretary for Congressional and Intergovernmental Affairs, Burton Fishman, Deputy Solicitor; Dottie Strunk, Acting Assistant Secretary for Occupational Safety and Health; Roberts Jones, Assistant Secretary for Employment and Training; and Judith Sotherlund, Deputy Assistant Secretary for Employment Standards, Washington, DC 61

CONGRESSIONAL WITNESS

Morra, Linda G., Director, Education and Employment Issues, General Accounting Office, Washington, DC 87

TUESDAY, SEPTEMBER 22, 1992

(BUSINESS AND LABOR VIEWS)

OPENING STATEMENTS

Bentsen, Hon. Lloyd, a U.S. Senator from Texas, chairman, Committee on Finance 95
Packwood, Hon. Bob, a U.S. Senator from Oregon 96

COMMITTEE PRESS RELEASE

Business, Labor Views of NAFTA to be Discussed, Bentsen Says Benefits to Industry, Workers "Pivotal" 95

PUBLIC WITNESSES

Robinson, James D., III, chairman, Advisory Committee for Trade Policy and Negotiations, chairman, The Business Roundtable, International Trade and Investment Task Force, and chairman and chief executive officer, American Express Co., New York, NY 97
Donahue, Thomas R., chairman, Labor Advisory Committee, and secretary-treasurer, AFL–CIO, Washington, DC, accompanied by Mark A. Anderson, director, Task Force on Trade, AFL–CIO, Washington, DC 122

WEDNESDAY, SEPTEMBER 30, 1992

(AGRICULTURE AND ENERGY ISSUES)

OPENING STATEMENTS

Bentsen, Hon. Lloyd, a U.S. Senator from Texas, chairman, Committee on Finance 145
Baucus, Hon. Max, a U.S. Senator from Montana 146
Packwood, Hon. Bob, a U.S. Senator from Oregon 148

COMMITTEE PRESS RELEASE

Committee to Examine NAFTA Agriculture and Energy Issues, U.S. Looking To Compete, Bentsen Says 145

ADMINISTRATION WITNESS

Veneman. Hon. Ann M., Deputy Secretary, U.S. Department of Agriculture, Washington, DC 149

PUBLIC WITNESSES

Wenstrand, Pete, vice president, government relations, National Corn Growers Association, Essex, IA 173

Page

Prewett, Ray, executive vice president, Texas Citrus Mutual and Texas Vegetable Association, McAllen, TX 175
Thibaut, Charles, chairman, National Legislative Committee, American Sugar Cane League, Thibodaux, LA, accompanied by Luther A. Markwart, executive vice president, American Sugarbeet Growers Association, Washington, DC .....
Angell, Madison, president, National Association of Wheat Growers, Mocksville, NC 177
Ames, Eugene, Jr., chairman, Independent Petroleum Association of America, and president, Venus Oil Co., San Antonio, TX 179
Pickens, T. Boone, Jr., chairman of the board and chief executive officer, Mesa, Inc., Dallas, TX 191
Ginn, Russell E., chairman and chief executive officer, Tom Wheatley Valve Co., and treasurer, executive committee member and director, Petroleum Equipment Suppliers Association (PESA), Houston, TX 192
Greehey, William, chairman and chief executive officer, Valero Energy Corp., San Antonio, TX 196

ALPHABETICAL LISTING AND APPENDIX MATERIAL SUBMITTED

Ames, Eugene, Jr.:
Testimony 191
Prepared statement 207
Angell, Madison:
Testimony 179
Prepared statement 211
Baucus, Hon. Max:
Opening statements 5, 56, 146
Bentsen, Hon. Lloyd:
Opening statements 1, 52, 95, 145
Bradley, Hon. Bill:
Opening statement 11
Breaux, Hon. John:
Opening statement 57
Chafee, Hon. John H.:
Opening statements 11, 58
Danforth, Hon. John C.:
Opening statement 7
Donahue, Thomas R.:
Testimony 122
Prepared statement with attachments 213
Durenberger, Hon. Dave:
Opening statement 6
Prepared statements 238, 239
Ginn, Russell E.:
Testimony 194
Prepared statement 240
Grassley, Hon. Charles E.:
Opening statements 8, 59
Prepared statements 242
Greehey, William:
Testimony 196
Prepared statement 243
Hatch, Hon. Orrin G.:
Prepared statements 245, 246, 247
Hills, Hon. Carla A.:
Testimony 14
Prepared statement 250
Responses to questions submitted by:
Senator Pryor 257
Senator Riegle 265
Senator Symms 269
Martin, Hon. Lynn M.:
Testimony 61
Prepared statement 270

Page

Morra, Linda G.:
- Testimony 87
- Prepared statement 277
- Responses to questions submitted by Senator Riegle 279

Moynihan, Hon. Daniel Patrick:
- Opening statement 55

Packwood, Hon. Bob:
- Opening statements 3, 53, 96, 148

Pickens, T. Boone, Jr.:
- Testimony 192
- Prepared statement 300

Prewett, Ray:
- Testimony 175
- Prepared statement 305

Riegle, Hon. Donald:
- Opening statement 9
- Various magazine and newspaper articles concerning NAFTA 310

Robinson, James D., III:
- Testimony 97
- Prepared statement with attachment 345
- Roundtable Summary Assessment 351
- "The Impact of the North American Free Trade Agreement on New York, prepared for the U.S. Council of the Mexico-U.S. Business Committee, by the Trade Partnership, Washington, DC 353

Roth Hon. William V., Jr.:
- Opening statement 54

Symms, Hon. Steve:
- Opening statement 12
- Prepared statements 371

Thibaut, Charles:
- Testimony 177
- Prepared statement 372

Veneman, Hon. Ann M.:
- Testimony 149
- Prepared statement 375
- Responses to questions submitted by Senator Symms 382

Wenstrand, Pete:
- Testimony 173
- Prepared statement 384

COMMUNICATIONS

American Sheep Industry Association 387
Central and South West Corp. 390
Cigar Association of America, Inc. 393
Committee on Pipe and Tube Imports 394
Customs and International Trade Bar Association 395
Florida Citrus Mutual 398
International Trade Council 406
Motor & Equipment Manufacturers Association 408
National Association of Hosiery Manufacturers 413
National Customs Brokers and Forwarders Association of America 414
National Grain and Feed Association 417
National Peanut Growers Group 419
Non-Ferrous Metals Producers Committee 423
Steinberg, David J. 427
Sweetener Users Association 429
Vista Chemical Co. 431
Virgin Islands Rum Industries, Ltd. 435

NORTH AMERICAN FREE TRADE AGREEMENT

TUESDAY, SEPTEMBER 8, 1992

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

The hearing was convened, pursuant to notice, at 2:15 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Moynihan, Baucus, Bradley, Riegle, Packwood, Danforth, Chafee, Durenberger, Symms, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H-44, Aug. 25, 1992]

BENTSEN CALLS HEARINGS ON NAFTA, U.S. TRADE REPRESENTATIVE HILLS TO TESTIFY, CHAIRMAN SAYS

WASHINGTON, DC—Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, announced that U.S. Trade Representative Carla Hills will testify at a hearing to answer questions and to review the just-completed North American Free Trade Agreement.

The hearing will be at *2:15 p.m., Tuesday, September 8, 1992* in Room SD-215 of the Dirksen Senate Office Building. Bentsen (D., Texas) plans to call additional hearings.

"Now that our negotiators have produced a North American Free Trade Agreement, Congress must determine whether it serves our national interest," Bentsen said.

"As I have stressed for the past two years, in principle I believe a properly structured free trade agreement will be good for us, boosting our economy and providing a net increase in U.S. jobs. Now we have to take a close look at the details of this agreement—give it serious review and careful consideration," Bentsen said.

"I have asked Ambassador Hills to appear before the Finance Committee to review the terms of the agreement and respond to questions from Committee members. This will begin a series of hearings to examine the agreement as well as critical issues related to it, such as worker retraining, environmental protection and border infrastructure," Bentsen said.

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

The CHAIRMAN. This hearing will come to order. Nearly 4 weeks ago, the administration announced it had reached a North American Free Trade Agreement after weeks of intensive negotiations. I called this hearing to give the Finance Committee the first chance to determine just where we stand.

Let me begin by commending Ambassador Hills and her team for the long nights, for the hard work, for the serious negotiation, for the personal sacrifice, and, I'm sure, the jangled nerves they must have developed along the way. And we appreciate it very much.

Throughout this process, I have been a strong supporter of the NAFTA negotiations, and I still am. Last year when the President

had to seek fast- track authority for these talks, I remember sitting in the Oval Office with the President on a number of occasions talking to Senators, trying to help them make up their minds to support the negotiating authority. In the end, 23 Democratic Senators voted to give the President that authority. The plain fact is, Ambassador Hills, you would not be here today if it were not for Democratic support for that negotiating authority.

I supported these negotiations because I believed that a good Free Trade Agreement would help the American economy, would create net jobs for our people that they very much need. I believe that just as strongly today. To me, NAFTA is serious business—serious business. And I say that because of the enormous opportunities I think it can provide. And I must tell you, in all candor, that is why it concerns me when I read press reports that the President, I think, is deliberately trying to politicize this agreement. In Missouri 2 weeks ago, the President accused Governor Clinton of fudging on the NAFTA because he had not taken a final position on the agreement itself. Frankly, I was amazed.

I followed these negotiations closely for 15 months, and so have most of the members of this committee. I have reviewed many of the provisions of the agreement. I like some of them, and some of them I question. And I am not ready to sign on this agreement. I have never signed a contract I have not read. The agreement is enormously complex. That may be part of it right there.

The draft text that you provided us is 2,000 pages long. It covers everything from corn to computers. Governor Clinton did not even have that text. In fact, no public text was available at that time. Yet, the President thought that Governor Clinton should sign on.

Even more amazing, we find now that it was not even a final agreement back on August the 12th. The negotiators were still hammering out substantive provisions of the deal over at the Watergate. Apparently President Bush thought Governor Clinton should sign on the dotted line when there wasn't even a dotted line.

It took the administration 15 months to negotiate this agreement, and now, apparently, the President expects Governor Clinton to make his decision in 15 days. No responsible person should make a decision that quickly on an agreement of this complexity and this magnitude, and no one should responsibly expect it.

That was not the end. Last week, the administration announced a new worker adjustment program, but provided absolutely no way to pay for it. That is kind of like showing us a house without telling us about the mortgage. It makes great election year politics, but I think the American people see through that. And it is a cruel joke on those workers who will be hurt by NAFTA who deserve a serious response from their government.

I think that is particularly ironic coming from an administration that has tried, for 10 years, to kill the Trade Adjustment Assistance Program. That is pure politics, and I think this administration knows it.

But there is something even more important going on here. I think we are at a crossroads today. This administration has to make up its mind whether it wants to treat this agreement as a campaign issue or as the serious effort that I have worked on for

the last year, and worked hard, and so have the members of this committee. Politicizing this agreement will not help its prospects in the Congress. It will make the job much more difficult for those of us who have helped lead this fight. That is speaking as someone who has been consistently sympathetic toward the process.

I have called a series of hearings in this committee because I want to take a serious and sober look at where we stand in these negotiations and the terms of this agreement.

I want to hear the reaction from industry; I want to hear it from labor; I want to hear it from the service industry; I want to hear it from agriculture. And then we will begin to think about what we should do in the implementing of this legislation.

In May of 1991, the President made a number of commitments in the Action Plan that he sent to Chairman Rostenkowski and to me to win extension of the fast-track authority. In these hearings, I want to see how those promises have been kept.

The President also made commitments in that Action Plan to do things outside the agreement in areas like worker adjustment and the environment. I want to explore what the administration intends to do in those areas, including how it intends to pay for them.

And let me close by emphasizing once again that I believe this fast-track authority requires a real partnership—a real partnership—between the Congress and the President. And I think that is what we had at one point. I urge the administration to return to that kind of a spirit as we consider this agreement.

Senator Packwood.

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

Senator PACKWOOD. Mr. Chairman, I am delighted to hear your statement that no responsible person can take a position on this agreement, as we have not seen it. If you do not mind, I think I will quote that in the campaign. My opponent has taken a position in opposition to it without ever having seen it. And I think I will just quote Senator Bentsen and say you're an irresponsible person. Is that all right? [Laughter.]

The CHAIRMAN. Well, I certainly stand by my statement, my friend.

Senator PACKWOOD. Having gone through both the Israeli and the Canadian Free Trade Agreement, I would like to say first, that you have kept us very well informed. I have no complaints. I think I have said to you before that every now and then somebody says, oh, my gosh, is she coming back again to brief us. You could not obviously keep us informed on every dotted "i" and crossed "t" in this. Is that the treaty right there? Is that the agreement right there?

Ambassador HILLS. It is.

Senator PACKWOOD. That's not your testimony today then. [Laughter.]

We could not know everything, and we would be wrong right now, to say yes or no, because we really have not seen it.

But, on the other hand, I share the same views as Senator Bentsen does. A good Free Trade Agreement will be good for the United

States if it takes care of the problems that were mentioned all last year: environment and jobs. How does it treat jobs and jobs within different industries? There are winners and losers. There has to be in all agreements, or you would not have any agreement.

What does it do to the environment? Are industries going to flee? You know the questions, and I see you are planning to have Mr. Reilly come testify also. I think that is an excellent idea. I compliment you, Mr. Chairman. I hope we can do these four hearings before we adjourn. I think it is critical.

The CHAIRMAN. Well, I appreciate it. We are going to see to it.

Senator PACKWOOD. Good. I think it is critical that we do these four hearings. Because whether you and I deplore the politicizing of it or not—at least in my campaign it has become politicized and I think it will in others—I think it is imperative we get everything out of the way so it does not hang out there. Then it will be politicized if it hangs out there. I will support this if it answers those questions.

Jobs—and I understand there will be dislocations; and the environment. I will be particularly concerned, as we all are, about jobs in my State, although Oregon is a tremendously export-dependent State.

We have one job in seven in manufacturing dependent on trade, and one job in four in agriculture. Usually in the past, anything that expanded trade was good for Oregon employment. We are the biggest port of entry for Hyundai's.

In fact, Hyundai just announced last week they are closing their entry point in New Jersey and moving it to Oregon, and they will serve all seven States from Oregon.

We are the biggest port of entry for Toyota's, we are the biggest port of export for Honda's made in Ohio and shipped out of Portland, OR all over the world. Tremendous agricultural exports, and growing exports to Mexico. Oregon exports to Mexico have grown faster over the last 5 years than the average U.S. exports to Mexico.

Most of the businesses I have talked with in Oregon so far think that they will do fine if it is a genuine Free Trade Agreement. They, of course, have some misgivings about how fast things are phased out. Some of them had misgivings about how slow things are phased out.

I think it depends on whether things were coming in or going out as to how they viewed the phase out. But I want to say, I think you have done a whale of a job on this.

I will withhold my judgment until we have had the four hearings, but I will say that if this agreement is what I hope it will be on the environment and jobs, I would look forward to enthusiastically supporting it. If it is not, my hunch is that there is probably no point in even presenting the agreement to the Congress. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Baucus.

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

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Chairman, I first want to begin by applauding the efforts of Ambassador Hills and the administration. I think that they worked tirelessly and heroically in pushing for an agreement which, although it has certain problems with it, it is at least a tentative agreement that has a lot of benefits and a lot of positive attributes to it.

I must say, however, that I cannot, at this point, totally endorse the fruits of their labor. And that is because, in my opinion, the agreement is still flawed.

Even more troubling than the agreement itself is that the Bush administration, I think, appears more concerned with using NAFTA for a partisan political advantage than for getting the best possible market opening agreement for the United States.

It has become clear to me that the timing of the conclusion of the NAFTA had far more to do with Presidential politics than with good trade policy.

Although important details remain to be negotiated, the administration rushed the announcement of the NAFTA to coincide with the opening gavel of the Republican National Convention.

And, now, President Bush suggests that if his opponent, Governor Clinton—or, for that matter, any of us who supported fast track—refused to endorse NAFTA, then we must all be protectionists. Mr. Chairman, that could not be further from the truth.

For President Bush to suggest that Governor Clinton, or any of us in the Congress, should endorse a treaty which we have not even had an opportunity to review, would be the height of irresponsibility.

The fact is, Governor Clinton has stated repeatedly that he supports the concept of NAFTA. He joined many of us in Congress in supporting this administration's request for fast-track authority.

But none of us, whether we are Democrats or Republicans, whether we supported fast track or not, should be expected to give a blanket endorsement, sight unseen.

As many in this body know, I have been a long-time supporter of free trade. I voted for both the United States-Canada and the United States-Israel Free Trade Agreements.

I voted to give this administration the fast-track authority to negotiate a Free Trade Agreement with Mexico and with Canada. And I still support the concept of a North American Free Trade area.

However, in the rush to conclude this agreement, it is clear that some important provisions have gotten short shrift. Despite strong advice many of us in the Congress have given repeatedly, this agreement simply does not pay adequate attention to job displacement or to environmental concerns.

And I cannot support this agreement unless additional measures are taken to protect both the environment, and the Americans who may lose their jobs as a result of this agreement.

Although Mexico has made great strides on the environmental front, it remains a developing country—a developing country with a highly suspect commitment to environmental protection.

I am not willing to conclude a Free Trade Agreement with Mexico if it means creating an incentive for U.S. business to move south to exploit low environmental standards.

I am not willing to support an agreement that ignores the environmental impacts of free trade. In short, I am not willing to conclude a Free Trade Agreement at the cost of the environment.

I am saddened, because just as I witnessed first-hand at the recent Rio Earth Summit in Rio de Janeiro, the United States has again missed an historic opportunity.

With a few relatively simple changes in the agreement or a parallel understanding, NAFTA could have been turned into a tremendous boon for the environment instead of the clear threat that it has become.

In fairness, progress has been made on some environment issues, but, in key areas, the environment has been ignored. If we would have pressed for a dispute settlement procedure to require higher environmental standards backed up by meaningful sanctions, as our trading partners had proposed, this agreement could have been an historic step forward for both free trade and environmental protection.

The administration could even have demonstrated a commitment—a real commitment—to the environment and worker protection by creating a secure source of funds for these important projects, but the administration rejected these proposals.

Instead, they decided to negotiate a Free Trade Agreement without adequate environmental protections. Instead, the administration has chosen to answer environmental critics with rhetoric. Those concerned with the environment are dismissed as "protectionists in environmental clothing."

Mr. Chairman, I am not a protectionist. A large portion of my legislative career has been devoted to promoting free trade. But I will not support a Free Trade Agreement if it is a clear threat to the environment.

Additional measures must be taken to ensure that this agreement promotes both free trade, and a strong and healthy environment. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Durenberger, do you have any comments you would like to make?

OPENING STATEMENT OF HON. DAVE DURENBERGER, A U.S. SENATOR FROM MINNESOTA

Senator DURENBERGER. Yes, Mr. Chairman. I will be brief, and I have a statement that I would like to be made part of the record.

The CHAIRMAN. That will be done.

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

Senator DURENBERGER. I want to do two things. I want to compliment Ambassador Hills. She has had a tough job, but, as you and my colleague from Montana recall, we were sort of following her around last year in Mexico and South America. And that leads me to the second part.

I compliment the people on this committee who, since the mid-1980's, in particular, have made the congressional role in trade policy just as important as our role in tax policy and a whole lot of

other things that we seem to have a lot more constituent interest in, and a great deal more understanding, I would say, of the issue, as well.

So, the second important point to make before any of us start plowing through that 10–12 inches of agreement is that we are wiser, we are smarter, and, if it were not for the fact that it was an election year, we probably would not be making statements like, I will not do this, I will not do that, I will not do that, unless, unless, unless. But it is a political year; we recognize that reality.

I am complimented to be on a committee that is so much wiser today than it has ever been on these trade issues. And I would say to Ambassador Hills that she recognizes that, because she has spent a lot of time with us, as well.

And I think, also, the people who represent some of the other countries that negotiate in this process recognize the value that this committee has in representing not only constituent interests, but a national, and, to a degree, an important hemispheric interest in trade issues.

So, I look forward to this discussion, not just these 4 days of hearings, and the integration of other policies—energy, environment, all the rest of those issues. I think this will be a very challenging and a very important opportunity for this committee over the next several months.

The CHAIRMAN. Thank you.

Senator Danforth.

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

Senator DANFORTH. Madam Ambassador, I would like to note with appreciation the tremendous effort you have made to keep this committee informed as to the progress of the NAFTA negotiations over a considerable period of time. The original fast-track authority, I believe, was granted in 1988 and I think extended well over a year ago, sometime in the spring, I think, of 1991.

And particularly as the negotiations have proceeded in the last year or year and a half, you have met regularly with the Finance Committee, and I am sure you met regularly as well with the Ways and Means Committee, to brief us on the issues.

And I can say that there are very few issues in my memory that have come before the Finance Committee on which we have had such a chance to inform ourselves as the North American Free Trade Agreement.

It is said that, well, we have not seen the exact text of the agreement, but the basic work of this committee, for example, in tax legislation, has acquainted us with doing business on the basis of concepts and on the basis of ideas more than on the basis of text. It is not unusual at all that we reach formal decisions in the Finance Committee without having texts before us.

And, therefore, I think that the committee has been well-informed, has been informed over an extended period of time, and, as a matter of fact, I think some of us have been virtually crying for mercy because of the many briefings that have been held on this and other trade matters by you.

It is appropriate that the North American Free Trade Agreement has received so much attention, and it is appropriate, I think, that it does come before us close to an election.

Both because the deal that has been made—we would not expect you to hold it over until after the election artificially—and also because the whole issue of America and our role in the world around us, and whether we are going to be a country that looks outward to the world, or a country that tries to dig ourselves into a hole and hide ourselves from the world, is, in fact, a political question, and it is a matter that should be before the American people. Therefore, it should be debated in connection with an election year, and I have absolutely no qualms on that score at all.

I think that those of us who are on the committee do have a pretty good basis for making a decision, as, indeed, I think the country does. And, as I understand it just coming into the meeting, if we are going to have 4 days of hearings, we are going to have an excellent basis of deciding how we stand on the North American Free Trade Agreement.

With respect to the issue of whether there has been a rush, I do not know. I mean, it does not seem to me that there has been any particular rush since the fast-track authority was extended back in 1991. It seems to me that this has been a very deliberative and very hard-fought process, and I want to compliment you for it.

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

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

Senator GRASSLEY. Thank you, Mr. Chairman, and thank you for moving so quickly on this issue. It is very important. I am sure that we are not going to be voting on it this fall, but it is good to get started on it.

And, like everybody else, I have had a chance to hear Mrs. Hills respond to our questions and listen to our concerns so very faithfully over the last 18 months.

So, I have to say that you have kept in touch with us. I know that that is very much a responsibility of the President as a result of fast-track, but I think that there is no way that you could be other than lauded for the way that you have approached it. So, I want to thank you for that.

And, as I said before, this is a massive document. If that is it there in front of you, obviously we are going to have to spend a lot of time to get through that, and it deserves a good deal of study. But, I do feel from those briefings that you have given us, and listening to our concerns, and seeing some results of those meetings, I have some confidence of knowing basically what is in it.

Beyond that, there has been an awful lot of good editorial comment, both pro and con, from a lot of interest groups that are following it. But the truth is, we are in a changing world.

The 1990's, to the surprise of many, has thrown the world into a new era of international economics, trade, and politics, not just because the Cold War has ended, but, to a considerable extent, we found additional challenges also from Europe and Japan to the U.S. economic preeminence. And we have seen a shift taking place

on our borders to both the north and the south for closer political-economic association. These shifts will require each of us to have a vision that clearly reflects the realities of this changing world.

We have to be prepared to enter the 21st century, and, in doing that, prepare to meet the challenges that face us in the areas of educational excellence, technological superiority and productivity, and training in the competitive global environment that we are in.

While democracies and market-oriented systems remain fragile developments in some places around the world, we face the challenge of attracting sufficient investment capital to restore rates of economic growth and deal with long-standing social inequities of the United States.

And for people who maybe have some fear about what free trade might do, I would like to quote Pope Paul VI on the subject of free trade. He says, "The rule of free trade, taken by itself, is no longer able to govern international relations. Freedom of trade is fair, only if it is subject to the demands of social justice."

And it seems to me not only social justice, but also the issue of the environment has been covered in all of our discussions that we have had in these monthly meetings we have had with you.

And I think they may not satisfy everybody, but I have to say, at the very least, we ought to be satisfied that you have listened to our concerns and tried to deal with them, and hopefully have. Mr. Chairman, I thank you once again and thank Ambassador Hills.

The CHAIRMAN. Thank you. Senator Riegle.

OPENING STATEMENT OF HON. DONALD W. RIEGLE, JR., A U.S. SENATOR FROM MICHIGAN

Senator RIEGLE. Thank you, Mr. Chairman. The North American Free Trade Agreement poses a great danger to the job base here in our country, and I want to just touch on that issue for a moment. On Saturday, the New York Times ran a headline story, "167,000 Jobs Lost By U.S. Businesses" in the month of August. The same headline the same day was also in the Washington Post, because of the seriousness of the issue of American jobs.

Now, just yesterday, the lead story again in the New York Times, over in this column, reads, "Income data shows years of erosion for U.S. workers." I will just read one paragraph.

"The Commerce Department reported last week, for example, that income growth in 1991 trailed inflation for the first time since 1982, and the disposable income per capita, after removing inflation and taxes, had failed to grow since President Bush took office. The department's figures also show that average hourly earnings in the private sector are down 3.2 percent since January of 1989."

Now, the reason this is relevant is that I see a tremendous acceleration of jobs leaving the United States and going to Mexico if we enter into this Free Trade Agreement as it has been described.

Mexico represents a situation where the differential in wages per hour are so vast, many workers down there are not even earning $1 an hour. Others have mentioned the lack of environmental protections and other workplace protections and safeguards. In essence, Mexico could be categorized as a Third World economy.

The nearest parallel to the United States-Mexico situation is what happened with the Europeans. When they formed the European Common Market, Turkey, which has a Third World economy that is similar to Mexico's wanted to gain entrance into this united market. The industrial nations of Europe decided against allowing Turkey in because the differentials were just too vast.

For the NAFTA scenario, let me just give some of the disparities to you in terms of the gross domestic product per capita. In Canada, where we have the Free Trade Agreement, it is $21,449 a year per person.

In the United States, almost the same number: $21,418. Those numbers should be reversed for the two countries, but are virtually identical. Yet, in Mexico, the gross domestic product per capita is only one-tenth of that at $2,490.

So, there is no way that Mexico can immediately become a major customer for the things that we might make and ship out. The main export we are going to ship to Mexico under the agreement, apparently, as it has been negotiated here, is going to be jobs.

As we see from the newspaper headlines, the one thing we need and cannot afford to lose more of are American jobs. Our good jobs are exactly what is at stake here.

We had a hearing on the auto industry this morning in the Banking Committee. We had expert witnesses tell us that the auto industry and most of the industrial base in this country, is having severe difficulty. Already, we have had 70 Big Three auto plants move to Mexico. That is where a lot of American jobs have gone.

If the United States enters a free trade agreement in the way that has been advertised by the Bush administration, I see hundreds of thousands of additional jobs going, to Mexico. Many of these jobs will be from our manufacturing sector, precisely the jobs that we most need.

That is why, Mr. Chairman, I have proposed Senate Resolution 109 (S. Res. 109), to give us the chance on the Senate Floor to open up any Free Trade Agreement (NAFTA). If the NAFTA does come back with final details and in completed form, S. Res. 109 would allow us to amend it in five different areas, albeit, within a specified time limit, and with a vote set at the end. This would give us an opportunity to deal with the shortcomings in the agreement. We now have 32 co-sponsors of that legislation. I think when the details are finally known with regard to the NAFTA, our number of co-sponsors will increase.

Finally, there really is no excuse for us not having the details of the agreement, and there is no justification for the President to announce an agreement when the details are still unknown, or, if they are known, have not been shared with the American people or the Congress. This secrecy is absolutely inexcusable.

I understand the politics of the NAFTA as much as anybody else. I think somebody said it right here today. There was a desire to time this announcement of the NAFTA immediately prior to one of the Presidential nominating conventions.

The fact of the matter is, the trade agreement is serious business. This agreement will affect people whose jobs are going to be lost in this country, and we do not even have the details on it.

There is more secrecy associated with this agreement than there have been with arms control agreements that this country has been involved in the past. There is really no excuse for such lack of information. If this agreement can stand the light of day, then the details should be put out on the table.

If the details have not been worked out, then let us have an honest statement to that effect. It is my understanding that the NAFTA is still being sloshed around in terms of the negotiations and content. Let us at least be honest with the American people about it. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Chafee, for any comments you might have.

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

Senator CHAFEE. Thank you very much, Mr. Chairman. I want to say, Mr. Chairman, I think this is a very, very exciting opportunity we have got before us, and I see tremendous potential benefits in this agreement—360 million consumers.

Now, some will say that it will hurt some American jobs. Yes, certain American jobs may be hurt. I do not think we realistically can expect to have an agreement that will add jobs only to the United States and do nothing for Mexico.

The point is, however, that the whole will be greater than the sum of the individual parts. In other words as I foresee it, both the United States and Mexico will prosper and benefit from this agreement.

One agreement that I expect we will hear raised is the concern that low wages in Mexico will lure U.S. manufacturers away. The truth of the matter is, Mr. Chairman, it just plain does not work that way.

Let me cite a specific example. My State, if you can believe it, has the lowest manufacturing wage in the United States of America. We have the lowest manufacturing wages in Rhode Island than in any State in the Nation. Frankly, we always think Mississippi, at the very least, will be below us, but no, not in this area.

From the logic of the reasoning that jobs flee to low-wage areas, it would follow that industries should rush to the State of Rhode Island to take advantage of these low manufacturing wages. But it does not work that way, regrettably. The unemployment rate in our State is now higher than the national average.

I am sure that Ambassador Hills will touch upon this and other aspects of the NAFTA, and I look forward to hearing from her.

In closing, I again want to say that I see great opportunities here and am very excited about the potential in the agreement that has been negotiated. Thank you, Mr. Chairman.

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

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

Senator BRADLEY. Thank you very much, Mr. Chairman. Let me welcome Mrs. Hills again to the committee. I am anxious to hear what she has to say. As I understand it, that document to your left

is the text of the agreement, so we probably will have to wait till tomorrow to be able to ask more specific questions.

But it seems to me that the issue of the United States-Mexican Free Trade Agreement is both an economic and a social issue. In terms of the economic questions that occur to me, first does this agreement enhance our ability to compete in an increasingly competitive world? With the growing strength of Japan and Germany, with the kind of distant galloping hoofs of China in the background, will this agreement give us a better chance to compete in that world economy?

Second, there is the question of jobs. Does this, on balance, increase or decrease the number of jobs in the United States, and does it increase or decrease good jobs in the United States, higher paying jobs in the United States?

And then, of course, as in any agreement that deals with more open trade and increased competition, this agreement yields some losers. What are we prepared to do to ease the adjustment process for those who will lose their jobs or need retraining or relocation, some additional boost for a new start in a new place, in a new job. It seems to me, that these are the three economic questions.

In the social area, although we talk about this agreement primarily in terms of the economy, with a country with which we share a 2,000 mile border that has a population in which 50 percent of the people are under the age of 15, our relation has social implications as well.

If Mexico does not grow, if jobs are not created in Mexico, there is only one place a lot of that generation is going to head, and that is north. And that offers potential destabilization in our own country.

And then, finally, there is the question of diversity. Mexico and the United States are two different cultures with different cultural roots. And the ability for us not only to harmonize our economy but also to get to know each other better in a cultural sense augurs well, I think, for a world that has to cooperate more, even though diversity persists, and, in some places, intensifies.

I am anxious to read the agreement. I have read some of the summary and I hope that we will, in the course of these 4 days of hearings, have a chance to take a close look at your work.

If it is consistent with the quality of your work as I have known it, it will be very high. I look forward to the next 4 days of hearings, and also to working with you to try to understand what the agreement means for America.

The CHAIRMAN. Thank you, Senator.

Senator Symms, for any comments you would like to make.

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

Senator SYMMS. Thank you, Mr. Chairman, and welcome, Ambassador Hills. I thank you for all of your efforts and work that have got you here today to explain NAFTA. And I find this also a very exciting opportunity, and I think it can work out to serve America's interests, and North America's interests very well.

Mr. Chairman, underlying the debate over NAFTA is the question of what makes a nation's industries internationally competi-

tive and its citizens wealthier. And, from this committee, you will hear no shortage of explanations.

The most common explanations for creating national wealth are trade surpluses, cheap, and abundant labor. And the most popular, government industrial policy in the form of protection, subsidies, and export promotion. And I would have to agree that, perhaps in the past, these arguments had validity, because, until recently, American-owned companies meant the employment of American workers. Imports were always made by foreigners in foreign-owned companies.

But, Mr. Chairman, this is no longer the case. These old explanations, perhaps, of most trade theory since the time of Adam Smith, are inconsistent with the latter part of the 20th and 21st century commerce.

In the last few decades, we have witnessed a change in the nature of international trade with rise of multi-national corporations. Businesses not only export, but they compete abroad with their foreign subsidiaries. The issue of competitiveness, national wealth and jobs gets a little confusing.

For example, if we try to protect Chrysler from imports, how do we treat a Chrysler LeBaron that is made in Mexico, or a Mazda-626, or a Subaru that is made in the United States?

The economists and businessmen will tell you both of these situations create jobs, increase national wealth, and enhance international competitiveness. Only special interests will tell you otherwise.

But can these new multi-nationals co-exist with the older political establishments? I think, Mr. Chairman, it is evident that the new global marketplace has created friction with a Congress that is reluctant to change its outlook.

Ratification of NAFTA should not be so controversial. And I say that guardedly, because we all have certain areas with political constituencies. In my case, the big question in my State about NAFTA, is sugar. Other Senators have other issues.

But, given the shape of the U.S. trade that has existed with Mexico since the mid-1980's, anyone objectively viewing NAFTA knows that any losses will be few and they will be more than offset by the gains.

Since 1986, U.S. companies have easily set up shop in Mexico and freely exported back to the United States. Further, Mexican goods exported to the United States enjoy an incredibly low tariff. My colleagues' concerns over companies rushing to Mexico, and Mexican goods flooding into the United States, Mr. Chairman, in my view, are 6 years too late.

What the NAFTA is really about is, do we recognize the change in the nature of business and reap the benefits, or do we still pretend that international trade is the same as it was during Adam Smith's era and lose out to the Europeans and the Japanese and others who are moving forward to take advantage of the opportunities? While most of my colleagues realize the internationalization of the United States and the world economy, a few are still unwilling to recognize that change.

If I cannot convert you—and I say this to my good friend from Michigan—maybe Robert Reich, Bill Clinton's economic adviser,

can. And I will quote him, "Few American companies and American industries compete against foreign companies and industries. Becoming more typical is the global web.

Its financial capital in the United States—[higher-end] production facilities spread over Japan, Europe, North America—[lower-end] production facilities in Latin America, Southeast Asia—investors in Taiwan, Japan, Germany, and the United States—battle lines no longer correspond with national borders."

Now, that is Bill Clinton's economic adviser I am quoting. It is my belief, Mr. Chairman, that government's role should be limited to permitting the development of professional and high-end manufacturing jobs.

Legislation that attempts to keep low-skill, low-paying jobs in the United States will not only discourage the development of higher-skilled jobs, but it will depress the standard of living for all.

Mr. Chairman, there is a 200-year-old saying that I believe applies very well to this debate: A true principal, if adhered to, has a self-adjusting power. A false one requires constant bolstering and every quack has its nostrum.

I think Ambassador Hills deserves great praise for the endearing effort and the persistence and tenacity that she has pursued towards this agreement, and we owe her the opportunity to make the case, work out the small details and questions that some of us may have.

I understand, being in politics and having been in it for 20 years, that these are realistic things; I think she is very well aware of it. But I believe, as Senator Chafee said a minute ago, this provides an enormous opportunity for the United States, for Mexico, for Canada, and for the whole world's trading economy for more wealth for more people. I look forward to working with you on it.

The CHAIRMAN. Thank you, Senator. Ambassador Hills. We share the high regard for you, and your tenacity, and your work, and your willingness to counsel with this committee. We are pleased to have you here and are looking forward to hearing your testimony.

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

Ambassador HILLS. Thank you, Mr. Chairman, and thank you, members of this committee. I am pleased to have this invitation to appear before you to talk about the historic North American Free Trade Agreement. I have submitted a written statement for the record, and, in the interest of time, I would like to just summarize some key points.

The CHAIRMAN. That will be done.

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

Ambassador HILLS. But, first, in view of some of the opening comments, let me say a word about the process involved in these negotiations. These negotiations have involved the most extensive congressional and private sector consultations ever undertaken in any trade negotiation.

Since the negotiations commenced, we have held 333 congressional briefings with 18 congressional committees; over 350 briefings for our private sector advisers. In addition, we have briefed

over 300 trade associations, held public hearings across this country, and we have responded to hundreds and hundreds of letters.

Without exception—any exception—since we began tabling preliminary texts last December, they have been made available to every member of Congress and to our private sector advisers that number 1,000.

In every instance, without exception, before negotiating texts were tabled, our negotiators consulted with all committees of jurisdiction. Members and staffs of this committee, Ways and Means Committee, the House and Senate leadership were invited to all sessions to discuss the proposed text to be tabled.

And, as a result, House Ways and Means Chairman, Dan Rostenkowski, publicly stated this past June that the administration had been "relentless" in keeping "Congress informed and that Congress could not fault the administration for secrecy."

In keeping with our commitment to inform you fully and promptly of the progress of these negotiations, we announced their completion on August 12, within hours after we had reached an agreement.

The substance of the deal was released on the same day to the public in a 44-page summary that was trilaterally agreed, and, hence, devoid of national bias. We could not release the bracketed working draft text that existed on August 12 because it reflected the negotiating positions of the three governments, not the deal that was reached.

As often occurs at the end of a negotiation of this breadth and complexity, the negotiation substantially outpaced the legal drafting. And that is not unusual either for trade negotiators, or, for that matter, legislators.

It is often the case in this committee and in others that you reach an agreement, the world knows that you have reached an agreement, without your having the final legislative language before you.

Since August 12, we have had lawyers from the three countries committing the deal we reached on August 12 to writing. Theirs has been a task of legal drafting, not of negotiating.

And, as a result of their efforts, we were able to release yesterday to the public the entire 1,078 pages of text of the agreement. And that text, coupled with the more than 1,000 pages of tariff schedules, which were released on September 4, reflect the deal reached and described on August 12.

The legal review will continue to ensure the legal accuracy, clarity and consistency among the provisions and the chapters.

I am proud of the process that we have followed in these negotiations; I am proud of the frequency and the frankness of our consultations; and I am also very proud of the substance of the agreement, to which I would now like to turn.

When the President launched these negotiations 14 months ago, he promised an agreement that was in the best interests of the American worker and farmer, consumer and exporter, and he has delivered on that promise, and more.

This is an historic agreement and Americans in every State and in every occupation can claim and share in it benefits. It is an

agreement for both blue collar and white collar workers; for factory and office workers; and, for store clerks and farm hands.

Here is why:

This agreement makes America more globally competitive. It links the United States to our first- and third-largest trading partner, Canada and Mexico, to create one of the largest and richest markets in the world, with 360 million producers and consumers and $6 trillion in annual output.

This agreement will generate new, higher-paying jobs for Americans. More than 600,000 Americans now owe their jobs to our exports to Mexico. this number is expected to swell to over 1 million by 1995 with NAFTA. Over 1.5 million Americans already owe their jobs to our exports to Canada. This agreement will not only create more mobs, but better jobs, for we know that workers in export-related jobs earn 17 percent more per hour than the average American wage.

This agreement will help Mexico grow, which has a high payback for us: 70 cents of each Mexican import dollar is spent on U.S. goods and services. Economic growth will not only make Mexico a better customer, but also a stronger and more stable neighbor, easing pressures for illegal immigration. The lesson of history is clear: of opportunities do not go to the people, people will go to the opportunities.

This agreement will be of particular benefit to small and medium-sized companies that are experiencing the fastest export growth. Unlike big companies, small and mid-sized forms do not have the resources to locate a second office around high trade barriers. With trade barriers removed, U.S. firms need not move to Mexico to sell to Mexicans.

This agreement does more to improve the environment than any other trade agreement in history. It maintains U.S. strict environmental, safety, and health standards; allows us to enact even tougher standards; and encourages our partners to strengthen their standards.

Finally, it safeguards U.S. workers by ensuring a smooth transition to free trade over 15 years.

Never before has a trade agreement offered such a balance of economic growth, opportunity, worker benefits, and environmental sensitivity. For example:

In the basic realm of business, approximately 65 percent of U.S. industrial and agricultural exports to Mexico will be eligible for duty-free treatment either immediately or within 5 years.

U.S. autos and light trucks will enjoy greater access to Mexico, the fastest-growing major auto market in the world. With this agreement, Mexican tariffs will immediately be cut in half on light trucks and passenger cars. Within 5 years, duties on three-quarters of U.S. auto parts to Mexico will be eliminated.

Mexican "trade balancing" and "local content" requirements, which have effectively kept out U.S. exports of U.S. vehicles and parts, will be entirely eliminated in 10 years.

Strict rules of origin will restrict benefits of the auto provisions to North American-made products. To obtain the preferential treatment, autos must contain 62.5 percent North American content;

considerably more than the 50 percent required under the United States-Canada Free Trade Agreement.

In telecommunications, this agreement opens Mexico's $6 billion market for U.S. equipment and services which are the most competitive in the world.

In textiles and apparel, this agreement opens another $6 billion market on day one, abolishing quotas and eliminating tariffs on our key export interests to our two largest export markets—which, by the way, in 1991, totaled over $1 billion in exports and supported 40,000 jobs.

In agriculture, the agreement immediately eliminates Mexican export licenses and phases out Mexican tariffs, and thus opens up our fastest-growing market for farm products.

In financial services, for the first time in 50 years, Mexico's closed markets will be opened, allowing U.S. banks, securities firms, and other financial companies to establish wholly-owned subsidiaries and be treated the same as local firms.

In the area of energy and petrochemicals, the agreement substantially enlarges market access.

Finally, in land transport, the agreement will permit U.S. trucking companies, for the first time, to carry international cargo to Mexican states contiguous to the United States by 1995, and gives them cross-border access to all of Mexico by the end of 1999.

We also negotiated rules and procedures to guarantee that we reap the benefits of these new opportunities. For example, the agreement contains rapid, fair, and effective dispute settlement mechanisms; the highest level of intellectual property protection yet achieved in any bilateral or multilateral agreement; and rules to ensure that our investors are fairly treated.

Although the agreement does not change U.S. trade laws that protect American industry from unfairly dumped or subsidized imports, it substantially improves the ability of U.S. firms to challenge unfair Mexican decisions involving dumping or subsidized sales in the Mexican market.

These extensive market-opening provisions and the rules designed to support them will generate new export opportunities for our entrepreneurs, and new jobs for our workers. As a result, we believe that adjustment pressures on the U.S. economy will be minimal.

Yet some have raised fears that U.S. firms will relocate en masse in Mexico because of lower-wage labor. But the fact is, that labor rates are only one determinant of plant location. If wages were the only factor, many less- developed countries would be economic super-powers.

Businesses base their investment decisions on a range of factors that determine productivity, such as the quality of infrastructure, availability of capital, interest rates, access to technology, education of work force, and, based on all the factors, on average, U.S. workers remain at least five times more productive than their Mexican counterparts in the manufacturing sector and 25 times more productive in the agricultural sector.

To those who ask, "how can we compete against lower-waged Mexican labor?" the answer is, "We are already competing, and successfully so." Our trade balance has swung from an almost $6

billion deficit in 1987 to a projected $7 billion surplus this year. Moreover, imports from Mexico account for less than one-half of 1 percent of U.S. GDP, and over half of those imports today come in duty-free.

By tearing down Mexico's tariffs, which are two and a half times as high as our own, this agreement will level the playing field, not flood it.

But, to assure a smooth transition, this agreement includes: lengthy transition periods of up to 15 years for the lowering of U.S. tariffs in our most sensitive sectors; safeguards to protect U.S. workers and farmers against injury or threat of injury from imports; tough rules of origin to ensure that only North American-made products obtain the benefits of free trade; and an elimination of Mexico's duty drawback program and its export performance requirements, thus preventing Mexico from becoming an export platform or "pass-through" for products from countries outside of North America.

In addition to these sound adjustment provisions within the agreement, the President is committed to providing worker adjustment assistance.

Last month he announced a new comprehensive Worker Adjustment Program, Advancing Skills through Education and Training—a $10 billion program, a 5-year commitment, that will help train our workers so that they can benefit from these new opportunities.

The President's plan nearly triples the current level of expenditures for worker training. Of the $2 billion a year, $1.3 billion is allocated to States without regard to the cause of worker dislocation, and, hence, these monies could be devoted to this agreement. The remaining $670 million is available for workers affected by this agreement. I understand that Secretary Martin will be testifying before this committee and can go into the details of this new program.

Just as the North American Free Trade Agreement has focused constructive attention on labor issues, so, too, has it focused constructive attention on the environment.

At first, some saw this agreement as a threat to the environment; the possible creation of a pollution haven. But, as our Environmental Review concluded, that is simply not so. Mexico's 1988 environmental law is patterned after ours, and, its regulations in some areas are even stricter.

President Salinas has made enforcement a priority, shutting down over 1,000 polluting firms in the past few years. And this agreement will ease congestion at the border, generate new resources to protect the environment, and make more readily available services and technology to address environmental concerns.

Indeed, the North American Free Trade Agreement goes further than any previous trade agreement in addressing environmental concerns and in actively promoting environmental protection.

Specifically, it embraces the notion of "sustainable development" and explicitly maintains our right to enforce our tough health, safety, and environmental standards.

It allows the parties, including States and cities, to enact even tougher standards, and it preserves our right to enforce our inter-

national treaty obligations to limit trade in controlled products, such as endangered species.

In addition, the investment provisions support our environmental goals by discouraging countries from lowering environmental standards to attract investment, and permitting parties to impose stringent environmental requirements on new investment, just so long as they are not discriminatory.

These environmentally sensitive provisions in the agreement—and there are many others—are complemented by an extensive program of bilateral cooperation with Mexico, including an integrated border plan, developed pursuant to the President's May 1 commitment.

As momentum has built behind this agreement, our cooperation with Mexico has intensified. Indeed, the United States and Mexico will shortly sign a new bilateral environmental agreement establishing a "Joint Committee for the Protection and Improvement of the Environment."

The scope of this agreement will extend beyond the border region and will strengthen our collaborative efforts to combat pollution and improve enforcement of environmental regulations.

To support these activities, President Salinas has increased his enforcement budget from less than $7 million to $77 million, and allocated $460 million, over the next 3 years, to the Border Plan.

In turn, President Bush's fiscal year 1993 budget includes $241 million for border clean up; 70 percent greater than the 1992 amount. Unfortunately, Congress has not only failed to pass the funds requested, it has cut them drastically, by $98 million in the House, and $120 million in the Senate.

At the same time Congress was cutting the President's budget request for border clean up, some have suggested that we levy a tax on across border trade to raise the funds for environmental improvement. We are opposed to that idea.

The purpose of this North American Free Trade Agreement is to lower barriers, not to raise taxes, and to do so would defeat the very purpose of the agreement—to generate growth, and jobs, and wealth, to treat with the environment.

The successful conclusion of the North American Free Trade Agreement is an historic achievement for U.S. trade policy, which, over the past 4 years, has contributed significantly to our Nation's economic growth.

Far more foreign markets are open today to U.S. business than 45 months ago. As a result, last year, the United States became the world's number one exporter, with a record of $422 billion in exports.

Export gains have meant more business opportunity and more jobs across all sectors. Since 1988, all 50 States have expanded exports to the world, on average, by 72 percent.

The surge in exporting has generated almost $120 billion in added output for American companies and farms, and has supported 1 million new jobs.

And I believe that we have built the success together. Since I have been at USTR, we have worked with you, Mr. Chairman, and the members of this committee, and with other congressional lead-

ers, to establish clear trade objectives and then to engage in tough international negotiations to achieve those objectives.

We want, and we intend, to continue to work just as closely with you and the members of this committee, in drafting the implementing legislation for the North American Free Trade Agreement. Our goal is to make this continental growth package a reality for the benefit of all Americans.

And, again, I thank you for this opportunity to testify.

The CHAIRMAN. Thank you, Madam Ambassador. When we are talking about a draft or trying to get to a completed text, I have not had an opportunity to read that 1,000 pages.

But my staff has taken a preliminary look at it, and they find, in at least two provisions thus far, that you have it bracketed, "subject to review." And they are: one, a list of items on which each country may take exceptions to national treatment, covering tariffs and other trade barriers, and, two, the list of service sectors excluded from the NAFTA coverage.

Now, both impress me as pretty basic issues, and that apparently is something that has not been finalized. Would you explain it to me?

Ambassador HILLS. I cannot locate the bracket that you are referring to, but if you give me the page, I may be able to give reference. I have a list of the brackets, and I have personally looked at them. And let me tell you that, in each instance, they are technical issues.

Either we are looking for definitions coming in to be translated and we are seeking to verify references to programs, that will be added to the definitions, or clarifications. But these are not going to change the substance of the agreement.

The CHAIRMAN. Well, let us get to that. Subsequent to the announcement of an agreement, I understand there was still the question of government procurement for Mexican contractors, that you had $1.5 billion set aside for that purpose. And then the debate began as to whether that was a fixed $1.5 billion, or whether it was a percentage of Mexican government procurement for the future, starting at $1.5 billion.

And if, for example, that was increased by the inflation factor, in a period of 10 years that $1.5 billion would have been over $5 billion. In a period of 20 years, that would have gone to over $21 billion. That is not just a technical difference. How did that come out?

Ambassador HILLS. That was not left open.

The CHAIRMAN. That is what I am asking you.

Ambassador HILLS. That was definitely not left open.

The CHAIRMAN. Well, it was left open after the August 12 date, or whatever that date was, as I understood you. And the question was trying to determine what the final effect would be. How was it finally settled?

Ambassador HILLS. First of all, let me correct something for the record, Mr. Chairman. That figure was $1 billion in real terms, and hence it was always indexed for inflation.

The CHAIRMAN. So, it was affected by a growth factor.

Ambassador HILLS. "Growth factor" is something of a misnomer. There was an agreement prior to the 12th that the figure would be

indexed for inflation. That was not left open. I think what you are referring to is the base figure in procurement.

The CHAIRMAN. That is what I said, if I did not make that clear.

Ambassador HILLS. No.

The CHAIRMAN. Base figure in procurement for Mexican contractors.

Ambassador HILLS. Let me just clarify two things. There are two issues in the agreement, both of which were clarified before the end. One, a non-specific set-aside for the Mexicans, like our small business set-aside.

The CHAIRMAN. That is right.

Ambassador HILLS. We agreed on a sum certain, and that sum certain was agreed to be indexed for inflation, as our other set-asides are so affected. That was not left open. The question I thought that we discussed was whether the base year for procurement would be 1990 or 1994.

The CHAIRMAN. 1994.

Ambassador HILLS. And that was the alleged dispute that was mentioned in the newspaper; the report was totally false. That issue was closed up before the 12th. It was 1994 on August 12. Was and is. You raised another issue just now, and the text has been handed to me so I can answer your question.

The exception in Article 301, Market Access National Treatment, and 309, Import-Export Restrictions. There is a bracket subject to review. That is because this annex lists each country's reservations and exceptions to national treatment and the rule against import and export restriction.

And each country is currently checking the exceptions listed by the other two countries to verify them and be sure that the reservation that they are listing are legally correct and compliant with our agreement.

The CHAIRMAN. I can recall in a phone conversation you had with me, as I understood you, that the lawyers were still debating the question of whether it was 1994 or the other year that was chosen.

Ambassador HILLS. It was just the opposite that I was trying to convey to you, and I am sorry if I was so inarticulate. I was in Europe when this issue was raised. My notes and my recollection were clear: it was 1994, and I was trying to give you assurance that the 1994 was not an open issue, but had been solved.

The CHAIRMAN. But my understanding from you is, the other side thought it was an open issue. You, in your mind, thought it was closed, but that is when you have two people negotiating. The difference in opinion becomes material.

Ambassador HILLS. Well, there is going to have to be a check on the basis of a negotiation as we are drafting the document. That does not mean that the issues are left open. But look at the size of the document compared to the summary that we were able to describe.

I mean, by comparison with the text that we have given to this committee, we had an 33-page outline in the Canadian Free Trade Agreement. There is no secrecy or lack of clarity here.

The CHAIRMAN. Let me tell you, I have not charged you with secrecy, and I have not charged you with lack of communication, because I think you have worked very hard at that, and I have com-

plimented you on it. But when you get lawyers on both sides arguing on definition, I think there is a question of whether it has been resolved.

Ambassador HILLS. I think it is the same thing that goes on in the legislative process where you have reached a deal. You send your lawyers out to draft the legislation. They will have to come back to you to verify whether you have agreed with certain issues. We have an agreement. The lawyers are not negotiating, they are drafting. But, clearly, they are going to have to seek guidance from time to time.

The CHAIRMAN. Well, we have a difference of opinion on that one. Senator Packwood.

Senator PACKWOOD. Madam Ambassador, as you are well aware, we are short of logs and lumber in this country. We import lumber. We do not cut enough trees to make enough lumber to satisfy our needs, and therefore we put a restriction on the export of logs off of public land some years ago. When we agreed with Canada on the Free Trade Agreement, we grandfathered that provision; no argument between Canada and ourselves on that.

During the negotiations with Mexico, however, that grandfathering was, for the moment, forgotten, as I understand it, inadvertently. There was a fear, therefore, that we would be exporting logs out of this country when we do not even have enough to take care of our own mills, and there clearly is a provision in GATT that you can ban the export of raw materials if they are in short supply, or if it is done to conserve natural resources. We are certainly doing that, also.

Have you reached an agreement that will grandfather our log export provisions in this Mexican Free Trade Agreement?

Ambassador HILLS. Yes.

Senator PACKWOOD. Perfect. Excellent. Glad to hear it. Secondly, I am not quite sure what happened on the cultural exemption. You know the problem we had with Canada in our movie industry and our publishing industry.

I cannot quite figure out what has happened with adding Mexico to it, and whether any difference has been made now in the North American Agreement vis-a-vis Canada in cultural exemptions.

Ambassador HILLS. The rule for the North American Free Trade Agreement is national treatment. It is the best intellectual property protection agreement that we have ever achieved in any bilateral or multilateral agreement.

Senator PACKWOOD. And that is uniform throughout the three countries?

Ambassador HILLS. That is uniform throughout the agreement. The Canadians have taken a cultural derogation, just as they took a cultural derogation in the Canadian Free Trade Agreement. We have not given it, but have made clear that we do not recognize a cultural derogation.

Senator PACKWOOD. You mean, for Canada.

Ambassador HILLS. Correct.

Senator PACKWOOD. Between Mexico and the United States there is none.

Ambassador HILLS. There is none.

Senator PACKWOOD. Now, what has Canada done vis-a-vis Mexico in their cultural derogation, the same thing they have done with us? Have they reserved that kind of protection?

Ambassador HILLS. Yes. They have simply said to the parties that they are taking a cultural derogation. We, for our government, have said, if we suffer any economic harm as a result of their exercising any rights pursuant to that cultural derogation, we reserve the right to retaliate. And that is precisely what we did in the Canadian Free Trade Agreement.

Senator PACKWOOD. But vis-a-vis Mexico and the United States, there is no cultural exemption working either direction.

Ambassador HILLS. Correct.

Senator PACKWOOD. Thank you. I have no other questions, Mr. Chairman.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. Ambassador Hills, I would like to talk to you for a few minutes about the lack of environmental provisions in this agreement. As we both know, there is a convergence between environmental and trade matters recently, for a whole host of reasons—the world is getting smaller for a lot of reasons, including advances in technology—and also the greater concern in this country, as well as in other countries, about environment.

It seems to me that we had—and still do have, because this agreement is not at all to the point where it is going to be ratified or rejected yet; it will not be until next year—an opportunity to break new ground with respect to environmental matters.

I would just like to ask you why the administration did not—at least as I take it—in a meaningful way follow up on what I understand to be Canada's proposal whereunder, if a country were to lower its environmental standards to attract investment, that that would be actionable by the charging country to the degree where it could snap back tariff reductions. Now, I understand that the administration's response is, well, that is too narrow. And the administration has now gone forward with this joint declaration, and so forth.

However, that administration response has, as I understand it, virtually no enforcement, as the Canadian proposal would. That is, there were very strong, definite enforcement provisions in the Canadian proposal.

Canada's worry might be that the United States might weaken Clean Air Act provisions, or the United States, under the Quayle Competitiveness Council, might weaken environmental standards.

My response to that is, well, it is good, sometimes, to help other countries do what they know that they should be doing—that is, not weakening their environmental provisions.

Why did the administration not follow up on the Canadian proposal to try to make it more workable, particularly with a view toward meaningful enforcement provisions so that we would not be in the position where countries could willy nilly lower their environmental standards in order to attract investment?

Ambassador HILLS. First of all, this agreement, Senator, does break new ground. It is the greenest trade agreement that has ever been negotiated. Secondly, the Canadian proposal only dealt with

Acts of Council, and, on the basis of our consultations, our States were distinctly not in favor of having, as you put it to have others enforce our laws. They were distinctly unenthusiastic, as were a number in the Federal Government.

In the investment provisions, we did, however, renounce the right of any country to lower their environmental standards in order to attract investment and provide for consultation in the event there was alleged transgression.

And we believe that that is the best way to approach this issue, as we do not think that there is a real concern that there will be a lowering of standards. However, it is a grounds for consultation to be brought before the Trade Commission that will administer this agreement. And we believe that this country, this Congress, and our States, want to enforce their own laws.

Furthermore, we believe that it would not be a good precedent, that it would be an invitation for other countries, perhaps Europe, to decide that they would follow suit and seek to have snap-back tariffs, countervailing duty actions, where they felt that their environmental measures exceeded ours. In short, we felt that that was not a good public policy, and, on consultation, the majority of people agreed with us.

Senator BAUCUS. Well, I do not want to quibble with you. But it is not fair to use Europe as an example because we are not addressing whether Europe has higher environmental standards compared with American. That is not the issue. The issue is the degree to which we can use the Canadian proposal as an opportunity to build upon new ways to enforce transnational environmental provisions.

It is my impression, frankly, that the administration, in a rush to conclude an agreement, did not pay nearly the amount of attention that it should have to the Canadian proposal to try to work out the differences, work out the bugs.

Now, as we all know, the agreement does allow States to have stronger health and safety provisions, and that is fine and good. And the States may have a legitimate complaint with the Canadian proposal, but it seems like, in a rush for conclusion, the administration did not flesh this one out. It is clear to me that there is fertile ground. It is a good opportunity for much stronger environmental provisions with enforcement tools.

Now, this joint declaration that you talked about, as I understand it, has virtually no enforcement tools. I mean, the joint declaration, the matter is referred to the joint body, and they may make a decision on something, but there are no enforcement mechanisms. Am I correct on that?

Ambassador HILLS. Where we have a consultation and we have a serious issue, we address it in a serious way. But let me say to you, you twice mentioned today that we rushed to conclusion.

I can tell you that we did not rush to conclusion. Trade negotiations tend to have a momentum of their own. This one has taken 14 months, that was predated by roughly 6 months of notice given to this body, and a long debate on fast track.

In fact, trade negotiations reach a pinnacle rather like the top of a bell curve, and optimally they should be concluded at the top. Because when you stay at them too long, they begin to erode. But

there was no rush here at all. And if you, perhaps, recall, you and I met about 6 weeks before the conclusion of this agreement with a group of environmentalists and had a lengthy discussion on this very issue.

Following that meeting, I consulted very broadly and came to the conclusion—as you and I have subsequently talked—that having others attack our laws would not be a good public policy, for a number of reasons.

And my reference to Europe is because trade agreements are often used as precedents and are copied, and we did not think this would be a good precedent in a trade agreement.

Senator BAUCUS. Well, I appreciate that, Madam Ambassador. My time is up. But these are ideas that I did impress upon you, as other groups have impressed upon you. And, again, I can only reach my own independent judgment and conclusion that it seems like these were given short shrift. You did listen, but did not seem to be taking the next step to see how we can work with them to make them work.

Ambassador HILLS. Well, I think we have a lot of provisions in this agreement that try to address upward harmonization, for example, which is part and parcel of what you are trying to achieve.

We have provisions for sustainable development, and we have protected the right of a country to put rigorous conditions on new investment—environmental conditions—so long as they are willing to apply those conditions in a non-discriminatory fashion to their native population, as well as to the foreign population, we have no objection.

So, we think that we have a very good agreement and provisions within the four corners of the agreement that deal with the environment. And, of course, you will hear a lot from Administrator Riley about the parallel discussions that we have had which I think are quite remarkable.

Senator BAUCUS. Well, I do not want to take any more of the Senators' time. I thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Durenberger.

Senator DURENBERGER. Madam Ambassador, I guess I am fortunate. I represent a State that is right up against the Canadian border. It is a pretty large State; it has got 4.5 million people in it, and most of them perceive themselves as being part of a much larger world. So, there is a lot of just a basic sympathy to fair trade agreements.

And, I must say, between the 12th of August and today we had a 12-day State fair, which was almost 2 million people from all walks of life walking through there.

And I got an awful lot of comments, one way or the other, from people who have either been anticipating this, did not believe it was going to come this early, and who generally would like to be optimistic, except that they are guarded because they have not seen the fine print, and the lawyers, and all the rest of that sort of thing. But I want to convey that to you.

Second, we are right up against the Canadian border. We have a sensitivity to what happened in the United States-Canada agreement. And, from all I can tell by listening to people, including spending a week fishing up on the border, with one or two excep-

tions—one of which I want to talk about—the Canadians think they got the raw end of the deal, that we did a pretty good job in negotiating the United States-Canada agreement some time ago.

Third, I heard a number of people observe that perhaps the same thing, even to a greater degree, may have happened to the Mexicans. In their anxiety to have some kind of a Free Trade Agreement that they will find that, in the short-term, some substantial disadvantage to Mexico, as well. So, it does bother me to hear us expressing our concerns for this in rather narrow terms.

I was amazed to find that a lot of my dairy farmers generally support it. But it is from the dairy farmers that I found out that Mexico is by far the largest importer of U.S. dairy products.

I mean, what would we do for dairy if we did not have Mexico, they tell me. And they wish that Mexicans would import a little bit more low-fat dry milk right now because it would help the market a little bit.

But you cannot take pictures. Cows do not give milk into bottles, so you cannot take pictures of it like you can of Willow Run, or someplace like this.

I mean, it does not get to the bottle or the carton until somewhere else down the line. But I have got to tell you, there are a lot of cows out there being milked for the benefit of a lot of people in other countries as well, including Mexico.

When you do represent a constituency which has got the kind of broad interest that I have, it is much larger to have some confidence that, in the short-term, you are going to have some dislocation, if you will. But, in the long-term, there is a tremendous benefit for both sides.

I must tell you, the most difficult time that I have had is one that will be commonly experienced by a number of people on this committee, and that is the United States-Canada wheat relationship. We did not deal with that issue in its totality with we did United States-Canada.

A lot of people thought that it might get dealt with in its totality, price transparency, some of the subsidies on trans-Canada shipments, and so forth. We thought it might get dealt with in this particular round, but it did not. And when we ask about it, we are told, that is going to be done in connection with the GATT.

And so, we are sort of asking ourselves, is that likely, and, if so, why have some of the major, major issues that relate to United States-Mexico/Mexico-Canada/United States-Canada—particularly with regard to wheat—why were they not dealt with at this particular time.

I have in front of me some of the impact of Canadian—what some people would call—predatory pricing in the Mexican wheat market for the year 1991–1992, and it almost blows your mind how much more the Mexicans have imported from Canada in the last year than from the United States.

So, can you tell me why that issue did not get dealt with with greater specificity in this particular round, and, if so, what are the prospects for dealing with it in the future?

Ambassador HILLS. Senator, the North American Free Trade Agreement provided substantially increased access for wheat to Mexico from the United States. We have had a dispute with Can-

ada with respect to the transparency of export sales through the Canadian Wheat Board and how they are pricing their wheat sales.

And we have consulted with them, and, indeed, initiated a dispute settlement procedure. The panel is due to rule in December. So, that is under way. The two governments have differing points of view, and it will be resolved in the course of the dispute settlement process that was set forth in the Canadian Free Trade Agreement.

Senator DURENBERGER. That same does not apply to rail subsidy issues, does it?

Ambassador HILLS. There are two issues involving bail subsidies.

Senator DURENBERGER. They do.

Ambassador HILLS. That is part of the wheat problem.

Senator DURENBERGER. And you believe that both of these issues are going to be settled, or are they going to be clarified by this?

Ambassador HILLS. They will be resolved by the panel proceeding that had already been initiated under the dispute settlement mechanism of the Canadian-United States Free Trade Agreement.

Senator DURENBERGER. All right. Thank you.

The CHAIRMAN. Thank you. Senator Danforth, for any comments you might have.

Senator DANFORTH. Madam Ambassador, please tell me where I am missing something in the debate on this Free Trade Agreement. It is said that the United States is now exporting jobs to other parts of the world, including to Mexico, and that the North American Free Trade Agreement would escalate this process of exporting good U.S. jobs to Mexico.

I had thought that the trade barriers in Mexico were higher barriers than the trade barriers in the United States and that, to the extent that we seek parity between our country and Mexico, instead of exporting jobs, we will be preserving jobs. But this point has been made with such insistence by people who are opposed to the agreement, maybe I am missing something.

Ambassador HILLS. No, Senator Danforth, you are not missing anything. In effect, I have often said we have a one-way Free Trade Agreement with Mexico. Our tariffs, on average, are below 4 percent. More than half of Mexican goods come in to the U.S. duty free. What we are trying to do is get down very high trade barriers that our exporters face in trading into Mexico. Mexico's tariffs are 250 percent higher than ours.

They have an import licensing regime that covers 25 percent of our agriculture; they have a licensing regime that covers even the sale of used computers and the like. And they have export performance requirements that mandate that they export a certain percentage of product before they can import—for example, two cars before they can import a car.

That means that we literally have had export opportunity blocked, and, for every billion dollars' worth of exports, we gain jobs. You are absolutely right.

More importantly, these barriers to trade have been a real restriction on small and medium-sized businesses that are the largest generator of jobs in this country. While the multinationals could locate in Mexico—some of the auto companies have in order to tap that market of 80 million-plus consumers—smaller businesses can-

not. And they simply have had that very rapidly growing market cut off from them.

So, you are right. By reducing trade barriers—and that is what this agreement seeks to do—we will increase our exports and generate jobs—new jobs—and better paying jobs. Because our jobs connected to exports pay, on average, 17 percent more than the jobs in our overall economy.

Senator DANFORTH. Now, I represent an auto producing State. I was astounded by the figure that Senator Riegle had that 70 auto plants of the Big Three auto companies have been located in Mexico. What is this going to do to the U.S. auto industry, are we going to be further hurt by the Free Trade Agreement?

Ambassador HILLS. I believe not. And the reason I believe not is because the auto industry has had to locate in Mexico to tap into the Mexican market.

Now, by eliminating export performance requirements—that is, the export and import balancing—and by eliminating the local content requirements—that is, the mandate to use Mexican content in the building of vehicles—the auto industry will be able to locate production where they will. It may be suggested that they will immediately locate in Mexico for the lower labor rates.

But, in fact, American workers in the auto sector are about two times more productive than Mexican workers in the auto sector. And I am told that the differential in quality of infrastructure makes that proposition of relocation less attractive.

I am further told that, because we have excess capacity here in North America and the auto companies do not have a lot of capital to build new plants, that it is predictable, and they say themselves that relocation is not in their future.

Senator DANFORTH. If an auto manufacturer is going to locate in Mexico because of low labor rates, that auto manufacturer can do that right now. Can it not?

Ambassador HILLS. Absolutely.

Senator DANFORTH. Is there anything different in this proposal, in this agreement, that would encourage auto manufacturers, or anybody else, for that matter, to locate in Mexico because of cheap labor? There is no impediment now for locating in Mexico because of cheap labor.

Ambassador HILLS. Correct.

Senator DANFORTH. This does not remove impediments that now exist, because the impediments do not exist now.

Ambassador HILLS. That is absolutely true. There are no impediments to relocation for any industry. And, in fact under this agreement, there are now encouragements not to relocate because, in the past, they had had to relocate if they wanted to sell into the Mexican market. And those impediments will be removed.

Senator DANFORTH. Thank you.

The CHAIRMAN. Thank you. Senator Grassley, for any questions you may have.

Senator GRASSLEY. I believe during the times you have met with us, you have explained that you expect—at least midwestern agriculture—for this agreement to be very beneficial.

And I want to make a point and compliment you for helping us answer questions in regard to a newspaper article in the Des

Moines Register August 23 that says, "Impact of Trade Accords. Report says farm income would drop in Iowa. Overall agriculture income would be reduced by up to 6 percent," the study concludes. And then it refers to a report done by the Dallas Federal Reserve Bank.

Now, I think what you have helped us find out is that this Dallas Federal Reserve Bank report was not even referring to NAFTA or GATT, it was referring to the hypothetical, if, in the entire industrialized world there was absolutely no barriers to exports at all, what might have happened to agriculture.

So, I want to point that out just in case there is some fear here about what it does for agriculture. But I think you have made very clear that you expect this to be very beneficial to agriculture—at least midwestern agriculture: grains, wheat, et cetera.

Ambassador HILLS. Yes.

Senator GRASSLEY. Now I want to go on to a non-agricultural point, and then back to some agricultural issues. We have also had some concern in my State because we do a lot of household appliance manufacturing.

And you have responded to a point I have made via a letter on this letter, but I have a specific question to ask of you—and this is in regard to the phase out of tariffs if something is manufactured in Mexico and comes into the United States—whether or not you would be willing to renegotiate Mexican tariffs on major appliances so that they would fall into the 5-year category, or into some other rapid phase-out arrangement.

And this is directly related to the fact that we have a 10-percent tariff on what is coming into the country, 20 percent of what is going into Mexico, and, over the long phase-out that is in the agreement, whether or not that is not going to be terribly detrimental to America, and maybe even encourage some companies that might go across the border to then have the benefit of lower wages, plus lower tariff coming into this country.

Ambassador HILLS. Actually, Senator, we have negotiated, on appliances, a range of tariff reductions. On microwave ovens, it is immediate elimination. It is 5 to 10 years on refrigerators and freezers. I cannot here give you the staging for tariffs for each appliance.

But the United States already has given Mexico a zero duty in most of those areas. We do not believe that the Mexican tariff that exists today and which will be phased down is going to be an incentive for U.S. manufacturers to move to Mexico. We have a surplus in our appliance trade. We actually have been building a surplus in this area in our trade with Mexico, notwithstanding the duty that exists.

What we have done is to lock in the current Mexican applied duty and then reduce it, because, of course, without the agreement Mexico has the right to raise those tariffs to 50 percent. They are not bound under the GATT.

We have a growing U.S.-manufactured goods surplus with Mexico, notwithstanding our very low tariff. Actually we see this phenomenon in many, many tariff lines because our average tariff is incredibly low with respect to most goods coming from Mexico into

the United States. We do not think that Iowa's exports to Mexico will suffer.

As I think I may have pointed out in my letter, manufactured exports account for 95 percent of Iowa's sales to our North American Free Trade partners. And, since 1988, they have gone up by 64 percent.

Senator GRASSLEY. Well, then, let us leave it this way. Maybe we misread what it does, and we will take a look at it again and get back to you if we have any concerns.

One criticism of the United States-Canadian Free Trade Agreement is that our meat products must meet tougher standards than Canadian meat products exported to the United States. What mechanisms will be in place to ensure Mexican meat products being imported into the United States meet the same food safety standards as U.S. products?

Ambassador HILLS. The rule will be national treatment. That is, there cannot be discrimination.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. Madam Ambassador, there was an indication that I had gotten that somewhere in the NAFTA there is a provision—I do not know if it is in writing or if it is an oral understanding being reduced to writing—that would allow for the cancellation of duties owed by Honda under the Canadian Free Trade Agreement (CFTA).

This relates to the Honda dispute about shipments into the United States that did not meet the content requirement of 50 percent North American made parts. I understand that, as part of working out provisions that generally fall into the rule of origin area, that it may well be that we are letting the Honda case and Canada off the hook on this issue under the CFTA. Is that true, or not?

Ambassador HILLS. That is false.

Senator RIEGLE. Is there nothing to it whatsoever? There is absolutely no understanding or provision relating to the Honda case?

Ambassador HILLS. There is no understanding. What we have negotiated in the North American Free Trade Agreement is a clearer rule of origin than we had in the Canadian-United States Free Trade Agreement.

The new rule will be the net cost of production, rather than direct costs of manufacturing. There have been in the past quarrels over what is a direct cost and what is not a direct cost.

We had hoped that after we had put in place the North American Free Trade Agreement because these rules of origin are clearer, that the implementing legislation specify that the new rules apply to any entry that has not been finally liquidated, and that recommendation is simply to clear up outstanding disputes.

If the new rules were to apply to the Honda dispute, if they were then not liquidated and if they qualified under the new rules—and I am not at Customs and I do not know—then it is possible that the dispute would be resolved. My understanding is that Honda has not yet paid any duties.

Senator RIEGLE. No, they have not.

Ambassador HILLS. And, so, it would not be a cancellation of or a giving back of duties. But it is conceivable that this new rule could be applied to resolve an old dispute.

Senator RIEGLE. Well, that is helpful. Let me go just a little bit further then. Is the change one where the rule of origin will now involve a shift from net cost to direct cost?

Ambassador HILLS. No. No.

Senator RIEGLE. No. Is it the other way around?

Ambassador HILLS. Yes.

Senator RIEGLE. So, we have gone from direct cost to net cost formula for the rule of origin on autos. Was there any discussion that you are aware of when the change in formula was being done, which made reference to the outstanding Honda case?

Ambassador HILLS. Not that I am aware of. Well, let me clarify that. There certainly was a discussion of the lack of clarity that we had in the old direct cost rule, and I personally talked to people connected with Customs of the problem of two reasonable minds disagreeing as to what is a direct cost of manufacturing.

Senator RIEGLE. So, you do not know as you sit here now, one way or the other, about the effect of the new rule of origin on the Honda case if it is still unresolved. Will you apply the new measurement technique to the Honda case? Your testimony today relays that you do not know one way or the other whether this new rule absolves Honda of that adverse finding in the case.

Ambassador HILLS. Well, I do know that, by itself, the passage of the North American Free Trade Agreement would not absolve Honda, as you say.

I do also know that it would be my recommendation—and I hope the administration's, although I don't think there's been an administration position on this—that we would apply a clearer rule rather than a cloudy rule to resolve any outstanding disputes.

Senator RIEGLE. Well, I want to take a look at the difference between the two calculations. What I would want to find out—and you are phrasing your answers very carefully, as you should—is if there is any relationship between the change in the basis of calculation of the rule of origin and resolution of the outstanding Honda issue, which is a very sore point of contention, as you may well know. I gather you do not know one way or the other, in terms of the fine details of this issue.

Ambassador HILLS. Well, I do not want to mislead you, Senator. It is not a question of resolving it, it is a question of having a clear rule of origin. We can not administer these trade agreements without good, clear rules of origin.

If governments and all parties in commerce cannot understand them, and we are creating disputes because of a cloudy or unclear rule of origin, then I certainly would want to get that clarified.

Senator RIEGLE. Well, there was no doubt in the mind of the U.S. Customs Service. The Customs Commissioner sat exactly where you are sitting, and there was absolutely no doubt in the mind of the Customs officials on the Honda North American content issue. Now, Honda has a disagreement; our Customs officials have been very clear in their ruling.

But they have not applied the penalties that are required here, and I am concerned that, in effect, by changing the basis of calcula-

tion in the name of a better regime, we have taken Honda off the hook.

Is your answer to me that you do not know one way or the other whether the change in the rule of origin will have that effect on the Honda case? In addition, is it your view that the application of the NAFTA rule of origin for autos depends on whether the Honda case is still outstanding at the time the NAFTA is passed by the Congress.

Ambassador HILLS. It also depends on whether we have a new rule or origin, which will depend on whether we have a North American Free Trade Agreement.

Senator RIEGLE. Well, we will come back to this rule of origin issue at another time.

The CHAIRMAN. Thank you. Senator Chafee.

Senator CHAFEE. Thank you very much, Mr. Chairman. Madam Ambassador, I would like to ask you the following. There is a good deal of concern voiced throughout this hearing about what happens if we adopt the agreement. I would like to explore with you what might happen were we to reject the agreement.

Every day we watch what is happening in Europe. I do not know what the results of the upcoming French referendum on the Moastricht Agreement will be. But, clearly, Europe is moving toward greater integration; there is no question about it. And so, we soon will see within the EC an integrated purchasing group of some 300-plus million consumers.

In light of these events, I am asking you what might happen if we were to reject this agreement? Where would we be then in the global marketplace, and in terms of global competitiveness? Some are telling us about the possibility of a down side if we go forward with an agreement. But I would like to hear from you: what is the down side if we do not have a North American agreement?

Ambassador HILLS. Senator Chafee, I think we miss an opportunity to become more globally competitive. Mexico is our fastest-growing export opportunity. Seventy percent of the growth to our economy today comes from our exports, so we certainly should ferret out every rapidly growing export opportunity, and Mexico is at our back door.

We also miss the opportunity to have growth throughout North America. That will make us globally less competitive, and we miss the opportunity of seeing a neighbor grow economically, becoming, thereby, a better customer, and more stable. One of the best ways to control illegal immigration is to have legally created jobs in Mexico.

So, for a host of reasons, I think that this is a very good opportunity for our Nation. And I think historians would turn around a decade or so from now, if we miss the opportunity, and really shake their heads and wonder what we were about.

Senator CHAFEE. I agree with you. I think that is well said. Let me also ask you about some concerns expressed here that Mexico is a low-wage area, and, therefore, that they are going to take all our jobs away. Now, if I understand the statistics you gave, currently we run a $7 billion trade surplus with Mexico.

Ambassador HILLS. Correct.

Senator CHAFEE. Well, if they have all of these low-wage workers down there who are working at low wages, why do we end up with a trade surplus with them?

Ambassador HILLS. Mexico has lower wages than we have, but we are more productive, and we sell to a lot of developing countries. Our wealth in this country and our economic growth are hinged on our ability to export to all countries. What we are trying to do with this Free Trade Agreement is to garner to ourselves greater opportunities to export. This agreement will bring down trade barriers that prevent us from having as much opportunity to sell as we would have but for the barriers.

Mexico is a poorer country, but it buys a lot from us. It is our third-largest trading partner, and it is growing. The rate of growth of United States sales to Mexico is much faster—twice as fast, in fact—as the rate of growth of our sales throughout the world.

Mexico, today, yes, it is poor, but it buys 35 percent more per capita from us than does the far more affluent European Community. So, it makes sense for us to try to get those markets open so that we can be competitive and generate better paying jobs for our people.

Senator CHAFEE. I would like to ask you another question. There is always considerable attention paid on the benefits or the dangers that await our manufacturers and our workers in the event of a trade agreement with another country. But there should be equal attention paid to the potential benefits of an agreement that awaits our consumers.

In other words, if our consumers can import some desired product at a lower price, presumably they can benefit. I assume that there are going to be some imports from Mexico that are going to benefit our consumers in that consumers are going to be able to purchase those products at a lower price than would otherwise be true. Is that correct?

Ambassador HILLS. Absolutely. There will be an opportunity to purchase a broader range of goods at a lower price, and it will be beneficial to our companies who are consumers in and of themselves. The agreement will be beneficial to investors as well, because collaborative production is very much a part of our globalized economy.

We have many, many companies that tell us that, because of an investment they have made in Mexico, they have been able to expand their gross sales, and, therefore, their U.S. work force, as they have become more competitive in a cost sense than they were before their investment in Mexico.

Senator CHAFEE. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Bradley.

Senator BRADLEY. Thank you very much, Mr. Chairman. Carla, could you tell us what is your latest assessment and sources for that assessment of net job creation?

Ambassador HILLS. There have been a number of studies that have been undertaken to develop the economics. About 12, I think, were covered in the ITC symposium that evaluated the studies that had been conducted over the past several years.

And the ITC found that there was a "surprising unanimity" in the fact that there would be an increase of output in this Nation—GDP, employment, and real wage gains.

Last spring, Brookings did an analysis. I believe they looked at 30–40 studies, and they found, too, economic growth, jobs and an increase in real wages.

The Institute of International Economics has made a projection based upon their in-house analysis, and they, too, come to the conclusion that there will be about 325,000 jobs created.

There have been studies at UCLA that have found that urban, unskilled and rural wages will increase as a result of this agreement, primarily because of the decrease of illegal immigration, resulting in fewer people seeking the lower skilled and rural jobs. But there are a number of studies, and we would be happy to share them with you.

Senator BRADLEY. So, the tentative conclusion by all of these studies is that there will be more economic growth, more jobs created than lost, higher-wage jobs created, and the most difficult areas served with more job opportunities, including urban American and poor rural America.

Ambassador HILLS. Yes.

Senator BRADLEY. Could you tell me, what is the dispute settlement mechanism that is embodied in the agreement, and what is your level of confidence that it will actually work?

Ambassador HILLS. The agreement provides for panels, not unlike the Canadian Free Trade Agreement. And, in order to have a lack of bias, it requires that the disputants pick from the panelists of the other two countries. The resolution should be in 8 months. And we think that it is an improvement on the current dispute settlement mechanism that we have in the United States-Canada Free Trade Agreement. There is an additional dispute resolution, and that is through investor-state arbitration.

We were, in this agreement, able to negotiate an investor State arbitration mechanism, which we welcome, that protects the investor in event of monetary damage, where his rights that he would look for from the agreement are abused: right to repatriate profits; expropriation; lack of national treatment, and the like.

Senator BRADLEY. So, that if there is a disagreement over national treatment, what happens? Could you go through the steps, one, two, three, four, so that people could clearly understand that there will be a resolution of any dispute?

Ambassador HILLS. In a government to government dispute, we would request consultation in the first instance. And if that did not work, we would seek a panel and the panel would make its determination. Under the rules that we have negotiated, the resolution should be final in 8 months.

Senator BRADLEY. If an exporter to Mexico felt that the internal court proceedings of Mexico had not been fair to that particular exporter, does he have any recourse at all under the agreement?

Ambassador HILLS. If that exporter is accused of dumping or of having its goods subsidized—and that is a common complaint—after resolution of the issue at the administrative level, at the equivalent of our Department of Commerce and the ITC, the entrepreneur would have a choice of going to a panel—a panel that

would serve as an appellate body rather than going to a court within either of the other two countries.

Senator BRADLEY. I know that the environment is not your area, and I assume we are going to have Mr. Riley up here at some point to talk about that, but you did talk about parallel negotiations.

Might you share with us the prospects of improving the Mexican environment, and, therefore, the threat that that may or may not pose to the United States absent an agreement with Mexico, and one with an agreement with Mexico?

Ambassador HILLS. I think that what we have done in the environment is one of the grand stories of this negotiation. The parallel discussions with Mexico have literally blossomed.

We have not only a master plan for the border where enforcement is strengthened by focusing on the border—through cooperation initiatives to reduce pollution and cooperative enforcement—we have already brought cases where the two governments have worked together.

But that has expanded so that there is now, I am told, soon to be an agreement for a bilateral joint committee for the environment that will cover all of both nations, not just the border. And here again, it will focus on pollution prevention, strategies on enforcement, pesticides; important issues to Americans.

Director Reilly has called a meeting of the three environmental ministers for September 17. He has invited me to participate in the meeting. To my knowledge, this is one of the first meetings where the three environmental ministers and trade ministers will be talking together.

And I think that, were we to vote down the North American Free Trade Agreement, it would have a very damaging effect on the kind of cooperation that we have been able to engender through the course of these negotiations. Plus, of course, we would lose the extraordinary provisions that are contained in the agreement on the environment.

I simply cannot understand how a good environmentalist can say, I would vote against the agreement because you did not get enough, or you did not get what I wanted for the environment, when the agreement is laced with environmental protections. The new focus and the parallel discussions are just leagues better than when we started this negotiation some 2 years ago.

Senator BRADLEY. Thank you.

The CHAIRMAN. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman. And thank you, Ambassador Hills, for your answers thus far. Mr. Chairman, before I ask my question I wanted to get into on NAFTA, I would like to insert four questions for the record on a subject that is not directly related to NAFTA, with respect to intellectual property rights, if I might.

The CHAIRMAN. Without objection.

[The questions appear in the appendix.]

Senator SYMMS. They are only indirectly related, and that is why I will not tie up the committee with them now. I think that it helps us to keep on the record answers of the enforcement of our current trade laws to pass new trade agreements. We have discussed that many times.

But the question I wanted to get to, because I believe, as I said earlier, that the potential for this trade negotiation and the culmination of the agreement to NAFTA, can be very helpful to all sectors of the American economy, including agriculture. It just so happens that I come from a State where sugar is a very important crop; it generates a lot of revenue for the State.

And before this agreement ever got out, I was quite interested to see that other people—maybe they had information that I did not have—were making all kinds of statements—particularly the Beet Growers' Association in Idaho—about how terrible this agreement would be for sugar producers.

That was before there was any information about what was in the agreement was made available to my office, or any of the other congressional offices. And, as you said earlier, while the lawyers were still trying to write the agreement, there was no information out.

Could you give us—and I have a little fact sheet here on what is in the sugar agreement—a kind of direct answer that you would give to a beet producer in Idaho, or a cane producer in Louisiana, Texas, or Florida, how this will impact their situation in the coming years, and how you would foresee that it would impact them?

Ambassador HILLS. The agreement will reduce the Mexican tariff, and Mexico is a net importer of sugar. It is a 15-year reduction; 15 percent over the first 6 years, then a straight-line reduction over the next 8 years.

Mexico will harmonize its border protections with ours before the year seven, so we will have a common tariff. We have negotiated a tariff rate quota with the Mexicans, and, from year one to six, their quota is what it is today, 7,000-plus metric tons. If they become a net exporter, they have the opportunity during that period of time to export up to 25,000 metric tons. And, in years 7 to 15, if they are a net exporter, they could export up to 150,000 metric tons.

Senator SYMMS. To the United States.

Ambassador HILLS. Yes. At the present time, they are not a net exporter. We do not see—and our consultants did not see—that they would easily become such. The consumption of sugar in Mexico is growing very, very rapidly as their population increases. We are also a net importer of sugar.

Senator SYMMS. Do you have the figures there of how much sugar we import net today?

Ambassador HILLS. Worldwide?

Senator SYMMS. Yes.

Ambassador HILLS. I do not have those with me.

Senator SYMMS. Well, we are talking in terms of 3 or 4 million metric tons. Is that correct? In that range.

Ambassador HILLS. No. Our current quota is 1,231,000 metric tons.

Senator SYMMS. Five or 6 million, maybe.

Ambassador HILLS. I know within the past 3 or 4 years we have been the major suppler to Mexico of its sugar, and it has been over a third, I believe. 38 percent sticks in my mind. During the 1990–91 marketing year, we exported 250,000 metric tons of sugar to Mexico.

Senator SYMMS. All right. That will be fine.

Ambassador HILLS. But our worldwide imports, because we are a net importer of sugar, are, I believe, over 1 million metric tons.

Senator SYMMS. All right. But the point is, the 150,000 tons which could grow over about a 6 or 7-year period at 10 percent a year, so it could easily double to, say, 300,000 tons, even that is not a huge amount of sugar. Is that not a fair statement?

Ambassador HILLS. I believe that is fair statement.

Senator SYMMS. There has been an awful lot of unrest from the agricultural community in the State about that, and I am just trying to find out. I have got this sheet, and I appreciate your answer. I would like to get, if you have it, someone who could give us what the STR would anticipate the long-range view would be of the U.S. sugar producer with the ratification of this agreement.

Ambassador HILLS. I would be pleased to get that. I am sure we can obtain that from the Department of Agriculture.

Senator SYMMS. All right. Thank you.

[The information follows:]

EFFECTS OF NAFTA ON THE SUGAR INDUSTRY

Summary Under the NAFTA, the United States and Mexico will gradually reduce barriers to sugar trade between the two countries and harmonize border protection with the rest of the world. During the 15-year transition period, any additional access to the U.S. market beyond Mexico's current 7,258 metric ton quota will be conditioned on Mexico becoming a net surplus producer of sugar. Mexico is currently a large net importer of sugar. The United States has exported substantial refined sugar to Mexico in recent years and the sugar re-export program will remain in place.

Current Policies and Proposed Changes. Mexico eliminated its sugar import permit requirement system in late 1989 and instituted a variable levy system on sugar imports. The government announces a target internal price each month, which is adjusted to stay at about 18.7 cents (U.S.) a pound. The variable levy is adjusted to bridge the gap between the target price and world price. This price support system will work only when Mexico is a net importer, which has been the case in recent years.

The United States maintains a quota and tariff on over-quota amounts of sugar. Any imports over a country's quota allotment face a second tier tariff of $0.16 per pound, raw sugar. The United States also has re-export programs under which sugar can be imported, refined, or further processed, and then re-exported without being subject to a quota or a tariff. These programs will remain in place under the NAFTA.

In the first 6 years, the United States will reduce its second-tier tariff on sugar from Mexico by 15 percent and during years 7–15, both U.S. and Mexican tariffs will be reduced linearly to zero. By the end of year 6 of the transition, Mexico will align its tariff regime that applies to the rest of the world with that of the United States, and phase out this tariff on imports from the United States by the end of year 15.

Mexican sugar exports to the United States will be subject to several conditions relating to its net surplus production status. The NAFTA provides for Mexico's current access of 7,258 metric tons of raw sugar, duty-free. But during the transition period, any additional duty-free access above this amount is limited to no more than Mexico's projected net production surplus of sugar. In addition, for the first 6 years of the agreement, duty-free access may not be more than 25,000 metric tons, raw value.

In year seven of the agreement, the maximum duty-free access quantity becomes 150,000 metric tons, raw value. In each subsequent year of the 15-year transition period, the maximum quantity of Mexican sugar allowed duty-free access will be increased by 10 percent.

However, beginning in year seven the United States shall provide duty-free access to the full extent of Mexico's projected net production surplus for that year if (1) Mexico has been a net surplus producer for any two consecutive marketing years (including years one through six of the agreement), or if (2) Mexico has been a net

surplus producer during the previous year and is projected to be a net surplus producer in that year. If Mexico is not ultimately a net surplus producer in that second year, the appropriate quantitative restriction on duty-free access is applied in the subsequent year.

Current Trade Patterns and NAFTA Effects. Mexico has consistently filled its sugar import quota allocation from the United States, but it has been a large net importer of sugar from the United States and other suppliers. In 1990/91, Mexican sugar imports were 1.4 million metric tons. Imports in 1991/92 dropped to about 275,000 tons as the Government of Mexico raised tariffs to limit imports and draw down stocks. With stocks down sharply, 1992/93 imports are projected to approach 1 million metric tons, raw value. Approximately 20 percent of these imports is expected to come from the United States.

Under the NAFTA, the United States will continue using the sugar re-export programs to ship refined sugar to Mexico at the MFN duty-rate. Income growth in Mexico will expand its demand for sugar and will also encourage a shift to more highly refined sugar.

[Office of Economics-United States Department of Agriculture. September 1992.]

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Ambassador, a number of Senators have raised the question of compliance with agreements and with statutes. Senator Baucus raised a matter of environmental concerns, in particular; Senator Bradley, the general question of compliance.

And the question I would like to hear from you, yet again, is, with what degree of confidence, and I would think even propriety, do we enter a Free Trade Agreement with a country that has not got a free society? Since we last talked on this, the Freedom House survey of freedom in the world, political rights, and civil liberties, has come out. Freedom House is the oldest, and, I think, the most respected survey in these matters in the world. They have been at it for about a half century, now.

And, in the section on Mexico, it begins, "Mexico: Free trade, unfree politics." It then says, "Overview: Although President Salinas has carried about a remarkable opening of the Mexican economy, Mexico remains the most authoritarian state in Latin America outside of Cuba." They mention the Presidential election and say, "With most Mexicans believing he actually lost the election to Cardenas, Salinas was inaugurated."

The presidential election in Mexico is not something where the votes are accurately counted; it has not been since they began having them on a regular basis, which was a great achievement in 1928, I believe.

On the judicial system, there is this: "Although it is nominally independent, the judicial system is weak, politicized, and riddled with corruption." And it goes on to say of the broadcasting media: "Nominally independent . . . largely controlled by the government." This is the pattern with an authoritarian state.

And no one who cares about Mexico—and I hope I would be one—would disagree that the Party of the Institutional Revolution was certainly an improvement on the chaos that preceded it. But that was a half century ago. More. Three-quarters century ago.

How do you respond to that when we are reaching an agreement that will involve trust on both sides with a government that Freedom House would describe as the equivalent—a little bit to this side—of Cuba?

Ambassador HILLS. I think, in fairness, President Salinas deserves a lot of credit for the democratization that has moved forward under his administration.

Senator MOYNIHAN. No one would deny that. Not I.

Ambassador HILLS. There have been a number of positive steps. Since he came to office, the opposition has gained electoral power and non-governmental groups have——

Senator MOYNIHAN. I think in one State, for the first time in 75 years, an opposition party has been allowed to take office: Baja California Norte.

Ambassador HILLS. True. But, here, the President did promise an honest election and he delivered an honest election. In August of 1990, the Mexican Congress passed an electoral processes and institutional Federal code, creating an independent and impartial electoral tribunal.

A year later, the President changed voter registration procedures in order to combat and eliminate electoral fraud and open up the political system.

In August of 1991 he introduced his electoral reforms, some requiring constitutional changes. When there was a dispute over the honesty of an election recently, he annulled the disputed gubernatorial election won by his party and called a new election.

And, recently, July 12 of 1992, the gubernatorial and State congressional elections were held in two of the states. The opposition won one, and his party won another.

Senator MOYNIHAN. Well, could I just say, Ambassador, that you very carefully do not address—I am not saying you are avoiding, but in the little time available—we still have not heard about the judiciary.

It is a pattern of authoritarian states to have magnificent laws. Will anyone ever forget the Soviet constitution of 1936? It was drilled into me in New York City in the 1930's. They guaranteed you everything, but they did not provide anything.

I mean, what do we think about political culture? I mean, a corrupt political culture. Would you want to live in a country with better laws than Cuba? I doubt it. But when you find a country filled with good laws, you often find the jails are filled with good men.

Ambassador HILLS. Let me suggest that you raised several things. Politics: I would only further point out that a team went from the Carter Center in Atlanta and found that there had been amazing opening of the Mexican electoral system.

Senator MOYNIHAN. All right.

Ambassador HILLS. On the judiciary, I tend to think that these freedoms in the social and political side go hand in hand with the economic freedoms and that, by bringing down trade barriers and allowing entrepreneurs in Mexico to have choices and to gain in wealth, will only strengthen the stability, the growth, and the democratization that has already taken place, in an administration where, clearly, it has demonstrated that that is its desire to do so.

Senator MOYNIHAN. Thank you. May I just say that stability is what they have got. They have had the stability of one party that has won every election since 1928, with the exception of Baja, California, once.

Ambassador HILLS. And Chihuahua, on July 12, 1992, you have two.

Senator MOYNIHAN. Two. Thank you.

The CHAIRMAN. Let me state, as one who was born and reared on that border, that it is not just an economic revolution taking place in Mexico, I think that there is a political revolution that is taking place. And it is going to take some time, but it is incredible how fast it is moving

Talking to Pedro Aspe, the Finance Minister, and having him tell me that they had successfully prosecuted three Mexicans since 1921 for income tax evasion up to 1988—three, since the time of the revolution—but since 1988 they have successfully prosecuted—and he told me this about a year, year and a half ago—at that point some 382 Mexicans. People are starting to pay their taxes.

I watched them take the Customs force, which had all kinds of problems with Morlida. Darned if he did not fire the whole Customs force and put a whole new group in there. Amazing changes taking place in Mexico today.

Talking about the environment, listening to Ms. Hills speak of that. There is no question in my mind that we would not have seen the kind of progress without the pressure. People like Senator Baucus and others on this committee felt very strongly about the environment. The leverage was there because they wanted an agreement. But what an incredible response we are getting.

Again, on that border, to watch what is taking place and the changes in the Mequiladoras, that are going to be forced on the part of the Mexican Government. I am just delighted with the changes. I have seen plant after plant close down.

I have seen the refinery in Mexico City close down because of the pollution there. And you are talking about thousands of workers at a time of high unemployment. That takes political courage. That is impressive.

I wanted to ask you a couple of questions, Madam Ambassador. You talked about clear rules of origin, and I am delighted to hear you say that. But, once again, when you talk about enforcement, what do we have on this side and that side in order to see that those rules of origin are carried out? What is NAFTA proposing, anything in that regard?

Ambassador HILLS. We have confidence in our Customs Service and their ability to administer the rules of origin. And this negotiation involved the very close workings of 10 agencies and departments, and Customs was right there.

So that I feel comfortable that these rules, which are not only strict so that the benefits flow to the countries of North America, but that they are clear and they can be administered.

The CHAIRMAN. One of the others that I have heard from, and you have, is the question of the cultural exemption for industries in Canada. I have been advised that this new agreement may expand that some in going into intellectual property in addition to services and investment.

If that is the case, what kind of a problem does that give us with, for example, the French, who feel so strongly in that regard, or for the British, when we get into GATT negotiations, demanding that type of an exemption?

Ambassador HILLS. It is true that the North American Free Trade Agreement is broader than the United States-Canada Free Trade Agreement. We did not have an intellectual property chapter

in the United States-Canada agreement, primarily because of the Canadian insistence on their cultural exceptions. In the North American Free Trade Agreement, we have some noteworthy achievements with respect to copyright, compulsory licensing, and patents. And so how we do have the intellectual property rules apply to Canada, and I think that is quite beneficial to our softwear, pharmaceutical industries, among others.

I do not think the fact that they have taken the same cultural derogation, literally word for word, that they took in the Canadian agreement, creates a problem for us in other trade agreements. Mexico has taken a derogation for oil.

If we negotiated in another forum with another party, we will not give a derogation for oil. Canada has taken its cultural derogation. And, if we negotiate in another forum—you mentioned the Uruguay Round—there is no cultural exception in the text now that Mr. Dunkel has proposed.

The CHAIRMAN. As of now, and I hope it stays that way.

Ambassador HILLS. We would not agree to any cultural derogation.

The CHAIRMAN. Let me ask you another one, then, while I have time here. The congestion on the border is an incredible problem, in trying to get traffic across, coming in both directions. And we have bolstered the Customs force and INS, but we still have a problem.

And trying to get the kind of cooperation amongst the agencies—and I wrote you a letter concerning a possible commission, and I know that we have all kinds of committees and all kinds of commissions on that border.

We have got the International Boundary and Water Commission and all the rest of them. But somehow, somewhere we ought to have someone that can speak with authority to make these folks work together on these problems, and that is my concern.

I would guess, since you have taken some time in answering my letter—not that you do not have other things to do—that you were not very excited about my suggestion.

Ambassador HILLS. Actually, my notebook shows that an answer went out to you, Mr. Chairman. And if it has somehow missed you, I can duplicate it. It went out several days ago, or some time ago. But suffice it to say that I agree with you. I think that we are going to have to give attention to the border.

The CHAIRMAN. You should probably have sent it to that ranch out in Wyoming where I was trout fishing.

Ambassador HILLS. I can give you the exact date of it.

The CHAIRMAN. Well, fine. We will find it, then. But you might tell me if you——

Ambassador HILLS. September 4, it left our office. I had hoped that it was hand-delivered. But, if not, I apologize. And I referred in that letter to a number of bilateral institutions that were dealing with the problem that you have rightfully identified. The bilateral Commission on Bridges and Border Crossings has multiple agencies, meets with the Mexicans, and is chaired by State. They meet quarterly on a binational basis. The Southwest Border Capital Improvement Program—that is a GSA Customs program——

The CHAIRMAN. Madam Ambassador, I know we have got a whole bunch of them. I said that. I predicated my statement on that.

Ambassador HILLS. Right.

The CHAIRMAN. It is trying to get someone in charge to coordinate these things. That is the problem.

Ambassador HILLS. Well, I think we can look at that and see whether all these institutions have a common thread. Perhaps there is another and more effective way to deal with the congestion problem.

The CHAIRMAN. Thank you. Senator Pryor is not here, and he has asked that I put in the record a number of questions and ask you to respond to them, please. Without objection.

[The questions appear in the appendix.]

The CHAIRMAN. Senator Packwood, for any comments you might have.

Senator PACKWOOD. Madam Ambassador, much of the conclusions we come to, I fear, are often anecdotal rather than broad-based factual. So, I will give you an anecdotal one, and then I am curious about relative labor cost in different industries and this fear that they are going to flee south.

There is a company in Oregon called ADEC, and it manufactures dental equipment. It manufactures the chair and everything that goes with the chair. I think they have become the largest manufacturer in the United States.

The old principal company went bankrupt, went out of business. Whether they have a bigger competitor or not, I am not sure. But it is a company with hundreds of employees, founded maybe 25–30 years ago. In fact, as a quick aside, a cute little thing, it was founded in a quonset hut.

Recently, the employees bought the quonset hut and presented it to the owner who is still there. It was being used as a pigsty and it is now sitting on the campus of this place and he doesn't quite know what to do with it exactly. He says it is not good enough for a museum and not big enough to move, but he felt very touched by the gesture of the employees.

He said their floor labor costs were about 6 to 7 percent. I remember John Young, of Hewlett-Packard, testifying that 6 percent was his floor labor cost; not his research and development, not his overhead and management that you would keep here no matter if you moved your entire factory to Singapore. This company has 18 percent of its sales overseas. Does well in Japan, does well all over Asia, does well in Mexico. I asked him if he thought of moving to Mexico and he said, well, we looked at it.

But, very frankly, unless we are faced with a situation where we must be inside the market in order to sell—and that, in our case, did not hold—it was not worth going to Mexico for that.

And at the very time I am walking around the factory, in comes a German group. The German distributor is there with eight or nine of the distributors subfactors, independent contractors. He comes over twice a year. The owner said, yes, we have our different distributors here with some regularity. They manufacture, everything that they sell in the world in Newburg, OR. They are doing well, and they do not plan to move.

Are there businesses whose labor costs are so inexorably high—not 6 or 7 percent, but 30, 40 or 50 percent; I do not know of any modern businesses that have labor costs that high—that this could conceivably be an enticement to go to Mexico? And what is the auto industry's floor labor cost? Not their research and development, but their floor labor costs. Do you know, as a cost of production?

Ambassador HILLS. Those will vary, depending on the industry.

Senator PACKWOOD. Well, I assume so.

Ambassador HILLS. And I am sure we can get some data for the record from the Department of Labor. Suffice it to say that there is no impediment to a company that feels that they can be more profitable to move to Mexico now than later. The Free Trade Agreement has no effect on that.

What the Free Trade Agreement does is to remove trade barriers so that we can trade across the border, and so a company that does not want to move in order to tap the size of the Mexican market can stay home and trade rather than to relocate.

Senator PACKWOOD. Which is exactly what this dental company has done. Whether it is unique or not in what it makes, I am not sure. A dental chair seems to me to be a dental chair, with all of the accouterments that go with it, although we all probably close our eyes to it when we are in the process of using it. But, if we do not have this agreement—I heard what Senator Chafee was saying—if these companies wanted to go, they will go now.

And if Mexico has worse environmental laws and standards by far, all this agreement does is try to help them bring those standards up. If we do not have any agreement, they may never bring the standards up. They will try.

But it would seem to me, the incentive to flee would be worse without the agreement than it is with the agreement for any company. For those companies that have higher labor costs, the incentive is greater now than if you get the agreement.

Ambassador HILLS. I agree.

Senator PACKWOOD. Thank you. I have no other questions.

Senator RIEGLE. Mr. Chairman, I wonder if Senator Packwood would yield just for one moment on his point. I will not extend the time here because I know it is late in the afternoon.

There is another element to the NAFTA that has not entered into our discussion, namely, the enticement of producers from other countries to come into Mexico. A new investment environment and a Free Trade Agreement will enable other countries and their manufacturers to set up facilities, employ Mexican workers, take advantage of the low-cost and other economic efficiencies in the Mexican market. Non-NAFTA countries will be able to use Mexico as a launch pad from which they will export into the United States, or, for that matter, into Canada, but particularly in the United States, which is a very attractive market.

So, it is not just the question of investment options that one in Canada or the United States might see in a Mexican situation, but it is also a invitation, really, for the rest of the world to take advantage of the situation and use it as a way to penetrate our market.

Now, obviously, those interested in investing in Mexico have got to do it within certain operative constraints. Nevertheless investing

in Mexico is a very attractive opportunity. The actions of non-NAFTA interests is one of the things that would happen in connection with the integration of a Third World economy into a modern, industrialized economy.

Senator PACKWOOD. It might. But I was intrigued with the statement of Hyundai the other day when they closed their New Jersey facility and are going to unload all their cars in Portland—although it appeared on the map that they still had an unloading port in southern California. They also had something in Florida or Georgia, and six Southeast States. But we will serve 43 States out of Oregon.

The Hyundai USA president was asked, why are they closing the New Jersey facility? He said, one, is speed. He said, we can get the cars to our dealers about 2 weeks earlier taking them right off the ship, running them right on the train.

He also said inventory is very critical, and a 2-week delay is a lot of cash flow. I would think that very company, if they were to take their entire facility and move it to Mexico, would be even worse off in terms of the infrastructure and the moving. It isn't just the cost.

Here is Hyundai, which is an overseas company, and they could just as well have built this entire facility in Mexico. They built the one in Portland about 4 or 5 years ago and are now consolidating. They could just as well, I suppose, could have built it in Monterey, or someplace else.

But they chose to build it in the United States, even though there is no serious impediment to taking the cars into the United States from Mexico. The infrastructure was a key factor in their thinking.

The CHAIRMAN. Senator Grassley, do you have any comments?

Senator GRASSLEY. I want to get back to agriculture a minute, if I could. It is my understanding that we can export $2.5 million metric tons for corn, and after we have exported that much for any additional, we face a 215 percent tariff.

Now, it is my understanding also that U.S. competitors will only need to obtain import permits. There was some discussion between the United States and Mexican negotiators that indicated that if this situation developed, then Mexico would go back to issuing import permits to all suppliers, including the United States.

Are there any written assurances to that effect? Also, what guarantees does the United States have that we would not be discriminated against? And then, also, if this situation occurred, would this be in violation of the GATT provisions on Most Favored Nation?

Ambassador HILLS. My understanding is, we have a tariff rate quota that gradually increases over 15 years, after which there is no restraint. The tariff over the quota is actually 215 percent; the quota grows at 3 percent a year, compounded; and that that tariff comes down to zero over 15 years. There would be no violation of the GATT provisions because the objective is free trade. This is the mechanism whereby Mexico rid itself of licensing.

Our corn producers ha had an uncertain market, having to obtain a license. And, by converting the licensing to a tariff rate quota and then proceeding to get rid of the quota as it got rid of the over tariff, opens up the corn market.

Senator GRASSLEY. All right. I do not question those results. But if, when we meet that 215 percent point, other countries are going to be able to just use an import permit. And if that is the situation, then does that not put them in a more favorable condition than the United States?

Ambassador HILLS. We are not concerned about that, as we think that we are the major supplier of corn to Mexico. We believe that any alternate supplier will be plagued by the licensing program that we have faced.

Senator GRASSLEY. All right. If I could, it might be a more probable scenario in a case where Mexico might have a drought and needed to import larger amounts of corn. Would, under those circumstances, foreign competitors have an advantage in this case more than we would have for U.S. suppliers?

Ambassador HILLS. I would think no. The competing supplier would have to get a license. It may very well be that we could supply all of the need and increase our supply. But I would have to ask the Department of Agriculture to fill in the blanks there.

Senator GRASSLEY. All right. Well, if there is anything different than what you just told me, communicate it in writing. Otherwise, I am satisfied.

Ambassador HILLS. Fine.

Senator GRASSLEY. On another question, still dealing with corn, but a derivative, there are many products being developed using corn starch as a base. These new uses for corn are not identified in this agreement. How will the tariffs and quotas be determined for new products that come onstream after the agreement is signed?

Ambassador HILLS. Senator, are you talking about our selling the new products, or selling corn to Mexico and it converts them to a new product?

Senator GRASSLEY. No. Our selling the new products.

Ambassador HILLS. These new products would have their own tariff line, if that were appropriate. You would have to identify the product. We have 9,000 tariff lines.

Senator GRASSLEY. So, it would not have anything to do with the fact that they have a corn base, starch from a corn base.

Ambassador HILLS. No.

Senator GRASSLEY. All right.

Ambassador HILLS. If it had been so substantially transformed—and we call that substantial transformation—it would have a different tariff line.

Senator GRASSLEY. Mr. Chairman, I am done with my questioning.

The CHAIRMAN. Thank you. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. I sure like that label he just gave to you.

The CHAIRMAN. Well, it has a nice ring to it. [Laughter.]

Senator RIEGLE. I wish we could have that fully apply. Let me ask unanimous consent to put four items in the record.

The CHAIRMAN. Yes, of course.

Senator RIEGLE. I will just enumerate what they are.

Senator GRASSLEY. Well, I did not mean to do that. [Laughter.]

Senator RIEGLE. That was a good piece of work, I might say.

The CHAIRMAN. I will tell you, no apologies are necessary. [Laughter.]

Senator RIEGLE. Two of the articles relate to a discussion we have had here today. One, is entitled, "Hyundai Chairman Sees NAFTA as Positive for South Korea." This is from the Journal of Commerce, and I would like make it a part of the record.

Then, there is another article in this same vein out of Business Week, "Why Some Asian Companies are Gung Ho about NAFTA." And this relates to the export platform issue that I spoke about.

Also, I would like to include in the record a briefing paper by the Economic Policy Institute on the adverse economic effects and job loss from the NAFTA. They include in here, among other things, one estimate done by an outside group that indicates, in reference to the earlier discussion of American job losses, "A possible job loss of as many 900,000 jobs in the United States by 1999." And they put the reasoning in here for that estimate.

I would also ask that an article out of the Journal of Commerce from some months ago indicating that the Government of Mexico was spending $100 million to lobby this Free Trade Agreement into enactment, also be included in the record.

I must say, the Journal of Commerce even looked askance at that kind of very expensive lobbying effort, as do I. But I think it is an important part, unfortunately, of what is going on behind the free trade agreement.

Let me also make some comments with respect to the issue raised by Senator Bradley on whether or not there would or would not be jobs lost. In addition to this report I cite the fact that the Bush administration is now saying it is going to spend $10 billion over 5 years for worker retraining, is evidence that this administration expects an awful lot of workers to have to be retrained, and a lot of workers to be displaced by this trade agreement. It is evident that these two things obviously are tied together.

Senator RIEGLE. But let me go directly back to the North American content issue for autos that we were talking about earlier, Madam Ambassador. As you know, Canada currently has an Auto Pact in place. We tried to get rid of this pact in the Canadian-United States Free Trade Agreement. The auto pact requires that 50 percent of the content of an auto that is sold in Canada must actually be made in Canada.

It is my understanding that Mexico has the equivalent of Canada's content requirements. It is called a National Value Added Requirement, which is at 36 percent. We have no such domestic content requirement for autos here in the United States. However, this idea has been talked about from time to time.

As I understand it, what you have said today is that you have negotiated a 62.5 percent North American content requirement for autos, within the context of the three nations, that is to be phased in over the next 8 years. So, that is the ultimate goal. It starts at a lower percentage and builds up to 62.5 percent in the 8-year of the agreement.

We have been trying to get Canada to get rid of its 50 percent domestic content requirement. The Canadians have not been willing to do that. I, quite frankly, question whether Mexico will give

its domestic content requirement up either, because they see the Canadians effectively maintaining their restrictions.

Conceivably, under this Free Trade Agreement, a car could be sold in the United States, which has been made in either Mexico or Canada, and does not have to have any of its content made in the United States. Is that not correct?

Ambassador HILLS. Unlikely.

Senator RIEGLE. Well, I did not say whether it was likely or not. I asked, is it possible? Clearly, according to the way the rules of origin under the NAFTA will work, a car that is made either in Canada or Mexico, could be sold in the United States, and not have one dollar's worth of U.S. content.

Ambassador HILLS. Yes. The answer to your question is, yes. Your facts, however, that you lead into the question are incorrect. Canada's Auto Pact, on average, we are told is 15–20 percent Canadian; that U.S. auto suppliers supply 80–85 percent of the content.

And we do have a tough rule of origin, but we do not make it country specific. And that is because we want our North American auto companies to become more globally competitive by being able to rationalize their production.

Senator RIEGLE. Well, we could have a long dispute here today, in terms of how the Auto Pact works in Canada. And that really is not the critical issue, with respect to how the NAFTA rule of origin for autos would work.

What I am concerned about is that we are setting up a situation where we are going to have producers on either side of us: Canada, with its circumstance; Mexico, with an entirely different. Third World wage structure and environmental protection structure, and such. And they are going to be able to build cars, or anything they want, and ship them into the United States. And it is possible that these products will not have one dollar's worth of American work content in that product. There is absolutely nothing that guarantees this here, no guarantees that this will not occur. You yourself have just acknowledged this.

And I think what happens is, when people hear the 62.5 percent content figure for the three nations that are combined in this trading unit, they automatically assume that some part of that business, or some part of the content, or the build-up of the product, will come from the United States and be done by U.S. workers. But, there is absolutely no guarantee that one dime's worth of any of these—assembly and manufacturing or actual parts will actually be done by American workers. Should we not have something in that areas? Especially because the Canadians have something in these areas and the Mexicans have something in these areas. Why should we not have something in the manufacturing and component areas for autos and auto parts?

Ambassador HILLS. It is the very thing we are trying to phase out by this agreement. We are trying to get rid of those things that make our companies less competitive. And, although we have a strong rule of origin regionally, we have tried to work to deal with the concerns you have. For example, the export platform, which is what you are really alluding to.

Senator RIEGLE. That is part of the problem.

Ambassador HILLS. By getting rid of export performance requirements that encourage a fourth company to go to our southern or northern neighbor for the sole purpose of exporting and getting a bonus for doing so. The local content requirements. Those will be phased out. And that means that the sourcing will be on the basis of competition. We believe that that will help our companies, and our companies believe it will help them.

Senator RIEGLE. Well, of course, Madam Ambassador—and we will finish, because the bell has gone off—I understand why the companies want to do this. They are fighting to lower their costs wherever they can. They are trying to improve their profit margins. The auto companies, particularly, are under tremendous stress. They have lost about $10 billion over the last 3 years. The prices of the stocks of all three are at very depressed levels. They are under tremendous pressure to out-source wherever they can, to Mexico or to Timbuktu.

They are trying to reduce their operating costs, get rid of the health care costs and so forth that are very high here in the United States—and they are doing it every way they can. They are driven by market forces. That does not mean their actions are good for America. That does not mean the auto industry's policies are good for our work force.

Ambassador HILLS. But the economics——

Senator RIEGLE. If I may just finish. Well, with regard to the economics, you seem to rush right over the fact that last month in America, in 1 month, we lost 167,000 jobs. 97,000 of those jobs were industrial-based jobs, good jobs, high-skill, high-wage jobs that this country desperately needs. I can just tell you, as we start to analyze the NAFTA document which we have just gotten today, we will consider the quantity and quality of American jobs. There is a lot in the agreement, and I appreciate the hard work that you and others have done to produce it. The fact that we may disagree on both the substance and the general philosophy is separate from this point. The fact is, we desperately need jobs in this country—jobs which we are losing them everyday.

To pit our workers against workers in Mexico who are earning $1 an hour or less with very little in the way of workplace protections, under a system like Senator Moynihan points out where you really do not have the same legal system, nor legal safeguards that we would need to have, there is a tremendous jeopardy to our work force. There will be tremendous jeopardy to our work force without safeguards against flaws in the Mexican economic, social and legal systems.

That is what this study that I have just cited by the Economic Policy Institute indicates. I think, quite frankly, that the President was forced to concede that somehow or another he is going to come up with $10 billion—he does not say how—for displaced workers, because this agreement is going to displace a very large number of American workers. That is why you are asking for the money to retrain the workers.

Ambassador HILLS. If I could just respond to some of your suggestions.

Senator RIEGLE. Yes, please.

The CHAIRMAN. Yes, please do, Madam Ambassador. Then we will close the hearing.

Ambassador HILLS. First of all, the question is, does the North American Free Trade Agreement make us worse off, as far as workers go in the auto industry? And, without a question, it makes us better off——

Senator RIEGLE. Well, we disagree on that.

Ambassador HILLS [continuing]. Because it restricts the export platform by phasing out the local content requirements, by getting rid of the need to sell two autos into our market before we can sell one auto into their Mexican market, and through a tight rule of origin. And, that, we can demonstrate to you, and I would look forward to trying to do that.

Senator RIEGLE. I have looked at that data. We just disagree on that point.

Ambassador HILLS. You cited a report. But I would like to get on the record the AFFL funded Economic Policy Institute. That was not an analysis done by the Economic Policy Institute, but, rather, they quoted a study done out at UCLA and they have quoted it to show that the notion that the North American Free Trade Agreement would cost U.S. jobs.

But the report that they rely upon does not show that there would be loss of jobs. To the contrary, the study that they cite shows that there would be a net increase of 317,000 jobs.

What the report that they rely upon does show is that 1.6 million would-be Mexican immigrants forego jobs in the United States and stay home, occupying jobs in Mexico, as the North American Free Trade Agreement increases Mexican standards of living and reduces pressures for immigration.

I simply wanted the record to show what this report that is miscited by the Economic Policy Institute does show.

Senator RIEGLE. Well, it will be in the record here. People will be able to read it for themselves. It is a 32-page summary. It is well documented. People can look at that, look at your statement, and make their own judgment.

The CHAIRMAN. Well, Madam Ambassador, we have had you testifying for almost 3 hours. We are very appreciative of the communications that you have had with this committee. We cannot fault you for that and we know how diligent you have been in your objectives. We are most appreciative of your attendance. Thank you.

Ambassador HILLS. Thank you very much, Mr. Chairman.

[Whereupon, the hearing was adjourned at 4:55 p.m.]

NORTH AMERICAN FREE TRADE AGREEMENT (LABOR ISSUES)

THURSDAY, SEPTEMBER 10, 1992

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

The hearing was convened, pursuant to notice, at 9:32 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Moynihan, Baucus, Bradley, Riegle, Breaux, Packwood, Roth, Chafee, Symms, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H-46, Sept. 8, 1992]

SENATE FINANCE COMMITTEE TO EXAMINE LABOR ISSUES BEHIND NAFTA, SENATOR BENTSEN CONCERNED ABOUT DISPLACED WORKERS

WASHINGTON, DC—Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, announced Labor Secretary Lynn Martin will testify at a hearing Thursday on the North American Free Trade Agreement.

A representative from the General Accounting Office will also answer labor-related questions.

The hearing, second in a series of four the committee will hold on this issue, will be at *9:30 a.m., Thursday, September 10, 1992* in Room SD-215 of the Dirksen Senate Office Building.

"A key factor in determining whether the North American Free Trade Agreement will serve our national interests is the impact the agreement will have on jobs in the United States," Senator Bentsen (D., Texas) said. "I will not support an agreement that does not create jobs in this country. Nor can we turn a blind eye to any dislocations that might occur because of free trade."

"For that reason, I have asked Labor Secretary Lynn Martin to brief us on the labor aspects of the NAFTA. In particular, I want to learn the details of the Administration's proposal for a new worker adjustment program. I want to find out how that program will work and how the Administration intends to fund it, " Bentsen said.

President Bush announced a new program August 24th called Advancing Skills through Education and Training Services (ASETS), and proposed to fund the program at $2 billion a year as a capped entitlement.

"I have also asked the General Accounting Office, which has, at my request, studied the operation of the two principal worker adjustment programs, to brief us on their findings and give us their views of the Administration's new proposal, " Bentsen said.

The two principal current worker adjustment programs are the Trade Adjustment Assistance program (TAA) and the Economic Dislocation and Worker Adjustment Assistance Act (EDWAA). TAA, which has been authorized through September 1993, provides extended unemployment insurance, training, job search and relocation allowances for workers who lose their jobs because of import competition. EDWAA, Title II of the Job Training Partnership Act, was created in 1988 and is a general program that provides funds to states for local services to assist workers dislocated because of a mass layoff or permanent plant closing.

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

The CHAIRMAN. This hearing will come to order. If you would please cease conversation and take seats, we will get under way.

Fifteen months ago, as we started the debates on the North American Free Trade Agreement, there was a great deal of discussion as to whether there was going to be a net loss of jobs to the United States. There were comments that we were going to have a net addition of jobs, and good jobs.

When I decided to support fast-track extension, I did so believing that a properly negotiated agreement would give us a net increase of jobs in this country. If I had not believed that, I would have opposed the negotiations. I certainly would not have worked as hard as I did in trying to get that fast-track authority through.

Now we have a draft agreement from the administration. I still have not had a chance to read the 2,000 pages in detail. There are still some fears that we might lose jobs, despite all of the economic analysis that tells us that a good NAFTA will create more American jobs than it will cost.

The reality is we know there are going to be some losers as a result of NAFTA. Not every industry, not every farm worker is going to win in the competition with Mexican workers. Most will, I believe, but not all. So, our government has to recognize that reality. and it has to deal with it responsibly. That has been a guiding principle in American trade policy for the last 30 years.

It was President Kennedy who first proposed trade adjustment assistance when he launched a new round of global talks back in 1962. Kennedy favored free trade because he knew it would benefit the United States as a whole; that, as competitive as we are, we would come out a net winner.

But he also understood that a country had to do something for those who suffer in the move to open competition, and he saw trade adjustment assistance as an essential part of that trade policy. Adjustment assistance is just as much an essential part of our trade policy today as it was 30 years ago.

That is why, when I was working to extend the fast track, I stressed to the President that we needed a firm commitment from the administration to work with the committee and the Congress on an effective program to meet the challenge of a Mexican agreement.

We got a promise and an action plan from the President in May of 1991. That commitment was important to winning congressional approval for the extension of the fast track. Now it is time for us to try to figure out the details of that program so that it can be put into legislation to implement the NAFTA. Without that, NAFTA would be a dead letter next year.

Two weeks ago, the President put forth his proposal for dealing with workers that a dislocated by the NAFTA. Today we have the Secretary of Labor with us who will hopefully tell us more about that proposal.

I would be particularly interested in hearing if the administration has any more specifics on how it intends to pay for that program. Because, without telling us specifically how it is going to be

paid for, it could end up only as a campaign promise. I think we all understand that.

We also have the General Accounting Office with us today. Over a year ago, I joined Chairman Rostenkowski in asking GAO to take a look at the two worker adjustment programs that are operating today, TAA, and the Economic Dislocation and Worker Adjustment Assistance Act.

Today, the GAO is going to tell us what they found in that study. And hopefully we will also benefit from their advice on what makes for an effective worker adjustment program. We will be looking forward to that. I defer to Senator Packwood for any comments that he would like to make.

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

Senator PACKWOOD. Mr. Chairman, thank you. I am delighted to have Secretary Martin with us today. As I understand it, what the President is suggesting is phasing out Trade Adjustment Assistance, the act, and phasing out the Economic Dislocation and Workers' Adjustment Act and coming up with an overall job training act, the acronym of which is ASSETS, which I think, probably, is a good name.

I am very interested in this for a variety of reasons in addition to trade, and that relates to displaced timber workers and the Endangered Species Act. We will be putting out of work in Northern California, Oregon, and Washington over about the next 18 months to 2 years about 35,000 people because of the Endangered Species Act—by and large, family wage jobs. These are not minimum wage jobs.

It is kind of hard when you are talking about a worker in Roseburg, OR, which is a mill town of 10,000 to 15,000. If the big mill shuts down, there are not any other jobs in that town at that wage. It would not matter what you were really retrained for in that town if the jobs are not there. So, you are talking about going someplace else.

Somebody that is 45 or 50 and has lived in the town all of their live, has married there, and their kids are in high school, and the fellow's mother and the woman's mother is still alive, and they do not want to leave the town.

I am delighted at the attitude the administration has taken on this, which seems to be "this is not the final answer, but here is our suggestion." That we want to cooperate with the Congress. That we want to have a meaningful program that will work for trade and that will work for other employees thrown out of work through no fault of their own, perhaps by government actions like the Endangered Species Act, and for the Congress to give us suggestions. I think, with that attitude, we can work toward a good bill.

I agree with the Chairman that NAFTA will rise or fall on whether or not there is a good retraining act. Without it, I do not see any possibility that it will pass. But I am especially delighted that we are not talking about this worker retraining being limited to just those who are displaced by trade agreements.

And, so, Mr. Chairman, again, I thank you for holding this hearing. Considering that this is going to be a hot issue in this campaign, I think these four hearings that you are going to have are going to be as critical as any we are doing.

The CHAIRMAN. Thank you. Thank you very much, Senator. In the order of appearance here.

Senator Roth.

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

Senator ROTH. Thank you, Mr. Chairman. While many of us have not made a final decision on whether to support NAFTA, including myself, because we have not had the opportunity to study the total proposal, there is one thing on which we can all agree, and that is the need to help dislocated workers make the difficult but necessary transition to new jobs.

In fact, this has always been a number one priority of mine long before NAFTA came onto the national agenda. It was in 1978 I came to the rescue of Trade Adjustment Assistance when the legislation was about to expire.

And although credible studies have shown that NAFTA will result in a net job increase in the United States, there is also recognition that some jobs will be lost as we meet the new competitive challenge of the North American marketplace. An effective worker adjustment program must go hand in hand with NAFTA.

I recently wrote to Secretary Martin on the vital importance of moving swiftly to implement the President's NAFTA commitment on worker adjustment, and emphasized four key objectives that must be met in crafting a NAFTA-related worker adjustment program: effective retraining and job search assistance; sufficient income support for those in training; full worker coverage in terms of eligibility; and adequate funding. I look forward to hearing Secretary Martin's testimony on these objectives.

And, while I applaud the initiative as a constructive first step, I am concerned about the proposed elimination of TAA, as well as the lack of detail on how the new $10 billion program will be funded.

I anticipated the funding problem last year when I called for the negotiation of a small and temporary fee on goods traded with Mexico. I regret that this approach was not pursued, because I believe that those who gain from trade should be willing to help those who feel its pain.

As a believer in liberal trade policies, I say, let the free trade purists be damned. I do not believe it is too much to ask consumers who get the advantage of buying goods at a lower price to pay a small fee to help workers who lose their jobs make the transition to new employment.

I am glad to see Mr. Gephardt adopt my approach, although he would go much further than I think is desirable. I strongly believe that any such fee should be temporary and limited to helping out impacted workers.

Congress endorsed my approach more broadly in the provision in the 1988 Trade Act which required the administration to seek multilateral agreement on a small import fee for the specific purpose

of funding worker adjustment programs. If we had pursued this approach more vigorously in GATT, we would be in much better shape today on funding a NAFTA adjustment program. Perhaps it is not too late to do so.

Aside from the funding question is the fundamental issue of what the substance of a NAFTA worker adjustment program should be. We must ensure that any NAFTA adjustment program cover workers impacted by production shifts and plant relocation to Mexico.

Our current trade adjustment assistance program does not cover these workers. This change is crucial, as one of the great concerns with NAFTA is that it will open the door to plant transfers. Hopefully, this is not the case, but where it does occur, these employees should be covered. This was addressed in the legislation that I introduced last year with Senator Moynihan.

In closing, I thank the Chairman for convening this important hearing, and I look forward to hearing the testimony. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Moynihan.

OPENING STATEMENT OF HON. DANIEL PATRICK MOYNIHAN, A U.S. SENATOR FROM NEW YORK

Senator MOYNIHAN. Mr. Chairman, just briefly. I very much want to endorse what Senator Roth has said, and our legislation has been there, but, to make a point to the Secretary of Labor that I think is relevant and important in terms of what the Chairman said.

The Trade Expansion Act of 1962 which led to the Kennedy Round of negotiations, I was one of the persons that negotiated the preliminary agreements for that legislation. I was then Assistant Secretary of Labor for President Kennedy. Historically, the southern States had been supportive of freer trade, lower tariffs.

They had changed with the advent of a large textile industry down there, and needed, in effect, quotas, before any general trade legislation could pass that would lead to a general lowering of tariffs.

We had to negotiate what became the Long-Term Cotton Textile Agreement, and long term, indeed. It is still in place, Mr. Chairman, 30 years later. Those Southern mill owners, with their non-union plants, are very carefully looked after 30 years later, as the Secretary knows. Right?

The trade unions of this country supported President Kennedy in this measure. They knew there would be jobs lost. By definition, a trade agreement moves resources this way or that way, and some jobs are lost. All they asked was trade adjustment assistance for the jobs that their government negotiated away. That was all they asked.

And President Kennedy said, of course, that is absolutely fair. And he gave it to them, and they supported that bill in the Kennedy Round in the era of trade expansion that he was still trying to keep alive.

But, within 10 years, the U.S. Government began to break its word to the trade unions. Trade adjustment went down, it went aside, it disappeared. Last week, President Bush proposed to abol-

ish it again. And you wonder why the AFL–CIO is not so sure of the good faith of its government.

I mean, I was present at the creation. I was there in Geneva negotiating the Long-Term Cotton Textile Agreement, which gave the mill owners what they wanted, and the workers got nothing. And the AFL–CIO was solemnly promised help for their workers—they are not owed anything—they just were asking help for people who lost work. And that promise was broken by a succession of American governments, not by one. But I do not wonder that they are suspicious, fearful, and worried. And I hope you would address that question, as the Chairman has indicated he hoped you would to. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. Senator Baucus, for any comments.

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

Senator BAUCUS. Thank you very much, Mr. Chairman. Mr. Chairman, as you know, I have long been a supporter for free trade. In fact, I worked hard to win support for the administration's request for fast-track negotiating authority for the North American Free Trade Agreement, otherwise known as NAFTA.

That is because, in general, I believe that free trade does promote the interests of American business, American farmers, American workers. Free trade creates export opportunities for American exporters and also allows consumers to choose from a wider selection of goods. It basically works.

But we cannot ignore the down side of free trade. Free trade also means imports, and some industries are not likely to survive increased competition. Some workers do lose their jobs.

During the consideration of previous trade agreements, the Congress moved to address the down side of free trade, we established the Trade Adjustment Assistance Program, as outlined so eloquently in its historical perspective by Senator Moynihan.

The purpose of TAA is to provide training and income support to workers who lose their jobs because of free trade. It is that simple. This would allow those workers to find new jobs in growing industries and to share the benefits of free trade.

To most, the concept behind TAA is very attractive. But the Bush Administration and the Reagan Administration were diehard opponents—opponents—of TAA. Every year since 1982, the administration has eliminated all funding for TAA in its budget request. The program has survived only because of consistent support from the Congress. The administration has supported replacing TAA with another program that provides workers with far fewer benefits.

I was very pleased 2 weeks ago, though, when President Bush announced that he planned to press for a 5-year worker retraining program; a program apparently designed to address the needs of workers displaced by NAFTA, as well as those who lose their jobs for any other reason.

But, given the administration's long record of opposing TAA, I was somewhat skeptical. Certainly, as the President's recent decision to use Export Enhancement Program funds to support American wheat exports also demonstrates, election-year pressures can

force the administration to change its position. But I am still skeptical of the administration's commitment to real and effective worker retraining.

When I learned that the President had not proposed any way to raise the $10 billion needed for the program, I became even more skeptical. Worker retraining is critical if the United States is to maintain a competitive economy.

We must ensure that our working men and women do have the skills necessary to compete. But retraining programs are expensive, and in times of tight budgets, it is the height of hypocrisy to propose a new program without explaining where the required funds will come from.

I and others in the Congress have proposed paying for worker retraining, as well as environmental protections, with a temporary fee to be levied on trade and new investment between NAFTA partners. This fee should be small—quite small, perhaps one-half of 1 percent—and phased out over a short period—perhaps 5 years. I do not see how such a small fee could have an appreciably negative impact upon trade.

But the administration has refused to even consider such a fee as part of NAFTA. It has often been said that there is no such thing as a free lunch; certainly this is true when it comes to worker retraining.

The administration cannot support retraining, but at the same time reject all approaches to funding the program that have been proposed. There is much that is sound and reasonable in the President's new retraining proposal. But until he explains how the program is to be funded, the proposal is, frankly, not worth the paper it is written on.

And I think I speak for many Senators when I say that I will note vote for the NAFTA until a fully-funded worker retraining program is in place. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Breaux, for any comments you might.

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

Senator BREAUX. Thank you, Mr. Chairman. I want to particularly thank the committee for continuing to keep all of the Finance Committee members informed of this agreement. I know that this hearing and the following hearings will really indicate the Chairman and members' desire to know as much about the agreement as we possibly can before we are called upon to cast our vote on it.

I think that the fact that we have a $10 billion proposal from the administration indicates that we may have a $10 billion problem with NAFTA. I think there is no question that, were we not considering a free trade agreement with Mexico, that we would not have the administration here today offering a $10 billion retraining program for American workers. The coincidence is just too great to conclude anything other than the fact that there seems to be a $10 billion problem with the North American Free Trade Agreement.

That is why we are holding this hearing, that is why the administration is pursuing this proposal. They are recognizing, by their

own testimony, that this agreement has the potential for causing a $10 billion problem for American workers.

Now, I think that the administration's proposal is a step in the right direction, but I am concerned by the fact that we are going to be pursuing an effort at this time which could potentially create a $10 billion loss to American workers. And that is what we are considering from the administration, a proposal to fix a problem that may not occur unless Congress pursues the NAFTA agreement and approves it.

Now, I have always had my constituents, as every member has, that say, look, I am for free trade, but I am not for a free trade agreement that is an export jobs agreement. And there is a legitimate concern by businesses and by American workers that they are not going to be able to compete against a country which has lower environmental standards, which has lower worker safety standards, which has fewer requirements from a health insurance standpoint and a safety standpoint, than this country.

There is no question that there are some companies in this country that are going to pick up and leave and go where they can make greater profits. There is no question about that. I think our job is to look at the NAFTA in total, look at it in balance, and conclude whether, in balance, it is good for the American people and American workers in industry, or whether, on balance, it is not. And I have not come to that conclusion yet. I still have an open mind on it. I want to be for a free trade agreement.

But I am very concerned about the NAFTA's effect on American workers and on industries in this country which may just pick up and leave because it is easier to produce a product over there because of lower standards.

I think the fact that we are considering a $10 billion job training program offered by the administration indicates a $10 billion problem. But the real question is, training for what? Rehabilitating workers to do what? If the job is gone, the fact that we are retraining them, I think, does not solve their problem. And I think that those are the questions we need to hear the Secretary answer today, and we are delighted to have her here. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Chafee, for any comments you might make.

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

Senator CHAFEE. Thank you very much, Mr. Chairman. I want to welcome Secretary Martin here. How nice it is to see her. Mr. Chairman, I strongly believe that NAFTA represents an opportunity for tremendous potential benefits to this Nation of ours, and, likewise, to my State of Rhode Island, where many have examined this agreement and are enthusiastic about it.

I might say that in our State, we have about 35,000 jobs related to the jewelry industry. And the jewelry industry believes that, with the reduction of the Mexican tariffs that currently exist, that there is great opportunity for expansion of that industry within our State.

Now, I think we have also got to recognize that, inevitably, in any trade agreement, there is going to be a down side, as the Senator from Louisiana pointed out. If we are going to be selling a lot more to Mexico under the agreement, obviously, for the agreement to have any value to Mexico, they are going to be selling more to us likewise.

So, there is going to be some dislocation of existing jobs, regrettably. But at the same time, I strongly believe that—as I mentioned the other day—the whole is going to be greater than the sum of the parts; that Mexico will flourish, we will flourish, and we both will be better off. But there is going to be a dislocation, and, of course, that is what we are looking forward to hearing the Secretary address today.

As I understand the proposal of the administration, it is not limited to retraining of workers who lose their jobs as a result of the NAFTA. I am interested in this. For example, in our State, we are undergoing considerable trauma right now due to the decline in the defense industry.

It was great while it lasted. We just could not get enough workers for Electric Boat at the height of the submarine building effort in the mid-1980's. But now, that is disappearing.

So, I am anxious to understand and learn about the opportunities that this retraining is going to provide for others than solely those affected by the NAFTA. Senator Packwood is interested in those displaced by the Endangered Species Act; I am interested in those who are displaced by the decline in defense expenditures.

I want to thank you, Mr. Chairman, for holding this hearing, and I look forward to the testimony of our witnesses.

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

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

Senator GRASSLEY. I think the point is that NAFTA is a jobs program. Unless it is different than any of the other free trade agreements, of which has increased employment in America, than somebody ought to show me. Those other free trade agreements, without a doubt, increased the number of jobs, and better jobs—20,000 jobs created for every $1 billion of additional foreign trade.

Export-related jobs pay 17 percent more than jobs that are non-export related in America. So, it is going to create more and better jobs because of the expansion of our production, and, also because there is going to be less illegal immigration in this country.

I think that we need to make those points, and, yet, understand, as Senator Chafee just said, there are going to be some adjustment, and, consequently, we have to make preparation for it. And Secretary Martin, your responsibility is to carry out the President's promise that he made when fast track was granted. And he has committed himself to that by announcing a program now, and all we have to do is deliver on that promise.

As long as our performance is commensurate with our rhetoric, we have got nothing to apologize for and we will move forward into a new world. Two years down the road, NAFTA will be history in

the sense of a political discussion. And probably it would not be a political discussion if this were not a political year.

When Ambassador Hills testified earlier this week, I stated that we have a major responsibility to be prepared to enter the 21st century, and I think that freer trade is one way of doing that. We have to be prepared to meet the challenges that face us in the areas of being competitive.

Some of these areas deal with educational excellence, technological superiority, and productivity and training to meet our responsibilities for the American workers, for the good of our economy, and the good of our National security that comes from being in a competitive global environment.

So, I am pleased that you are here today, Secretary Martin, to explain how we can train our work force for a better tomorrow, not only for themselves, but for the benefit of our entire Nation. As for each one of us, I am reminded of a commercial that Lee Iacocca made. He looked into the camera and he said, "To survive and remain competitive in this world, you must either lead, follow, or get out of the way." We are now at a point in this body where we need to either lead, follow, or get out of the way.

Today, our work force is looking to each of us to provide them with both the training to remain competitive in a global economy, and a safety net when their jobs may be lost or dislocated because of foreign imports.

I am told that in 1991 we spent $187 million, of which only $65 million was for training, the other was for income support. We did this under the Trade Adjustment Assistance Program.

Another $526 million has been funded for the EDWAA program in fiscal year 1992, and the President's proposal calls for $10 billion over the next 5 years; that is $2 billion annually. I am also led to believe that the private sector is spending at an annual rate of $40 billion on training.

As we look at the various options of either the Trade Adjustment Assistance Program, the Labor Department's EDWAA program, or the President's Advancing Skills Through Education and Training Services Program, we must do so with an eye towards an ever-expanding global economy, acceleration of technological changes, and a work force in our industrial service and agricultural sectors that must be prepared to meet the challenges of the 1990s and the next century. Economic security for workers of all ages will require increasing skills, knowledge, and educational opportunities if we are to meet this challenge.

Today, one in five, or approximately one in two-tenths million workers are permanently dislocated each year due to plant closings and large layoffs, and this includes workers whose jobs are lost due to international trade, defense down-sizing, and environmental protection as well.

There is no point in really pressing blame, it is just a point of getting on to job retraining that is caused by the philosophy of both political parties to help these workers in all these categories, whether they be industrial service or agriculture, keep pace with the global economic changes taking place. We must begin reviewing immediately not only Federal programs that we have in place, but new proposals, such as the one that the President has put forward,

to meet the ever-increasing demands placed on the American work force.

So, I look forward to this hearing and the other two that remain to get all of the points on NAFTA on board. Because we all agree that, whether it is the environment, whether it is unemployment, or whether it is just the issues that are involved with the specifics of NAFTA itself, the agreement that is in paper on 2,000 pages, we have agreed to move forward and get it all out on the table and get these issues settled. It is just a job that has to be done.

The CHAIRMAN. Good timing.

Senator GRASSLEY. Very seldom am I lucky enough to do that.

The CHAIRMAN. Madam Secretary, you have been listening to the concerns of the members of this committee, and we are very pleased to have you here to try to address them in your statement. Then, of course, we will be asking you questions. Thank you very much. If you would proceed.

STATEMENT OF HON. LYNN M. MARTIN, SECRETARY, U.S. DEPARTMENT OF LABOR, WASHINGTON, DC, ACCOMPANIED BY DELBERT SPURLOCK, DEPUTY SECRETARY, U.S. DEPARTMENT OF LABOR; MS. SHELLYN McCAFFREY, DEPUTY UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF LABOR, FRAN McNAUGHT, ASSISTANT SECRETARY FOR CONGRESSIONAL AND INTERGOVERNMENTAL AFFAIRS, BURTON FISHMAN, DEPUTY SOLICITOR; DOTTIE STRUNK, ACTING ASSISTANT SECRETARY FOR OCCUPATIONAL SAFETY AND HEALTH; ROBERTS JONES, ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING; AND JUDITH SOTHERLUND, DEPUTY ASSISTANT SECRETARY FOR EMPLOYMENT STANDARDS, WASHINGTON, DC

Secretary MARTIN. Thank you, Mr. Chairman, and members of the committee. It is always a pleasure to appear before you. It is a pleasure to be here, and I consider it an honor to be before this particular committee, to listen and, especially in those areas that affect the Department of Labor, to try and begin the dialogue and the consultative process that we all know must occur as NAFTA moves forward, and that, I think, has to take place between the administration and not just this committee, but other committees of the House and Senate.

I usually do not come with a huge group of people, but today I did. Not for support—although that is always warranted—but because I believe that the depth of your questions might well deserve answers from the people most directly involved in the negotiations, and those who have very specific expertise. Because, like you, I find this a serious matter when it affects America's working men and women.

So, joining me today is the Deputy Secretary of Labor, Delbert Spurlock, to my right, who had, as one of his responsibilities as Deputy Secretary, much of the negotiation that went on in this NAFTA treaty. I viewed it as that important that he and I should jointly work on these efforts.

To my left is Shellyn McCaffrey, the Deputy Under Secretary for International Affairs. That particular agency within the Department of Labor had the NAFTA under its purview.

In back of me are several Assistant Secretaries from the Department. This will show you the range of people we've had involved on this issue. If you want more specificity, we will not just try to answer your questions today, but get you any additional information. Fran McNaught, the Assistant Secretary for Congressional Affairs is behind me and will coordinate this. From the Solicitor's Office, Burt Fishman is here. He is the Deputy Solicitor.

Dottie Strunk, who is acting as head of OSHA, will be helpful for those questions that have to do with worker health and safety. Judith Sutherlund is here for ESA, which deals with wage, and, of course, with child labor issues.

Also present is Bob Jones, the Assistant Secretary for Employment Training. And I think many of your questions did have to do with what kind of training opportunities would be available and what does this mean for America's working men and women.

All or any of us will be happy, as I say, to have further meetings and to answer as best we can today those questions which are part of the advice and consent process. So, again, my thanks. I am here, let me be clear, in support of NAFTA. But I will try to keep my comments brief, and then, with your permission, Mr. Chairman, submit a more lengthy, fuller statement for the record.

The CHAIRMAN. Without objection, that will be done.

[The prepared statement of Secretary Martin appears in the appendix.]

Secretary MARTIN. About 18 months ago, Mr. Chairman, President Bush requested from Congress an authorization to enter into negotiations with Canada and Mexico to create a free trade zone that would stretch from the Yucatan to the Bering Straits.

The President believes very strongly—and very correctly, in my view—that the removal of barriers to North American free trade will spur U.S. exports and create quality jobs for American workers, and eventually will lead to improvement of living and working conditions for all Americans.

At the same time, we are aware of the difficulties which some sectors of our economy might experience in making the transition to a more open and competitive trade environment.

In his May 1, 1991 letter to the Congress, the President offered a direct and substantive response to these concerns. He made a commitment to this committee, to the Congress, to the American people, that he would take specific steps to ensure that the interests of all American workers—not just the vast majority who would benefit from the agreement—would be considered and protected as we move forward to reach an historic accord.

Today, I state to you unequivocally that the President and this administration have followed through and will continue to follow through on that commitment. This is reflected in the body of the agreement itself. It is reflected in the extensive and ongoing bilateral cooperation programs which we have engaged in with the Government of Mexico on labor issues.

And it is reflected in our efforts to develop a worker adjustment assistance package that will provide assistance and retraining for those Americans who need help because of the changing economy. I am proud to say that the Department of Labor has taken, perhaps, an unprecedented leading role in all three of these areas.

The Department of Labor's role in bringing this agreement together was unprecedented. Concern for the well-being of American workers who might have adversely been impacted by implementation of this agreement was the thread linking all of these activities, and certainly we learn from the historical perspective—which was so ably provided by Senator Moynihan—what could work, what would work, and must work, not just for 30 years ago, but for 30 years from today.

The department's role in the actual negotiation of this trade agreement was substantial. The interests of American workers were represented directly and consistently through the negotiating process. The department, for instance, was represented on each of the 19 NAFTA negotiating groups.

We strongly supported and encouraged efforts to assure that tariffs on import-sensitive American goods would be phased out slowly. Tariffs affecting particularly sensitive sectors of the economy will be phased out over 15 years; many others will be phased out over 10 years.

The Department of Labor also strongly supported efforts to assure rules of origin that would guarantee that the benefit of NAFTA tariff cuts would go to North American-made products. The 62.5 percent North American content requirement for automobiles is a substantial improvement on what was negotiation in the United States-Canadian Free Trade Agreement, and will mean jobs for America's auto workers.

Moreover, a Department of Labor team took the lead in negotiating the agreement's safeguards chapter, which is, perhaps, the most crucial of all with respect to the issue of guarantees for America's workers.

In his May 1, 1991 report to Congress, the President promised that the agreement would allow us to respond quickly and effectively to any sudden injurious increase in imports from Mexico or Canada once the NAFTA would take effect.

The safeguards agreement we negotiated not only meets this requirement, this commitment, but it exceeds it. It will permit a tariff snap-back to pre-NAFTA levels for up to 4 years should increased imports constitute a substantial cause, or even a substantial threat of serious injury to any domestic industry.

Sharing the concerns of many that NAFTA not lead to increased immigration of foreign workers, the President also provided that we would not make any changes in our immigration policy or laws, with the possible exception of technical changes, to facilitate temporary entry of professionals and managers, as was done in the Free Trade Agreement with Canada. The Department of Labor took the lead in negotiating this temporary entry chapter of the agreement.

Mr. Chairman, I can state that the President's commitment on this issue is fulfilled totally in the treaty. In addition to the very crucial precautions that were negotiated into the agreement itself, the President also made a specific commitment that the Department of Labor would pursue a bilateral cooperation agreement with Mexico on labor issues.

This commitment, as you know, is made in direct response to concerns which were raised about the adequacy and enforcement of

labor standards in Mexico, and the potential impact of those disparities in a free trade environment. This cooperative program of parallel track activities that we conducted in fulfillment of those pledges was carried out under the auspices of the United States-Mexico Binational Commission.

Pursuant to a 5-year memorandum of understanding that I co-signed with the Mexican Secretary of Labor and Social Welfare, Secretary Farell, we have conducted a vigorous program of cooperative activities in the areas of worker safety and health, child labor, labor law, worker rights, and labor statistics.

Let me briefly describe some of them, because they affect all of the kinds of issues that we are talking about for the American worker. In addressing the allegations of lax health and safety standards in Mexico, the Department of Labor and the Mexican Ministry of Labor and Social Welfare, or STPS—I will call it that from now on, if you do not mind—made a concerted effort to learn more about each other's systems or the formulation and implementation of policies and programs to protect worker safety and health. Our OSHA and STPS began conducting a comparative study of occupational safety and health regimes as a foundation for future improvements in safety and health standards and enforcement.

The United States and Mexico also conducted a number of concrete activities that have served to strengthen Mexico's technical knowledge of worker safety and health issues, and enforcement procedures. We have worked with Mexican officials to help them develop an improved health enforcement program for their work force, and we have provided training for that enforcement personnel.

We have provided relevant information. We have provided technical assistance to help reduce the instance of chemical source injuries and illnesses, which I know interests Senator Breaux.

We have engaged in an extensive exchange of technical, scientific, educational and instructional material regarding occupational safety and health, and we have worked closely with both Mexico and Canada to help identify what works in preventing accidents in specific industries.

I am pleased to say that much of the technical assistance and training has been put to good use by the Mexican Government in several unilateral initiatives that they have undertaken. We have worked closely with our Mexican counterparts to obtain a clearer picture of the incidence of child labor in Mexico.

We placed a high priority in developing strategies and action that will preserve, protect, and strengthen the health and well-being of the children of both countries.

To enable us to better monitor and evaluate the effect of NAFTA and to gain a clearer and more comparable statistical picture of Mexican wages, productivity, and other labor indicators, we are assisting Mexico to improve the quality, timeliness, and international comparability of its own economic statistics.

In addressing concerns regarding the enforcement of fundamental worker rights, the United States and Mexico have agreed to cooperate on activities to further that mutual understanding of how those basic worker rights will be enforced.

Finally, we have made substantial efforts to better understand the extent and implication of the substantial portion of the Mexican work force which labors outside of the formal economic sector. The research we have conducted in this will form the basis for the development of strategies to bring these workers into Mexico's economic mainstream and under the protection of Mexico's labor laws.

Most recently, Secretary Farell and I have announced an agreement on an extended framework for cooperation that will carry through to 1995. We agreed that the basis had been established with the formulation of new goals, and even longer term strategies supported by projects of bilateral cooperation on matters of labor concern, as well as concrete activities that will bring real, visible—visible—benefits to workers in both countries.

First, we are creating, for the first time, a consultive commission, which, on labor matters, will oversee our joint action programs and provide a permanent forum for the promotion of the rights and interests of working men and women in both countries. It will assure that labor matters of concern to parties in either country can be raised expeditiously.

Second, we have begun a new cooperative initiative in the area of workplace safety. Third, we are initiating several new industrial hygiene programs. We believe these new initiatives will help accelerate the benefits to workers arising from greater economic interchange and guarantee the adequate protection of workers with absolute respect for the legislation in force in both countries. Our record of achievement to date, when taken together with numerous——

The CHAIRMAN. Madam Secretary.

Secretary MARTIN. Yes.

The CHAIRMAN. I am going to have to interrupt just a moment. We have a vote under way, and Senator Moynihan has gone so he can come back early and try not to have too long an interruption. About how much more time do you need?

Secretary MARTIN. Not very much, especially if I talk quickly.

The CHAIRMAN. You have been talking quickly.

Secretary MARTIN. I know. I am trying. I am trying.

The CHAIRMAN. I am afraid we are going to have to recess, otherwise we will miss that vote.

Secretary MARTIN. All right. Certainly your votes come first, Mr. Chairman.

The CHAIRMAN. But it will be a temporary recess.

Secretary MARTIN. I would say about 4 minutes.

The CHAIRMAN. That would just miss the vote for us.

Secretary MARTIN. Please.

The CHAIRMAN. We will recess for a few minutes.

[Whereupon, the hearing was recessed at 10:19 a.m.]

AFTER RECESS

Senator MOYNIHAN. Madam Secretary, the Chairman asked if I would ask you to continue with your presentation. The cameras are rolling. We will get to our questions all the sooner, in consequence. So, if you would just simply proceed. Where were you, if I could ask?

Secretary MARTIN. Yes. Yes. I was here at the hearing. But, more than that, on what I have as page 44, but my eyes are so bad, I do not know.

Senator MOYNIHAN. Now, you only have 25.

Secretary MARTIN. My eyes are so poor, they double up the print. So, whatever it might be.

Senator MOYNIHAN. We will find you.

Secretary MARTIN. All right. Page 8, perhaps, I am being told. Is that right? Yes.

Senator MOYNIHAN. Good.

Secretary MARTIN. Page 8, paragraph two, Mr. Chairman. I am in the last sentence of that paragraph.

Senator MOYNIHAN. All right. Proceed as you wish.

Secretary MARTIN. Are you sure you do not want me to repeat any part?

Senator MOYNIHAN. Oh. Especially good parts.

Secretary MARTIN. Our record of achievement to date, when taken together with numerous unilateral initiatives by the Mexican Government, is already leading to a stronger system of labor protection in Mexico.

Finally, Mr. Chairman, let me turn to the matter of worker adjustment assistance. Last year, the President committed to work with you and with the House to ensure that workers who might lose their jobs as a result of such a treaty would receive prompt, comprehensive, and effective adjustment services through an adequately funded worker adjustment program.

Furthermore, he promised to work with the Congress to ensure that the State objectives for a worker adjustment program are met and adequately funded, and that any needed changes to U.S. laws to implement such a program should be in place by the time the agreement enters into force and could appropriately be addressed in legislation implementing a NAFTA.

Following through on these commitments, the President has decided we will have a new worker adjustment strategy that, (1) assures that all workers at some risk of losing their jobs—those on notice and those who have been displaced—have access to a comprehensive array of training and support services. (2) Nearly triples the funds needed to assure these services: $335 million per year, with an additional $335 million available if necessary. (3) Provides continuity and surety of funding through capped mandatory funding. (4) Provides the flexibility to workers to choose what, when, and where to take training. (5) Provides income support to ensure that workers who have exhausted unemployment benefits and need income support can complete their training.

Mr. Chairman, my remarks to the committee this morning have focused on the Department of Labor's efforts to protect American workers against the possible adverse effect of any part of NAFTA. That is only appropriate, given the committee's immediate concerns and my responsibilities as Secretary of Labor.

In concluding, however, I want to emphasize my belief that a NAFTA will result in substantial overall benefits for America, and for the workers of the United States. In both the short and long-terms, this agreement will create quality jobs in the United States and a significant net increase in employment. Virtually all of the

economic studies that have investigated the possible effects of NAFTA on American labor support this conclusion.

Mexico is already America's fastest growing export market. The value of U.S. exports to Mexico has tripled over the past 6 years, from $12 billion in 1986, to $33 billion in 1991. In 1992, the value of our exports will increase to almost $44 billion. Our trade surplus with Mexico will stand at over $8 billion.

According to the Institute of International Economics, by 1995, trade with Mexico will support over 850,000 jobs, a substantial number of which are in the manufacturing sector. In fact, it is important to note that currently 85 percent of our exports to Mexico are manufactured goods, and that the United States' manufactured goods surplus with Mexico is larger than with any other country in the world.

The plain truth, is that trade with Mexico provides substantially more and better jobs for Americans than it could take away. A fully implemented North American Free Trade Agreement will create more export and job opportunities, not fewer.

Our task, Mr. Chairman, is to assure that each and every American has an opportunity to share in those benefits. I thank you for the opportunity, Chairman Moynihan, and the other members of the committee. It is certainly a pleasure, also, to see Senator Bradley here.

Now, I and my colleagues will be happy to at least attempt to answer questions that you may have. If we do not have the answers, I assure you, we will get them to you.

Senator MOYNIHAN. Sure. And, as you know, Madam Secretary, this is going to be an extended process, and it ought to be.

Secretary MARTIN. Yes.

Senator MOYNIHAN. So, there is plenty of time. Mr. Chairman.

The CHAIRMAN. Go right ahead.

Senator MOYNIHAN. I had just two questions. One, was terminological.

Secretary MARTIN. Excuse me. I did not hear that. It is what?

Senator MOYNIHAN. Terminological.

Secretary MARTIN. Oh. All right.

Senator MOYNIHAN. Like the "L" word.

Secretary MARTIN. I just did not hear it. Yes.

Senator MOYNIHAN. I find the "E" word, here on page 20.

Secretary MARTIN. Of the testimony.

Senator MOYNIHAN. The "E" word, Madam Secretary. Entitlement. A new entitlement. Does the Vice President know about this testimony? [Laughter.]

Secretary MARTIN. And he can spell it, too. Yes.

Senator MOYNIHAN. And he can spell it.

Secretary MARTIN. Right. Right.

Senator MOYNIHAN. I will see. We will check it out. [Laughter.]

Secretary MARTIN. What we are looking at here is a capped program that would have sufficient dollars, if you are talking about training, to help American workers over what might be, for some of them, a difficult period.

Senator MOYNIHAN. May I say, I think it is very appropriate that you should approach it in this matter.

Secretary MARTIN. We try. We try.

Senator MOYNIHAN. First of all, you say, program funding through a capped entitlement. On the next page, your word processor woke up and it became a capped appropriation.

Secretary MARTIN. Well, an entitlement, of course, does not require an appropriation. This would be done through the appropriating process.

Senator MOYNIHAN. But it is an entitlement. There is nothing the matter, I just want to be clear. Are you talking about an entitlement for worker training?

Secretary MARTIN. We are talking about having training available for American workers who need it. I will let the lexicographers of this world argue on a definition. I want to help American workers.

Senator MOYNIHAN. Well, you say the Vice President can spell it, so maybe he has been briefed. I have another question, and it is a very simple one, but it is a very important one, too.

On page 11, you begin to talk about this first annual United States-Mexico Labor Law Conference which you are going to be holding in Mexico City this year. And I think that is good. You do want to do things like that. But there is something the matter with the language, Madam Secretary.

Secretary MARTIN. Yes.

Senator MOYNIHAN. You say, we are going to seek a mutual understanding of how each country assures basic worker rights. We are going to seek to better understand how each system preserves and protects fundamental human rights. Now, that language assumes that this is so on both sides, but there are variations. One has a Napoleonic code, and the other has a common law system, and so forth. It ain't so. There are no basic workers' rights in Mexico. It is an authoritarian State.

Freedom House, in its 1992 report, says, "Mexico remains the most authoritarian State in Latin American outside of Cuba." It says of the judiciary, "The judicial system is weak, politicized, and riddled with corruption. In many areas, respect for laws by official agencies is non-existent."

A really straight-out labor leader in Mexico is likely to end up in jail and in a torture cell. Now, that is nothing you can do about. Those are the facts on the ground. Why act like they are not there?

Secretary MARTIN. Well, I am sure you are not suggesting that this Government would support that. You have mentioned a particular labor leader in a torture cell. You may know something. Certainly, that is not something that this government or people support-torture cells. So, I mean, no one is suggesting that NAFTA——

Senator MOYNIHAN. Read the State Department——

Secretary MARTIN [continuing]. No one is suggesting that NAFTA would do anything but help workers on both sides. And what we are speaking of specifically here are worker rights under labor law, with both nations.

Senator MOYNIHAN. Madam Secretary.

Secretary MARTIN. Yes.

Senator MOYNIHAN. I am dead serious about this.

Secretary MARTIN. Well, so am I.

Senator MOYNIHAN. That is an authoritarian State. The books are filled with wonderful rights which are not upheld. And we have some integrity on this subject, and you do. I do not think you should come before us and say, we are going to have a conference where we will better understand how each system preserves and protects fundamental workers' rights. I think you should have a conference that will decide whether the Mexicans do, and why they do not.

Secretary MARTIN. Well, perhaps you would criticize the wording here, and I take full responsibility for any words in the testimony. But you just stated, Senator, that there are some excellent laws on the books. We must look at that and try to work forward from that base.

Senator MOYNIHAN. Cuba has even better laws.

Secretary MARTIN. If I could just finish the sentence. If we could just talk about enforcement—and that is part of what we are doing; the Deputy Secretary of Labor has begun work on this—it would be to advance the cause for the workers in the United States and Mexico.

Senator MOYNIHAN. Say it that way, and you have a friend in this committee.

Secretary MARTIN. All right. Well, we will have a conference to advance the cause of worker rights.

Senator MOYNIHAN. Thank you.

Secretary MARTIN. I will be happy to say that in a sentence. I think it is a good sentence; a good improvement. I should come to you for my speeches, Senator. No question about it.

Senator MOYNIHAN. For your statutes, Madam.

The CHAIRMAN. Madam Secretary.

Secretary MARTIN. Yes, Mr. Chairman.

The CHAIRMAN. I hope that I am not repeating a question asked while I was out. As I look at this ASETS program, it has some curbside appeal, with three times the funding for dislocated workers and for training, assistance for all dislocated workers, and some income assistance during training.

But the administration has been rather quiet as to where the money comes from. And, as one who is deeply concerned about not adding to this deficit, who has the responsibility—this committee does—to raise the funds to pay for these things, are you prepared to tell us where the money is coming from?

Secretary MARTIN. Certainly, Mr. Chairman. I could not agree more that it is difficult to set priorities on a Federal level. Like you, I have been a member of the Budget Committee, and I must say, I do not envy the job of the Finance Committee or Ways and Means Committee. That is very difficult.

I would point out, however, that there were $68 billion in proposed cuts included in the 5-year budget the President submitted for fiscal year 1993, so we obviously feel that the money con come form a number of different places.

These are 1994 programs. You will have the President's budget. You will have the President's budget to look at to say, this is where the money should not have come from, or this is where it should come from. That is part of the consultive process.

The CHAIRMAN. Let me understand you then.

Secretary MARTIN. We would argue that it could come from spending and does not need new fees.

The CHAIRMAN. Let me understand you then. Are you telling me that, at the present time, you do not have the sources of the revenue? Is that what you are saying?

Secretary MARTIN. No, I am not. I am saying we do. The sources for the revenue, we believe, come from the spending side. We do not need additional revenue. We believe that we can and we will, find the money within the existing budget caps.

The CHAIRMAN. I am talking about the specifics.

Secretary MARTIN. But that is part of what is required in the consultive process. The President has provided some suggested funding sources in his fiscal year 1993 budget. We will take it from any on that list. If you want to look at others, we look forward to working with you to achieve that budget.

The CHAIRMAN. But you are not in a position at this time to give us the specifics.

Secretary MARTIN. Yes. I can regive you that list of $68 billion, but that is already on the table. It is there.

The CHAIRMAN. Well, the President is also saying that he is going to do an across-the-board tax cut if he is reelected. If he did $200 per tax return, that would be $755 billion. We are a bit short.

Secretary MARTIN. I understand it is a political year. I like politics and even the political discussion. As you know, the Secretary of Labor is not—I do not do the tax cuts.

The CHAIRMAN. All right.

Secretary MARTIN. Although, sometimes I wish I could.

The CHAIRMAN. Then let me get to another question. When you are talking about this being a capped entitlement, as Senator Moynihan was asking you, I would like to know how that is going to work.

Secretary MARTIN. Yes, Mr. Chairman.

The CHAIRMAN. What happens if you run out of money on a capped entitlement? Is it first-come, first-served, or would you allocate the money among the States? How would you do that with a capped entitlement?

Secretary MARTIN. Well, first of all, I think, at some point, you have a responsibility. What we have done, Mr. Chairman, is we have proposed a funding level—$2 billion per year, which we believe is more than adequate to meet the demand for these services.

With specific respect to NAFTA, we have suggested a funding level for dislocated worker assistance which would more than adequately meet even the high end job loss projections. So, we believe that we have built in a substantial safety cushion

Now, on a capped entitlement, as you know, if money would run out—the tradition has been that first-come, first-served. That is absolutely true. But that is highly unlikely, given the way we've calculated funding for the program.

The CHAIRMAN. Madam Secretary, I have been around a long time. A lot of those things that should not happen have happened, and that is why I am trying to figure it out.

Secretary MARTIN. Yes. I understand.

The CHAIRMAN. You are saying first-come, first-served, do you think?

Secretary MARTIN. Yes. I think that is the way they have worked in the past. But, again, Mr. Chairman, we literally have set a funding level which is sufficient to cover the most extensive and expansive job loss estimates that have been credibly projected. Of course, the program could cost less than $2 billion a year.

The CHAIRMAN. Yes.

Secretary MARTIN. But we thought, coming to the Ways and Means Committee, especially, and to any committee, that we should talk about not how little you can get by with, but no matter what estimates were used, could you serve American workers.

The CHAIRMAN. I hope that works out to be the case.

Secretary MARTIN. Thank you.

The CHAIRMAN. Now, let me ask you another question.

Secretary MARTIN. Yes.

The CHAIRMAN. When you are talking about the ASETS delivery system, as I understood your testimony, it is modeled after the EDWAA program. Now, we are going to hear later on, I think, from the General Accounting Office, some concern about how that system has worked.

One of the things I have noted, and what I am told in that study, is that some of these workers who lose their jobs do not receive their training for as much as 15 weeks. That gives us a problem. I am trying to determine what kind of changes might be made. But what kind of changes might be made to try to address that concern?

Secretary MARTIN. First of all, let me say that I welcome the GAO report. We will look at it carefully to see if there are things in it that require change in any current program. Unlike some others, I have never minded GAO reports. In fact, I do think they can be very helpful. So we will look at that.

But our current proposal is based on a couple of things we already think are wrong with both the TAA and EDWAA program as we try to get more user-friendly and as we try to develop programs.

Moreover, we have set up a consultive process—and I use that word because I have gotten used to it with NAFTA—with you, with the House and Senate. We welcome your input in this process to make sure there are changes that you think should be in the program. That does not mean that the administration should not have a final say, but we are trying to make sure that Congress is part of the process in putting this proposal together.

One of the things that we changed that is a current fault in EDWAA is that the person who needs training gets to pick the time and place for that training. That responds to a legitimate criticism of EDWAA. What we think we have picked up from TAA is helping the people who need it through training with income support.

And I think that is one of the things that the House and Senate have always liked about TAA. Those who have opposed TAA have been worried, rightfully, about the waste. We think we pick up the best of both systems in this new system, but we welcome your input. There is time to do this, once the President starts that clock ticking.

I should also add—and I think we will have it for you next Wednesday—we are working on a legislative outline of the proposal. We are getting that ready and preparing that for members of the Senate and the House.

The CHAIRMAN. Good.

Secretary MARTIN. This is not meant to be a lack of cooperation, it is meant to be quite the opposite. I realize that, in a political year, that sounds a little odd. But, you know, all of us, in the end, have to represent the American people here. This is too important to fritter away important time. An election can go on without us on this one.

The CHAIRMAN. All right. Thank you. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman. As has already been indicated, Madam Secretary, it is a pleasure to have you here. We are concerned about how this program is going to be paid for. I know the administration has not, to date, looked kindly upon the concept of a temporary fee.

But I would urge you and the others in the administration to reexamine that approach because I think there is great merit to the idea. First of all, it seems to me that you can argue with justice that it is only equitable, that those who benefit from liberal trade policies should be willing to pay a little to help those who are adversely impacted.

And we have precedent for support for some kind of a temporary fee to pay for the trade adjustment assistance. In the trade act of 1988, we contained language which charged the administration with negotiating a small fee in the GATT. Senator Moynihan and I, in legislation we introduced last year, proposed that this be the approach used to pay for any NAFTA worker adjustment program.

So, I think you are going to have some hard decisions to make. I know the purists argue loudly and strongly that we should not do it because it violates free trade. But all we are suggesting is that a very small fee be fixed to pay for trade adjustment to help those that are suffering. And there are those that are going to be adversely impacted, as we all agree. Would you care to comment?

Secretary MARTIN. Only, Senator, that I welcome your advice on that. I assure you, though, that without the fee, we intend—and the President intends—to make sure that there is worker adjustment and training. But I will certainly take your message on.

Senator ROTH. Secondly, I do want to congratulate you, because your proposal, of course, does cover all impacted workers, and one of the groups that have not been covered in the past, are so-called secondary and tertiary workers.

Am I correct in understanding that, under your proposal, that not only if a plant is transferred to Mexico—and hopefully that will be at a minimum—that those employees impacted would be covered those suppliers of that plant would be covered, and even the subcontractors of those suppliers would be covered. Is that correct?

Secretary MARTIN. That is correct. Although, as you know, plants can now already move to Mexico. I must say, Senator, that I have always viewed that as one of the arguments against NAFTA that is hard to understand. Plants can already move to Mexico. There is no basis to argue that more of them would suddenly get up and move 2 weeks from now because of a NAFTA, when they would not

have done it 2 weeks before. But right now, those workers would not necessarily be protected.

Senator ROTH. That is right.

Secretary MARTIN. This is certainly, I hope, a bipartisan move forward in worker training that we should be able to cross every party line in supporting. There will be differences that we have individually, and you will want to have a hand in working out the specifics of this proposal, and we understand that.

But I think the goal that is set here is one that we can all agree on. Also, I believe the President's commitment to come to you with an adjustment assistance plan, and my commitment to carry it forward are clearly being met.

Senator ROTH. Well, whatever the facts are, the perception is that this could invite plants to move down there. There is some genuine concern, no question about it.

Secretary MARTIN. Certainly. The concern is real.

Senator ROTH. And, under your proposal, all of these workers, not only the primary, but the secondary and tertiary are covered.

Secretary MARTIN. Absolutely.

Senator ROTH. I think it is a very important point.

Secretary MARTIN. Thank you, Senator, for bringing it up. You are absolutely right.

Senator ROTH. Now, as you know, one of the major benefits of TAA is the added income maintenance it provides, especially to those in training. Under EDWAA, the discretion allowed in determining whether income maintenance, the so-called needs-related payment, has led to little or none being provided under the program. Could you elaborate on how you envision the President's proposal working in this area? Is it closer to the TAA model, or the EDWAA model?

Secretary MARTIN. It is closer, in some ways, to TAA, in that it says those who are in need and are in the process of training are to get the income support.

Let me give you an example. In the Midwest, an area of the country I am very familiar with, those dollars would be about $21,600. Anyone under that would get income support. If somebody had made $150,000, they would not. So, it is based on need, but it is on reasonable need and it continues while the training is in process. So, we think it takes what is best from both programs.

Senator ROTH. Well, I think that aspect of TAA is extremely important.

Secretary MARTIN. Yes.

Senator ROTH. And I do not think it can be over-stressed.

Secretary MARTIN. Right.

Senator ROTH. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Baucus, for any questions you might have.

Senator BAUCUS. Thank you, Mr. Chairman. Secretary Martin, I am a little concerned about how this will be funded. I have the same concerns that the Chairman has. How can we be assured that when President Bush, if he happens to be reelected President, is going to recommend that this program be fully funded? I mean, the administration has recommended no funding for TAA.

Secretary MARTIN. Yes.

Senator BAUCUS. How can we be assured that they are going to recommend any funding for this program?

Secretary MARTIN. Well, I suppose some of us probably hope for his reelection more than others in this room; I recognize that. But the President made a commitment to bring this program to you, and he has kept that commitment. I made that commitment, I have kept that commitment. The President has said it will be in the 1994 budget.

Senator BAUCUS. The $10 billion?

Secretary MARTIN. The $2 billion. It is each year over a 5-year period.

Senator BAUCUS. $10 billion over 5 years.

Secretary MARTIN. Right. Yes. Right. And he has said it publicly, and that commitment will be kept. I mean, I suppose you could say, well, what if, what if, what if. The point is that that commitment——

Senator BAUCUS. Why the change? What, suddenly, has prompted this change?

Secretary MARTIN. It is an evolution, perhaps, rather than a change; a recognition that our current programs were not as good as they should be. It reflects the input of people around this country. And, more than that, the President understood, as you understand, that this is an important part of NAFTA.

We are only talking about NAFTA today, it is true. But this is—and I have to say this for Senator Breaux—an overall training program shift. The $10 billion is not just for NAFTA, the $10 billion is for all training and retraining; three times what we are spending today.

Senator BAUCUS. I understand.

Secretary MARTIN. So, I think it is an evolution.

Senator BAUCUS. Might I ask, what portion of the $2 billion is NAFTA-related?

Secretary MARTIN. What we are looking at, the way we have originally set it up—and, again, we welcome your input—is approximately a $670 million fund, half of which is NAFTA-related. But the Secretary of Labor, whomever she or he would be, would have the flexibility under the President's proposal to move more dollars into that fund from that other half, which is for other non-NAFTA related dislocations, such as those which might result from defense downsizing, or environmental impact.

Senator BAUCUS. Is $350 million the judgment of the administration of the job displacement value related to NAFTA?

Secretary MARTIN. Pardon?

Senator BAUCUS. What is the total job displacement estimate of the administration that is NAFTA-related?

Secretary MARTIN. On NAFTA? Well, the Department of Labor has used its own study from the University of Maryland which basically shows no net loss, but a net gain, but changes within certain industries.

Senator BAUCUS. Not net. I am talking about only those who lose jobs. This program is for those who lose jobs, not for those who gain jobs.

Secretary MARTIN. 150,000, we look at that as the maximum. But I want to quickly add this. That is why I wanted to check. That

150,000 is the highest number used in an objective report, and that is over a 10-year period. It's the highest estimate of any study with a claim to objectivity.

Senator BAUCUS. Well, I might say, Madam Secretary, that there are a lot of estimates as to job displacement.

Secretary MARTIN. That is right.

Senator BAUCUS. There are some that are quite a bit higher than that, and they are by neutral organizations. Let me get to the funding again, if I might.

Secretary MARTIN. Well, maybe so. But I am saying that of the studies we have looked at, and which are credible and objective, 150,000 dislocations over 10 years is the highest projection.

Senator BAUCUS. I am just saying there is a wide variety. The real question is the funding, how we are going to pay for it. How much revenue would a one-half of 1 percent fee on goods and investment across border raise?

Secretary MARTIN. I do not know. We believe we can pay for it out of current spending; the President has made that commitment. It will be in the 1994 budget. Others may choose to increase fees, but we do not.

Senator BAUCUS. Yes. I appreciate that. I am sorry, there is not a lot of time here.

Secretary MARTIN. Oh. Sure. I am sorry.

Senator BAUCUS. It will raise between $1.5 and $2 billion. That is what the calculation is.

Secretary MARTIN. For the sake of argument I will accept your calculation.

Senator BAUCUS. So, the one-half of a percent actually could be lower, it could be a quarter of a percent. Why is the administration so opposed to committing itself to a funding source to pay for this retraining program in order to get the political support from this country—particularly those workers who may be displaced—for NAFTA?

I am baffled, frankly, why the administration does not show a little more commitment and put its money where its mouth is, if you will, and at least begin to explore the idea of a significant source of funding, and a definite source of funding so potentially displaced workers will know that, in fact, there is going to be a worker retraining program.

Secretary MARTIN. Well, first of all, there are groups that are not going to support NAFTA, no matter if you made it 10 percent or 50 percent.

Senator BAUCUS. We are not talking about that. We are talking about some good faith people who are kind of wondering, my gosh, what effect is NAFTA going to have on me.

Secretary MARTIN. Sure.

Senator BAUCUS. And they are worried about their jobs, and they may be more inclined to go along with this program because they believe that trade really helps, generally. But they might lose their jobs. If only they knew they are going to get a retraining program, it might make a difference.

Secretary MARTIN. I mean, you have answered the question, in a way, admirably. The commitment is to find the retraining program at three times the current level of funding. And, yes, we be-

lieve we can get it out of the spending side. It would negate the very ideas that we are talking about in NAFTA to start imposing what, in effect, are new tariffs.

Senator BAUCUS. Well, Madam Secretary, I must say, I hear the words. I do not yet see the commitment. And I think that I could speak for a lot of members of this Congress and the Senate in saying that if there is not a greater commitment, we are going to be hard-pressed and probably will not support the agreement next year.

Secretary MARTIN. Well, as I say, the Department's——

Senator BAUCUS. We need a more definite commitment.

Secretary MARTIN. Right. The Department has put forward this most definite commitment—a commitment to this training program and its implementation, and we come to you with it. This committee may choose an alternate means of funding. That is true.

Senator BAUCUS. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Breaux.

Senator BREAUX. Thank you, Mr. Chairman, and thank the Secretary for being with us again. I think the concept of combining the two programs is a real positive step. I mean, workers who do not have a job do not really concern themselves with why they do not have a job, they just do not have a job.

Secretary MARTIN. Absolutely.

Senator BREAUX. They want to be helped, and they do not worry about which pigeon hole they fit into in which program in Washington. So, the combination of the programs, I think, is a good idea.

The concern that I am hearing here—and I would hope the administration hears very clearly is how to pay for this proposal? We do not think it is much more than a hollow promise in a political year unless the specifics of how we pay for it are clearly on the table.

Now, your response, Madam Secretary, is that the President has proposed $68 billion in cuts. That $68 billion has been spent about 68 times by the President's own proposals that are already out there. Now, this committee, under the Chairman, has specific rules that say, if I propose a new program, I have to have a specific way of paying for it.

Second, if I propose a tax cut, I have to have a specific offset to pay for it. If I just said, well, we will pay for it with $68 billion in cuts that are out there, I would probably be ruled out of order. I do not think your program should be ruled out of order, but I am afraid it will be unless there is a specific way of paying for it. I mean, the $68 billion has been used to pay for everything the administration has proposed. Not just this program, but everything. It is going to pay for hurricane assistance, which I think is very important. It is going to be used to pay for this worker adjustment program. We are going to spend it 68 times.

So, if you find in the committee on both sides of the aisle a little bit of hesitancy to believe this offer, that is the reason why. It is not sufficient to say that those cuts that are out there that may or may not be acted on are what we are going to fund this program with. I think you have to be more specific on that.

Secretary MARTIN. Well, Senator, on one hand, I want to argue that the commitment of the President is real, and I do argue that. I argue that my commitment is also real.

On the other hand, as a former member, I can understand that you do not always believe the administration. I mean, I always did, but ha, ha, ha! But, you know, I can understand it.

But there is something here this time that does not generally happen: it is called timing. You get to see this proposal—funded—in the President's budget before you vote on NAFTA. If he did not keep that commitment, if it is not there, if it is not paid for, you can honestly stand up and say, what happened here; you did not keep your word. If you had to vote on this tomorrow, and I said, listen, trust me, trust me, trust me, I can see where you would say, well, I am not sure I can.

You may have been, up to here, perfectly trustworthy, but this is too important, I need the proof. But this time, you are going to have it. The submission of the budget comes so that you will have those numbers. That does not mean you have to agree with every part of the budget, but you will know the commitment has been kept.

So, I can understand, first of all, your questions; I can understand where you and I might disagree on a funding mechanism, whether you do it by a fee, by a tax, by spending. But you will be able to see, in the President's budget, this program and how it and everything else is paid for. It is part of the discipline of the budget process, within the caps agreed to by the leadership 2 years ago.

Senator BREAUX. Well, is the administration willing to put off a vote on the NAFTA agreement until after this has been adopted?

Secretary MARTIN. Well, if you look at when you get the budget—what is the exact date of the budget? January 22nd, I believe. I could be wrong on that. If you look at when the time starts with NAFTA, you will not have voted on NAFTA by then. What is the estimated NAFTA vote? Sometime in June; would that not be about right, Mr. Chairman?

The CHAIRMAN. I would think so.

Secretary MARTIN. So, you are going to have had the President's budget several months prior to that.

Senator BREAUX. Well, I think that you are hearing from both sides of the aisle the real concern here, and you know it may be that the administration will come up with a specific way of paying for this other than just a nebulous $68 billion of cuts that have been spent and re-spent that are out there. I think that is the real problem with it right now.

Secretary MARTIN. Sure.

Senator BREAUX. I mean, I think it is a good idea to combine the programs. How much do you save by combining the programs?

Secretary MARTIN. We do not save anything, we triple the funding. I mean, I am sure we can argue that we save this much, and we save this out of TAA, because TAA is basically very inefficient, and EDWAA has not been as satisfactory as I would have liked. That is part of the reason for this combination. NAFTA provides us an extra boost.

But, believe me, the changes we propose in the training and retraining programs would be necessary and valid with or without

NAFTA. The NAFTA merely reinforces the need for it, because, like any specific agent, it acts as a greater catalyst.

What we are saying is, that training and retraining are the only ways, really, for American workers to get all they deserve from an economy, and that is why the President has proposed tripling the resources available through the Department of Labor for this purpose. It is part of the changing Department of Labor.

I will even say this—probably someone will say I should not—that this is happening, not because of an election, that it is because of world competition. The way we are changing the Department of Labor will continue, and I think everyone here knows that.

Senator BREAUX. I was just suggesting that if you subtract the amount of money you spent on EDWAA and TAA, I mean, is it millions and millions of dollars?

Secretary MARTIN. Oh, yes. Oh, yes.

Senator BREAUX. So, it is not $10 billion a year.

Secretary MARTIN. Yes.

Senator BREAUX. So, you could use a figure less than $10 billion with the elimination of the two programs.

Secretary MARTIN. Yes. Correct. Correct. That is absolutely true, Senator.

Senator BREAUX. Thank you.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. First, Madam Secretary, I would like to comment on some of the questioning here so that you can get a view that there is not unanimity up here on some points being made to you.

First, as regards the temporary fee that has been suggested, I am very skittish of so-called temporary fees. Temporary fees are never temporary; pretty soon they are permanent. For example, I think the telephone tax was meant to be a temporary fee, and, of course, that stays on, and on, and on. So, I am not very enthusiastic.

The next point, Madam Secretary, is that I am a little puzzled by the questions about where the money is going to come from. Last night, we approved an $86.5 billion appropriations bill, and nobody asked where that money was coming from. We just appropriated it, and presumably we are going to borrow a good share of it. So, I am somewhat perplexed about that line of questioning.

A specific example: in that $866 billion bill, there is $1 billion for a program called HOPE, a home ownership program. There are no funds earmarked especially for that $1 billion for HOPE. The money is not going to come from a tax on this or that, it is just, going to be appropriated. And, regrettably, that is the way we operate around this place. We levy taxes and then we appropriate money. I should note that I don't think this system is all wrong, because I do not think we ought to have specific sources for every item requiring spending.

So, when you say there is going to be $2 billion a year for 5 years and that the President is going to put it in his budget, I accept that. That is what he will do. Hence, I do not quite understand the line of questioning about where the money is going to come from. As I say, it is probably going to be borrowed, like most of the other money that we appropriate around this place.

Let me turn to the whole subject of training and get some thoughts from you. I am somewhat discouraged on these training programs. Admittedly, my evidence is somewhat apocryphal, just from personal observation rather than looking at a mass of statistics.

But do you think this training works? I know we put a lot of effort into it and I know we try different approaches. For example, one of your approaches is to provide $3,000 a year for 2 years for an individual to go to junior college, or college, in an extended education program. That sounds pretty good. Does it work?

Secretary MARTIN. Well, certainly, that is an hour of things I would like to talk about. But, very quickly.

Senator CHAFEE. Two minutes.

Secretary MARTIN. We do find that training does work. It works with certain segments of the community and certain ages more than others. For example, workers who have already experienced the demands of a work environment tend to benefit more from training programs, whether male or female.

Over all of those lines, in that particular area, training works. We still have difficulties, however.

Too many of our young people, for instance, obviously are dropping out of school and are not getting the right kind of training that will involve them—in apprenticeship training or the kinds of training that we hope will reach that 16 and 17-year-old who, too often, does not have work experience.

The final thing, Senator, is, bluntly, we are deciding right now as a Nation if we are going to compete on low skills and low wages, or high skills and high wages. And it is my belief—and I suspect the belief of almost every member of the Senate—that we want the American worker to have high wages. And to have that, you have to have better skills, and we have to do even better on training and retraining, and American businesses have to spend more on training and retraining.

Senator CHAFEE. Well, let me ask you a question. I understand that in the course of a worker's life, starting now, that he or she is expected to have something like five different jobs. Am I right?

Secretary MARTIN. That is probably a little low. It may actually be careers, plus jobs.

Senator CHAFEE. All right. Let us just take five. Now, what I have observed in my State—and I may be not typical in my observations—is that if you have a well-educated person, that is, if that person has completed high school and maybe a couple of years of junior college, that that individual can make these transitions from job A, to B, to C, to D without added skills. The added skills will be granted to that person by his or her new employer. Is that accurate?

Secretary MARTIN. More often, that is a trained person. A person who has had a year or 2 years at a community college often can make the jumps, but may need catch-up, may need a program that may not be a full year, he or she might only need 6 weeks to learn some particular skill. But many of the people we are talking about do not have a high school diploma, or do not have that additional 2 years.

Senator CHAFEE. Well, I appreciate that.

The CHAIRMAN. Senator, I am sorry. I have to intervene.

Senator CHAFEE. I appreciate that. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. The Secretary had told us that she had to leave at 11:15. I would like to give Senator Riegle a chance to ask questions, and, at the time he finishes, we will have a recess till Senator Moynihan gets back. I have to make a vote.

Senator RIEGLE. Thank you, Mr. Chairman. We are also on the second bells of a roll call. I am told there are 6 minutes left.

Secretary MARTIN. I will be fast.

Senator RIEGLE. I was not able to be present for the opening statements. However, there are two or three comments I want to make. One, is that I saw on this morning's AP wire that the number of Americans filing first-time claims for unemployment rose in late August for the second week, to a total of 394,000. That is just for the week ending August 29 and it is an increase of 8,000 from the previous week.

Last Friday, we had the Bureau of Labor Statistics before the Joint Economic Committee to analyze this data. In addition, you probably saw this headline story in Saturday's Washington Post which said that there were 167,000 jobs lost in the United States just last month. Of particular interest to you and I is the fact that 97,000 of those jobs lost were industrial jobs, which are some of our best jobs. These are high-skill, high-pay, high-value-added jobs.

We are seeing a continued drain of these jobs. We just had a hearing in the Banking Committee on the condition of the automobile industry and we have got very serious problems in that industry. Even though the industry has made some significant gains, the financial pressures it is under are very great.

In the automobile industry alone, Ford, Chrysler and GM have already located over 70 plants in Mexico. Now, this is without a free trade agreement. At the same time, we are seeing auto plants close in Michigan, and I am quite sure that there are comparable plants closing in Illinois where the work is being moved to Mexico as well.

As you may know, Smith-Corona, a typewriter plant in New York recently announced it was closing and would be moving production of typewriters down to Mexico. The thing that concerns me is that I believe we have got a jobs crisis in our country. We have too many jobs disappearing.

These are not temporary lay-offs, these are plant closings where people are being put out, and they are not finding replacement jobs no matter what their skill level, such as a skilled machinist, or a worker with some other highly technical skill. Even people with Ph.D. degrees are floating around now and cannot find replacement work.

It is evident that we have a major unemployment problem and jobs crisis on our hands which the Bureau of Labor Statistics and the New York Times headline is showing us. Also from Saturday's news you may know that the Federal Reserve made sort of another emergency-type cut in the Federal funds rate to try to get a little more oxygen into the economy. I am greatly concerned about the fact that we do not have enough jobs as it is, and I see the lure of the 50 cent an hour or $1 an hour wages in Mexico as enticing

a much greater shift of jobs out of the United States to Mexico. It is happening now. I just cited the example of the automobile industry and the typewriter plant that is closing.

So, I am profoundly concerned about the fact that I see the United States-Mexico Free Trade Agreement becoming a major additional incentive for our plants to move South to take advantage of the low environmental standards, the low wages, and so forth. As a result, I think we are going to have an enormous worker displacement problem in this country. I think it is going to go way beyond the $10 billion over 5 years, as the President's new plan proposes. I think this plan and its limited funding will be a drop in the bucket in terms of what is needed.

I am concerned about the fact that, as you yourself indicate, there is not a dedicated source of revenue even to fund this limited proposal. I understand your point that funding can come from a lot of different places, but the fact is, we do not have a dedicated source of where that $10 billion is going to come from. What I am finding, in talking to families and workers out in Michigan that are going through this right now that have lost their jobs, is they are feeling increasingly desperate because of inadequate worker adjustment programs and a lack of jobs.

Even if they go through a retraining program, there is not necessarily a replacement job for them. I got a letter a couple of months age from a man in Texas who has been through three worker retraining programs. Despite the fact that he also has a college degree, he still cannot find work.

So, retraining, by itself, is just a slogan if there is not a job at the other end to which someone can go. Of course, the main problem we are facing is that the job base is shrinking and not recovering. Therefore, we have a terrible problem with an absence of jobs.

Yesterday, as I understand it, even though I was not there, in the Ways and Means Committee, apparently Carla Hills indicated two areas of our economy that are going to be the hardest hit in terms of job losses in this country by the North American Free Trade Agreement: the glass industry and the fruit and vegetable industry. She may have gone beyond that and mentioned other potential job losses. What does the Department of Labor see as the areas that are likely to be the hardest hit in terms of job losses here in the United States?

Secretary MARTIN. First of all, Senator, these are the statistics. This Secretary of Labor has been talking about the creation of jobs for almost 8 or 9 months. I am convinced that both Presidential candidates and this whole place—that is all they should be talking about. We should not be talking about new taxes on small and medium businesses; we should not be talking about new mandates that are going to end up costing jobs.

I would also like to add—and this is only slightly reassuring; it is not super reassuring—that, although there was an increase of 8,000 in the number of people searching for work or applying for UI benefits.

Senator RIEGLE. But those are U.S. Government numbers.

Secretary MARTIN. No, no, no. It is under the 400,000 mark. It is still lower than it had been on its rolling average. So, again, I do not say that it is good news, but it is not——

Senator RIEGLE. Regardless of which job loss estimates refer to, I believe it is cold comfort for the person who has just lost their job. Do you agree?

Secretary MARTIN. Absolutely. And, as you know, if it is one person, it is too many.

Senator RIEGLE. Well, it is way more than one.

Secretary MARTIN. But let me tell you, first of all, on autos, particularly——

Senator RIEGLE. Tell me where the jobs are going to be lost. That is the bottom line in which I am interested.

Secretary MARTIN. The auto industry is concerned. But, as you know, Senator, a lot of auto had already moved because there is a domestic content law in Mexico. That will be removed from NAFTA.

Senator RIEGLE. Let me just say one thing.

Secretary MARTIN. Sure.

Senator RIEGLE. I must go and vote or I am going to miss the vote.

Secretary MARTIN. All right.

Senator RIEGLE. Do you know that, under this Free Trade Agreement, a car can be built in Mexico sent to the United States, and not have $1 of U.S. content in that car? The fact that autos will be able to have Japanese content in them, but are not required to have $1 of U.S. content, is of concern, especially from a job-loss perspective.

Secretary MARTIN. Right now, to sell a car in Mexico, there may not be a dollar of U.S. content. That will change it.

Senator RIEGLE. I know. But presumably we are going to have an agreement that makes that better. However, it does not solve that problem for our auto and auto parts industry.

Secretary MARTIN. Well, I would also tell you that everyone does agree that, in terms of auto parts—which affects Michigan and Illinois, as you know, disproportionately—there is going to be a surge, not a loss.

Senator RIEGLE. Well, I do not agree with you. I realize that is the puff statement that is given by the administration. I do not see that out auto parts industry will be the big beneficiary you predict.

Secretary MARTIN. No. I mean, you cannot——

Senator RIEGLE. We have got nearly a $30 billion trade deficit right now just in autos and auto parts with the rest of the world. That is the case today.

Secretary MARTIN. Well, but look at Mexico for a minute. We have an $8 million trade surplus in manufacturing alone, and those jobs pay 17 percent more than average jobs.

Senator RIEGLE. I know you do not want me to miss the vote.

Secretary MARTIN. You can oppose the treaty, but you have got to face the fact that it is going to produce jobs.

Senator RIEGLE. I know you do not want me to miss the vote.

Senator BRADLEY. I do not want you to miss the vote either, since I am next to ask questions.

Senator RIEGLE. What I have not heard is your prediction as to which U.S. industries will lose jobs. I have heard a lot of information in your response. However, I have not heard the answer to my question. I would appreciate it if you would answer my question.

Secretary MARTIN. Well, we think overall there is a job gain. We think that the job gain can be in——

Senator RIEGLE. I know. But where are the losses going to be and what will be the total number of displaced U.S. workers. If you would, please be direct and honest in answering my question.

Secretary MARTIN. You want a list of what six industries?

Senator RIEGLE. Yes. Well, could you tell me which industries will be adversely affected by NAFTA? You are the Director of the Department of Labor and therefore, should know this information.

Secretary MARTIN. We will get that to you.

Senator RIEGLE. From where do you see the job losses coming?

Secretary MARTIN. We will get to you, looking at the 21 economic surveys that have been done. We will get to you what are estimated to be the six major areas of loss. We will be happy to get that to you.

[The information requested was not received at press time.]

Senator MOYNIHAN. Thank you, Senator Riegle. Thank you, Secretary Martin. The Secretary will have to leave shortly.

Secretary MARTIN. I had to leave 10 minutes ago.

Senator MOYNIHAN. The last questions will be from Senator Bradley.

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

Secretary MARTIN. And I am sorry, Senator Bradley. You were here, and so was I. I apologize for any inconvenience.

Senator BRADLEY. That is all right. We will try to do this quickly. I thought that Ambassador Hills really gave excellent testimony the other day.

Secretary MARTIN. She is very good.

Senator BRADLEY. And I think she made the very clear point that the United States-Mexican Free Trade Agreement would result in a net creation of jobs and they would be higher wage jobs, and that it would also get at some of the harder areas of higher unemployment because of the decrease of illegal immigration. So, I thought that she made a very cogent and strong case in support of the overall economic framework for a free trade agreement.

No one disputes, however, that there will be individuals who lose their jobs because of the agreement. The unknown is how many jobs, and where will they be, and what will an administration do to try to effect an easier transition for those workers. And that is where your position and your program is really critical.

You mentioned a number, that you would set aside $350 million for NAFTA alone?

Secretary MARTIN. $335.

Senator BRADLEY. I think that is what you said.

Secretary MARTIN. Well, what we have done is established a $670 million fund that can be moved at the discretion of the Secretary. One half is NAFTA, the other half is non-NAFTA. But you could shift funds into or out of the NAFTA account if there is a need. You would have the flexibility to adjust to meet the situation. Whoever the Secretary of Labor may be—she or he—would have the flexibility to shift funds if we had the congressional authorization to do so in the legislation that would be proposed.

Senator BRADLEY. In terms of the total job dislocation, you mentioned a number that is different from some of the numbers that

I have seen. The Institute of International Economics, for example, is at the low end of the numbers that I have seen, when it says about 112,000 dislocated workers. The high end is really several million. The number that I have seen most frequently used is roughly around 700,000 who would actually lose their jobs. Is that number——

Secretary MARTIN. Well, the highest number that we have seen with—and I hope I am not misquoting them, and I will certainly check—is the AFL–CIO number. And, again, I cannot speak to their methodology on it because we have had a difficult time finding out what it is. Their number is 500,000. So, I do not know where these millions are coming from. They oppose the treaty, so we feel fairly confident that they are using that——

Senator BRADLEY. But the number that you use in order to formulate the adjustment programs——

Secretary MARTIN. Right. We have looked at numerous objective studies on NAFTA's economic effects. Of these the highest job loss projection came to 150,000. Even though we may not think it would be that high, or you may not, we have offered a proposal which could meet the need even if it was that large.

Senator BRADLEY. Do you have the AFL–CIO's figure there, again? I mean, where does it say it is 500,000?

Secretary MARTIN. The paper I have with me is the University of Maryland study that we did at the Department of Labor that we contracted for, and I have that. I do not have the AFL–CIO study with me. But here is the quote. It said, "Some half a million jobs by the end of the decade." So, it is not even a per-year——

Senator BRADLEY. But what is that from?

Secretary MARTIN. The AFL–CIO issued a news release showing projected job losses at some half a million jobs for the end of the decade, 83,000 job losses each year, and 55,000 workers needing adjustment. Now, that is their numbers.

Senator BRADLEY. The study that I have seen is much, much higher than that.

Secretary MARTIN. Whose study, might I ask?

Senator BRADLEY. The AFL–CIO study. Now, one of the things that I would just like to get at is how much money you actually need to do this.

Secretary MARTIN. All right. May I say this, Senator. If we double the numbers that the AFL–CIO used as their worst case scenario, it is still less than we are asking for in the training and retraining bill to provide assistance and retraining services.

Senator BRADLEY. You see, I think we might be talking about apples and oranges. I think the number that you are referring to that comes from the AFL–CIO is net. It is net job loss, which means you take all those who have lost their jobs and you balance that against all of those who gain jobs, and the net figure is 500,000. Now, what I am trying to get at is, if you have a very much larger number of workers who lose their jobs, that is the group that you have to work with, not the net number.

Secretary MARTIN. Yes. I understand.

Senator BRADLEY. You have to work with the group of people who lose their jobs.

Secretary MARTIN. I understand that. I think there is also a second part of confusion here. There is a tendency to talk about those workers over a ten-year period, and occasionally what you are talking about in terms of appropriating is in a 1-year period.

Even using, not the net, but the total number of dislocated workers—because that is the number we work from, not the net—the $2 billion/$10 billion over five-year program retrains, using the highest numbers available, everyone that would need or could use retraining. That is part of the program already. We knew that would be. It is important to me, it is important to you. That already is in the package. It covers not just the net number, it covers the total number dislocated.

Senator BRADLEY. And which industries are going to be the hardest hit?

Secretary MARTIN. Well, Senator Riegle asked some of the same thing. Textiles, as you know, has great concerns. I said what we would do is give you a list of six to eight industries that, for whatever reason, have some extra special protections. What Ambassador Hills and others have done is, within the agreement itself, those industries which would have the most severe impact have extra protections within the treaty itself.

So, I will give you those industries, too, but will also, if you wish, give those industries not specifically mentioned in the treaty, but using the economic data from these various studies, what is presupposed from that. We would be happy to get you that.

Senator BRADLEY. The industries where there is the greatest job loss.

Secretary MARTIN. Yes. We will get you that.

[The information requested was not received at press time.]

Senator BRADLEY. Well, I think this is important.

Secretary MARTIN. Yes. I do, too.

Senator BRADLEY. Because in the earlier testimony the number you used was 150,000 dislocated workers.

Secretary MARTIN. Right.

Senator BRADLEY. And that you had a $350 million minimum fund there for job retraining.

Secretary MARTIN. $335 million.

Senator BRADLEY. That amounts to about $2,300 a worker. Now, is that what you are proposing to spend on each worker?

Secretary MARTIN. No. What each worker gets is up to a $3,000 skills training grant a year for 2 years which allows her or him to get the kind of education and training that that person needs and requires.

Senator BRADLEY. Right.

Secretary MARTIN. We also add to that for those who may need a support system similar to the TAA program support system, but only to those who need it rather than universal support. Those dollars were put together, for a consolidated program of retraining and transition assistance to dislocated workers including impacts related to NAFTA, at an annual funding level of $2 billion in a $10 billion, 5-year program.

Senator BRADLEY. Well, I must say, I am not really clear on how the program works and who is actually supposed to be covered by

this $2 billion program. Because, as I understand it, it is to cover all those who are affected by NAFTA. Is that correct?

Secretary MARTIN. That is correct.

Senator BRADLEY. Does it do anything with defense workers?

Secretary MARTIN. Yes. What it does now—yes. Go ahead.

Senator BRADLEY. About 300,000 defense workers. Right?

Secretary MARTIN. It makes funds available for dislocation, whatever the cause. If you total it, it is $2.0 billion per year—which is about three times what is now available. You could be dislocated because of NAFTA, because of defense, because of technology. There could be a multitude of reasons not specifically NAFTA related, but that, too, would be part of the program. In other words, we do not segregate workers for why they may have lost that job, but get the training to her or to him regardless of that.

Senator BRADLEY. So, since 1985, I think it is, there have been about 4.3 million workers dislocated. So, essentially those workers would all be eligible for this kind of help?

Secretary MARTIN. Experience has indicated to us, Senator—and that is what we used to define the final numbers—that, although there may be 4.5 million workers, not all 4.5 million need or want the training. We used conservative estimates and used the numbers that have stayed pretty consistent over the last few years about the numbers by industry, who would require training and who would not. That is how we reached this.

It is my clear understanding and the department's that these numbers have even more than a margin of error in them to retrain virtually every American worker who would apply for such retraining with NAFTA. I must apologize. I must go. I had reached the agreement I could leave at 11:15 before. I am so sorry about that.

Senator BRADLEY. I thank you for staying and allowing me to question.

Secretary MARTIN. Of course. Well, your courtesy is much appreciated.

Senator BRADLEY. I appreciate it.

Secretary MARTIN. And I must tell you, again, these excellent people who have been doing a great deal of the work are also here to continue to answer questions if you so choose, Mr. Chairman.

Senator MOYNIHAN. It was a pleasure, of course, once again, to have you here, Madam Secretary. I have a question in writing concerning international labor conventions, which we will send you. And, with great appreciation for a spirited morning, and if you are late, it is because we did not want to let you go.

Secretary MARTIN. It is always a pleasure to be here.

Senator MOYNIHAN. Thank you very much.

Secretary MARTIN. Well, sometimes a bigger pleasure than others. But this is a pleasure. Thank you.

[The responses to written questions were not received at press time.]

Senator MOYNIHAN. No, sir. We will not trouble you further today. We are going to give you a lot of questions, and things like that.

Secretary SPURLOCK. I look forward to it, Senator.

Senator MOYNIHAN. Thank you, Mr. Secretary. Our next witness is Linda Morra, who is Director of the Education and Employment

Issues section of the General Accounting Office. The GAO, ever faithful to our commands, has prepared a study—a very able, exemplary study, as it always does—on the dislocated workers and the comparison of assistance programs that have been in place, and are in place.

And I am going to ask that our guests arrive and depart quietly. There is always a little shuffling when we shift subjects. And we will move to the non-partisan, objective analysis of the General Accounting Office on this subject. Ms. Morra, you have brought Mr. Rogers with you.

Ms. MORRA. Yes, I have.

Senator MOYNIHAN. We want to welcome you, sir.

Mr. ROGERS. Thank you.

Senator MOYNIHAN. Would you proceed? We do not control the somewhat tumultuous events on the floor this morning. I will be here, and pretty soon I will disappear and somebody else will. But your testimony is important to us. Would you just proceed exactly as you wish?

STATEMENT OF LINDA G. MORRA, DIRECTOR, EDUCATION AND EMPLOYMENT ISSUES, GENERAL ACCOUNTING OFFICE

Ms. MORRA. Thank you, Senator. We are pleased to be here today to discuss how to help workers who lose their jobs because of business closures or permanent layoffs. The two major programs to help dislocated workers make the transition to new employment are: Trade Adjustment Assistance, or TAA, and Economic Dislocation and Worker Adjustment Assistance, or EDWAA.

In 1990, these programs provided training and employment assistance to over 300,000 workers. TAA assists workers who lose their jobs due to increased imports, while EDWAA provides services to all workers regardless of the reason for dislocation.

Our study—which was done at the request of Chairman Bentsen and Chairman Rostenkowski—of EDWAA and TAA shows that both have shortcomings that hamper their ability to help dislocated workers. Reaching workers before or at the time of lay-off increases the chances for prompt reemployment. However, TAA and EDWAA frequently are slow in reaching dislocated workers. We found that, in Michigan, New Jersey and Texas, 65 percent of the TAA participants and 41 percent of the EDWAA participants did not receive training in the first 15 weeks of unemployment. Delays in the delivery of TAA training assistance were generally due to the worker certification and notification process. EDWAA does not have a certification process. Yet, assistance for many EDWAA participants is also slow in coming.

The re-employment potential of dislocated workers is enhanced when assistance options and independent assessments tailor services to the varied skills and interests of workers, and also local job opportunities. Yet, under TAA and EDWAA, services are often limited; assessments may be performed by service providers who have a vested interest in which services participants receive, and, thus, services may not be tailored to the specific needs of individual participants.

For example, TAA offers participants classroom training in a variety of occupations, but generally does not offer the option of on-

the-job training, or OJT. In some EDWAA projects, participants may be offered OJT positions, but nothing in the way of basic skills training.

We found that the availability of additional income support after workers exhaust their 26 weeks of Unemployment Insurance benefits gives them the option to enter longer-term training. TAA provides up to 52 weeks of additional income support, and 84 percent of the TAA participants in our State analysis enrolled in training lasting 26 weeks or more.

Senator MOYNIHAN. Ms. Morra, I very much regret this. But I am going to have to go and vote, too. So, the committee will have to stand in recess. Do not move. Do not go away.

Ms. MORRA. I will not.

Senator MOYNIHAN. And we will be back to get the remainder of your very important testimony, and this very important study.

Ms. MORRA. Thank you.

Senator MOYNIHAN. We are going to get some facts on this subject.

Ms. MORRA. Thank you.

[Whereupon, the hearing was recessed at 11:42 a.m.]

AFTER RECESS

The CHAIRMAN. We will commence the hearing again. Ms. Morra, I apologize to you for the interruptions. This is a difficult way to run a hearing. But, if the continuity of thought is not interrupted too much, I would appreciate your continuing.

Ms. MORRA. Thank you. We were talking about the need for additional income support after workers exhaust their 26 weeks of unemployment insurance benefits. We have found that the availability of additional income support after workers exhaust their 26 weeks of Unemployment Insurance benefits gives them the option to enter longer-term training.

TAA provides for up to 52 weeks of additional income support, and 84 percent of the TAA participants in our three-State analysis enrolled in training taking 26 weeks or more. In contrast, under EDWAA, participants do not generally receive additional income support, and only 31 percent were enrolled in training lasting 26 or more weeks.

Neither TAA or EDWAA require States to collect sufficient information on who is served, the services provided, and how participants fared after completing the programs. Participant progress and program performance cannot be adequately assessed.

The President has proposed replacing TAA and EDWAA with a single comprehensive program that serves all dislocated workers, regardless of the reason for their dislocation. This could eliminate confusion about program eligibility and simplify the delivery of services. The availability of skills grants and income support could also allow workers more flexibility in choosing the type of retraining they desire.

Many questions about the proposal, however, remain to be answered. It is unclear whether assistance provided under the President's proposal will be more timely. As we have seen with EDWAA, the lack of a worker certification may not speed up delivery of services.

Another question is whether assistance provided under the President's proposal would be tailored to the needs of individual workers. For example, would workers who prefer on-the-job training rather than classroom training be able to use their skill grant for OJT? For workers choosing occupational training, there is a question as to whether the $3,000 annual skill grant will be sufficient to support the training options selected.

Finally, another question to be answered is whether the President's proposal will require States to provide sufficient information to assess participant progress and program performance.

Mr. Chairman, I will be happy to answer any questions you may have on the testimony or on the report that we have issued to you today.

[The prepared statement of Ms. Morra appears in the appendix.]

The CHAIRMAN. Ms. Morra, I have not had a chance to look at the report, but I would like to ask you a couple of questions. As I understood your testimony, you stated that the President's proposal is silent regarding on-the-job training. I am wondering if you find that on-the-job training works, if it is helpful, if it is something we should provide.

Ms. MORRA. We know that the more options you have to meet the individual needs of workers, the better; that is, not all workers want, need, or desire classroom kinds of training. On-the-job training is another option that helps meet individual worker needs and preferences.

I will add, however, that the GAO and the Labor IG certainly have been concerned in JTPA, in general, about abuses in the provision of on-the-job training.

The CHAIRMAN. Let me have an idea of what those abuses would be.

Ms. MORRA. Those kinds of abuses are where we have workers in on-the-job training for a very, very long time when it is doubtful that a long time is needed to master the skills. Eight months in a car wash, would be an example. That is the type of abuse that you can find.

Or workers who, you will find, have already worked in the position using the same exact skills as the on-the-job training that they are then placed into. So, certainly in any on-the-job program, you would want to see some kind of protections so that these types of abuses do not happen.

The CHAIRMAN. Are there differences between the kinds of workers that are benefitted by TAA and EDWAA?

Ms. MORRA. In our three-State analysis, we found that there are differences between the workers served by TAA and those served by EDWAA. In general, the workers being served by TAA are a harder-to-place population.

The CHAIRMAN. They are what?

Ms. MORRA. A harder-to-place population. They tend to be older, less educated. TAA also has a higher proportion of females in the population than to EDWAA.

The CHAIRMAN. Well, I also understand that the TAA provides more benefits to workers than EDWAA, perhaps more than ASSETS. Are the TAA benefits so rich that they ought to be curbed?

Ms. MORRA. That is a difficult question.

The CHAIRMAN. If it were not difficult, I would not have asked you.

Ms. MORRA. Some workers do have need for longer-term training, and TAA provides that; EDWAA does not provide it. TAA is a more expensive program because of the provision of the income assistance. TAA enables participants to get longer term training, and that longer term training can have benefits for those who need it.

The CHAIRMAN. Well, in thinking about your study, would it have been more helpful, and, therefore, let you exercise better judgment if we had better information tracking these workers? Are there things that we should do in that regard?

Ms. MORRA. I think so. I think that it is important to have information to judge participant progress and program performance in terms of who is being served, what services they get, what the outcomes of the program are, both short term, and also long term. And I think, in addition, what you need to be able to do is link your outcomes and your training to your participant characteristics.

So, in other words, when you are looking at the effectiveness of a program, you want to know what are the outcomes for all of the participants, but then what are the outcomes for women, are they only getting placed in certain jobs, are they getting placed in lower wage jobs. You need to be able to link the characteristics of the people participating in the program to the services and to the outcomes.

The CHAIRMAN. Well, I hear complaints that the assistance is slow in coming under TAA and EDWAA. What can be done to accelerate that? I would like to have some thought, from you on that. Then I also understand that under the ASETS program, workers could get assistance and training in an industry where dislocations were taking place, even though that workers, as yet, had not lost his or her job. What do you think of that?

Ms. MORRA. First of all, providing timely assistance to workers is a problem, both under TAA and under EDWAA. And it looks as if it could be a problem under the program in the President's proposal.

Under TAA, the problem seems to be the time needed to have labor certify the workers. That process can take up to 60 days. Then there is another 60 days that can be taken to actually notify the worker about whether or not certification has been given. So, you can have 120 days, 4 months, before a worker actually starts getting services under the TAA program.

Now, EDWAA does not have that certification, so one might think that it would be faster in terms of providing the services to workers. But, under EDWAA, there are still many workers who are still not receiving benefits 15 weeks after unemployment.

Some of that problem may be that, under that program, you have rapid response teams who come to the workers and tell them the kinds of benefits that they are entitled to, but do not actually provide the services. It is left, in most cases, to the workers to actually then go to the places where the services are provided.

Workers may be embarrassed about doing so, they may hope that they may get another job so that they put off going and getting registered for additional forms of help until their current benefits have run out. Those are the kinds of problems that may slow workers

in obtaining timely services. Those kinds of problems look like they would be there under the President's proposal as well.

The CHAIRMAN. I must say that I have seen some instances in my own State where the Federal Government, the State, and the company cooperated and moved early before people were dispersed, fired, that sort of thing. The percentage of successes was far higher than once they had been laid off.

Senator Symms.

Senator SYMMS. No questions, Mr. Chairman. Mr. Chairman, I would ask unanimous consent that my statement be placed in the record.

The CHAIRMAN. Yes, of course. Without objection.

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

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. Just a question of you, Mr. Chairman. This is the final witness, obviously, today.

The CHAIRMAN. That is correct. Yes.

Senator CHAFEE. And you have had your questions. Are you going to ask more after this?

The CHAIRMAN. No, no, no. That is fine.

Senator CHAFEE. All right. If I might, I would just ask a couple of questions which follow up on the questions I asked Madam Secretary previously. And that is: how effective are these worker training programs? I have a feeling, which may be inaccurate—and, as I say, my information really comes from observations I have made in my own State, both when I was Governor when we were involved with worker retraining and since then—that if you have a worker who is a graduate of high school, maybe a graduate of a junior college, he or she probably has an excellent chance of obtaining the training he or she wishes, if a job is available, through the employer.

In other words, if employers who are expanding need workers and they put some money into retraining these workers to give them the skills that they require, does that on-the-job training prove more useful than a retraining program?

Ms. MORRA. I think that one of the problems is, is that the data are not there. For TAA and EDWAA, you really do not have the data to know what is happening. Under TAA, you have no data coming in on what happens to workers who have gone through that program.

Under EDWAA, you have some general information. You know that 70 percent of those who go into EDWAA do get placed. You know that, on average, they are earning, I think, $7.80 an hour. You know that when you come back 90 days from that point and look to see who is still employed in those jobs that some 71 percent are still employed.

But you do not have enough data to answer the type of questions that you are asking, like, are those 70 percent the people who are better-educated? What happens long-term? Ninety days is not very long. To say that a program is effective, you would want workers to be employed for more than 90 days after you finish training them and after they got placed. So, part of the problem is lack of data with these programs to know how effective they are.

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Senator CHAFEE. Well, why is that? It seems to me that these are not inexpensive programs. What we invest per worker is substantial. Why do we not have better data?

Ms. MORRA. I cannot answer that question. It is currently not required. There are some changes that are being made.

Senator CHAFEE. That is the responsibility of the Labor Department, I presume.

Ms. MORRA. Well, Labor is now, in EDWAA, taking some steps to obtain the types of data that I am talking about. The JTPA amendments that have recently been passed require some data. In addition, Labor is considering requiring more. We think that those would provide the types of data for EDWAA that I am talking about. Bob, do you want to add anything to that?

Mr. ROGERS. I was just going to say, the information that is available on EDWAA is more substantial than it is under TAA. And I think if the same requirements that are now being proposed by the Department of Labor were also proposed for TAA, it would add to the information that you are looking for.

Senator CHAFEE. I suppose the conclusion I am coming to is something that we all know: education is vitally important for our people. This accents it. If people are going to have a multitude of jobs over their career—the Secretary was indicating a minimum of five—then every effort we can make to keep our population in high school, and perhaps gain a taste of education beyond that vastly increases that individual's chance to receive a new job should he or she lose a job. I assume I am right in that.

Ms. MORRA. Certainly. I think most people would agree with you that staying in school and obtaining an education that provides skills for transitioning into either higher education or the world of work is critically important.

Senator CHAFEE. But I think we have to be cautious of this word, "obtain the skills," because, as I see it—at least as I look at it at home—the general education one comes out of a high school with does not involve specific employable skills.

Maybe familiarity with computers, which is a skill, is included in there, for example. But, yet, with an educational background, the employers are willing to take new employees on, figuring they can train them on what they want them to do rather quickly. Well, Mr. Chairman, I have not come to any great conclusions.

The CHAIRMAN. Well, this is a tough subject.

Senator CHAFEE. But it just seems to reinforce something that we all know, it just comes home to us that our population has got to finish high school, every single one of them, and hopefully take a little bit of education beyond that. And then they are equipped to make these employment transitions, whether it is five or six, that are involved in the future.

The CHAIRMAN. Well, Ms. Morra, we are appreciative of your testimony, and Mr. Rogers. It is helpful to us. With that, this particular session will be adjourned. Thank you.

Senator CHAFEE. Mr. Chairman, the topic of next session will be what?

The CHAIRMAN. The Trade Subcommittee will hold a hearing on environment next week.

Senator CHAFEE. Next week.

The CHAIRMAN. Yes. Thank you very much.

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

[Whereupon, the hearing was concluded at 12:03 p.m.]

NORTH AMERICAN FREE TRADE AGREEMENT (BUSINESS AND LABOR VIEWS)

TUESDAY, SEPTEMBER 22, 1992

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

The hearing was convened, pursuant to notice, at 9:05 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Moynihan, Baucus, Riegle, Packwood, Roth, Danforth, Chafee, Symms, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H–49, September 17, 1992]

BUSINESS, LABOR VIEWS OF NAFTA TO BE DISCUSSED, BENTSEN SAYS BENEFITS TO INDUSTRY, WORKERS "PIVOTAL"

WASHINGTON, DC—Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, announced Thursday that the Chairmen of key advisory committees will testify at a hearing next week on the North American Free Trade Agreement.

The hearing will be at *9 a.m., Tuesday, September 22, 1992* in Room SD–215 of the Dirksen Senate Office Building.

"Congress mandated the establishment of private sector advisory committees to provide information and advice to the President and Congress on trade agreements. These committees must report to the Congress on whether and to what degree the North American Free Trade Agreement promotes the economic interests of this country," said Bentsen (D., Texas).

"This is the pivotal issue in the NAFTA: whether that agreement will provide substantial net benefits to United States industry and to our workers. For that reason, I have asked Jim Robinson, Chairman and Chief Executive Officer of American Express Company and Chairman of the Advisory Committee on Trade Policy and Negotiations, and Tom Donahue, Secretary-Treasurer of the AFL–CIO and Chairman of the Labor Advisory Committee, to testify before the Finance Committee," Bentsen said.

"It is important that we hear what business and labor have to say as the Committee continues its consideration of the NAFTA."

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

The CHAIRMAN. This committee will come to order. On Friday, the President of the United States formally advised the U.S. Congress that he intended to enter into a NAFTA agreement. That means the clock starts ticking. That means for the next 90 days that we will be examining what is proposed under this NAFTA agreement. That 90 days has to expire before the President is entitled to sign that agreement.

Friday's notice was accompanied by a new NAFTA text. While this is not the final language, it is substantially beyond what we saw on September the 6th when certain areas still contained brack-

ets that indicated work still had to be done on them. Just as importantly, the package sent up Friday by the administration included no fewer than 38 reports on the NAFTA by the official private sector advisory committees on trade.

Members of this committee will recall that back in 1988 we wrote into law the requirement that these committees submit their reports on the trade agreement not later than the date on which the President notifies us of his plans. We also required that the lead policy committees inform us whether the agreement serves U.S. economic interests, and that each sectoral advisory committee provide its views on how it affected that particular segment of the economy.

I think, without a question, these advisory committee reports are going to have substantial influence on the Congress; how they react to the NAFTA agreement will improve or lessen its chance for approval by the Congress. And, in light of that important role, I have asked the heads of the principal business and labor advisory committees, Jim Robinson and Tom Donahue, to appear before the committee today.

I am interested in hearing their views on how their committees reached their conclusions on this agreement—conclusions, frankly, that could not be more diametrically opposed. I think that is part of the reputation of this committee, that we listen to both sides. Not that it makes our decision any easier, but perhaps it is a more informed decision when we arrive at it.

So, I welcome that input, not only on the NAFTA text, but also on what remains to be done in those areas not covered by the text itself, including worker adjustment and certain environmental concerns. It has been 18 months since we had a representative from your committees. At that time, I think we had Kay Whitmore, head of Kodak, testifying before us. And we had Tom Donahue, representing labor. We had them as we began our deliberations on the fast track, the authority that permitted the NAFTA negotiations to occur in the first place.

So, it seems fitting today that we welcome back two distinguished labor and business leaders to provide us the first official private sector reaction to the agreement itself. Senator Packwood, any comments you might care to make?

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

Senator PACKWOOD. Thank you, Mr. Chairman. There is really one thing I am looking for today. We have already heard environmental testimony last week. It would seem to me, under the agreement, whether or not you were totally satisfied with the advances made in environmental protection, they are better than no agreement. At least it tries to take some steps forward on environmental protection, especially south of the border.

But I am intrigued today to listen to the argument as to why or why not companies would deliberately move to Mexico if we had the free trade agreement but do not go now. The tariffs are relatively low.

If we had no agreement, then the likelihood of improving the environment is somewhat less than with the agreement. Also, with no

agreement, the tariffs or imports coming into the United States are, on an average, about 4 percent; for automobiles they are 2½ percent. If the fear is that companies are going to go to Mexico, why do they not go now? Nothing is stopping them.

So, I would be very interested in having both witnesses address themselves to that issue, or I will ask some questions on it. For the life of me, I cannot figure what the United States loses when our access to Mexico is rather dramatically increased. We almost have a one-way free trade agreement with Mexico now, and it is one-way coming in rather than exports going out.

Also, for the life of me, it would seem that American manufacturers would be better off with the reduced tariffs, the reduced quotas, the reduced licensing and greater access to the Mexican market. That is going to gain us much more than we lose with a few companies that might conceivably move to Mexico if we had the agreement that would not move if we do not have it. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Mr. Robinson, you are fortunate. You do not have all the other members here yet, so, therefore, they are not going to delay your speech. Let us hear it.

STATEMENT OF JAMES D. ROBINSON III, CHAIRMAN, ADVISORY COMMITTEE FOR TRADE POLICY AND NEGOTIATIONS, CHAIRMAN, THE BUSINESS ROUNDTABLE, INTERNATIONAL TRADE AND INVESTMENT TASK FORCE, AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AMERICAN EXPRESS CO., NEW YORK, NY

Mr. ROBINSON. Good morning, Mr. Chairman. Thank you for the invitation to be with you. It has been a long process, and one that you, personally, and your committee have played a most active and constructive role in following. So, it is a special pleasure to be here.

You spoke of the process. In my 25 years of working on issues in Washington, I know of no other process like the advisory committee process that brings together the private sector in a formal way and requires them to debate, not only within their own ranks, but then to look across a broad spectrum.

I find it an extremely constructive one, and you raise the question as to how we reached our conclusions. The conclusions were reached because we were substantially involved in the details over this entire period of time, so our learning curves were high.

Let me move into my official statement, because I am appearing in two capacities today. First, as Chairman of the Advisory Committee for Trade Policy and Negotiations, or ACTPN, and also as Chairman of the Business Roundtable's International Trade and Investment Task Force. As you know, last week the ACTPN submitted to the President and Congress a comprehensive report analyzing NAFTA.

And the committee, whose 44 members include representatives from a cross-section of manufacturing and service industries—agriculture, labor, and an environmental interest group—strongly endorsed the NAFTA and called on the President to sign the agreement, and the Congress to implement it.

Of the committee members, the two labor representatives dissented from the recommendation. Today, the Business Roundtable,

representing over 200 U.S. companies, released a statement in strong support of the agreement as well.

The NAFTA is an extraordinary achievement—an achievement that fundamentally changes for the better our relationship with our third largest and fastest-growing trading partner, Mexico, and it furthers in some areas our relationships with Canada. These are our neighbors. We share thousands of miles of border together. And, in that context, I must admit it has been distressing to see the way in which the NAFTA agreement has been received in some quarters and the degree to which it has taken on political tones of its own.

You know, I think it is worth taking a minute to reflect on why we started these negotiations in the first place. Well, the objective was clear: to increase business opportunities for American manufacturers, service providers, and agricultural interests. The NAFTA achieves this. What I hear are complaints about the inadequacy of the environment and worker-related issues.

In no way do I want to minimize these issues, and I will address them in my testimony. But I think it is important to bring the focus back—back to our primary objective. It was just a few short years ago that I participated in a hearing before this committee called Mastering the World Economy.

And, at that time, Mr. Chairman, some fundamental questions were asked about our place in the world trading system. At the time, we laid out a three-pronged strategy for enhancing U.S. international competitiveness and promoting U.S. economic interests.

First, through multilateral negotiations, specifically, a successful negotiation of the Uruguay Round. Second, through bilateral negotiations. And, third, when necessary, unilaterally strengthening and aggressively using U.S. trade law. And it was the general support of business, in fact, for this third point that helped lead to the enactment of the 1988 Omnibus Trade and Competitiveness Act.

The NAFTA agreement is an important component of that three-pronged strategy. The NAFTA provides a strategic opportunity to break down barriers to trade in Mexico and Canada without confrontation. It accomplishes in one action what we, the business community, Congress, and the administration collectively have set out to accomplish: namely, to increase exports and enhance the competitiveness of U.S. firms by gaining market access, by eliminating trade barriers, and locking in foreign economic reforms.

America's future depends on further integration in the world economy and increased access to important and growing markets. Surely Mexico meets this bill. It is an exciting country that is clearly on the move. After a decade of crisis, it has achieved macro-economic stability and has liberalized, modernized and deregulated its economy at a breathtaking pace.

In many ways, Mexico is a model for every country, from Argentina, to Russia, to Eastern Europe; countries that are seeking the right formula to put capitalism and economic stability in place.

Now, if we reject the agreement or insist on reopening it in ways that unravel the agreement or do injustice to Mexico's rightful sovereignty and national pride, we will not only have missed a great opportunity to expand markets for U.S. firms to the benefit of American workers, but we will do much more.

We will risk a return to economic instability and increased poverty in a country that is of great strategic interest to the United States. We will send a signal to the rest of Latin America and other parts of the world that the United States is no longer interested in increased trade opportunity and mutual advantage.

Now, I realize that this is a highly political time, and I deeply regret that NAFTA is caught in the middle of some of that. But I urge all parties to examine the agreement on its merits and consider the broad ramifications of rejecting the agreement or opening it to demand further concessions by Mexico before committing to such a path.

I would now like to turn to the agreement itself and discuss the broader economic reasons why it deserves your support. When Presidents Bush and Salinas and Prime Minister Mulroney announced their intention to negotiate a North American Free Trade Agreement, the U.S. private sector immediately and enthusiastically backed the initiative. We made clear, however, that our support for the final package would be contingent on the attainment of specific trade and investment objectives, and that no agreement would be better than an inadequate agreement.

A year ago, the ACTPN and The Business Roundtable separately identified specific objectives which the agreement should accomplish for it to merit the support of the United States. The objectives set out both by the ACTPN and The Roundtable were comprehensive in scope and extremely ambitious in terms of international economic negotiations.

The result of the negotiations are very impressive. To be sure, we did not get everything we wanted. In some cases, such as the Canadian's insistence on the cultural exemption for intellectual property, the shortcomings are extremely disappointing.

But, on balance, the agreement meets or exceeds our expectations. This is a world-class agreement. It would be a great mistake to reject it. Now, I have attached a two-page summary comparing The Roundtable's objectives against the results, and the summary provides, in a glance, a look at the breadth of accomplishments obtained under NAFTA.

[The summary appears in the appendix.]

Mr. ROBINSON. Now, we, in our own working committees, found it quite useful to be able to have a scorecard like that so that we could look across the breadth of what NAFTA has put forth.

What does it accomplish on the economic front? Well, here are a number of major items. Removal of all tariffs on trade between the United States, Canada, and Mexico: 50 percent are removed on day one, with most of the remaining tariffs eliminated within 5 to 10 years; elimination of non-tariff barriers, including import and export restrictions, Customs user fees, duty drawback programs, and waivers of Custom duties; strict rules of origin to preserve the benefits of the agreement to the three signatories, and to prevent other countries from using Mexico as a platform to flood U.S. markets; phase-out periods for import-sensitive goods; emergency safeguards to help import-sensitive industries adjust to increased competition; preservation of U.S. anti-dumping and countervailing laws; total market access for U.S. agricultural products within 15 years: a critical issue, particularly with Mexico, our fastest-growing

agricultural export market; unprecedented protection for patents, copyrights, trademarks, and trade secrets; elimination of most barriers to investment and a commitment from all NAFTA countries to provide national treatment or most-favored-nation status to investers in the three countries; access for U.S. financial service providers to what had been a virtually closed market; elimination of virtually all barriers to trade and other services, including telecommunications.

I want to add that, on these last two points—both of which are of great interest to American Express—these gains are historic. This is the first trade agreement ever to achieve significant market access for U.S. service providers. In short, there are substantial benefits. Let me tell you what it means in everyday terms for just a few U.S. companies and their workers.

Eastman Kodak, in Rochester, NY, which exported $126 million to Mexico in 1990, expects to double its exports to Mexico and expand domestic employment in the process. Caterpillar, in Peoria, IL, expects the U.S. industry sales of construction equipment to Mexico to rise by $35–$40 million a year, and the company, of course, which is already an important dominant player in the Mexican market, expects to capture a big share of that increase.

My own company, American Express, which has operated in Mexico for 100 years, will now be able to offer a broader array of services to our customers. Under the NAFTA, our subsidiary, Shearson, Lehman Brothers and IDS, will be able to offer financial services in Mexico for the first time. The Big Three automobile manufacturers expect automotive exports to Mexico to near $1 billion in the first year of the NAFTA.

I also want to mention that the U.S. Council of the Mexico/U.S. Business Committee has completed a series of detailed studies that provide an effective analysis of the potential effects of the NAFTA on 13 States and they have under way an effort to analyze an additional 17 States shortly. These studies clearly document the benefits of the agreement in a meaningful way. I am providing a copy of the New York study, where, of course, we are headquartered, to the committee for the record.

[The study appears in the appendix.]

Mr. ROBINSON. As noted earlier, there are some areas in which the NAFTA does not meet the ACTPN or The Business Roundtable's negotiating objectives. For example, both groups would have preferred faster elimination of tariff and non-tariff barriers in certain sectors, including liberalization of the Mexican energy sector, or elimination of the Canadian cultural exemption, and elimination of investment screening requirements.

Both The Roundtable and the ACTPN encourage U.S. negotiators to seek further liberalization on these issues, and it made clear that these deficiencies should not serve as a precedent for any other agreement. We believe, however, that these shortcomings do not warrant opposition to the agreement, and we are convinced that NAFTA will lead to stronger growth for the United States.

Now, what have we accomplished on the environmental and labor fronts? The NAFTA represents the first environmentally sensitive trade agreement ever. And the agreement affirms the intent of all three nations to promote sustainable development to main-

tain existing U.S. health, safety, and environmental standards and to allow each country to impose standards that are stricter than those mandated by international laws.

The agreement also expressly prohibits the parties from lowering environmental standards in order to attract investment. NAFTA is the world's first and only pro-environmental trade agreement.

There have also been parallel initiatives, including the border plan released in February of 1992, and the establishment of the Joint Commission for the Protection and Improvement of the Environment, to name a few.

Just last week, the environmental chiefs of the United States, Canada and Mexico announced the formation of a trilateral commission to oversee the environmental aspects of the NAFTA. There is no doubt that NAFTA has created the political climate for environmental cooperation and has furthered Mexico's steps to becoming an environmental ally.

On the issue of labor adjustment, The Roundtable and the ACTPN believe that the transition periods for sensitive sectors and the strong rules of origin in the agreement will help smooth the transition to free trade and minimize worker displacement as a result of the NAFTA.

In addition, we support the development and the mechanism of adequate and effective adjustment assistance for U.S. workers in the implementing legislation for the NAFTA. We stand ready to work with the administration and Congress on this effort. The administration's proposed comprehensive $10 billion Worker Adjustment Initiative provides a useful basis for beginning the debate.

In addition, we support the Memorandum of Understanding signed by the United States and Mexico to promote increased standards of living and better health and occupational standards for both countries.

In evaluating the environmental and labor-related issues, I would like to add, that in our view, the NAFTA meets, and, in fact, exceeds both Congressional and administration objectives that were set forth in House Resolution 146 and the May 1, 1992 Presidential Action Plan, respectively.

The gains from the NAFTA are significant, but there are also broader strategic reasons why we support the agreement. First, the NAFTA will create jobs, and, hence, help jump-start the faltering U.S. economy. Reducing trade barriers will increase manufacturing jobs. Mexico is America's fastest-growing export market. Over 85 percent of U.S. exports to Mexico—nearly $28 billion in 1991—are manufactured goods. Workers in these export-related jobs earn 17 percent more than average U.S. workers.

Second, NAFTA will enhance the international competitiveness of U.S. companies. Cross border production sharing is already a reality for much of U.S. manufacturing. With a NAFTA that allows companies to plan long-term investments based on economic efficiencies rather than governmental-imposed barriers, costs can be reduced and economies of scale achieved, allowing NAFTA products to compete more effectively against products made elsewhere in the world.

Cross border production sharing is especially important, because our major competitors are already pursuing identical strategies in

Europe and Asia. The United States cannot afford to lag behind these countries.

Third, in many respects the NAFTA serves as a model for our trade relations with other countries. In the areas such as services, intellectual property and investment, the NAFTA has gone far beyond both the Canadian Free Trade Agreement and what is currently included in the Dunkel text of the Uruguay Round agreement. What we achieved with Mexico, a developing country, is historic in its scope and sets new standards for similar initiatives with other important countries.

One last point. When the ACTPN and The Roundtable issued their objectives statement a year ago, we made clear that we expected the administration to consult with us on an ongoing basis so that we would be part of that process that you referred to earlier. And we believe that the administration fulfilled its obligation in this respect.

The U.S. Trade Representative, her staff, and others in the administration met with the private sector representatives—both official advisers, as well as trade associations—nearly 1,000 times over the course of the negotiations. We had regular, detailed, substantive input into the process. The administration, particularly Carla Hills and her associates, should be commended in this regard.

In reviewing the NAFTA, is it clear that our great expectations and our high ambitions have led to great results and unprecedented achievements. The NAFTA substantially meets and often exceeds the trade and investment objectives of the ACTPN and The Business Roundtable.

Moreover, the agreement provides a careful balance of economic growth, labor and industry benefits, and environmental sensitivity. This balance reflects the unprecedented level of the involvement of the private sector in shaping the agreement.

Failure by Congress to approve the NAFTA will deprive the U.S. economy of a much-needed engine for economic growth, one that will generate thousands of jobs and will enhance greatly our international competitiveness. Thank you.

The CHAIRMAN. Mr. Robinson, I appreciate your statement.

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

The CHAIRMAN. Let me explain some of the mechanics. Senator Moynihan has gone over to the floor. We are expected to have a vote at 9:30, and I will remain here and continue these hearings, and hopefully then he will be here and we will make the transition without a problem.

I am interested in your testimony. The deep concern is whether or not we have a net loss in jobs or a net increase in jobs. I fought very hard, as did many members of this committee, to give the administration that authority to negotiate. And you talk about the creation of jobs, and that is right; I understand that. But there is also a substantial loss of jobs, and we know that. Trying to balance those out, that is the concern.

There is a lot of difference between what we are doing and what we are seeing in EC 1992. We have an incredible disparity in wages. That is the big hurdle, it seems to me, to try to cross. You

see EC 1992 quite reluctant to take those types of countries in or slow down the process for them.

In trying to balance that out, there is no question in my mind but that we are going to see in Europe—in spite of the Maastricht treaty, whether that is approved or not approved—economies of size and borders wiped out so far as customs and tariffs. They are going to be a much tougher competitor. You are seeing that in the Asian countries, to a degree.

We have to respond to that type of competition. We look, not so much to military confrontation, but economic competition. And we are worried and concerned about increasing the standard of living of our people. So, I am going to be a devil's advocate for a bit, as I will of Mr. Donahue, in trying to see how we take care of that.

I look at things in agriculture. I look at it in fruits and vegetables. And I have the administration respond and say, well, we have given you 10 years of transition that really means 10 years to go out of business. What do you do with those properties when those 10 years have expired in trying to be competitive? Those are things that concern me. I am told that the tariffs coming into this country on the Mexican products, in many instances, were removed instantly when this goes into effect, but more over a transitional period on the other side. I would like for you to address that.

When we talk about the cultural exemption and the disappointments in energy procurement on the other side, and you say we do not want that as an example to GATT. I sure agree with that, but I do not know how you quite stop them from being examples to GATT. So, those are the concerns. I would like for you to comment on that.

Mr. ROBINSON. Mr. Chairman, you covered a lot of territory in your statement.

The CHAIRMAN. I did.

Mr. ROBINSON. Obviously, I agree with your observations on the European Community and the work that they will—and properly will—be doing with central and eastern Europe. The region will be cross-border production sharing and will be highly competitive on a world-class basis.

The CHAIRMAN. Yes.

Mr. ROBINSON. Obviously, the same thing is going on in Asia. Mexico, after NAFTA, then the Americas Initiatives, give us similar opportunities. And I think reasonably that is very important for the western hemisphere and for U.S. companies. In terms of the impact on the jobs that will be lost in this country and the transition periods, that is what transition periods are for, that is what safeguards are for.

And those properly should be looked at as to where you need the adjustment assistance. In a global marketplace, you cannot provide indefinite protection for anybody. And if you do not change, you are going to be out of business.

So, I think a process, with the proper sensitivity, has the mechanisms for dealing with that phenomena, I think, which you are debating. I am sure that there will be opportunity to provide specifics along that regard.

The cultural exemption is a Canadian problem. The industries that are impacted negatively applaud Mexico's handling of that. We

did not resolve it with Canada as we had hoped in the NAFTA agreement. We tried. It is a special issue, and we recognize it as such. We have, in the ACTPN report, been quite explicit about preserving the rights to retaliate should it be utilized in an inappropriate way.

On energy, that, too, is an area of dealing with sensitivity with a developing world. I have talked to officials in that industry, and, by and large, they feel that the establishment of upstream kind of activity is a plus in this agreement. In fact, because of that and because of the rest of the features on balance, they are supportive. I think that is more a country-by-country issue and we can make it quite clear that, in the Uruguay Round, that it does not represent precedents.

The CHAIRMAN. I see that my time has expired. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. I believe Mr. Robinson is from Texas, is he not? Are you not originally from Texas?

The CHAIRMAN. No, but we will claim him.

Mr. ROBINSON. Georgia. I will defer to the Chairman as to whether he would claim me. [Laughter.]

Senator CHAFEE. I would like to explore one of the criticisms that is going to be made of the agreement by the witnesses from labor organizations that are to follow you. In particular, I want to deal with the financial services. This is what the Labor Advisory Committee says in connection with the financial services portion of the text—the protion you say you regard as a success: "The draft agreement, while increasing the possibility of U.S. presence in the financial services sectors of Mexico, does not provide for reciprocal treatment, and, most importantly, will inhibit the appropriate regulation of the financial service sector."

Now, I know that we are just working from that quote, and it does not go into great detail. But does that ring a bell with you? Is that an accurate description of a flaw in the financial services agreement sector?

Mr. ROBINSON. I have not seen that, or do not recall that language. Basically, from the U.S. financial services standpoint, whether insurance, securities or banking, we are delighted with the opportunity this provides us to establish in Mexico and to sell cross border, including through jobs in this country, as well as jobs in Mexico.

It gives us the opportunity to share in the economic growth of Mexico and to provide, in fact, a major contribution to that growth. So, we are absolutely delighted. We sure would like to see shorter transition times and, as a principle, do not believe in caps. But, nevertheless, the transition and the elimination of those caps is something that allows a pragmatic initiative to start.

Senator CHAFEE. Let me just go to a next one.

Mr. ROBINSON. That meant, do we have adequate banking regulation in this country to allow the universal kind of institution? The answer to that is, of course not. But that is another matter.

Senator CHAFEE. On rules of origin, another objection: "The rules are too weak and will allow substantial third- country content in goods receiving preferential tariff treatment." I understood that the rules of origin set out in the text were pretty good. Are you familiar with those in the agreement?

Mr. ROBINSON. Yes, sir. Not in great detail; I will have to refer to my notes. Again, this is one of the beauties of the private sector process. The amount of negotiation just among U.S. businesses with each other was substantial and there is no "t" that has been crossed, "i" that has been dotted, or comma that has been put in place in a section as technical as rules of origin that has not passed through the screen of both the lawyers and the accountants and the professional trade people in looking at the details.

This is a substantive set of rules of origin that allows business to take place, has a deminimus cap, I believe, of 7 percent; requires that goods brought into the country be transformed and value-added in order to qualify. So, it is in the eye of the beholder, but this is substantive detail, and, I think, a meaningful outcome in terms of definition of rules of origin.

Senator CHAFEE. And the final question. Intellectual property, which you touched on. "The protection of legitimate intellectual property rights for a large number of workers in the entertainment and mass media sectors has not been achieved." Is that true, as you see it?

Mr. ROBINSON. They are referring to the Canadian exemption, I believe. Clearly, the intellectual property law that Mexico has put in place and that this agreement embraces is substantive across all areas.

Senator CHAFEE. Now, the point about the Canadian—what is the term they use for the exemption they have?

Mr. ROBINSON. They took the cultural exemption.

Senator CHAFEE. The cultural exemption. That currently exists in our trade agreement with Canada, does it not?

Mr. ROBINSON. Yes, it does.

Senator CHAFEE. So, this is nothing new.

Mr. ROBINSON. This is nothing new. The hope had been that the NAFTA negotiations could modify it in some respect and thereby eliminate or set a transition time, and that was not achieved.

Senator CHAFEE. I might say, Mr. Chairman, that in out State, I have heard from our manufacturers and those working in very, very competitive industries—namely the jewelry industry—and they enthusiastically support this agreement.

They believe that they can increase their sales in Mexico, that the knocking down of the barriers that go into Mexico will be a net benefit for our producers. And I am not talking big, high-tech people, I am talking about people that are dealing in relatively low-wage jobs.

Mr. ROBINSON. Yes.

Senator CHAFEE. Thank you, Mr. Robinson.

Senator MOYNIHAN. Good morning, sir.

Mr. ROBINSON. Good morning.

Senator MOYNIHAN. We have a number of Senators out. We are having our wake up vote to be sure we are here. It is just a motion to instruct the Sergeant-at-Arms to compel the presence of Senators. Mr. Riegle said to me before he left he would hope to speak with you when he returns, and he will be back shortly.

I will take the occasion to raise a subject which I know would interest you as an individual and in your capacity as Chairman of the ACTPN. That is, the state of civil law in Mexico. This is not

an easy or comfortable question to raise. But the simple fact is that that is not a free society in the sense that ours and Canada's is, in the sense that most nations in Latin America just now are.

Freedom House has just issued its annual survey of civil liberties and civil rights around the world. One respects Freedom House; it has been there since the late 1930s, next to the New York Public Library. It created the institution, almost, of following human rights in countries around the world.

It says this year, that apart only from Cuba, Mexico is the most authoritarian state in Latin America. It suggests quite openly that the Presidential elections were fixed. When we had our very distinguished Ambassador, Ambassador Hills, here, we got into a little bit of an exchange. I said, for the first time in 60 years, an opposition party won a state election in Mexico, and I mentioned Baja, California. And she said, no, that is not true; there was second time.

So, there have been two elections since Cardenas in which the party of the institutionalized revolution conceded defeat. Freedom House says of the judiciary that it is corrupt, that it is politically-controlled judiciary. We can go on in details of that kind.

But I was interested, in this Sunday's Washington Post, an article by Jack Anderson and Michael Binstein, called "Doing Business in Mexico: The Big Payoff." Then it has a quote from one of the persons they interviewed. "The court of last resort can often be a corrupt cop or a graft-seeking judge." And it tells of a number of individuals.

In one case, a Texas-based oil company owned by one Bill Flanagan, who, in 1984, was contracted by Residual Oil from the Mexican Petroleum Workers Union and its commission of contracts. And, with one thing and another, Flanagan ended up being owed $420 million, and evidently no hope of getting any back. I simply report what I read, and there are other such instances cited.

I wonder if this is some matter that has come to your attention officially as Chairman, and what would you tell us?

Mr. ROBINSON. Well, let me kind of address that question this way. I have personally been involved in doing business in Mexico for 25 years. I have watched with frustration in years past of excessive corruption in a number of countries around the world, especially in developing countries. I think you can find examples of corruption in the United States and elsewhere around the world.

The important point is two-fold as it relates to Mexico. I know President Salinas, Pedro Aspe, Jaime Serra Puche, the leadership and the government. They are determined to take Mexico into the 21st century as a world-class country with all of the appropriate commitments to the environment, to standards of living, and to a judiciary system that contributes to credibility. Because credibility, in the final analysis, is what brings investment, whether it is foreign investment or whether it is local investment. And the change that I have seen, the determination that I have personally seen over the last few years in Mexico is dramatic indeed. Are there areas where there can be improvement? Of course there are.

But the government's commitment to opening up that society and for stepping away from years of import substitution, inward thinking, protectionism; all of the kinds of things that are a greenhouse

for problems like you just mentioned, are changing. The specific examples that Pedro Espy will give of where they have taken strong action against practices that, in the past, were practiced in areas of corruption, whether on the street corner or whether in high office.

So, in my mind, what is going on is dramatic. It is hand in hand with the commitment of opening up that society. And we will get a lot more progress for the kinds of things that you believe in and that Freedom House is speaking of in terms of human rights, freedoms, et cetera, by supporting that economic and reform process to the fullest extent we possibly can.

Senator MOYNIHAN. Well, that is a perfectly fair and straightforward answer, sir. I guess my concerns have been that you have to raise this subject with the American negotiators; they will not raise it with our committee. If we were dealing in any other circumstances with a government of this kind, you would expect your ambassadors to come in and say, now, let us be clear what kind of government we have here. But we think that circumstances are not, in this case, what we would generally treat them as. I mean, you have to tell the State Department about Freedom House; you have to raise issues of workers rights, about statutes.

I will put it this way. For 60 years now and more, the United States has been diligent in assessing the nature of fashioning our relations with other countries and with some important concern to the nature of their political institutions.

Of a sudden, that subject just drops off the agenda altogether. And we are told continuously that Mr. Salinas has great expectations for his country, and I am sure he does, but I do not hear him speak of them in the terms that would be reassuring. I mean, you do not hear anything about a two-party system. You are told, oh, they have it in mind 1 day. Well, no doubt they do.

But that is a one-party state. Let us be clear and fair. It was the most unstable society in the western world in the early parts of this century, and stability came to Mexico with the Cardenas regime. They solved the problem of succession, which they never seemed able to do, which is that you could be President for 6 years and then, thereafter, help pick your successor, and not go into exile, but stay and prosper in the PRI. We have had a century fascinated with revolution. Revolutions are easy; they come every other weekend in most parts of the world.

The onset of stability is the rare event in human society. So, give them that. But 60 years of one party would seem to be stable enough. What do you all think about that? Or are these things quite properly not your concern as a business advisory group?

Mr. ROBINSON. Well, as a business advisory group our charge is not to try to reform a country's political system, but to opine as to what, whatever the political system is, will contribute to the kind of market opening and market stability and credibility for foreign investment and atmosphere for foreign investment.

In the case of Mexico, with the NAFTA agreement, to emblazon into law the kind of intellectual property protections, the kind of investment projections, to have a dispute settlement mechanism established which can deal with credibility if there are issues, to provide for transparency, because the law is clear, and to provide

transparency in the administration of the law—those are all part and parcel of a modern society that can, in fact, represent world-class kinds of conditions.

Senator MOYNIHAN. Well, could I make the point that the kind of questions which we ask here do not just go to a generalized interest in seeing free societies improve or stabilize. What about Americans in this situation? Here is the statement. "Anyone smaller than Chevron or GM is going to have to fight a 10-year legal battle to resolve financial disputes down there."

The Chairman has returned. Mr. Baucus, I know, wants to ask question. But I leave it with you that not every American business is the size of a Chevron or a GM, and I hope we know what we are doing. But I will leave it there. I thank you, Mr. Chairman.

Mr. ROBINSON. Well, I think we have had, in the advisory process, a great deal of participation by small and medium-sized companies. They, too, share our enthusiasm for the NAFTA. The issue of what are entitlements under the law has been made much clearer by laws that the Salinas Government has put in place, is putting in place, and is committing to in the NAFTA agreement.

The process of judging when there are the kind of problems you speak about, I think, are focused, because they must be focused if you are to get foreign investment and have the openness of trade that this is calling for. And the dispute settlement times will improve. We have problems with dispute settlements in this country, too.

Senator MOYNIHAN. Could I just say, as I would like to close and let others speak, that the American labor movement has a very different view. It is not a view they have come to quickly or on casual encounters. They have been involved with the Mexican labor movement for almost a century.

Let it be recorded that Samuel Gompers, the first head of the AFL–CIO, was down in Mexico meeting with the general confederation when he fell fatally ill.

The CHAIRMAN. Yes.

Senator MOYNIHAN. His last request was that he be moved across the Rio Grande so he could die in America. Thank you, Mr. Chairman.

The CHAIRMAN. Now they move across the border when they are about to give birth to a child so they can be born in America. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Robinson, I am wondering why the administration should not renegotiate certain provisions of this treaty. Let me tell you what I have in mind. We saw the French vote Sunday, where the French just narrowly approved of the Maastricht treaty. Prime Minister Major apparently will not bring the treaty to the Parliament for approval. Polls in America show that NAFTA is disapproved by a margin of two to one.

The European Community has invested over $100 billion in depressed areas addressing dislocations caused by European integration. There are many Americans who think that this administration rushed the agreement to a premature conclusion for political reasons in anticipation of the Republican convention in Houston.

In view of all of the problems that we have, why should the administration not renegotiate some provisions of this treaty? I am really getting at two in particular. One, is worker adjustment. Even if there is a net gain in jobs, there are going to be many jobs that are displaced. The administration promises a $2 billion a year program, but I do not think very many people put much faith in that program. It sounds too much like an empty election year promise. There is no guarantee in the treaty or elsewhere that that program will be forthcoming.

Second, there are many deep environmental concerns. You mentioned some environmental progress; it is true. But let us not forget that Mexico is a developing country with a GNP one-tenth that of the United States per capita, wage rates one-tenth of the United States. And even if Mexico lives up to its environmental promises on the eve of hoped-for ratification by the U.S. Congress, that will result in enforcement in Mexico which is much less and at a much lower level than in the United States. So, taking all of those problems that we have with the treaty, I agree that there are some gains.

And, because Congress will not approve or reject this treaty until next year, why should this government not go back and try to get stronger environmental enforcement, on the one hand, and why should this administration not, either in the treaty or parallel to the treaty, provide guarantees of meaningful worker readjustment?

Mr. ROBINSON. Senator, let me go down the list of the questions and comments. The first one, rushed to reach an agreement. Having been actively involved on a weekly basis and having my staff actively involved, and that of our other members of the business community, I am convinced that Carla Hills would not have reached agreement until she was able to feel quite comfortable that the breadth, depth, and scope of the entire agreement represented what the business community would call a substantive, good agreement because it is very clear that she was prepared to walk, and did walk—has done so in the Uruguay Round, and has done so from tables in Mexican negotiations—until she believed that the time had some to say, that is a good agreement. So, there was no political rush to judgment, in my mind.

The two to one odds against. I think basically that is based on kind of the echo, the rhetoric from the past of the view of what Mexico is in the United States.

This is a new Mexico; this is a different Mexico. And that story will be told broadly by the Mexican community, business and government, and, in the U.S. community, business, and, to the extent that government is involved, going forward.

Because the merits of this agreement are so powerful in terms of creating jobs and creating economic opportunity for the United States, plus the strategic issues that I mentioned in my opening remarks that I think that two to one will be reversed in favor of NAFTA.

On the issue of renegotiation. Again, this gets back to when you close the negotiation and conclude that, on balance, you have achieved something that is in the best interests of the United States.

I think that more was achieved—me, personally, and watching the views of others in the business community—by the very process of having these discussions in the environment than we have ever done in our history. It got it on the agenda as a trade issue.

Last week, I was in Canada. I spent 2 hours with Murray Strong, who was the quarterback of the conference in Rio on the environment. There is substantive progress, and I think the NAFTA discussions help put it on the agenda in a very constructive fashion. The specifics that are agreed to in here are major steps. They are part of the agreement itself.

The commitments, the political will—as opposed to just the technical details—to say that we have got to have economic development which is properly environmentally sensitive, I think, will lead us into the future.

On renegotiating for more worker rights or more adjustment assistance, again, I think a great deal has been achieved in Mexico, because there are two issues to this. One, what happens in Mexico in terms of standards of living and wage rates and so forth; two, what is the impact of workers in the United States.

The latter, of course, is something that Congress must address, and I would suggest that that should be an allocation of funds and commitment separate and apart in terms of its ultimate details that go beyond what should be looked to as a trade agreement with two neighboring countries.

Senator BAUCUS. I appreciate that. I know my time is up. But the European Community spent over $100 billion over 5 years addressing the displacement issues. I do not see that kind of commitment here. There will be significant displacement. Net gain, probably, but significant displacement, which I think should be addressed. Thank you.

The CHAIRMAN. Thank you. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. First of all, I would like to put into the record an analysis from this issue of National Journal, which is a major journal that covers the Congress and public issues.

The headline on this, just published 3 days ago, says, "In Mexico, Lobbyists Strike Gold." And it points out here the tremendous financial lobbying effort that is under way to push this free trade agreement through the Congress.

And it tells about one company here in Washington—you will be interested in this, Mr. Robinson—that is being paid $323,000 a month by the Mexicans to promote this thing and to put a positive spin on it here in the United States.

Then they go down into the company, and it turns out that one of the key people there is our own former Trade Representative, William Brock. He is being paid $30,000 a month, according to this article, just to promote this treaty for the Mexican Government. It cites other former high officials of our government who have now gone to work, in this case, for a foreign country, Mexico, to try to promote this thing. I find it very distressing.

The CHAIRMAN. Without objection, that will be done.

[The article appears in the appendix.]

Senator RIEGLE. But let me go specifically to an article in the Wall Street Journal that ran on August 13. Let me just read you

a couple of paragraphs here, Mr. Robinson. You and I have known each other for a long time, and I have great professional regard for you and for your company. So, let that be said at the outset.

Here is a paragraph out of this page one story in the Wall Street Journal. It says, "For dozens of companies, completion of trade pact negotiations with Mexico flashes a green light to proceed with projects south of the border. U.S. security firms, already active in financing Mexico's mushrooming economy, say they now expect to funnel even more capital there.

The agreement allows U.S. brokerage firms to form wholly-owned Mexican subsidiaries with limits on their share of the Mexican securities industry gradually being lifted until they end of the year 2000. "The U.S. securities industry can play a role in channeling that investment, not only from the United States, but also from Asia and Europe," said Robert Hormats, Vice Chairman of Goldman Sachs International."

Now, one of your businesses is in this area. You are in the investment banking type business, one of the arms of your company. You see this, do you not, as a way to make money for American Express. Would that not be a fair statement?

Mr. ROBINSON. Absolutely.

Senator RIEGLE. Now, I think that sector of the economy, the service part of the economy, and particularly the part that is sort of going to carry the capital down there for the capital investment in Mexico probably is going to make a lot of money. I am very distressed about the lack of capital investment in the United States. I realize that a dollar of profit made in Mexico may look every bit as attractive as a dollar of profit made here, and maybe we do not even see ways to make as much profit here.

But I am distressed about the fact that I see this as a jobs program for Mexico and a capital investment program for Mexico, when, just last month in this country, we lost 167,000 manufacturing jobs. Now, those are not service jobs, those are manufacturing jobs. But those people need their incomes, and they carry credit cards in their wallet. If they are employed, they can afford to have them and to buy things. But I am distressed about that.

Let me ask you about something that appeared in the Wall Street Journal just yesterday. This is the Maytag Corp., a major washing machine maker and appliance maker in the country. Are you familiar with Maytag?

Mr. ROBINSON. Yes. [Laughter.]

Senator DANFORTH. Well said.

Senator RIEGLE. Let me tell you what they say here. They have sharply criticized this agreement because of their concern about the fact that it is going to encourage U.S. companies to relocate in Mexico.

In a letter attached to the reports, Maytag argued that, under the pact, U.S. tariffs will fall much more quickly than Mexican tariffs, adding to the advantage companies in Mexico have because of lower wages. "That jeopardizes U.S. manufacturers who are making substantial capital investments in U.S. production facilities," says this spokesman for Maytag. Now, you see yourself as a winner, your company. And you have a direct financial interest in this from a proprietary business point of view.

Here is another company, every bit as valuable to the United States, I thi· ː, as your company, and they see it differently. They see themselves being damaged. They see capital moving out of the United States. They see themselves at a disadvantage if they make capital investments here because they see how competitors can make capital investments through the help of investment firms that channel capital into Mexico to take advantage of very low wages in Mexico.

Now, you understand economics, and I think we do here. How does a worker in the United States that is being paid $7, $10 an hour in a manufacturing position face off against a Mexican worker who is being paid 50 cents an hour, 75 cents an hour? How do we do that in manufacturing? How does that worker in America keep his job in the face of that kind of direct competition on just the issue of wages?

Mr. ROBINSON. Productivity and quality of product.

The CHAIRMAN. All right, gentlemen.

Senator RIEGLE. You can say that. You are not in the kind of business that Maytag is. I do not think that is a meaningful and relevant answer. It may be in the credit card business; it is not in manufacturing. And I think you owe us a better answer than that, quite frankly.

Mr. ROBINSON. Well, I will be glad to expand on it. You cannot protect jobs in the United States if they are not efficient over the longer period of time. Maytag is a fine brand name and I would think that they have the opportunity to invest in Mexico right now. Senator Packwood opened his remarks by referring to the fact that jobs that are going to go south have been able to do that through the Maquiladoras for several years.

Senator RIEGLE. Yes. But is that the answer, for them to go down and invest in Mexico?

The CHAIRMAN. Gentlemen, the time has expired. If you would summarize the answer.

Mr. ROBINSON. No. I have never made a washing machine. Component parts——

Senator RIEGLE. Well, that may be part of the problem of perspective here, I say respectfully.

Mr. ROBINSON. No. Because we have plenty of people on our advisory committee who represent small and large manufacturers across the country, geographically, et cetera. And I think for every example like that you can find of a quote, you can find an offsetting statement. And probably more in the detailed comments that the U.S.-Mexican Business Council is pulling together, I think will do that.

Each issue, I am sure, has its own merit. On balance, however, the opportunities to invest in Mexico and to cross-border share production, I think, represent great opportunity for the United States and adjustment assistance really is a technique in transition times for dealing with the problem. Capital will flow and should flow around the world.

Senator RIEGLE. I understand that. But that is the whole point.

The CHAIRMAN. Senator, I have to terminate it. We have other Senators patiently waiting. I will give you a second shot at him.

Senator RIEGLE. Very good.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. Mr. Robinson, there is nothing that keeps an American company from building a factory in Mexico today, is there?

Mr. ROBINSON. No, sir.

Senator DANFORTH. Does the NAFTA agreement somehow create a flood of factories in Mexico? Is there something about it that says, well, we are not going to produce things in the United States anymore, we are going to move our work force to Mexico?

Mr. ROBINSON. No, the NAFTA agreement does not provide that. I think it opens up opportunities for investment, like in the securities industry, to establish operations down there which never existed before. But your comments are——

Senator DANFORTH. The way the trade laws in Mexico are written now, they are at a tremendous disadvantage to American workers today, are they not? For example, the tariffs in Mexico are 2½ times, on average, the tariffs in the United States. Why is that in the best interests of U.S. workers to have Mexican tariffs today 2½ times what they are in the United States?

Mr. ROBINSON. I do not believe it is in their best interests. Lowering those tariffs is one of the things that the NAFTA does, so it creates the opportunity for a more level playing field.

Senator DANFORTH. That is the whole point of the agreement, is it not? Level the playing field, so that what is now an unfair trading relationship, as far as the United States is concerned, is a more fair trading relationship.

Mr. ROBINSON. Clearly.

Senator DANFORTH. Now, my impression is, that generally speaking, open trading systems are beneficial to all parties who participate and that, generally speaking, economies grow when trading systems are opened. Is that your experience, too?

Mr. ROBINSON. Yes, it is.

Senator DANFORTH. Do you think that there is anything to be gained by the United States or by American workers by having Mexico be a poor country? I mean, if we were to say, oh, well, we are going to attempt to keep Mexico poor, how would that be in the best interests of the United States?

Mr. ROBINSON. I cannot think of any reason how it would be in our best interests. By the end of this decade, it will be a 100 million consumer market and rising income levels down there will represent attractive opportunities for U.S. companies to sell goods and services to, plus all of the strategic geopolitical reasons to have a strong neighbor rather than a poor neighbor, I think, are clearly in the direction of supporting NAFTA.

Senator DANFORTH. Would you expect it to stabilize the immigration problem that we have with Mexico if we enter into NAFTA?

Mr. ROBINSON. I think it will certainly contribute. Because having the opportunity to have higher paying jobs in Mexico and jobs in Mexico will keep Mexicans in Mexico.

Senator DANFORTH. Now, on the question of trade adjustment, I am not—maybe you are—aware of any trade agreement that we have ever entered into when U.S. domestic law relating to trade adjustment assistance is somehow incorporated into the trade agreement. Have I missed something?

I mean, I have heard all of this talk about how, somehow, suddenly we should incorporate U.S. domestic trade adjustment assistance law into the trade agreement, and the trade agreement is faulty because we have not done it. By my impression is that trade adjustment assistance is a matter of domestic law, not a matter of international agreement.

Mr. ROBINSON. I would certainly agree completely with the interpretation you have just given. I know of no agreement where the details of trade adjustment assistance are in place. It is an issue of domestic policy and must compete with whatever public policy issues set that domestic agenda.

Senator DANFORTH. Now, when we deal with the question of implementing legislation, that, historically, has given members of the Finance Committee opportunities to put forward various ideas relating to international trade, or, for that matter, trade adjustment assistance.

So, if we pursue the NAFTA agreement, it would seem to me that that would be the ideal time for Congress, at the same time, to incorporate into whatever we do by way of implementing legislation whatever trade adjustment assistance we would care to have. Am I right on that?

Mr. ROBINSON. Certainly, the enabling legislation is the opportunity that you have just described, and probably the appropriate place for addressing it.

Senator DANFORTH. All right. Thank you very much.

The CHAIRMAN. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman. Welcome to the committee, Mr. Robinson, and thank you for an excellent statement and for your work on the advisory group.

I find it somewhat illogical when I hear people say that NAFTA is somehow going to export good American jobs to the Third World. This implies that a good American job is really no better than a Third World job. We have a highly-skilled work force and a very productive labor force in this country who are competing with the First World. The critics of NAFTA contend that if all of the good manufacturing jobs, say, in Ohio, get transferred to Mexico then the only jobs left will be flipping hamburgers at McDonald's?

I mean, the logic of the argument is that all of the good manufacturing jobs from Ohio, or from the Midwest or somewhere will go to Mexico, and then the only people that are left who have a job will be at McDonald's. It seems to me, if that is the case, we really would not have anybody left to buy hamburgers.

Mr. ROBINSON. Well, if you carried that through, we have got to have some people left to buy hamburgers, too.

Senator SYMMS. Sure.

Mr. ROBINSON. I think that there are a number of instances and data that we have collected where jobs are being created and positioned in this country—high-paying jobs—because of the opportunities that NAFTA will represent.

Senator SYMMS. Well, what I am getting at, is if we can open up trade with Mexico, which is already happening whether we pass NAFTA or not—as Senator Danforth points out, you can go to Mexico right now and open a plant—and we can do something that cre-

ates wealth there, there is a huge new market for Maytag washing machines and other U.S. products.

I find with 35 percent of the Japanese exports being produced offshore from Japan, it just seems like this is a natural for the United States, for us to have a slight advantage over our friends in Europe and Japan because of the geographical location.

Mr. ROBINSON. We would agree completely, because it is all of those factors that go into final product price. The fact is, there is transportation, distance of transportation, and all of the above. There are plenty of opportunities present if Mexico is growing and is enjoying the kind of benefits that I think will come from NAFTA, that should accelerate.

Senator SYMMS. Well, just to get a little more specific, most of the neutral studies put the loss of jobs around 175,000, and the gain of jobs from this at around 325,000. But when you compare that with an 86 million work force in place today, it just does not seem to me like that argument is substantial. Am I correct in that?

Mr. ROBINSON. Well, two pieces. First, there is a net increase in jobs, as your numbers point out. Secondly, the loss of jobs is a small percentage of total jobs in the United States. But clearly for those who lose their jobs over the area, it is a big impact. But that is how adjustment assistance and new opportunities must take up the slack that is caused in those areas where there is dislocation.

Senator SYMMS. Well, thank you very much for your statement.

The CHAIRMAN. Senator Roth.

Senator ROTH. It is a pleasure to have you here, Mr. Robinson.

Mr. ROBINSON. Thank you, Senator.

Senator ROTH. I believe in your opening comments you are supportive of some kind of worker adjustment program for those employees that are negatively impacted by NAFTA. One of the difficult parts of the problem, of course, is how to pay for it. And I wondered whether you or the business community you represent have any recommendations. I have long thought that a small border fee—and we had that as part of our multilateral negotiation agenda on the trade legislation a couple of years ago—is a legitimate way of trying to finance worker adjustment.

What you are saying with such an approach, really, is that the consumers who benefit from a trade agreement through lower prices ought to be willing to pay a little, give up a little bit of that benefit, to help those who lose their jobs and are negatively impacted.

But, in any event, I wonder if you or the business community has any suggestions as to how to finance any new worker adjustment program, which I think is critically important to the ratification of this agreement.

Mr. ROBINSON. Well, the answer is yes. The business community has a number of ideas as to options on that, and we will be working with this committee and others in deliberating that. We do not think that bringing tax policy into the agreement itself is appropriate, and the allocation of funds is subject to the overall agenda of how you raise your taxes and where you apply it. User fees, whether on this or anything else, have a place in that debate. But we do not and have not, in the work done to date, made specific recommendations.

Senator ROTH. Do you believe that NAFTA will serve as an impetus to concluding the Uruguay Round? In other words, do you think this will be helpful with respect to the GATT negotiations?

Mr. ROBINSON. I hope so. The Uruguay Round, of course, has a life of its own, and a whole host of different order of magnitude issues to be dealt with, particularly in the agricultural area.

We at The Business Roundtable and at ACTPN and the other trade groups have always felt—and, in my opening statement commented on—that we should be supportive of a comprehensive Uruguay Round conclusion, and that a multilateral framework, set of laws, set of dispute settlement mechanisms that work with credibility, is vital to the best economic interests of all countries in this world.

Parallel with that, we have supported regional agreements, such as the Canadian Free Trade Agreement, such as NAFTA, but believe that they should be GATT compatible, and this is.

Hopefully it can be of help to the Uruguay Round. We, in the private sector, are working with USTR and others to try to contribute to getting the log-jam broken and moving ahead.

Senator ROTH. I would like to ask you a two-part question. It is my understanding that Mexico has negotiated a free trade agreement with Chile and is progressing on a similar front with other countries in Latin and Central America. What are the implications of these agreements for NAFTA?

Then I would also like to have you comment on your views on NAFTA's accession clause. In the event the United States decides to pursue further free trade agreements, would we have to, first, seek the approval of Canada and Mexico? Do you or your advisory committee have any views on which countries the United States should consider as next in line for an FTA, if so, which ones would you recommend?

Mr. ROBINSON. Well, I think that, first of all, the NAFTA agreement can serve as a model. There is no reason to reinvent the wheel. There is substance across the board in NAFTA. So, I think it represents a good point of departure, with the caveats we have put in our reports on non-precedent setting in energy and in cultural exemptions, that can accelerate a process of leading to open markets elsewhere.

I applaud Mexico's initiative to reach out with neighboring countries like Chile. I think that is part and parcel of their own commitment to becoming an industrial country themselves and building their own economies.

The rules of origin provide that there must be value-added within the countries who are signing the NAFTA. so that is our protection against back-dooring into the U.S. markets.

On your technical issue, I would have to come back with an explicit answer. But my view would be that, again, the three countries can and should use it to initiate further discussions, but each one will be case by case. Chile, of course, is well along. There is interest expressed by the southern cone and others throughout Latin America.

And the beauty of what has been happening is that the living example of the impact that open market economies can make on standards of living in a country is clearly being adopted and almost

the competitive instinct of getting there next is a great motivator, and I think, geopolitically speaking, clearly in the best interests of the United States and can do a lot for the western hemisphere.

The CHAIRMAN. Thank you. Well, there is an intense interest in this subject, and very much so in your testimony, Mr. Robinson, as there will be in Mr. Donahue's testimony. In my previous questioning, I played a bit of the role of devil's advocate, citing some of my concerns.

But let me balance that by talking a little bit about the change in Mexico. I was born and reared on that border; spent a good deal of my life down in Mexico. When I go to bed at night I can look out at the lights of Reynosa and the maquiladoras. I am concerned very much about the environment, what we do there.

But in my lifetime, Mexico has always looked at the United States as the colossus of the north. I can remember that the President of Mexico said, "Poor Mexico. So far from God, so close to the United States." So, there is a sea change in attitude that is taking place.

I think it is right that we take advantage of their desire to get this agreement to use some leverage to get some things done on the environment. But I must tell you that I know of no other developing country that has gone as far in so short a period of time in trying to address the environmental concerns. To see Salinas close down a big refinery in Mexico City and lay off thousands of employees at a time of unemployment—high unemployment—because of his concern for the pollution being emitted from that is important.

To see the $460 million committed over 3 years for the things along the border and the questions of sewage, clean water, and clean air, to see over 100 plants closed down until they comply; those are the encouraging things.

And, I must say, the pride of Mexico is still there. There is a point at which you push them too hard, and they say, here is what you can do with your agreement. And I have to think of our own country and how we feel about people trying to tell us what to do within our country. So, that is a part of my concern. I get concerned, too, about the fact that people can go there now, and they are—substantial amounts already.

And I look at the disparity in the tariffs, where half the things coming into this country are duty-free, and the rest average 4 percent. On their side, they average 10 percent, and they are not bound; they can go to 50 percent if they get a president in who feels otherwise—if we do not get these things tied down in a treaty.

And I look at quotas and licenses, and I look at that on agriculture and how difficult it is for us to get some of those things into their country under the present system. So, overall, I feel rather strongly that we have major, major benefits here that can accrue to us.

I look at the President talking about targeted jobs, and allocating $2 billion a year. I like to hear that, and I feel very strongly about that concern, but then he does not tell us how to pay for it. It is like giving you a house and then not telling you about the mortgage. I think the President should tell us how he intends to address that in the way of implementing legislation and how we raise

the money to do that. So, those are some of my concerns, Mr. Robinson. Any comment?

Mr. ROBINSON. I agree with all of those observations and concerns, Mr. Chairman. You are as aware of all of the details and the impacts as anyone I know. I think that, again, the business community believes very strongly that NAFTA is in the best interests of the United States and that the kinds of issues that concern you must concern us as well.

And that what has been done in Mexico, with a GNP roughly the size of Florida, and the amount of monies that they are committed to policing and cleaning up is growing, and growing dramatically, and represents, I think, a firm commitment on their part to all of those kinds of things that must be addressed. But the momentum that NAFTA has given and can give is dramatic.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. No questions, Mr. Chairman.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. No questions.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. I might point out, in reference to Bill Brock, our former Trade Representative working, who is essentially working, as a "hired gun" for the Mexican Government to push this thing through is being paid $360,000 a year. That is more than we pay the President of the United States in this country, and I find that very, very troubling, especially given the economic problems in this country.

I would also like to put into the record a poll in yesterday's USA Today, talking about how the American people view this, and the fact that 57 percent of them now oppose the free trade agreement with Mexico because they understand it is going to cost us jobs in this country.

Now, that may not be true in every company, but it is true in very many companies across the United States and I think we have got to think more broadly than just how it may help one company here or there.

The other day, we saw that Smith-Corona, the last typewriter maker in this country, closed its plant in upstate New York. Let me just ask you, Mr. Robinson. You may have followed that story, because the CEO was very distressed about having to close it and go to Mexico, which is what he is doing. In fact, he came down here and testified about it. Do you know why he did that? Do you know what his stated reason was?

Mr. ROBINSON. No, I do not. He obviously analyzed a number of things and concluded that that made sense for his company.

Senator RIEGLE. Well, let me tell you what he said. He said two things. First of all, he is a victim of trade cheating by Japan that this government has not done anything about correcting. Second, the low-wage rates down in Mexico require him to move those jobs down there if he is going to save his business.

Now, the workers—I think the plant is up in Cortland, NY—I do not know how many of them are American Express customers or Chase Visa customers, but a lot fewer of them are going to be those customers because they are losing their jobs. They have been interviewed. They feel very bitter about it. Some have worked 20 years,

30 years; solid workers. They are losing their jobs. And that is happening all across America. We have got to have manufacturing jobs in this country.

The thing that distresses me about the presentation today is we are under-investing in this country. We are not saving enough; we are not investing enough; our productivity is very anemic; we have got manufacturing jobs disappearing all across the country in all 50 States. And, in your earlier response to me when you talked about investment in Mexico—and you made that point several times—I understand that this will foster investment in Mexico. I understand that. And I see who the firms are that will be able to participate in helping to foster the investment in Mexico.

Quite frankly, without any disrespect to Mexico, I am concerned about the lack of investment in the United States and the displacement of investment in the United States. And that takes two forms: One, plants that are closing—like Smith-Corona, which is a state-of-the-art company closing its last plant here to go to Mexico—and two, firms like Maytag, who now say that they cannot afford to continue to make capital investments in this country because they are going to be faced with this wage cost differential and competitors that will move their plants down to Mexico, and they are left in an impossible position. They cannot justify additional major investments in this country if we are going to go into a free trade agreement with a Third World economy, which is what Mexico is.

The thing that distresses me when we are losing manufacturing jobs and you have got this terrific squeeze on the middle class in this country, we are grinding down the middle class, I do not understand why the business leadership of this country is not more concerned about preserving high-skill, high-wage manufacturing jobs in America.

Mr. ROBINSON. I can assure you that the business community is very concerned about that; that the issue of savings and investment in the United States and economic growth in the United States is highest on our agenda. We can also point out, by looking at the facts, that there are more jobs created by exports to Mexico than are lost by jobs——

Senator RIEGLE. But, Mr. Robinson, the question is, in what areas? Now, Maytag is not making that argument, are they, they are making the reverse argument.

Mr. ROBINSON. Well, in Michigan, merchandise exports to Mexico have grown by 51 percent since 1987.

Senator RIEGLE. Do you know what our main export from Michigan is to Mexico right now? It is jobs. We have had 70 auto plants, Ford, Chrysler and GM, open in Mexico.

Mr. ROBINSON. Since 1987 you have created 48,000 jobs by exports to Mexico.

Senator RIEGLE. Well, let me tell you something. I think I understand the Michigan economy. We have lost many more jobs to this trade problem than we have gained from it, and there is no State where that is more manifest than Michigan. Why do you suppose the unemployment rate is 9 percent right now in my State? I have got two major plants where they just announced they are going to

close. And I am not talking about closed for a week or two, I am talking about plants which have been destroyed.

But I want to add one other thing to the record, Mr. Chairman. This is another article out of the Wall Street Journal, and this is sort of the Bible, I think, of reporting, at least, on the business side.

The CHAIRMAN. Without objection, that will be done.

[The article appears in the appendix.]

Senator RIEGLE. This is an article of August 13. Let me just read you one paragraph. It says, "Free Trade Treaty is Key Issue in U.S. Presidential Election. The agreement also is likely to be welcomed by big business leaders who more often support Republicans. "That means dollars, fund-raising," says GOP pollster, Vince Breglio, "and in that sense it probably ends up benefitting Bush." Now, this is a Wall Street Journal reporting this, and that is part of why so many of us have such a bad taste in our mouth about it.

The CHAIRMAN. Thank you very much.

Senator RIEGLE. Thank you.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. You know Bill Brock, Mr. Robinson. Does it surprise you, on the basis of your knowledge of him, that he would be supportive of NAFTA for purely valid reasons?

Mr. ROBINSON. I have known Bill Brock a long time. I know of no one more dedicated to free and open markets and fair trade, or who is more familiar with the details of trade negotiations, the politics, and the mechanics. And I think that his commitment to NAFTA is, fundamentally, because he believes it is the right thing to do.

He is in business. He is entitled to take clients and set his prices based on services provided. So, I do not have the trouble that Senator Riegle expressed. It is a matter of public disclosure, so everyone is on notice.

Senator DANFORTH. Would you characterize Bill Brock as a "hired gun?"

Mr. ROBINSON. No, I would not. He is a professional who has great knowledge about the area.

Senator DANFORTH. Now, right now Mexico has a 20 percent tariff on autos. That will be cut to 10 percent and phased out over 10 years. Within 5 years, 75 percent of U.S. auto parts exported to Mexico will enter Mexico duty-free, and Mexican local content requirements will be phased out over 10 years. I would expect that to be beneficial to U.S. auto manufacturers, would you not?

Mr. ROBINSON. Yes, sir. And the automobiles companies would seem to agree. They would have preferred, perhaps, a shorter transition time. But this will create business opportunity.

Senator DANFORTH. Thank you.

The CHAIRMAN. Senator Roth.

Senator ROTH. Mr. Robinson, in answer to my last question you indicated that you and the group you represent favor moving along the lines of other free trade agreements. I wonder if you could be more specific. Have you made any studies as to where you see the opportunity, what countries would be desirable to move ahead with similar agreements?

Mr. ROBINSON. We have not tried to formally sort out the selection process as to the priorities for USTR, who has to lead the negotiations. We have been concerned that we not put too much on the plate of USTR, and have felt that they should complete the NAFTA before taking on all of Latin America, as a for instance, with the view that a good NAFTA gives them a substantial head start on the next steps.

Whether there should be free trade agreement counter discussions with Asian countries, and so forth, is a question of the manpower and resources to do it. I think that there is the Americas Initiative, which is a natural follow-on for NAFTA.

Senator ROTH. Finally, there is a lot of debate going on now as to what is going to happen in the European Community, notwithstanding the vote in France as of Sunday. Do you have any strong feelings as to whether or not EC is in our general interests, or otherwise? Would you care to comment?

Mr. ROBINSON. We are supportive of the EC, with the view that the elimination of barriers and restraints to trade is in everybody's best interests. And the direction the community has been going has led to substantial reduction of a whole variety of barriers. We have been quite careful in providing that support and statement to say that they should not simply move those barriers to the perimeter, which would disadvantage U.S. companies.

We have worked actively with the European Business Roundtable and other groups to encourage them to work within their own nation state, as well as community, to see that the laws are compatible with the objectives of GATT and do lead to market access, national treatment, transparency, and all of the other things that make for a more open and fair trade environment.

Senator ROTH. Do you feel that they have succeeded in doing so?

Mr. ROBINSON. Within the community, industry by industry, they have done a lot, and we would encourage those trends to continue. The Maastricht vote, of course, was aimed at the issue of monetary union and political union, and that has dimensions that go beyond your normal trade issues.

We do not believe that the common agricultural policy has been actively and effectively addressed. And when you look at the export subsidies and the expense of those that go as part of their budget—import protection and export subsidies related to agriculture—we would say that there are better uses of those funds.

Senator ROTH. Thank you very much, Mr. Robinson.

The CHAIRMAN. Thank you very much for your testimony. It has been very helpful to us. We are delighted to have you. And thank you for the work you and your committee have done in this regard.

Mr. ROBINSON. Thank you, Mr. Chairman. We look forward to providing you with all of the copies of the NAFTA impact studies of the U.S. Council of the Mexican-U.S. Business Committee. They are substantive. They are working on one on Michigan because we do want this to be as inclusive as possible and represent the great majority in all of the businesses that operate in this country. Thank you.

The CHAIRMAN. Thank you. Our next witness, Mr. Tom Donahue, is the Chairman of the Labor Advisory Committee, Secretary-Treasurer of the AFL–CIO, Washington, DC. Mr. Donahue was be-

fore us 18 months ago as we started this process, and it is fitting that we have him back now to report his feelings and his concerns addressing this particular treaty. Tom, do you want to tell us about it?

STATEMENT OF THOMAS R. DONAHUE, CHAIRMAN, LABOR ADVISORY COMMITTEE, AND SECRETARY-TREASURER, AFL-CIO, WASHINGTON, DC, ACCOMPANIED BY MARK A. ANDERSON, DIRECTOR, TASK FORCE ON TRADE, AFL-CIO, WASHINGTON, DC

Mr. DONAHUE. Thank you, Senator. I am, indeed, Tom Donahue, Secretary-Treasurer of the AFL-CIO and Chairman of the Labor Advisory Committee on Trade Negotiations. I am accompanied by Mark Anderson, who is the director of the AFL-CIO's task force on trade, and chairman of the Labor Advisory Committee's Steering Committee.

Mr. Chairman, our detailed comments on the report have been made in the Labor Advisory Committee report which accompanied the documents to the Senate, and you all have that. I would just like to summarize our position as quickly as I can.

Now that we have the agreement in hand—or actually in two hands—we have the final text of NAFTA, even though the time for trying to absorb it and analyze it has been extremely short. It is pretty clear what the agreement will do and what it will not do. It will not create good, new jobs in this country; it will lead to the destruction and the export to Mexico of hundreds of thousands of U.S. jobs; and it will put heavy downward pressure on wages in the United States.

The administration claims otherwise and cites various econometric studies that presume to show that there will be no change in investment patterns between the United States and Mexico, a proposition, which I would submit, is, at least, dubious, and frankly befuddles my imagination.

The burden of proof for demonstrating that this agreement is good for America, good for workers, consumers, good for our communities, it seems to me, rests with the proponents, and it is a burden that remains unmet, particularly in real world terms, in terms which are somewhat outside the econometric studies.

The projections, you well know, go from a job loss of a half a million jobs to job gains of half a million jobs. You are all capable of making your own analysis of the economists' conclusions, but let me offer a couple of facts.

It is a fact that over the past two decades, hundreds of U.S.-based manufacturers have closed their operations here and have set up new factories in Mexico, just as has been pointed out in the questioning. There are now over half a million jobs in the Maquiladoras along the border. That number has increased from 200,000 to 500,000 in the 6-year period from 1984 to 1990.

The studies all assume that there is no change in investment policies. If that is true, then I think you ought to expect that there will be 300,000 more jobs established in the Maquiladoras without any Mexican Free Trade Agreement. And I submit to you that the agreement provides additional incentives for the movement to Mexico.

It is a further fact that U.S. companies in Mexico can pay workers a fraction of what they pay in the United States. Average hourly compensation in the United States, $15.45 in 1991 in manufacturing industries; Mexican manufacturing, $2.17. In the Maquiladoras, it is even less than that, and probably averages $1.25 an hour.

Anytime in the future if this agreement were adopted that Mexico would choose to further devalue its peso, the gap between United States and Mexican wage levels will grow even wider; a subject unaddressed in the negotiations and a subject which USTR refused to address in the negotiations. Finally, it is a fact that the agreement would encourage the flow of jobs and the investment that produces those jobs to Mexico. That is what it was designed to do.

In the automotive sector, Mexico retains its projections for its domestic producers for at least 10 years, and even longer if the Mexican Government negotiates successfully with the auto companies which seek to establish themselves there.

It would permit the Canadian Government to retain the safeguards of the Auto Pact. The United States has no comparable protection, either for our parts production or for assembly in the auto industry.

In apparel, 80 percent of the U.S. work force is female; 20 percent Hispanic. Our apparel industry is going to move south of the border. The agreement will result in massive job dislocation. We have apparently tried to protect the textile end of the industry, but there is no protection in this agreement for apparel. We look to the displacement of workers who will have, in fact, no likely prospect of reemployment.

In land transportation, we leave unaddressed the fact that Mexican carriers now handle all of the transport in the Maquiladoras, both in the United States and in Mexico. We allow that condition to continue for 3 more years, after which time we allow Mexican and United States trucks to operate in the border area, and, in 5 years or 8 years give the Mexican trucks the opportunity to operate all over the United States, as their buses will have immediately.

We find there the likely spectacle of Mexican truck drivers and bus drivers working full-time in the United States without any protection of U.S. minimum wages. We find no provisions in the agreement—no specific provisions—on enforcement of safety or operating regulations, incompatible commercial driver's licenses, drug or alcohol testing programs, or the handling of hazardous materials. We find, instead, a phrase that says, "the various departments will meet to try to make these regulations somehow compatible."

In a chapter on temporary entry for business persons, the agreement turns on its end what has been a cardinal principle of U.S. immigration policy, namely that employers ought only to be allowed to recruit and hire temporary entrance when they can show that U.S. workers are not available. We have changed all of that in the NAFTA. That is no longer a requirement for the Mexican or Canadian companies.

What we have seen as a result of the Canadian agreement is the importation of exactly those kinds of professional workers as strike breakers on the northern border of New York State where workers

have come across from Canada as temporary business entries to work behind picket lines in a struck hospital.

These, and lots of other provisions of NAFTA, we submit, are not going to generate new American jobs, they are going to destroy a good part of what we have.

I did not hear all of Mr. Robinson's testimony, unfortunately. I do not know if he was asked or answered the question, but I submit the question you want to ask every businessman who comes here, which is, how many jobs will this create in your company in the United States? In Missouri, in Delaware, in Oregon, how many jobs will be created as a result of this agreement? I submit to you, the burden of proof is on the proposers of this agreement, and it is a burden unmet.

The administration, for its part, bases its argument on the creation of new jobs, citing, as I say, the econometric studies, which I think are seriously flawed. And it bases its argument in bedrock on the assumption that if trade between the United States and Mexico is liberalized, then we are going to export more goods and services from the United States to Mexico, and that will mean the creation of more jobs in the United States.

That is a classic argument for free trade, which might be acceptable between two economies which live on basically the same level, but that does not apply to the United States and Mexico. The draw to produce in Mexico is just too great for that rule to apply.

The Gross Domestic Product in Mexico is 5 percent of the U.S. Product. We are talking about a nation with an average annual income of $2,490, compared to a U.S. average of $19,100. Mexican consumers do not have this vaunted purchasing power to soak up American product.

The sad truth is, yes, there are 86 million people who would be added, in Mrs. Hills' word, to this glorious consumer market, but most of them are poor, unfortunately, and they are not a prime source of consumption of U.S. product.

The truth is, the growth in trade between our two countries, which has been cited in this debate, is actually a growth in trade between different units of U.S. multinational corporations. Mrs. Hills is fond of telling us that Mexico is our third-largest trading partner. About 45 percent of our imports and exports from Mexico are transactions between U.S. companies and their plants in Mexico. Forty-five percent of that total is Maquiladora trade that exists only because wages in Mexico are at $1.25 an hour in the Maquiladoras.

If you took that 45 percent out, Mexico happens to be about our sixth or seventh-largest trading partner. Interestingly, I submit the Maquiladoras are probably our eighth or ninth largest trading partner in that analysis.

The NAFTA, in our judgment, is not about creating U.S. jobs, and it is clear it is not about protecting the environment. We are told it is the "greenest" trade agreement in American history, which is fair enough, since no previous trade agreement even addressed the environmental issues. So, I assume that is right. It has, however, no provisions that would remedy the terrible environmental degradation that already exists along the border that Time Magazine described as the 2,000-mile long Love Canal.

The truth is, it would expose U.S. health and safety standards to challenge as barriers to trade, and force us to defend our health and safety standards. It does not allow for trade actions, however, to address violations of environmental standards.

So, it offers no recourse except for consultations against the country that has consistently failed to adequately enforce its own environmental laws in order to attract new investment.

That means if Mexico decides to continue to wink at environmental abuse in order to attract investment, we can ask for a consultation. That is not an idle concern. The General Accounting Office has documented the fact that furniture manufacturers from Southern California moved to Tiajuana so they could escape California's air emission standards.

There is a more recent GAO report which analyzed six American companies chosen at random to see if, when they moved into the Maquiladoras, they met Mexican environmental standards. The GAO report found that none of them had, and nobody in Mexico bothered them about it.

The NAFTA is, I suspect, not harmful for all Americans; for large investers, it is a major triumph. It provides new security for private investment and enlarges the opportunities for investment in Mexico. I guess that should not come as a surprise to us. That was, after all, the central objective of the NAFTA negotiations from the beginning, and it meets that test with flying colors.

It guarantees unequivocally the repatriation across borders of profits and dividends and capital gains; it guarantees convertability of currency at market rates; it guards against the expropriation of property; it guarantees prompt compensation; it allows for the collection of business information, but protects that information where any disclosure might prejudice the invester or the investment's competitive position; it provides for some very substantial and worthy projections of intellectual property rights.

The enforcement of all of those things, I suspect, is everything that an invester or a multinational corporation could have hoped for in the agreement. It sets up, indeed, a detailed super-national dispute mechanism to settle these problems, and provides for binding arbitration.

It is fascinating to compare what has been done in those sections of the agreement with what is done in other sections, and to compare the enforcement of financial rights and investment rights and the projections of investments with the enforcement of the rights of working people, or the absence of any enforcement mechanism for those rights in the agreement.

In the entire agreement there are no specific, enforceable provisions that even address the questions of freedom of association, the right of collective bargaining, the establishment of appropriate minimum wages, health and safety regulations, elimination of child labor.

What happens is that, as a result of these negotiations, our Labor Department negotiates a memorandum of understanding with the Mexican Ministry and we are going to have discussions about all of these issues. I submit to you, that if the investers of this Nation were told that our Commerce Department was going to

work out all of these issues with the Commerce Ministry of Mexico, this agreement would be universally opposed.

Mr. Chairman, from start to finish, we believe the agreement is nothing more than the latest version of trickle-down economics. It represents an enlargement of the interests of United States and Canada-based multinational corporations, to the detriment of U.S. workers. I say to you that the burden of proof of benefit to this Nation has to be on the proponents. We say that burden has clearly not been met. We are offered speculation about the future; we are offered no answers to the questions posed. We are offered assurances that all problems will be taken care of in outside actions or in separate actions not yet taken.

I believe that the Congress should reject the agreement, send a new set of U.S. negotiators back to the table, after dealing with the tax incentives which encourage foreign investment. I believe that we can and we ought to do better in these negotiations and would hope that you would reject the agreement. Thank you, Mr. Chairman and members. I would be happy to try to answer questions.

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

The CHAIRMAN. Well, Mr. Donahue, I will play the same role I played with Mr. Robinson on the first round, and that is the devil's advocate, and ask you to answer some of my concerns. As I listen to your statement, it looks like you feel the agreement is non-reciprocal, inequitable, favoring Mexico.

And, yet, I understand that, over 15 years, virtually all tariffs will be eliminated. And, as I look at the present situation with an average U.S. tariff—on those things where we have tariffs—at 4 percent, and the Mexican side at 10 percent, and those not bound, so if we get another Mexican President, he could run that back up to 50 percent if he wanted to, I wonder about that. Why is it so one-sided in favor of Mexico, then?

Mr. DONAHUE. Senator, in the current circumstances, we have been losing jobs, as has been pointed out, in the Maquiladoras, and elsewhere in Mexico, in a situation in which investment in Mexico carries certain risks, in which American companies have to seek Mexican partners, in which there is not quite the security of investment that the American U.S.-based investment community would like to have. That issue has been dealt with.

We have managed to ensure the greatest security of those investments. We have managed to ensure that American corporations can own 100 percent of most companies operating in Mexico. We have guaranteed all of the elements that I have referred to earlier.

Those are far more important in terms of the likelihood of the movement of U.S. employment opportunities to Mexico than is the reduction of tariffs. The tariff question is a question I think that is a classical trade issue of 40, 50, 100 years ago, when you envisioned a world in which we shipped goods back and forth across borders. This agreement is much more about shipping investment across borders. That was the spirit which engendered the negotiations, and that is the result of the negotiations. This is the ultimate privatization of foreign aid.

The administration decided we can help Mexico, we should help Mexico—both views which I share—and what we do about it, since

we cannot help them with foreign aid, or developmental assistance, or debt forgiveness, or whatever else, in sufficient amounts, well, what we will do is we will privatize foreign aid, we will give them U.S. investment.

Well, there is not an infinite amount of investment available. It will be made in one place or the other. And if you invest in Mexico, there will be a reduction of investment in the United States. The agreement is about investment.

The CHAIRMAN. I have got a limitation on time on myself.

Mr. DONAHUE. I am sorry.

The CHAIRMAN. So, I want to get at some other points because you have made some valid replies there, I think. I was particularly concerned about the rule of origin; I pushed very hard on the negotiators to tighten up those rules of origin.

I did not want Mexico as a trampoline. I did not want just screwdriver plants down there where they put the label on and send it on in. Yet, you feel they are too weak, that they would allow third countries to reap many of the benefits of free trade. Give me some specifics on that, where you think those rules of origin fall short.

Mr. DONAHUE. The closing minutes of your questioning of Mr. Robinson dealt with the likely expansion by Mexico of a series of free trade agreements that it might negotiate with Chile, with others. The rules of origin now provide for 50 percent in most products, with the exception of autos and auto parts.

The rules of origin will require 50 percent production here. Mexico will become the trampoline. It will be able to invite into Mexico, through free trade arrangements with other countries of the hemisphere, or other countries anywhere in the world.

It will be able to broker our market. It will be able to broker at least that 50 percent of the content. That is what is wrong with it. Mexico can be the broker for the rest of the world for access to 50 percent of the products manufactured in this three-nation community.

The CHAIRMAN. As compared to the Canadian agreement on that, what do you think of it?

Mr. DONAHUE. As compared to the Canadian agreement?

The CHAIRMAN. To what we did on the Canadian agreement on rules of origin.

Mr. DONAHUE. The numbers are slightly higher. There is a different method of calculation. The numbers are, admittedly, slightly higher, and, therefore, somewhat better. But we were not satisfied, after all, with the Canadian agreement, either.

The CHAIRMAN. I see. All right. Let me ask you another one. You were concerned about the undermining of U.S. health and safety requirements, and you particularly referred to the question of truck drivers, that type of thing.

Yet, I read the agreement as expressly protecting those laws, including at the State and local level, against any successful challenge, as long as they meet two criterion, as I recall. One, that those laws were not put there as protections on trade, and the other, that they had some scientific basis for their imposition. Now, you do not think that is adequate protection?

Mr. DONAHUE. I think it certainly creates an interesting burden on every State and on the United States and on every employer,

I suppose, to defend the propositions that you or State Legislatures have enacted. Health and safety standards, environmental standards placed in place by State Legislatures or by the Federal Congress are now going to have to be defended. I find that a foolish give-away. I do not think that that is what we are supposed to be doing.

I think that when the provisions were put in place to eliminate the use of DDT on our products the action of the U.S. Government was sufficient, the actions of various States to regulate the insecticides that are used, the action of the Federal Government to do the same.

Now they all have to be defended, and they can be challenged as barriers to trade. I cannot challenge the refusal of the Mexican Government to register an independent union, as they have done in the past.

I cannot challenge that as a barrier to trade. But they can challenge the existence of health or safety standards as a barrier to trade within the trade mechanism. This is the argument we have had with USTR and with the administration from the beginning.

If there are to be trade mechanisms, if there are to be enforcement mechanisms within trade, because that is the lever for accomplishing these things, then everything ought to be inside. But only certain things are inside and can be dealt with as violations of the trade agreement or as barriers to trade.

The CHAIRMAN. Interesting argument. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Donahue, you asked us to ask every American businessman who supports this agreement how many jobs will be created in the United States as a consequence of the agreement, and how many jobs created for his or her company in Mexico as a consequence of the agreement. What is your estimate as to the number of jobs created in the United States as a consequence of NAFTA, and the number of jobs created in Mexico for American business as a consequence of NAFTA?

Mr. DONAHUE. I could only give you my stomach's estimate, or my best ball park estimate that, way down the road, 20 years out, there can be some positive job creation in the United States, net. In the short-run, I see nothing that is positive in its effect; I see only negatives. And I see the continuing outflow of jobs. So, I see a continuing negative.

Senator BAUCUS. But roughly how many jobs, your rough guess?

Mr. DONAHUE. Frankly, I support the three or four studies which estimate job loss between 130,000 and 500,000. I think those are the more realistic studies because they are not based on the same, to me, strange assumptions that the other analyses are based on.

And you know that the analyses that have been cited so often by USTR are based on the assumption that there is full employment in the United States—which I find difficult to deal with—and, secondly, that there will be no net change in investment patterns.

Senator BAUCUS. All right.

Mr. DONAHUE. Well, in the real world, that is not——

Senator BAUCUS. Well, let us assume that your figures are accurate. Everyone has different figures, let us assume they are accurate. What would be the cost to retrain Americans who lose jobs as a consequence of NAFTA? Your best guess.

Mr. DONAHUE. Well, if you assume it is a net job loss——

Senator BAUCUS. Not net. Just those Americans who lose their jobs as a consequence of NAFTA.

Mr. DONAHUE. Mrs. Hills said yesterday, 135,000 job loss. This administration is estimating it costs $3,000 a year to train someone. You would have to do the mathematics for me, Senator. They would add up to that many billions of dollars. We would run that figure much higher because we would ask for a far more humane system under which we would offer training. The humanity of the system depends upon whether or not you give people living allowances, whether or not you provide moving allowances, in addition to training.

Senator BAUCUS. Well, that was my next question. What kind of a retraining program do you think makes sense?

Mr. DONAHUE. Well, I think that you have a model in the earliest versions of trade adjustment assistance when we made an historic compact with the Nation's workers, and the Senate and the House said there will be some displacement flowing from trade, but we will compensate for that by developing trade adjustment assistance, and we will give you 70 percent of your past income if you lose your job because of the impacts of trade, and we will give you up to 2 years of training, and we will provide for moving allowances, and we will provide for job search allowances, and so forth.

Senator BAUCUS. What is your valuation of the administration's worker adjustment program?

Mr. DONAHUE. Totally inadequate.

Senator BAUCUS. Why?

Mr. DONAHUE. Totally inadequate.

Senator BAUCUS. Why?

Mr. DONAHUE. For one thing, no mechanism for funding this alleged $2 billion. Apparently we are going to get that by cutting entitlements in other areas. We are going to say to the veterans, we are cutting your veteran's benefits so we can give you trade adjustment assistance, apparently.

It is totally inadequate in terms of the money available and the funding mechanism; totally inadequate in terms of saying all of the education must be privatized somehow, we will give you a voucher for up to $3,000. I have no idea what it will cost to retrain workers for the "high-tech," high-income jobs that we talk about training them for, but it is more than $3,000 a year, I assure you.

Senator BAUCUS. Last April, I suggested a fee on goods and investment that crossed the border to be phased out over 5 years. And, according to my calculations, a fee of one-half of 1 percent, or even less than one-half of one percent, this proposal I made last April would more than cover job retraining. Is that the kind of locked-in financial commitment that you think makes sense? If not, what other ideas do you have?

Mr. DONAHUE. Yes. I do. I think that one, there has to be an identifiable funding source which offers some reliability. Secondly, there has to be the statement that this is an entitlement for the workers who are displaced. And there has to be, obviously, much greater flexibility than the administration provides in terms of how you procure the training and in terms of the allowances which are available to people while they are in training.

The concept of a tax of some kind, Senator Roth referred to a maintenance of tariffs or the allocation of tariffs; Congressman Gephardt has talked about a transaction tax. There has to be something that accompanies the movement of goods or the movement of investment.

Senator BAUCUS. I appreciate that. My time is up. But do you think that a one-half of 1 percent fee, sunsetted in a few years, is a barrier to trade? Some belittle the proposal as being a barrier to trade. Do you think that is a barrier to trade, or not?

Mr. DONAHUE. I do not think it is a barrier to trade at all. I have no idea, Senator. I am sorry. I am not expert in the questions of job training or the costs of the program. I do know that when our program in trade adjustment assistance was running properly, it was being funded at $10 billion, or $12 billion, or $15 billion a year. It should be noted that it has been zeroed out in the administration's budget proposals for the last 2 or 3 years.

Senator BAUCUS. Every year, Bush and Reagan, in their budget requests, have asked for zero funds.

Mr. DONAHUE. That is right.

Senator BAUCUS. That is correct. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. I appreciate the presentation you have made today, and I think you have really gotten into the heart of what is going on here in terms of sort of internationalizing the trickle-down economic strategy.

Quite frankly, I think it is sort of the last gasp of this administration trying to do exactly that. And to pit American workers against Third World economic conditions—in this case in Mexico—it is an impossible situation. We have got a job crisis in America today. We have got people in this country, when we talk about retraining—retraining for what?

I got a letter the other day from a man in Texas with a graduate degree who has been through three retraining programs and still cannot find a job. We have got jobs disappearing all across the country. We lost 167,000 manufacturing jobs just last month. That is 1 month.

So, this question of retraining—retraining for what? Because we do not have a national strategy today, as we need to have one, that looks forward to creating new industries with lots of good jobs, high-wage, high-skilled jobs. We have had no strategy in this country. There is none here today, quite frankly. This is a job strategy for Mexico, not a job strategy for America.

The thing that disturbs me is that our government has had an economic program over the last several years for every other country except our own. This is a plan for Mexico. There is a plan for Kuwait, there is a plan for the old Soviet Union, there is a plan for Communist China. China now has a $15 billion trade surplus with us, sucking the jobs and the money out of the United States. Now, here is a plan to help Mexico.

And, yes, it does help the banks, and it does help the financial intermediaries, as Mr. Robinson frankly conceded here today. It helps those kinds of businesses. It kills the Maytags, it kills the industrial base in this country. The notion that people in Mexico to-

morrow morning are going to start buying cars in large numbers when they have no income to speak of, is nonsense; it is sophistry.

And when our former Trade Ambassador, Bill Brock, goes to work for the Mexican Government and is being paid $360,000 a year, are they paying him for his nice personality? He has a nice personality. For his smile? When he comes up here and talks to his old pals in the Senate and advances the arguments on behalf of this treaty, I mean, what is that all about? Why are they paying him that money? I think it is outrageous.

I think we ought to have a law in place that people that handle the trade laws in this country are prohibited from going to work for foreign governments, whether it is for $360,000 a year, which is more than we pay the President of the United States, or some other figure. But it shows you what is going on here. The Wall Street Journal earlier had an article to the effect that the Mexicans are spending $100 million to lobby this thing through here. And when I hear about this thing being the "greenest" treaty we ever had, of course, that is a reference to the environment. This is the green that it is all about: it is the green of money and private profit.

And there are going to be people that make billions of dollars off of this agreement if it is shoved into place, but it is not going to be the middle class in this country. It is not going to be widely shared in this country. It is going to be those that have major holdings in private investments that can cash in on low wages in Mexico, in the absence of environmental standards, in the absence of legal enforcement.

It is a Third World economy. That is why the Europeans kept Turkey out of the Common Market in Europe, because they faced precisely the same kind of problems that we face here with Mexico.

So, the push is on. There are roughly six weeks left in this election. I think Bush is desperate to try to ram as much of this through as he can before he is, I think, replaced, as he properly ought to be. But this situation, I think, poses a grave danger to the economic future of this country.

How are we going to be able to foster capital investment in America to modernize our industrial base, to improve our productivity, to invest in technology, when there is a huge financial incentive to put that financial investment in Mexico?

And firms, like the one we heard about earlier here, prepare to go ahead and facilitate the movement of that capital out of the United States or from third countries into Mexico to use Mexico as a launching pad to bring production into the United States. I have got people all across my State that are desperate for work.

I talked to a man the other day who was in tears because he has had to leave his family and essentially become a vagabond to try to find work. He had about 20 years of work experience in an industrial setting; he had certificates of excellent performance. And this guy was down to the pocket change that he had on him because he has exhausted all of his savings. There are people like this all across this country, and here we are talking about creating jobs in Mexico. Have we lost our mind?

We had the Bureau of Labor Statistics in the other day telling us that we have got 17 million Americans right now that cannot

find work, that are either officially unemployed, are so discouraged they have given up looking for work, or are working part-time because they cannot find full-time work. I just do not understand it, other than just private greed. Private greed is what this boils down to, and this country is in serious economic trouble. We have got a jobs crisis, and we have got a plan here to send jobs to Mexico.

The CHAIRMAN. Would you like to comment on that, Mr. Donahue?

Mr. DONAHUE. I would only note that the Senator refers to the result of what I think is the unaddressed issue here. We are still hung up talking about free trade versus protectionism in these discussions, and the record on the improvement or the enhancement, the enlargement of our trade is a very dismal one, because we do not manage it well.

And we are talking now about improving the conditions in Mexico for Mexicans, as we talked of improving the conditions in Korea, and the conditions in Taiwan, and Japan, and so forth.

Now we are running trade deficits with each of those nations. If we are as equally successful this time, we will run a trade deficit with Mexico and add it to the list of nations that are doing better in the world than we are. At some point, we ought to question the fundamental assumptions that people have been going on.

The CHAIRMAN. Thank you. Senator Danforth.

Senator DANFORTH. Thank you, Mr. Donahue. You mentioned in your testimony the Maquiladoras as being a major problem. How much of our existing problem with Mexico are the Maquiladoras?

Mr. DONAHUE. Of our problems in Mexico? Well, the problem, I suggest, is that they represent 600,000 jobs which I would like to have seen in the United States, or 500,000 currently. I say they have increased 300,000 in the last 6 years.

Senator DANFORTH. It is now 600,000 in the Maquiladoras?

Mr. DONAHUE. It is over 500,000.

Senator DANFORTH. Over 500,000, and growing.

Mr. DONAHUE. And some 2,000 plants. The number of plants has tripled in 6 years, and the number went from 200,000 to 500,000 in 6 years. Yes, sir.

Senator DANFORTH. And many of these stories of auto plants and so on, those are Maquiladoras?

Mr. DONAHUE. Yes. The Maquiladoras are primarily electronics, auto parts, and apparel.

Senator DANFORTH. And is that a large part of the environmental problem that we have now? It is on the border, is it not? I mean, visibly you can look across the border and see an environmental problem.

Mr. DONAHUE. Certainly.

Senator DANFORTH. Is that largely a Maquiladora problem?

Mr. DONAHUE. I think it is a problem that has been exacerbated by the rapid development of the Maquiladora. It is a problem of their inattention to environmental concerns and their pollution of the environment around them, and it is a problem of the failure of the Mexican nation states, cities, whatever, to keep up with the need to improve infrastructure to deal with the environmental changes.

Senator DANFORTH. The Maquiladora system is a program, is it not?

Mr. DONAHUE. Yes, it is.

Senator DANFORTH. It is a government program.

Mr. DONAHUE. Yes, it is.

Senator DANFORTH. And it is like a free trade zone that is located on the border. In other words, there is what is called the duty drawback system and it says that there is, I think, a rebate of any duties that are paid, so long as the products are then exported. Is that not how it works?

Mr. DONAHUE. That is right.

Senator DANFORTH. It is an unfair system, is it not?

Mr. DONAHUE. I believe so. Yes, sir. The Maquiladoras, if I may, Senator, grew out of a Lyndon Johnson program in which he talked about twin plants, one on each side of the border, and both sides of the border would get rich, and we would all go to the beach, and everything would be wonderful. He proposed a 15-mile barrier on each side for these plants.

What happened, as you well know, is they got the plants, we got the warehouses. That is what happened. And that did not happen, as Mrs. Hills says, because they wanted to sell in Mexico, it happened because they could pay $1 an hour in Mexico. We got the warehouses; they got the manufacturing.

What happened to the environment there flowed from the refusal and failure of those American companies to treat the environment in Mexico as they would have had to treat the environment in the United States. This is just one of the most shameful records of American industry I have ever seen.

Senator DANFORTH. Well, my point is, is that this is an artificial system created by the Mexican Government to create these Maquiladoras. It is based on the duty drawback scheme.

Mr. DONAHUE. It was a mistake, as I submit the current agreement is a mistake.

Senator DANFORTH. Sure. I mean, to me, one of the good features of this NAFTA is that it phases out the duty drawback system. This is not simply a matter of phasing out what is an outrageous disparity of tariffs. I think that the tariff disparity is a real problem, but it also phases out the duty drawback system.

Mr. DONAHUE. What it will do, I think, is to put those of the Maquiladoras that are not on second or third shifts on second and third shifts. Because those plants now will have the capacity to open their back door and push product into Mexico that they have not had up till now.

So, the question to the general manager of Deltronoco in Matamoros is, what advantage do you see to your company as a result of the achievement of the Mexican Free Trade Agreement, and his response is, well, I would be able to sell my radios in Mexico. So much for the hope that the Kokomo, Indiana plant of Delco will sell radios in Mexico; it will not. Matamoros will sell them.

Senator DANFORTH. They would believe, then, that Mexico is a pretty good market to get into.

Mr. DONAHUE. Well, they are already in the market.

Senator DANFORTH. But it would seem to me that to get rid of an artificial subsidy is a pretty good deal. How about the restric-

tion on the automobile imports and exports? As I understand the system, for every $1 worth of automobiles or auto parts that are imported into Mexico, the requirement is that there has to be $2 of exporting.

Mr. DONAHUE. That is right.

Senator DANFORTH. That is terribly unfair, is it not?

Mr. DONAHUE. Yes. We have always thought so. Yes, sir.

Senator DANFORTH. That is going to be dismantled under this NAFTA agreement, is it not?

Mr. DONAHUE. I believe in 10 or 13 years it will be phased out. Yes, Senator. But part of the problem that I keep alluding to here is, we negotiated with the Mexicans because the Mexicans want this agreement, and we proceeded to keep on giving them things. And all of the current conditions which ought to be objectionable to us, we said, that is okay, we will keep that 5 years, 10 years, how long do you want it for. That is the mistake.

That is why these negotiations, I think, had a bad result: we gave them too much. We said to them, your tariffs are 2½ times ours, but that is all right. We will both cut them in half, so you will retain the same advantage for the next 10 years.

The CHAIRMAN. Senator Roth.

Senator ROTH. Thank you, Mr. Chairman. Mr. Donahue, I think we are all in agreement that the name of the game is meaningful jobs for American workers. And the fact is, that much of the growth is elsewhere outside of the United States. And, as has been indicated, the barriers into the Mexican market are greater than those into the United States. So, I am somewhat puzzled by labor's position, generally.

For many years, labor was very pro-liberal in its trade policies. It is only in relatively recent years that it has switched around. Yet, we see great growth coming about in many segments of the world. And my question is, how do we become involved and benefit from that?

Now, it is my understanding that, in the last year or so, one of the few brighter spots has been in the area of exports. Exports have been increasing seven to 8 percent, which, in turn, means more jobs at home. So, again, my question is, how do we link our economy with this growth elsewhere; how do we participate when, under current situations, we see that we are losing jobs?

Mr. DONAHUE. I think Senator, that for one thing, when you look at barriers, you have to judge what is behind the barrier before you make the judgment that it is worth taking it down. What is behind the barrier in this case is a Mexican market of 86 million predominantly poor people.

What is behind our behind is a market of 250 million relatively affluent people, people who are able, at least, to consume product. So, the interest in reducing our barrier, it seems to me, ought to be far greater than our interest in reducing their barrier.

In terms of the export analysis, the administration particularly has been preaching this gospel that every billion dollars of exports is 20,000 new jobs; one of these studies says it is 14,000 new jobs; one says it is 15,000; I do not know what the number is. But take the administration's figure of 20,000. Exports represent 7 percent of what we produce in this country.

If we hope that 7 percent of our economy is going to drive the other 93 percent, I think we are making a mistake and we ought to be concerned much more with how you improve the opportunities of the other 93 percent of what we produce. That has to do with improving the economy of the United States, that has to do with an industrial policy, tax policies, and a whole series of other questions.

But exports, taken alone, 7 percent of our Gross Product, as we increase them, the theory is we increase jobs. That is perfectly true. If an export is worth 20,000 jobs per billion, then imports are worth the same. The administration has to concede that. So, every billion of imports apparently deprives us of 20,000 jobs, or substitutes for 20,000 jobs that might exist in the United States.

So, the question is not, we have to keep building this export engine; the question is, we have to manage our trade in such a way that we have a favorable balance, that we have more exports than imports, and, therefore, we are net creating jobs. That is not what we are doing in this country, and not what we have done over the last 11 years. We have done exactly the opposite.

Senator ROTH. But are we not opening opportunity when we reduce barriers that are greater than ours?

Mr. DONAHUE. Theoretically, yes. Yes. Sure.

Senator ROTH. Let me ask you one other question, and that goes back to worker adjustment. Is it not fair to impose some kind of temporary fee on trade to help those that are adversely affected? Even the best of trade agreements, whether you like this one or not, has a favorable effect for the consumer, but it is always going to impact negatively on some workers. So, should the consumers not be willing to pay a slight fee to help those that are impacted? Does that make sense?

Mr. DONAHUE. In theory, Senator. I would not prefer one model over the other. That is to say, I think the general taxing power and the general revenues of the nation ought to be devoted to these programs. That is fine theory. In the pragmatic context of 1992, there is no money and there will be no money unless some sort of fee is required, whether you call it an assignment of tariffs, whether you call it a transaction tax, whatever you call it. And I see nothing inappropriate in placing such a fee on product as it moves across the border, or on investment as it moves across the border.

Senator ROTH. Thank you.

Mr. DONAHUE. I think it is appropriate; I think it is essential in the pragmatic context.

The CHAIRMAN. Thank you. Senator Grassley, for any comments you have.

Senator GRASSLEY. First, as a matter of clarification, on page 3 of your testimony you refer to figures that include job loss. And my question is not only to you, but I suppose we ought to raise any time that these figures are used. Are we talking about net loss? There is going to be some jobs created as a result of NAFTA, and we are going to lose some jobs. Are these figures here of 550,000 high-wage jobs over the next 10 years?

Mr. DONAHUE. Those are net. Those are net job loss, Senator.

Senator GRASSLEY. All right. Thank you. I want to refer to an old TA study that I do not have with me to show you, but it dealt with

the question of whether industries may relocate from countries with strict environmental regulations to countries with weaker regulation or weaker enforcement in order to avoid costly compliance with environmental rules.

This study by the Office of Technology Assessment found little evidence that large scale shifts in industrial investment and relocation to pollution havens has occurred, and those are their words. The study concluded that, instead, firms locate, not driven by low costs, but by access to market, skilled labor, and quality infrastructure. And I need your assessment of that conclusion.

Mr. DONAHUE. I think I would be hard put, Senator, to make the case that most industries in choosing a site for future production look for a pollution haven. I do not think that that is their first goal. I think that is true of certain narrow segments of industry. The General Accounting Office says that it is true of the furniture manufacturing industry, which used to be in San Diego and moved to Tiajuana to avoid California's emission standards. A GAO study confirms that.

But I think that that is probably a fairly narrow band of industry in which the seeking of a pollution haven would be the primary consideration. But I think the decision to move or to relocate is based on a number of factors. It is based on your costs, and certainly the lax enforcement of environmental regulations is a matter of cost.

If it were not a matter of cost, General Motors, which announced about 8 months ago that it was going to clean up its act in terms of the environment in its 35 plants across the border, would have done it in the first place. But they have been there for years.

They never met the environmental standards of Mexico, or much less meet what is standard U.S. practice, or practice in their U.S. plants. But they announced that now they are going to do it.

So, it is very much a factor in the judgments that people make about where they are going to locate plants, as is the question—I would argue, the predominant question—for most industry is wage. But it is also access to market, and clearly a variety of things.

Senator GRASSLEY. As far as developing nations are concerned, they argue that they do not have resources to act on their environmental problems, given more important problems with debt and poverty. Even in fluid countries in a recession, these very same kinds of arguments are made that their economic needs are going to have to take precedence over their long-term environmental objectives.

When, if ever, should environmental concerns take precedence over economic concerns? And, also, for developing nations who cannot afford the cost of environmental clean up, who should be responsible for the necessary financial assistance required, the developing nation itself, or developed nations that have the industrial infrastructure that could possibly move to that country?

Mr. DONAHUE. Interesting question. I do not know that I would say that the economic ought to take precedence over the environmental, or vice versa, as a general rule. I do not think you can make such a rule. I suspect what we all have to search for is balance in that equation—the balancing of economic interests, eco-

nomic development, provision of employment for people with the long-term interests in maintaining a healthy and clean and safe society.

I think that this is not a problem peculiar to Mexico; as you phrased it, it is a problem that is worldwide: do you cut wood in the rain forests; do you allow the killing of animals in Africa? All of these are environmental issues that are somehow job related. I think what we have to do is to seek balance in those things, and I think that responsibility is incumbent on each nation to do that.

The question is, we ought to do that in the United States, and it is our responsibility as far as the United States is concerned. We ought to make judgments about other societies on how they discharged that responsibility in their own country. Currently, in the Mexican context you have to say that they are not meeting that responsibility sufficiently. Now, are they too poor to do it? I do not know how you do that. That is the chicken and the egg; that is the circular argumentation that people engage in.

The impact of the failure of Mexico to deal with its environmental conditions, the impact on the United States of the interest in Mexico of attracting industry at the cost of the environment, is apparent from Senator Bentsen's ranch; it is apparent to anybody who lives along the Mexican border.

The pollution is there, it is self-evident, and it is the price that we are paying for the failure of Mexico to clean up its environment. I say to you that in this agreement we have done nothing about that.

We have said, well, we will have side bar agreements, and we will set aside a certain amount of money from the United States, a certain amount of money from Mexico—totally inadequate funds to deal with the scope of the problem.

Now, beyond those border issues there are other issues of the environment in Mexico City. That is a matter, frankly, of much less concern to people in the border States than it is to people in Mexico City. But it is still the responsibility of the Mexican Government to deal with those issues.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Mr. Donahue, I will make a couple of points. You referred to the low income level of Mexico, and that is, of course, true. But an interesting point has been made to me that the Mexicans, per capita, buy more from us than do the much more affluent Europeans per capita. That point has been made to me.

Now, let me get to another point in your committee report, one that caught my eye. And that was where you say, "The NAFTA section on procurement will nullify the Federal Buy America Act."

That is interesting to me, because, in my talking directly to some of the top negotiators in Mexico when I was driving and pushing for procurement liberalization by PEMEX and others, they kept throwing back at me, well, we are going to respect your Buy America Act. We are going to respect your set-asides for minority business; your national security; your small business; the Berry Amendment on defense procurement, and so on. And then when I talked to our negotiators, they advised me that those existing set-asides, exceptions, are being preserved. That is in conflict with

what I see in the statement of your committee. Would address that?

Mr. DONAHUE. Yes, I would. Senator, I read just last night, I guess, about an inch of the 6 inches or 8 inches of this agreement that is filled with exceptions, and all of us are still trying to catch up with the exceptions and reservations by each of the three nations. It is marvelous to me that we still describe this as a free trade agreement, given that many exceptions and given the subjects which are left outside it.

On the Buy American provision, Senator, I think there is a substantial intrusion by the agreement and we will have a substantially changed effect in the United States. I would like to defer to Mark Anderson on that question, if I may, and ask him to address it.

The CHAIRMAN. Yes, of course.

Mr. ANDERSON. Mr. Chairman, you are, of course, correct, in terms of the agreement preserving minority business set-asides, and things of that sort. It does, though, for Mexico, nullify the provisions of the Federal Buy America Act by opening up procurement for Mexico to covered items of the Federal Government that heretofore they had not had access to. So, in that sense, it does, Mr. Chairman.

The CHAIRMAN. That is interesting. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. Just a couple of quick points here. The OTA study has been referred to this morning. I requested that study, and, as I recall that study, it had several conclusions: one, that although OTA was unable to precisely identify significant company shifts as a consequence of lower environmental enforcement in Mexico.

First, the data was sketchy. It was not really adequate on which to base a conclusion in that regard. Second, although not prepared to address company shift to Mexico as a consequence of environmental regulation, it did conclude that companies presently residing in Mexico would incur a significant economic advantage as a consequence of lower environment enforcement.

The question I would like you to address, Mr. Donahue, is this. Is it not the central premise of the so-called Quayle Council on Competitiveness that environmental regulation is a cost of doing business, and that is why the council is trying to deregulate to roll back environmental regulations?

Mr. DONAHUE. Yes, I believe it is, Senator. They would consider much of that regulation as unwarranted regulation and unwarranted costs——

Senator BAUCUS. The examples that come to my mind specifically are the Clean Air Act and wetlands policy, the two very major environmental areas where the Quayle Council on Competitiveness is seeking to reduce regulation because it is, as they claim—I disagree with them—an economic cost of doing business.

Now, if the administration is making that argument generally with respect to environmental regulations, does it not logically follow—steel trap logic—that they must make that same analysis with respect to environmental regulation in Mexico?

Mr. DONAHUE. Or the absence thereof. Yes, Senator. Surely.

Senator BAUCUS. And, if that is the case, does it not make sense to protect American business for there to be stronger environmental provisions or enforcement provisions so that American companies are protected from lower environmental regulation in Mexico?

Mr. DONAHUE. It makes eminently good sense to me. I am pleased you do not shy away from the word, "protected." There are clearly two choices for us, and, I would submit to you, the same choices in the wage area as in the environmental area.

Either we lower our standards to the level of any nation in the world in order to "improve our competitiveness," or we say that we have a standard which we intend to maintain because we believe it is a worthy standard and we intend to protect the exercise of that standard.

I think the same language can be used in the wage argument. Either we will bring wages down to Third World levels, or we will choose to protect and to ensure the maintenance of decent wages, to ensure the maintenance of decent environmental conditions.

Senator BAUCUS. What environmental enforcement provisions would you like to see in the agreement?

Mr. DONAHUE. I would like to see in the agreement the protections and the kind of enforcement mechanism that have been offered to the business community in the financial, the investment, and the intellectual property side of the agreement, all of which within the agreement make actionable as violations of free trade any adverse effect on a United States, Canadian, or, indeed, Mexican financial company, investment company, or holder of a piece of intellectual property.

Senator BAUCUS. Now, why do you suppose the administration did not seek those provisions?

Mr. DONAHUE. Because the administration apparently believed that we need a world-class standard for intellectual property, but we do not need a world-class standard for environment, for labor conditions.

Obviously, they made a judgment that those two subjects were not appropriate for the expenditure of effort to establish this world-class standard that they felt absolutely essential in the protection of intellectual property.

Senator BAUCUS. Now, when you say they did not address the environment, you do not mean environment for the sake of aesthetic reasons, you mean provisions that have direct economic effect on Americans.

Mr. DONAHUE. Indeed, I do. I mean, the controls over companies which melt down batteries to recapture the lead, I mean the smoldering facility outside Tiajuana where the battery acid is still wafting out of the ground, even though it has been covered by four feet of dirt. The plant was closed 9 months ago. You might ask, why were they in Mexico and not in the United States, because we would not allow them to do that in the United States. Yes; that kind of environmental concern.

Senator BAUCUS. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. I want to just say to Senator Baucus, I think that is the point where the green treaty

label given to this thing breaks down. I mean, it is in the environment. You see this difference in standards and it goes to this kind of green. It is a dollar green, in terms of the profit aspect of it. That is they the environmental side of this thing is, I think, woefully inadequate.

I am going to put into the record an article from U.S. News & World Report, one of the best business journals in this country, from May of last year. Major story headline: Poisoning the Border. Subheadline: Many American-owned factories in Mexico Are fouling the environment and their workers are not prospering. The article talks about everything from child labor, drinking water out of old pesticide cans, to other kinds of environmental abuse.

Senator BAUCUS. Without objection, it will be included.

Senator RIEGLE. Thank you.

[The article appears in the appendix.]

Senator RIEGLE. I think the bottom line of this discussion today—and I certainly hope it is going to get outside this room to the American people—is, we are in a global economic war, and we are losing that war. This is one manifestation of it. It is a very powerful, new danger that has come on the horizon. You talked earlier about our trade deficit over roughly the last decade, and I have actually gone back and reconstructed what has happened.

[Showing of chart.]

Senator RIEGLE. On this chart, if you start from 1980, which is where this chart comes from, and you take our cumulative merchandise trade deficit with the rest of the world since that time, it is now up to a total in excess of $1.1 trillion. $1.1 trillion. $460 billion of that alone, by the way, is with Japan. So, it is not just Third World, low-wage countries, although a lot of it is that, too. We are seeing that now from Communist China.

This is a devastating portrayal of what has happened, and this treaty is precisely more of the same philosophy that has gotten us into this hole. I mean, that is the great irony of it. And that is why I think there is a rush to try to get it done before this crowd gets washed out, as I think is going to happen in this election.

But if you look at that massive cumulative trade deficit which is getting worse—it is going to be another $65 billion added to it this year—you see, at the same time, high unemployment in America, a declining level of family incomes dropped now for the last 3 years in a row—the first time that has happened that way; you have almost got to go back to the Depression to find it. Increase in the number of people in poverty in terms of the underclass. You have got this huge trade deficit, you have got a huge fiscal deficit. And you have got growing inequities in private wealth.

I am disturbed, frankly, that our friends on the other side of the aisle do not see that and are not trying to do something to correct it, because it is wrecking this country. It is tearing the social fabric aside, it is grinding down the middle class, and it is terribly unfair—terribly unfair.

We can do something about that, but it is obvious that this agreement is designed to drain more capital and more jobs out of the United States. I mean, is that not its practical effect?

Mr. DONAHUE. That is its effect. That, I submit, was its goal.

Senator RIEGLE. Why would this statement have been in the Wall Street Journal just last month? I want to read it to you. I have cited it before. Headline on the story: "Free Trade Treaty is Key Issue in U.S. Presidential Election." Here is the paragraph. "The agreement also is likely to be welcomed by big business leaders who more often support Republicans. "That means dollars, fund-raising," says GOP pollster, Vince Breglio. "And in that sense it probably ends up benefitting Bush." Now, why would he have said that?

Mr. DONAHUE. Because he believes it.

Senator RIEGLE. Yes. But what is there that causes that to be so? Why does he believe that?

Mr. DONAHUE. Because the agreement is for the benefit of U.S. investers. It is for the benefit of financial institutions, it is for the benefit of those who have assets to invest. And it affords them the opportunity to invest them in a place other than the United States where they can procure far greater return than they can in the United States, providing they are willing to overlook their responsibilities to nation, community, and so forth.

Senator RIEGLE. Exactly. You know, when I see the polling data today in this country and all of the major polling organizations are asking the American people this question, are we on the right economic track going into the future, or on the wrong track.

And, for the first time now, there is an 80 percent majority of the American people who recognize and say, in answer to that question, that we are on the wrong economic track going into the future because they see precisely what is happening in their own lives.

I mean, people with excellent work records and job skills are losing their jobs, cannot find replacement jobs. In essence, the philosophy behind this is that if your plant closes down and your job goes to Mexico, that presumably you are going to have to follow your job to Mexico.

Of course, you work for $1.25 an hour and you live in a poisoned environment, and things of that kind. It is not practical and it is really an insult, I think, to our people to have this situation where we have got this job crisis which is getting worse.

Now, some people blame organized labor. My understanding is that if you take the percent of the labor force today in the private sector, leave aside public employees, the private sector, that the number of organized labor members is about 12 percent. Is that an accurate figure?

Mr. DONAHUE. It is slightly over that. Approximately 12.6, or something like that.

Senator RIEGLE. 12.6. So, let us say it is 13 percent. If it is 13 percent, is that also not saying that 87 percent of the workers in the private sector are not members of unions?

Mr. DONAHUE. Yes.

Senator RIEGLE. I mean, the notion that the union movement is somehow responsible for the problems in America, it is another one of the straw men, I think, that has been set up precisely by this administration, which has stacked the cards in the tax laws and every other way through this trickle-down economics, to run the

money up to the top of the income scale on the theory that somehow some of it will trickle back down to everybody else.

And we are seeing the job base of America destroyed in the meantime. We are seeing the middle class being ground down in the process, and I think it is a danger to the future of this country.

I think if we do not get off this track immediately and get a major job program going in this country—and I am talking about the public sector, the private sector, organized labor, and unorganized workers all combining in a kind of a team effort—we are going to lose our economic future. We are going to lose part of it to Mexico if this thing goes through, but we are losing our economic future.

Senator BAUCUS. Thank you. Thank you very much, Senator. Senator Danforth.

Senator DANFORTH. Mr. Donahue, in your view, where should we go from here? Do you think that free trade agreements with countries that have lower income scales than we have are not a very good way to pursue our policy?

Mr. DONAHUE. Yes, I do. I would agree that they are not a good way to pursue our policy. As to where we go, I would offer a couple of suggestions which will not be adopted by anyone.

But, first, I would take the word "free" and get it out of our vocabulary. It does not exist. There is no such thing in the world as free trade, not between any two nations. This is not a free trade agreement. That is an ideal that does not exist.

So long as we keep setting up that phrase, as the shibboleth, we said our protectionism is the shibboleth on the other side and we do not have rational discussion. I would argue that we should pursue trade negotiations in whatever forms available to us.

I think there is a substantial reason to question the validity of creating a trade block between three nations or a hemispheric block, as opposed to another hemispheric block. But I think that is a debate we have not really come to a serious conclusion about yet, and I do not really know the answer to it.

But we are locked into and we are lead participants in a trade system which talks about multilateral negotiations in the GATT. And while we are pursuing those negotiations, we get off into this arrangement with Mexico and Canada, this diversion from the GATT. I would say we ought to be pursuing GATT negotiations.

If it is determined to be in our national interests to create a trade block of some size, perhaps we ought to pursue that. We ought to pursue it, however, from a different level and from a different spirit than we start with now. The spirit we start with now is that we have to seek free trade, whatever that is. And we have to, therefore, abandon restrictions.

I would proceed in trade negotiations looking for the ways in which we can actuate a policy of managed trade. That amount of deficit which Senator Riegle demonstrates, $1.1 trillion, or to tell us that we are not running this company very well. We have a real flop on our hands. If we were in business we would do something about it.

Senator DANFORTH. So, your view is that our policy should be managed trade.

Mr. DONAHUE. Yes, sir.

Senator DANFORTH. That is, it is my understanding that managed trade is that it says, here is the target deficit with any given country, or surplus, but it is geared to dollar amounts. It is not geared to really changing the rules of trade, but geared to fixing dollar amounts.

Mr. DONAHUE. Well, it depends. I mean, it can be approached in a variety of ways. Congressman Gephardt approached it in that way in which you suggest because he despaired of finding any other way of dealing with the Japanese trade deficit, and he said, why should we write prescriptions for them, why do we not just tell them to work this out themselves in any way they choose: either stop exporting to us or start importing from us; let them decide what they want to do.

The opposite approach is the approach of the administration, a failed approach, to pursue the Strategic Impediment Initiatives talks, which went noplace, with the Japanese. The opposite approach is the approach of the administration in the GATT to insist that agriculture is the sine qua non, and nothing can move except for agriculture, and to argue that the nations which decide to protect their farmers are wrong. We know the truth; they are wrong, therefore we have to change that. I think each nation has to manage its own trade and its own interests, Senator.

Senator DANFORTH. All right. Well, I have a strange feeling that I am Madison Square Garden this morning. But let me just give you a hypothetical question. Let us say that the United States—just on a hypothetical, not Mexico or any other specific country—let us say that there is a country that has significantly lower wage standards than we have, and the same country has much higher trade barriers than we have—much higher.

Do you think that, under that hypothetical situation, there really is such a thing as a so-called free trade agreement that would be satisfactory to you, or is the disparity in wage standards in itself so inherently unfair that we really cannot deal with it?

Mr. DONAHUE. Oh, not at all. Not at all. If I felt that, I would say that we could only deal with a very limited range of nations in the world. I do not believe that at all. I believe that we should negotiate with everybody. We should be prepared to negotiate in our own self-interest with everyone. And our self-interest is what ought to be the standard by which you judge the adequacy of this agreement, or any other.

So, I would negotiate to reduce tariff barriers or other barriers in any country where they exist, and I would be very careful about what I gave away for it. I would proceed from the premise that there are such things as nations, there is such a thing as national interest.

We ought to pursue the course by which we give maximum protection to the citizens of our nation, however you define that protection, whether long-term or short-term, that best protects the interests of the people of our nation.

Senator DANFORTH. Thank you. Thank you, Mr. Chairman.

Senator BAUCUS. Thank you very much, Mr. Donahue and Mr. Robinson. You have been excellent witnesses, and you have raised a lot of new points which are very helpful to this committee. I com-

mend you very much. You have been excellent, both of you. Thank you very much.

Mr. DONAHUE. Thank you very much.

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

Senator BAUCUS. The hearing is adjourned.

[Whereupon, the hearing was concluded at 12:07 p.m.]

NORTH AMERICAN FREE TRADE AGREEMENT (AGRICULTURE AND ENERGY ISSUES)

WEDNESDAY, SEPTEMBER 30, 1992

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

The hearing was convened, pursuant to notice, at 9:10 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Baucus, Bradley, Pryor, Riegle, Daschle, Breaux, Packwood, Durenberger, Symms, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H–50, September 24, 1992]

COMMITTEE TO EXAMINE NAFTA AGRICULTURE AND ENERGY ISSUES, U.S. LOOKING TO COMPETE, BENTSEN SAYS

WASHINGTON, DC—Senator Lloyd Bentsen, Chairman of the Senate Finance Committee, Thursday announced a hearing on agriculture and energy aspects of the North American Free Trade Agreement.

The hearing will be at *9 a.m., Wednesday, September 30, 1992* in Room SD–215 of the Dirksen Senate Office Building.

"It is important to hear how the NAFTA will affect agriculture in the U.S. and our oil and gas industries, our electricity producers and our equipment suppliers. I want to make sure that the agreement puts us in a better competitive position in these sectors," Bentsen said.

"This hearing should help the Committee obtain a better understanding on how the NAFTA will affect the livelihoods of Americans in these important sectors," Bentsen said.

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

The CHAIRMAN. This hearing will come to order. If you will please take seats and cease conversation. We have been delayed just a few minutes because the Senate is voting on the START Treaty. Other members of this committee will be coming after they vote.

Today we are holding the last of the hearings that I scheduled for this fall on the North American Free Trade Agreement, as announced by the administration in August. Today we are going to focus on two key sectors in NAFTA: agriculture and energy. In both of those areas, the United States stands to gain from a more open trading system with Mexico.

Mexico is the third largest export market for our agricultural goods, and it is the fastest growing. The administration has estimated that this agreement could boost our agricultural sales to Mexico by $1.5–$2 billion over 15 years. I will be interested in

hearing whether the producers themselves think that we will realize these kinds of gains.

There is no question but that we are going to have some winners and some losers in agriculture under the NAFTA. At the same time, I want to make sure that we provide a cushion to those farmers who are most likely to suffer as a result of increased competition from Mexico. For example, I think of the concerns of the people in the fruit and vegetable business along the Rio Grande about the competition they will face from across the border.

There is no doubt that energy trade is an extremely important part of our trading relationship with both Canada and Mexico. Last year, we received 24 percent of our total oil imports from our two neighbors. Mexico has about a $20 billion oil service sector market, a sector that we can not afford to ignore. At the same time, the NAFTA negotiations have had to acknowledge, and work around, the Mexican constitutional restrictions. That has not been easy.

The result has been that the NAFTA does not make nearly as much progress in opening up Mexico's energy sector as it does in opening up sectors like automobiles and agriculture. But the NAFTA makes some progress, and I want to understand just what that will mean to our oil and gas producers, equipment suppliers, and others in the energy industry.

So, I look forward today to hearing from the Department of Agriculture and from the representatives of the agriculture and energy sectors regarding their views of the agreement. I would like to recognize my colleague, Senator Baucus, for any comment he would like to make.

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

Senator BAUCUS. Thank you very much, Mr. Chairman. In the previous four hearings held in this committee on the North American Free Trade Agreement, one could easily have received the impression that it was an agreement with one foreign country, namely, Mexico. But, in fact, both Mexico and Canada are party to the NAFTA.

Since we have had a free trade agreement with Canada since 1989, it is understandable that Canada might often be lost in the discussion, the assumption being that we already have free trade with Canada. But, actually, two important sectors—agriculture and cultural industries—were effectively exempted from the Canadian Free Trade Agreement.

Unfortunately, with regard to Canada, these exemptions were essentially continued in the NAFTA. That is, as a consequence, American farmers, publishers and filmmakers are understandably upset.

Many of my constituents who raise wheat were told by the administration that they should support an extension of fast track. In return, the administration would attempt to address their concerns with Canada and the NAFTA negotiations.

Unfortunately, in the final days of the NAFTA negotiations, Canada essentially chose to withdraw the entire topic of agriculture from NAFTA. The administration consented, choosing to negotiate bilaterally with Mexico on agriculture and allowing agricultural is-

sues with Canada to be handled by the Canadian Free Trade Agreement.

Anyone who believes that we have established true free trade with Canada should take a hard look at the situation faced by American wheat farmers. First, Canada continues to provide export subsidies on all wheat exports to the United States.

The Canadian Free Trade Agreement includes a general prohibition on employing export subsidies on shipments to the other party, but Canada is granted a special exemption from this provision for certain transportation subsidies. Not surprisingly, Canadian wheat exports to the United States have risen dramatically, and are expected to hit 42 million bushels next year.

Of course, Canada can still employ wheat export subsidies on exports to Mexico. Earlier this month when the President announced that he was expanding EEP sales by 1.1 billion bushels, I had hopes that the administration was finally going to counter the subsidies of the EC and Canada. Unfortunately, it appears that the announcement was just an election year gimmick.

Mexico is not on the list of countries eligible for EEP. And, to add insult to injury, the Bush Administration's Deputy USTR noted yesterday that the announcement was not an announcement of new sales at all; in fact, it was just a cynical election year attempt by President Bush to win the votes of wheat farmers with false promises.

Second, all sales of Canadian wheat are still handled by a government-chartered monopoly known as the Canadian Wheat Board. The price that this board charges for export sales of wheat is generally much lower than the domestic price for the same wheat. This practice is generally known as dumping, and is prohibited by U.S. law.

The United States recently instituted dispute settlement proceedings against Canada related to durum wheat on the pricing practices of the Canadian Wheat Board. But these proceedings are slow and narrowly targeted. In the meantime, U.S. farmers continue to suffer. In Mexico last year, Canada captured 76 percent of the market through these cutthroat pricing policies, while the Bush Administration sat on its hands.

Third, Canada is allowed to require end-use certificates on grain imported into Canada. These certificates are required to ensure that imported grain is not commingled with Canadian grain.

American wheat farmers recently pressed for similar end-use certificates on imports of Canadian wheat to ensure that Canadian wheat was not mixed with U.S. wheat and slipped into American farm export program shipments. But they are told by the administration that such end-use certificates would violate the CFTA. Apparently, the United States and Canada are living by a different set of rules.

Canada may be a good trading partner in many sectors, but, with regard to Canadian practices, it could put Japan to shame. And the administration seems willing to tacitly accept this trade cheating. I have listened to the administration's excuses for years and frankly do not understand why it is not standing up more for American producers.

Assuming the Congress drafts implementing legislation for the NAFTA next year, I will be seeking to include three provisions. First, if they do not pass Congress this year, I will seek to require end-use certificates on wheat imports from Canada. If Canada can employ such certificates, the United States can, too.

Second, I will seek to initiate trade dispute settlement procedures to end unfair pricing on U.S. sales by the Canadian Wheat Board. If unfair pricing continues, I will press for use of U.S. Unfair Trade Laws to address these issues.

Third, I will seek a commitment from the administration to use the Export Enhancement Program to counter Canadian subsidies on wheat shipments to Mexico. American wheat farmers got a poor deal under the Canadian FTA, and, thanks to the tactics of Canada and the cooperation of the Bush Administration, they are not able to improve the deal in the NAFTA. This is unacceptable.

Free trade means that everyone plays by the rules, not just that the United States plays by the rules and Canada ignores them. I am determined to level the playing field for American wheat farmers.

Mr. Chairman, thank you for the opportunity to speak.

The CHAIRMAN. Thank you.

Senator Packwood, for any comments you would like to make.

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

Senator PACKWOOD. Thank you, Mr. Chairman. Over the last month, this committee has held five hearings on the proposed NAFTA, including a broad range of government and private sector witnesses. To me, the results of these hearings are clear: that the NAFTA is in the best interests of both the United States and my State of Oregon. As a result, I strongly support the NAFTA and will work hard towards its implementation next year.

Oregon already has substantial trade with Canada and with Mexico. Between 1987 and 1991, Oregon exports to Mexico rose 190 percent, from $19 million to $55 million. And Oregon exports to Canada have doubled and are now valued at $736 million.

According to the Commerce Department, an estimated 2,700 new Oregon jobs have been created as a result of Oregon export growth to Mexico and Canada, and a total of 17,100 jobs are currently supported by Oregon's exports to those two countries.

What finally sold me on this agreement was a study by the Oregon Economic Development Department. This is a department of the State of Oregon. The Oregon Economic Development Department surveyed a cross section of Oregon industries, including: the Oregon Cattlemens' Association; the Oregon Wheat Commission; the Northwest Horticultural Council; the Oregon Potato Commission; the Western U.S. Agricultural Trade Association; the Oregon Chapter of the American Electronics Association; the Western Wood Products Association; the Portland Chamber of Commerce. And, in addition, they surveyed numerous labor organizations.

After surveying these various sectors, the study concluded: (1) Oregon's top 10 exports to Mexico will increase, because most Mexican tariff and non-tariff barriers will be phased out immediately or within the first 5 years; (2) Oregon's service industries will benefit

from Mexico's opening of its service market; (3) The NAFTA provides new opportunities for Oregon companies that have not traditionally exported to Mexico; (4) NAFTA will continue the Oregon job creation that is already occurring; (5) Oregon's three major industries—agriculture, timber and high-tech—indicated that, on balance, they will benefit substantially from the NAFTA; (6) Job loss, if any, will be negligible, as Oregon companies are not likely to relocate to Mexico, nor will Oregon products face significant new import competition.

On this point I was interested in the study done for the Department of Labor in their attempts to quantify the effects of NAFTA on each State. This study concluded that Oregon, out of all of the States, would be one of the top job gainers under NAFTA.

I understand and appreciate the concerns about the environment and U.S. job dislocations. But this is what I have concluded from the hearings. On the environment, the NAFTA is the first trade agreement that the United States has ever entered into that addresses this question. While we did not get everything we wanted out of NAFTA to improve the environment, I am convinced we are clearly better off with the agreement than without it.

On job dislocation, while there will be some job losses within certain sectors in the United States, overall, the NAFTA will create new U.S. jobs. After questioning witness after witness, I believe there is very little in the NAFTA that will entice U.S. firms to move to Mexico.

Most U.S. firms who want to go to Mexico are already there. And even if we did not have any new free trade agreement with Mexico, they would go or not go, as they choose, but the NAFTA agreement will not be the factor that will cause them to go. I thank the Chair.

The CHAIRMAN. Thank you. We are pleased to have this morning Hon. Ann Veneman, who is the Deputy Secretary of the U.S. Department of Agriculture. If you would proceed.

STATEMENT OF HON. ANN M. VENEMAN, DEPUTY SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Secretary VENEMAN. Thank you, Senator. Mr. Chairman and members of the committee, I am very pleased to be here today to discuss the proposed North American Free Trade Agreement—NAFTA, as we call it—as it relates to agriculture.

Speaking for Secretary Madigan and the Department, I want to begin by conveying our gratitude for the support we have received from you, Mr. Chairman, and from so many members of Congress, in conducting these negotiations.

While we fully understand that approval for the process and objectives does not guarantee endorsement of the end result, I hope you agree that our negotiators were successful in achieving the outcome that we sought: a good, fair, comprehensive agreement that merits the support of the U.S. Congress and the farmers.

I can report to you that the agreement text closely reflects the advice and guidance provided to us in frequent consultations with members of Congress, Congressional staff, and the numerous U.S. agricultural groups that we worked with to develop the various U.S. positions.

The proposed NAFTA meets our objectives for a market access agreement that will create new, long-term growth opportunities for U.S. agricultural exports within our own hemisphere. The provisions also address the concerns expressed to us about the need for long transition periods or special safeguards for our most import-sensitive sectors, as well as strong protections for U.S. consumers and the environment.

Mr. Chairman, I have submitted my full statement for the record, and will not take this committee's time by reading it now. But, with your permission, I would like to summarize the provisions and benefits of this agreement most important to U.S. agriculture.

First, let me highlight a few of the agreement's major accomplishments involving trade liberalization for agriculture. If ratified, the NAFTA will result in the ultimate elimination of all tariffs, quotas and licenses that act as barriers to agricultural trade between the United States and Mexico.

It will give the United States, and, with some exceptions, Canada, preferential access in the Mexican market. It will establish strong rules of origin to ensure that primary benefits of NAFTA go to North American producers. It will provide stronger protections for agricultural inventions, patents, trademarks and technologies, and it will create a quick, fair, and effective process for resolving disputes on NAFTA violations among member governments.

Let me point out, as well, that the agreement does not affect our Section 22 quotas for any country other than Mexico. It does not involve any compromise of stringent U.S. standards for food safety or animal and plant health, and it requires no changes in U.S. farm programs, nor would it prevent any future changes so long as our programs remain consistent with GATT obligations.

As you know, Mr. Chairman, the NAFTA provisions addressing agricultural market access involve two separate bilateral agreements: one with Mexico and the United States, and the other between Mexico and Canada. The Canada-Mexico agreement, at Canada's insistence, maintains current protections for dairy, poultry and eggs, but is otherwise similar to the United States-Mexico agreement.

There are no exempted commodities in the United States-Mexico agreement, although there are special provisions for specific commodities during the transition period. Our goal was an open border with free access to the Mexican market for the U.S. agriculture and food industries. Mexico represents one of the world's fastest growing agricultural markets; already the third largest export market for U.S. agriculture, as you noted yourself this morning.

It is precisely the kind of diversified growth market needed to ensure future export opportunities for U.S. bulk and high-value products. The NAFTA will substantially improve current U.S. market access and prevent Mexico's return to past policies that severely limited trade and economic growth.

At the same time, the agreement will further stimulate Mexico's economic development, providing the additional jobs and income that will translate into greater demand for U.S. products.

Under the agreement, all non-tariff measures affecting agricultural trade between the United States and Mexico will be elimi-

nated immediately. They will be converted to either tariff rate quotas or ordinary tariffs. This includes Mexico's import licensing system, the single greatest barrier to U.S. agricultural sales in the market.

All agricultural tariffs will be eliminated; many immediately, others over transition periods of 5, 10, or 15 years. After the 15-year implementation period, we will have free trade. The immediately tariff eliminations apply to a broad range of agricultural products.

In fact, when the agreement goes into effect, more than half the value of agricultural trade between our two countries will be completely duty free. Both countries protected their import-sensitive sectors with longer transition periods, tariff-rate quotas, and, for certain products, special safeguard provisions.

The United States will have tariff-rate quotas on imports from Mexico that are now subject to our Section 22 quotas. That is: dairy products, cotton, sugar-containing products, and peanuts.

Basically, the tariff-rate quotas initially allow only a small quantity of products to enter duty-free, and any amount over the duty-free quota is subject to a higher tariff. In most cases, the duty-free quota grows at a 3 percent compounded annual rate, while the over-quota tariff is gradually reduced.

At the end of the 10- or 15-year transition period, all trade is duty free. In addition, special safeguard provisions in the form of tariff-rate quotas will apply on a seasonal basis to protect the U.S. market from sudden import surges of Mexican tomatoes, fresh onions, eggplants, chile peppers, squash, and watermelons.

These products accounted for about $340 million in U.S. farm imports from Mexico in 1991. The tariffs and quantity-based measures on the safeguard items will be phased out in 10 years.

Several other import-sensitive products are included in the longest phase-out category of 15 years to give producers additional time to adjust to free trade. These will apply to U.S. imports of Mexican orange juice, dried onions and garlic, asparagus, cantaloupes and certain other melons, cucumbers, broccoli, peanuts and sugar.

I know these import protections are of a special concern to members of Congress and to many farmers, so I will refer you to my formal statement for a more detailed explanation, and will be glad to answer your questions on these provisions.

But I would like to focus for a short time on the benefits of the proposed agreement for U.S. agriculture. USDA's goal was to reach an agreement that would open Mexico's market to U.S. farmers and create new opportunity for U.S. agricultural and food exports far into the next century. We believe strongly that the negotiations were successful.

In analyzing the impact of the agreement, USDA economists have made the following projections. By the end of the 15-year transition, the NAFTA is likely to increase annual U.S. agricultural exports by $1.5–$2 billion over what would have been expected in the absence of an agreement.

The increased exports to Mexico will boost U.S. farm cash receipts a projected 2 to 3 percent. The larger exports will also translate into more than 50,000 additional jobs in agriculture, the food industries, and the rest of the U.S. economy.

The expected benefits for U.S. agriculture would expand over time as the Mexican standard of living improves. The gains in agriculture would spread and multiply throughout rural America.

U.S. grains and meats are expected to account for more than half the increase in U.S. agricultural exports, although many products from the United States would benefit. Let me mention a few. For U.S. corn, Mexico's import licensing requirements will be eliminated immediately, replaced by a tariff-rate quota.

Initially, 2.5 million metric tons of corn will be allowed to enter Mexico duty-free. This duty-free quota will grow at the rate of 3 percent a year, while Mexico's tariff on the over-quota amount will drop to zero in 15 years.

Under these provisions, U.S. corn exports to Mexico are expected to steadily increase. U.S. sorghum exports to Mexico will also increase, following the immediate elimination of all existing tariffs on sorghum trade.

Mexico's import licensing requirements for U.S. wheat will end immediately, and the 15 percent tariff on U.S. wheat will be phased out over 10 years. By that time, U.S. wheat exports to Mexico are expected to reach 1-1.5 million tons a year, compared with an average of 355,000 tons over the last 3 years.

For U.S. soybeans, Mexico's seasonal duty will be cut to 10 percent and phased out over 10 years, giving U.S. producers an even larger share of this growing market. In fact, when NAFTA is fully implemented, the combined gains in U.S. exports of corn, sorghum, wheat, and soybeans may approach 4 million tons a year.

Mexico is already one of the fastest-growing export markets for U.S. meat, and NAFTA will improve U.S. access. Beef trade is expected to continue to increase under NAFTA, while U.S. pork exports may double by the end of the transition period when Mexico's tariff on U.S. pork is completely phased out.

In addition, NAFTA should give the United States a larger share of Mexico's dairy product imports; boost Mexican demand for U.S. cotton; help ensure significant growth for U.S. exports of fresh apples, pears, and peaches; increase U.S. exports of many high-quality fresh vegetables, particularly during Mexico's off season, and substantially increase U.S. exports of tobacco and wood products to Mexico.

Mr. Chairman, over 14 months of intensive negotiations, our negotiators worked to craft an agreement that offers a broad range of benefits and protections for U.S. agriculture, and these are not limited to the market access provisions that I have discussed so far.

The NAFTA also includes strong rules of origin for United States-Mexico trade, generally much stronger than in the United States-Canada agreement. Commodities originating from outside the NAFTA must be transformed significantly in Mexico before they can receive any preferential treatment by the United States.

In addition, the NAFTA specifically recognizes the right of each country to establish its own levels of protection for human, animal, and plant health, as long as the measures are based on science. Imports that do not meet U.S. standards will be prohibited.

There are important agricultural-related provisions in other areas, as well: in the intellectual property rights text, which will

provide stronger protections for U.S. agricultural inventions and technology; in the elimination of Mexico's local content requirements for manufacturers so that U.S. firms in Mexico will no longer be required to buy only Mexican products; and in the opening of Mexico's market for international truck and rail transport, allowing U.S. companies, including companies involved in agricultural transportation, to compete for a share of the business.

Mr. Chairman, with the concurrence of the Congress, the United States can cast its vote to free our continent from barriers that restrain trade, economic growth, and opportunity. To expand and prosper, U.S. agriculture needs growing export markets and new opportunities.

Mexico, in particular, represents an agricultural market of tremendous potential. The NAFTA will protect and expand U.S. access to this market, while bolstering Mexican economic growth and the increased demand that results from higher incomes.

The NAFTA text represents a comprehensive, fair, and balanced agreement; one that meets our agricultural objectives and addresses our primary concerns. Its ratification next year would demonstrate to the world what forward-looking nations can achieve when they embrace the benefits of free trade for their farmers and ranchers, their citizens, and their economies.

Mr. Chairman, that concludes my statement. I would welcome your questions and those of the members of this committee.

[The prepared statement of Secretary Veneman appears in the appendix.]

The CHAIRMAN. Thank you, Madam Secretary. Let me state that I am going to put a 5-minute limitation on questioning by each of the members of the committee. We have a long list of witnesses we want to hear testify, and we want to, in turn, ask them questions. As we get more members of the committee here, I may have to move that to a 3-minute limitation. So, if you would start the clock, please. Traditionally, I let them start the clock after the Chairman has questioned, but we will go ahead this time.

One of the things that concerns me, as someone who has been involved in agriculture along the Texas-Mexican border all my life, is the question of pest and disease problems. Mexico does not have as tight control on those types as we have, generally, in the United States. I think back, for example, to the Mexican fruit fly. We started combatting the encroachment of that 40 years ago.

So, I have deep concern about that, and I know Texas farmers do. We do not want to see some of those things moving across the border. It is not trade protectionism. It is trying to see that we control situations that could damage our products within our own country.

What does the USDA plan to do insofar as beefing up inspection facilities along the border if we see a substantial increase in agriculture trade?

Secretary VENEMAN. Mr. Chairman, as you know, I come from the State of California, where the farmers out there have many of the same concerns.

The CHAIRMAN. Yes.

Secretary VENEMAN. We will not change, as you know, our food safety rules and our pesticide requirements, and so forth, coming

into this country. That is a very important point that I think many in the public do not understand. Nevertheless, we have continuing problems with pests from a number of countries.

One of the things that I would say, is that I think this agreement creates greater opportunity to have more harmonization of standards regarding those pests. We already have, as you probably know, the largest APHIS international presence in Mexico that we have in any country throughout the world. They have worked very hard with Mexico.

As we have worked through this free trade negotiation, we have had parallel discussions going on with people in APHIS, in Food Safety Inspection Service, as well as EPA and a number of other organizations.

The CHAIRMAN. Let me ask you about the physical facilities along the border where trucks cross. What are you going to do to bolster those facilities?

Secretary VENEMAN. Well, my understanding is that the inspection rates will not change. I have not spoken with APHIS directly to find out whether or not they are going to put on additional inspectors, but we will do what we need to do to maintain the kind of inspection that we have had in the past to ensure that our producers are protected from any undesirable pests and diseases.

Well, I assure you, if the trade expands as we hope it will on both sides, you are going to need more physical facilities in order to manage that situation. Otherwise, you are not going to have the kind of inspection that will apprehend that type of an encroachment.

The CHAIRMAN. Let me ask you about the action you took on Section 22 with Mexico. I had understood earlier from your Department that section 22 would not be changed except in the context of the Uruguay Round. Now, why the change?

Secretary VENEMAN. What we had in this agreement was an opportunity to reduce all barriers between the two countries. Now, I do not know of any specific representations regarding the Uruguay Round, although we have talked about the fact that if we do something with Section 22 specifically, it would be in the context of the Uruguay Round.

What we did was we took the concept that is in the Dunkel text in the Uruguay Round that has been discussed for a number of years throughout these 6 years of negotiations in the Uruguay Round, the concept of tariffication, and applied it to Section 22 and the import licenses simply between the two countries of Mexico and the United States

The CHAIRMAN. Well, I must say, that seems contrary to what we had been told before, that it would be done in the context of the Uruguay Round. I would assume possibly that you are just not making headway in the Uruguay Round and finally felt that you could make that headway with Mexico and did. But I would like to get a more detailed answer from you in writing, if you would, please.

Secretary VENEMAN. We will be happy to provide that for the record.

The CHAIRMAN. All right.

[The information requested was not received at press time.]

The CHAIRMAN. Now, let me ask you again about Section 22. You did that, the elimination in effect of Section 22 quotas with Mexico, but Canada did not feel a need to change their supply management programs to eliminate some of their quotas. Do you, in effect, think we got a better deal with Mexico as a result?

Secretary VENEMAN. I do, and I will tell you why. Simply, because, for all of our Section 22 commodities, we have greater export potential to Mexico than Mexico has to this country in any of those products. So, because we got the licenses tariffed from Mexico, we also have great export potential in all of those products as well.

We have not—and it is important to emphasize—undermined the use of Section 22 for any other country in the world. This will only apply to Mexico; it will not apply to Canada. Canada and Mexico do not have the same deal with regard to the products that are subject to supply management in Canada.

Mexico did not lift its license restrictions on those things that Canada did not lift its supply management. So, in effect, we have a freer trade agreement. There is tremendous opportunity in Mexico for things like dairy products.

Canada does not want to change its supply management. It will not have access to that market. Our dairy farmers that I have spoken to around the country are quite excited about the potential for the Mexican market. So, yes, I think we got a good deal by doing this.

The CHAIRMAN. Recognizing the members in the order of their arrival, Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. Madam Secretary, I think you know, the American wheat producers are very upset about these negotiations for several reasons. Essentially, they revolve around Canada. One, is the Canadian wheat exports, the anticipated exports into Mexico; and the other is the rise of the Canadian exports into the United States.

Secretary VENEMAN. Excuse me. Could you repeat what you said about the exports into Mexico?

Senator BAUCUS. Yes. The major concern that American wheat producers have is the increase in Canadian wheat exports to Mexico. Canada now has about 76 percent of the Mexican market in wheat.

Obviously, because of very significant subsidies—the transportation subsidies that Canada has, the Crow's Nest Agreement, which amounts to $40–$100 a ton subsidy of Canadian wheat—combined with the black box of the Canadian Wheat Board, where Canada sells wheat overseas at prices much lower than prices that the Canadian Wheat Board sells wheat to Canadian consumers. And it is all secret. We do not know what those overseas prices are.

And, third, American wheat farmers are quite upset because the administration agreed to Canada's request that agriculture be taken off the table in NAFTA. So, what assurances can you give to American wheat producers that, in light of all of that, that they are going to get a fair deal, particularly when the administration has refused to use the Export Enhancement Program to sell wheat to Mexico?

Secretary VENEMAN. That is a long question.

Senator BAUCUS. Well, it is a very deep concern that American wheat producers have, and here is your opportunity to allay their concerns.

Secretary VENEMAN. Well, first of all, I think it is important to emphasize that agriculture has not been taken off the table in the NAFTA.

Senator BAUCUS. With respect to Canada.

Secretary VENEMAN. Well, let me just finish. We have gotten a very good deal with regard to agriculture in the NAFTA. Now, the Canadians, early on, refused to participate in the discussions that were going on between the United States and Mexico and wanted to either not be a part of the agriculture agreement or have their own deal, because they simply would not agree to the kinds of market access provisions that we were talking about.

As a result, we still have the Canada FTA. We still have the provisions that allow us to have the trade agreement with Canada in agriculture that we negotiated under the Canada FTA. Those provisions will still govern.

Senator BAUCUS. But that does not address the concerns I raised.

Secretary VENEMAN. The concerns that have come out have been with the Canadian Wheat Board, their pricing policy, the transparency. I would beg to differ with your assessment that the administration has sat on its hands in this regard. We have, for the last 4 years, had numerous meetings with the Canadians, had many opportunities to discuss this with them. It has been discussed at USDA at every level; at USTR at every level, including Ambassador Hills. We have pressed the Canadians on this issue very, very hard.

Senator BAUCUS. And with what result?

Secretary VENEMAN. Well, without result yet. But it is not as if we are not attempting to do something on it.

Senator BAUCUS. Well, the administration on its own can in Mexico. Why has it not?

Secretary VENEMAN. Well, let me get to that. The subsidy question that you raised with export subsidies, in the United States-Canada agreement, we agreed that we would not use export subsidies to the territory of the other party. So, we do not have export subsidies used between the United States and Canada. We also got a provision——

Senator BAUCUS. We are not talking about EEP to Canada, we are talking about EEP to Mexico.

Secretary VENEMAN. I know. I am giving this to you by way of reference. When Mexico's discussions were begun, there was a desire not to give up the export subsidies that we are using into Mexico because we need them to counter and offset what the Europeans are doing into the Mexican market.

Senator BAUCUS. And which Canada is doing in Mexico as 76 percent of the market.

Secretary VENEMAN. Canada also has a subsidy, particularly in the form of the Western Grain Transportation Act, export subsidies off the western ports, as you are fully aware of. If we were not able to address the export subsidy issue with Mexico because we want to continue to have access to our Export Enhancement Program, we

certainly were not going to be able to get rid of Canada's export subsidies in that regard.

Now, we have not traditionally used our export subsidy programs to counter and offset the subsidies of Canada.

Senator BAUCUS. Why not? They are subsidies.

Secretary VENEMAN. That is true. We have generally used them to counter and offset the subsidies of the European Community to bring them to the negotiating table in the Uruguay Round.

Senator BAUCUS. The Europeans. But why not the Canadians? They are subsidies, too. And we do not even know how deep they are because it is a black box. It is secret pricing, whereas American pricing is essentially public.

Secretary VENEMAN. I understand that. And we continue, as I said, to press the Canadians on that issue.

Senator BAUCUS. My time is up. I was going to ask other questions about end-use certificates and also about sugar, which I cannot understand either. I will supply those for the record.

Secretary VENEMAN. We would be happy to answer them for the record.

Senator BAUCUS. Thank you, Mr. Chairman.

[The responses to written questions were not received at press time.]

The CHAIRMAN. Thank you. Senator Packwood.

Senator PACKWOOD. No questions, Mr. Chairman.

The CHAIRMAN. Senator Breaux.

Senator BREAUX. Thank you, Mr. Chairman, and thank you Madam Secretary. Madam Secretary, I appreciate the testimony and the good work that you all have been trying to do. The sugar provisions of the treaty, however, in my opinion, are not sufficient to justify my support unless some changes are made.

It is my understanding, that the sugar text as written would clearly allow Mexico, after 6 years, to effectively cause severe damage to the U.S. sugar industry and also to the 39 countries around the world that export sugar into the United States under the current program. I think that that result would clearly call on the Congress to make changes to the existing sugar program which currently operates at no cost to the taxpayers..

Now, the reason I have made this statement is because I have looked at the text very carefully, and it seems to me very clear that the NAFTA says that after year six Mexico can export its entire crop of surplus sugar to the Unite States after 2 years of "surplus producer" status.

That would mean that, in the seventh year, if Mexico had achieved sufficient "surplus producer," status, its entire surplus production would be able to be exported to the United States, causing the problems that I just outlined. Now, in your statement you say that the administration does not believe that Mexico will soon become a surplus producer of sugar. That is probably correct.

But what will happen is that Mexico will import high-fructose corn sweeteners, thereby replacing 1.5 million tons of sugar that they currently use in their soft drink industry, thereby becoming a surplus producer; not because they produced any more sugar, but because they imported something to replace their sugar consumption.

I do not think the NAFTA was intended to allow a country duty-free access to the United States because it achieved a surplus of a product not by production increases in that country, but instead by importing something to replace their domestic consumption of the product.

Now, is that not clearly possible? I mean, you as much admit that, that you all tried to get HFCS's included in the agreement and were unsuccessful. But, by not including them in the consumption equation, is that not the practical effect?

Secretary VENEMAN. That is correct, Senator. It is correct that there were discussions about HFCS during the negotiation.

Senator BREAUX. I appreciate that.

Secretary VENEMAN. And our negotiators had lengthy talks about that particular issue.

Senator BREAUX. And we really lost on that, did we not?

Secretary VENEMAN. Well, we were not able to get the kinds of provisions that you are talking about.

Senator BREAUX. Are there any provisions on restricting the importation of HFCS's into Mexico in order to achieve a surplus of sugar? Is there anything that prevents them from doing that?

Secretary VENEMAN. Not that I am aware of, Senator.

Senator BREAUX. That being the case, is it not possible that they, in fact, would be able to import HFCS's from any country, including the United States, and use corn sweeteners to replace their domestic sugar consumption, thereby achieving a "surplus," thereby, after 6 years, be able to export all of that surplus sugar into the United States.

Secretary VENEMAN. Well, it is not impossible, Senator. But let me just give you a couple——

Senator BREAUX. Let me just stick on that. What, in the NAFTA, would prevent this scenario from happening?

Secretary VENEMAN. First of all, they would have to reach net producer surplus status.

Senator BREAUX. That would be easy to do, I would suggest, under this provision.

Secretary VENEMAN. All right. Now, second, they would be limited in year seven to 150,000 tons. That certainly would not be their whole production.

Senator BREAUX. Let me follow-up on that point, because I disagree with it. After year seven, if they become a net surplus producer of sugar because of this HFCS import gimmick that they could use, they would be able to export their entire surplus to the United States with no restrictions. Is that not correct?

Secretary VENEMAN. If, in fact, they have been a net surplus producer for two consecutive years.

Senator BREAUX. That is correct. So, there is no restriction. If they become a surplus producer because of an import gimmick, they would be able to export to the United States their entire surplus into this country with no restrictions. Is that not correct?

Secretary VENEMAN. I would like to just make a couple of comments about why we think it is less than likely that the scenario that you are presenting would happen. First of all, we do not anticipate that HFCS would quickly go into the Mexican market. The

reason is this: (1) consumer taste; (2) economics. They are not set up either in their industries to use HFCS nor to produce HFCS.

Senator BREAUX. If that is our position, why did we not just instead replace the term "sugar" in the consumption definition with the term "caloric sweeteners?" If we do not think that that is going to happen, why could we not get HFCS counted in the calculation of surplus?

Secretary VENEMAN. As I said, Senator, there were discussions on this subject. The Mexicans were not at all interested in going beyond——

Senator BREAUX. I guess not. [Laughter.]

Secretary VENEMAN. In going beyond the normal definition of sugar.

Senator BREAUX. Well, I think they did a wonderful job on their part on this particular question, and we did not.

The CHAIRMAN. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. I want to follow up on the sugar area. In my home State, we are a major sugar-producing State. Just to give you the figures to give you a point of view of the impact that I am concerned about, we now have over 2,200 Michigan farmers that are farming sugar beets on over 150,000 acres in Michigan. At the same time, as you might expect, we have five sugar beet factories that, themselves, employ over 2,000 people. All of that adds about $440 million to the Michigan economy, so this is a big chunk of activity.

As we go through the Department of Commerce data on the value of crops that Michigan has been shipping to Mexico—now, this would be everything—it has averaged less than $3.5 million over the last 5 years.

So, from the point of view of possible impact in this one area—and there are other Michigan agricultural areas that I think are severely impacted—we have not found Mexico to be worth much in terms of the size of the market with respect to what has been going on there.

Now, along the lines of what Senator Breaux has said, I am very much concerned about sugar and sugar products making their way into Mexico, and, in turn, coming on up into the United States. Chile, for example, now has a free trade agreement with Mexico, and I think Mexico has indicated that they intend to move into a number of agreements with other Latin American countries.

And I am wondering how you plan to test sugar or any sugar derivatives to determine what their origin is so that we understand whether we are being blind-sided, as I am almost certain we will be. You have got to bear in mind, and let us not have any illusions about it, you have got a corrupt legal system in Mexico.

Now, you may want to try to dress it up any way you can, but that has been laid out in testimony in hearings here before. Senator Moynihan has raised that point, and so forth. I want to know how you are going to test and be certain that we are not having sugar just transshipped through Mexico into the United States, which obviously is a loaded gun aimed at my sugar beet producers in Michigan.

Secretary VENEMAN. Senator, there has been concern about this issue with a number of agricultural areas. There are a couple of

things. One, is that only NAFTA-origin sugar, under the rules of origin, would be eligible for the preferential treatment, as you know. The shipper would have to certify that, yes, indeed, it is NAFTA-origin sugar. Now, in addition——

Senator RIEGLE. Well, suppose he gives you false certification, how do you have a way of making sure that, in fact, it is?

Secretary VENEMAN. If any U.S. company had any indication at all that there were false certifications or non-NAFTA-origin sugar coming into the country, they would be allowed to request an audit from the Customs Service.

Senator RIEGLE. Well, let me ask you, what does the government do? I do not think the burden should fall on the private sector to have to figure out whether the sugar they are buying is illegal and in violation of the agreement.

I mean, you drafted the agreement. I think the government has an obligation here to make sure that it is being adhered to and that there is not a violation. What is the government going to do? What kind of an inspection program do you have in mind?

Secretary VENEMAN. Well, the Customs Service is the agency that monitors the rules of origin to make sure that they are complied with. I do not know whether this committee has had a hearing with Treasury or the Customs Service or not yet. I know that the Agricultural Committee is having one this morning to discuss these very issues.

Senator RIEGLE. We have had some hearings where the Treasury comes in, the Customs Service comes in, and the Customs Service says one thing and then the Treasury overturns it. We have had a situation like that. But what do you plan to do? I mean, what are the verification procedures that you see being put in place here? Do we not need some new ones to protect precisely against this kind of a problem?

Secretary VENEMAN. Senator, these are Customs issues that are monitored by the Customs Department on rules of origin. USDA is not going to set up a separate and distinct Customs system to monitor rules of origin for agricultural products, as I do not believe the Commerce Department would be setting them up to monitor on industrial products.

Senator RIEGLE. Well, then how about on the use of pesticides and any other violation that we see taking place down in Mexico that, in turn, builds itself into the product that is coming up?

For example, in the area of fruits and vegetables, we also happen to be a State that has a $300 million annual industry there. We employ thousands of producers in our State, and obviously food processors down the line from the people that actually grow the products.

What is your plan for making sure that we are not having things happen down in Mexico that is giving them a cost advantage, either by using materials that we cannot use here, or even labor practices, for that matter, that are getting built into the agricultural production that is coming in and putting our people out of work? What plans do you have in that area?

Secretary VENEMAN. Well, first of all, all food products that come in from Mexico will have to meet U.S. requirements as far as resi-

dues, food safety, and all other requirements. Those will not be changed.

Senator RIEGLE. And what percent do you sample now to make sure that that is occurring? I have seen as little as 2 percent. Can that be right?

Secretary VENEMAN. I do not have those numbers.

Senator RIEGLE. Do you have somebody with you that knows? Is there somebody here that knows the answer?

Secretary VENEMAN. I do not think so. It is an FDA issue. I think——

Senator RIEGLE. Would you have somebody find out for the next round?

The CHAIRMAN. If you would give him the written answers to that so we can have it for the record. Thank you. Time has expired.

[The information requested was not received at press time.]

The CHAIRMAN. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman, and thank you, Madam Secretary, for your statement. It is very obvious, as you watch the debate, that it is very hard to sell NAFTA even though it may be very good for the country and it may specifically even be good for States like Louisiana, Idaho, Minnesota, and Michigan. Unfortunately, all Senators have some political soft spot in the NAFTA.

My political soft spot happens to be a real concern over our sugar industry. But I do think it is important that we have a full understanding of where we think the sugar industry will be.

If, in fact, the free trade agreement makes both sides of the border more wealthy—which I believe that it will in the big picture and is a positive, net plus for both the United States and for Mexico—what would be the estimates of sugar consumption in Mexico itself, with 88 million people who have a relatively low income compared to the United States? If, in fact, their incomes could be benefitted, what would be the change in their own domestic sugar consumption?

Secretary VENEMAN. Well, Senator, what I would like to do is get you some specific numbers from our economists for the record.

Senator SYMMS. Well; we would like to have those.

Secretary VENEMAN. But let me just say that, overall, we expect not only sugar consumption, but the consumption of agriculture and food products, particularly higher value products, to increase substantially over time. We are already seeing significant increases.

As the Mexican economy develops, as people have more disposable income, they tend to spend it, first, on food and food products. Therefore, in the area of sugar and sugar consumption, in the area of many of these products, particularly the higher value products, but other products as well, we expect to see significant increases in markets simply because, as the economic situation improves, people have more income to spend on these items.

Senator SYMMS. So that the possibility is the prediction that it allows so much sugar to be exported to the United States may not actually evolve. So if we cut our nose off to spite our face we may end up losing other business benefits that would come from this

treaty and not, in fact, have really damaged our sugar industry. Is that correct?

Secretary VENEMAN. That is correct. And many who look at this agreement often look at it as a stagnant market rather than a market that is growing over time.

Senator SYMMS. Right. Now, the next question I have follows along with what Senator Breaux said. He was being pretty specific with you with respect to what are the safeguards to prevent Mexico from buying cheap, foreign sugar and then selling it in the United States for a profit. What is the safeguard?

Secretary VENEMAN. Well, one of the main things that the sugar industry was concerned about was transshipment, as we were negotiating this agreement. So, by year six of the agreement, Mexico has to have a border control program in place which will parallel the U.S. program so they cannot be shipping in sugar, substituting that sugar and sending it to the United States. So, there will be a program of equivalent type in place by the end of year six.

Senator SYMMS. In other words, the Mexican Government has agreed then to permit U.S. Customs to inspect their sugar facilities to prevent this from happening. Is that correct? That is what I have been told, but I just want to get that on the record.

Secretary VENEMAN. That is correct. We all have the right to inspect to ensure that rules of origin are being complied with.

Senator SYMMS. So, what we have is an agreement from their government, specifically in the treaty to do that. Now, the next question I wanted to ask is, the phase-out of tariffs on refined sugar and sugar-containing products coming from Mexico in 10 years while the phase-out for raw sugar is 15 years. Why the difference? I can submit these questions to you.

Secretary VENEMAN. I would like to get you that answer for the record so that you can have time.

Senator SYMMS. All right. Then, could the phase-out for refined sugar and sugar-containing products be equalized with that of raw sugar? That would go with it.

Secretary VENEMAN. All right.

Senator SYMMS. Well, Mr. Chairman, I see that my time has about expired. I will submit these questions to you for the record.

[The questions appear in the appendix.]

Senator SYMMS. I would just say in the remaining part of my time, I personally think that it is important that you can make the case so that you do not have Senators who should be voting for NAFTA, voting against it because of a significant part of their economy. And I might just point out for the record that my State, Idaho, in exports to Mexico from 1987 to 1991, have increased 193 percent. So, we are already doing a significant amount of business with Mexico.

And, in the big picture for the country, I think it is very important that we do have this agreement. Unfortunately, I think every Senator here has some political problem with the NAFTA. If you can work those out, it will be a lot easier to sell the treaty. It is a lot easier to be against one little thing and not explain all the other people who get hurt because you cannot see the benefit from it, but people can see the presumed threat to the question.

Secretary VENEMAN. I agree. And we would be happy to meet separately with any of the members.

Senator SYMMS. So, I ask unanimous consent to submit my entire statement for the record, Mr. Chairman, and the questions.

The CHAIRMAN. Without objection, that will be done.

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

Senator SYMMS. I thank you.

The CHAIRMAN. Thank you. Senator Durenberger.

Senator DURENBERGER. Mr. Chairman, I would ask unanimous consent that my statement be made part of the record.

The CHAIRMAN. That will be done.

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

Senator DURENBERGER. Madam Secretary, thank you very much. I need you to respond to a variety of questions, and I will ask you to do that in writing because of the time pressure we are under. The questions that Senator Baucus raised are critical.

Meetings and discussions and pressing the Canadians for 4 years is not going to satisfy either one of us. Nor is the argument—and I hope you can clarify this—that some of these issues, such as price transparency and transportation subsidies, are going to be covered when we finally get back to the Uruguay Round or bilateral negotiations.

I have never quite been able to understand the interplay here. We did not negotiate bilaterally with the Canadians, but we are going to do it at the GATT negotiations or are we going to do it under the United States-Canadian Free Trade Agreement. I think you need to explain to all of us—wheat is the major example—the interplay between these various agreements.

On the sugar issue—which we all care about—I care about it the most; I have got 4,830 sugar beet farmers—sugar is one of those examples, at least the safeguard mechanism, that is bothering me about this whole agreement.

I am going to ask you questions about corn; I am going to ask you questions about barley; I am going to ask you questions about the recordkeeping process for commodities, like pork, that operate under rate quotas; I am going to ask you questions on some other areas.

But one of the problems here is the same problem that I have experienced when I was on the Intelligence Committee, doing verification of commitments made under treaty agreements with the Soviet Union.

If you are going to have an agreement which depends entirely on inspectors standing at the ports of entry; if you are going to have an agreement that depends entirely on getting at the Mexican or Canadian books; if your whole agreement—as this one seems to be—is to be conditioned on some kind of an auditing process, this thing is not going to work.

This agreement has to be premised on the fact that it is in the best interests of each of these nations and each of the traders, the growers, the manufacturers in these nations, to make this work. In other words, all of the incentives ought to be to make this thing work rather than to try to set up a system that guarantees district.

That is a general observation, as I listen to the folks in Minnesota. Minnesotans should be all for free and fair trade. Our whole State would benefit from that. That is the interest that I try to represent. But today, all of the polls in my State are two to one against this agreement.

I am not sure that going back there and just saying, I have got a guarantee that this record is going to be open every year and that somebody is going to be inspecting the points of entry for this. It is not going to work. We have too much experience with Cuban sugar going to Canada and coming into the United States. You can go on and on with this sort of thing.

So, that is a general observation that I would make, not only to you but also to the USTR, to this administration, to anybody else, about this particular agreement. I really want to support it. I think it is important to our country's national interest. It is certainly important to the interests that I represent in the State of Minnesota.

But if I have doubts about how are we going to verify that Mexico is not importing foreign sugar out of the world market for domestic use; if I have to ask you questions about how the Government Grain Trading Agency makes the purchases, whether there will be a de facto import quota system; how do we do record-keeping, this sort of thing, I do not think we are going to make it.

But I am going to ask you those questions anyway, because that is the interpretation that I am getting of the premise on which the implementation of this agreement in agriculture is going to have to lie. So, I will leave it at that. I have the questions in writing and I will submit those questions for your response.

[The responses to written questions were not received at press time.]

Senator DURENBERGER. Do you have a general observation about my characterization of the terms as it relates to agricultural, commodities, concentrating very heavily on safeguards?

Secretary VENEMAN. Well, let me make a couple of comments about your initial statements on Canada, the GATT Round, and how all of this fits together. In the United States-Canada agreement, we had a very difficult time addressing the subsidy issues, as you know, and we said that those issues would be left for the GATT negotiations.

There has been a lot of confusion over the export subsidy provisions and that we would not use export subsidies to the territory of the other party. That was agreed to. There has also been confusion over the fact that that did not incorporate the Crow's Nest subsidy that went through Thunder Bay.

That subsidy was, in fact, a domestic subsidy because it was not conditioned on the export of the product, unlike the transportation subsidies that go out of west coast ports. So, that will be addressed under the internal subsidy part of the Uruguay Round.

We have pursued the transparency issue on numerous occasions, and we cannot forget that we have, in fact, filed a case on durum wheat under the provision of the Canada FTA that says that you shall not sell it below cost of acquisition, plus handling, storage and other costs. That has gone to hearing; a final decision is expected in December or January. So, I think that we have taken action. We did get some provisions in the United States-Canada

agreement, and we will have to pursue and get the rest of those subsidies addressed in the Uruguay Round. And that is how they fit together.

On the issue of enforcement and rules of origin, we have had a number of questions about that. Again, I would raise the fact that I think that it would be helpful to have discussions with the Treasury Department and Customs because I think they really have to assist in making those kinds of assurances.

We have the ability, not just to audit at the border, but to go into these countries and to audit the plants themselves. I think that is an important distinction, that it is not just an audit at the border, as I understand it. So, I would make those observations. We would be happy to answer your questions for the record, too.

Senator DURENBERGER. Thank you.

The CHAIRMAN. Thank you. Senator Grassley.

Senator GRASSLEY. In my State, there is some concern about whether or not this is a good trade agreement, based upon a study by the Dallas Federal Reserve Bank that said that grain farmers would lose income under this provision.

Yet, I think USDA is saying otherwise, and I am sure that my own Iowa State University is saying that this is pretty good for agriculture. Yet, this Dallas Reserve Bank study has received quite a bit of publicity. I want your view of what this is going to do for farmers, and particularly some commentary on the Dallas Reserve Bank study.

Secretary VENEMAN. Senator, if I can quote my top economist at USDA, he says that study has no credence at all. Let me tell you why. Our economists say that study is wrong on almost every point. It did not address issues with Mexico. It was done in 1986, and it assumed that all trade barriers, all subsidies would be phased out immediately.

In other words, it took this scenario that had no relevance to anything we have ever talked about negotiating in any trade agreement and said, if all trade barriers and all subsidies were eliminated, here today and gone tomorrow, this is what may happen, and it did not address the Mexico issue at all; that is what that study involved.

Our economists have gone over it. It has no relevance to what we have done on Mexico. It really does not have any relevance to what we are doing in the GATT because we have never talked about a complete elimination, an overnight elimination of anything. So, I do not know why that study has gotten so much attention in the press; I certainly do not think it deserves it. Hopefully, people can combat the fact that it has anything at all to do with the Mexican agreement or the NAFTA.

Senator GRASSLEY. Do you agree with Iowa State University's statement that at least midwestern agriculture generally would benefit from this agreement?

Secretary VENEMAN. Absolutely. Our economists indicate to us that—and I think it was both in the Chairman's statement, as well as mine—the benefits to agricultural trade from this agreement would be $1.5–$2 billion as a result of this agreement.

Now, as my economists explained to me, that does not include the growth that is going to occur in the marketplace in any event.

And, as you know, the growth in the Mexican market has been tremendous in the last few years.

So, the additional $1.5-$2 billion is on top of that normal growth that is already occurring. So, we are not just talking about the three we have now plus the two we may have, we are talking about a much greater spread than even that. So, we think it will be very beneficial for agriculture.

Senator GRASSLEY. The next question deals with the issue of NAFTA giving the United States the ability to compete with the European Community, and if the European Community would subsidize sales to Mexico, would the United States—and, again, this deals with agriculture—be able to subsidize sales to Mexico so we could compete with the European Community?

Secretary VENEMAN. Yes, sir. We have maintained our ability to use the Export Enhancement Program to counter and offset the subsidies of the European Community.

Senator GRASSLEY. Then another problem that comes up under the United States-Canadian agreement that raises questions about United States-Mexico agricultural trade are the more rigid standards that maybe Canada might have for the import of meat products and other value-added products into Canada. Specifically, this would be true of our red meat products. What mechanism would be in place to ensure Mexican meat products being imported into the United States meet the same food safety standards as the United States?

Secretary VENEMAN. We require that all meat products coming into this country meet our standards for meat and meat products. They are required to meet our standards from Canada; they are required to meet them from Mexico; from any other country.

As you know, we have a number of countries that we do not allow meat imports into this country, simply because there are some disease problems or other health and sanitary problems. Those will not change under the North American Free Trade Agreement.

Senator GRASSLEY. What about the other way around, like, for instance, sometimes we have to meet higher health standards for the Canadian Government than we would have if we were taking meat products into the United States, even though those would still meet our standards. What about our sales to Mexico, if they would have standards that are higher? I know they are for health purposes, but they also have the same purpose as a non-tariff trade barrier.

Secretary VENEMAN. Senator, that is a very good question, because we have seen many instances in which we have seen health and sanitary standards used as disguised barriers, or blatant barriers to trade. There is no question about it.

The thing that this agreement will require with its very comprehensive sanitary and phytosanitary part of the text, is that all such standards be based on sound scientific evidence. That is what we have been pursuing also in the GATT, but we have been able to get that in this agreement. I have not heard any of the agricultural groups criticize that part of the agreement at all; they all think it is necessary.

The other problem that we had this year was the Mexicans were trying to impose new standards under the guise of health reasons on very short notice. There is a provision in the North American Free Trade Agreement that would require 60 days notice—unless it was an emergency situation, like a disease situation—before they could apply such a new standard. So, that is a very positive step and I think will help to prevent some of the problems that we saw this year, as well.

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

The CHAIRMAN. Thank you. Senator Pryor.

Senator PRYOR. Mr. Chairman, could I yield to someone else for a moment?

The CHAIRMAN. Yes, of course. I was just following the sequence of appearance.

Senator PRYOR. Thank you.

The CHAIRMAN. Senator Bradley.

Senator BRADLEY. Thank you very much, Mr. Chairman. Ms. Veneman, in terms of winners and losers here, there have been a number of people who have called about the potential damage of the agreement to horticulture and to citrus. I wonder if you could tell us what your assessment is.

Secretary VENEMAN. Senator, as we began negotiating this agreement, there was a lot of concern on the part of many horticultural producers that they wanted to make sure that they had the greatest protection possible under the agreement. As we went through these negotiations, indeed, we did and were able to get the safeguard provisions or the longest phaseout period for the most sensitive products, which includes some of the citrus areas, as well as the horticultural areas.

Senator BRADLEY. And what are those phaseouts?

Secretary VENEMAN. Do you want for all the specific products?

Senator BRADLEY. No, no, no. You mean, for each different type of citrus there is a different phaseout?

Secretary VENEMAN. No. The orange juice is a 15-year phaseout, and I believe for most citrus it is a 15-year phase it. It is a 15-year phase.

Senator BRADLEY. And what is being phased out?

Secretary VENEMAN. Well, that is the longest period over which tariffs will be phased out. Now, on orange juice, there are special provisions that will require that orange juice be phased out at an even slower rate up front, with the remainder being at the end of the term so you give them more time to adjust up front to the fact that this agreement is going into effect.

So, that is probably the most protective from the standpoint of the transition period of any phaseout that we were able to achieve in the orange juice area. I think it is important, though, not to forget that many people in the fruit and vegetable industries are excited about the Mexican market as an opportunity for export: many of the people from the California Central Valley, where I come from, are already experiencing many export opportunities there; I have talked to growers in Texas; and even some people where you would not expect it. I have had folks in my office, saying, you will

not believe this. I am able to export tomatoes into the Mexican market.

I mean, there are off-season opportunities, particularly, or simply opportunities where the quality has not been there in the Mexican market, and as the consumers have greater demand for quality products, our producers are finding tremendous opportunities, even in the areas that we believe are most sensitive. So, I think the opportunities will be there for them, as well.

Senator BRADLEY. So that you think that Central Valley produce has export opportunities in Mexico beyond simply wine and dairy products?

Secretary VENEMAN. Oh, certainly. Some of the fruit producers out there were already seeing tremendous opportunities in the tree fruit areas, but some of the folks in the vegetable industry, as well.

Senator BRADLEY. Because one of the concerns expressed to me was in broccoli, asparagus, cauliflower, spinach, tomatoes as areas where they felt that they might have some problems.

Secretary VENEMAN. And, also, we have the longest phaseouts on some of those vegetables that are believed to be the most sensitive so that the greatest adjustment period can take place.

Senator BRADLEY. So, those are how long a phaseout?

Secretary VENEMAN. Some are 10, with a safeguard, and some are 15. If you would like, we could provide all those for the record, but I do not have them off the top of my head.

Senator BRADLEY. Please do that.

[The information requested was not received at press time.]

Senator BRADLEY. Well, I know this is a lot to ask since there are a lot of different products. What about peanuts?

Secretary VENEMAN. Peanuts is a 15-year phaseout. Peanuts is, as you know, protected in the United States now by Section 22 quotas. That will be converted to its tariff equivalent with an initial small tariff rate quota.

As you know, Mexico does not export peanuts to us in any substantial quantity or even minimal quantity. There are some very, very small quantities that come in. But the export opportunities for peanuts to Mexico are quite good.

Senator BRADLEY. So, the concern expressed about the treaty's threat to U.S. peanut production, how would you respond to that concern on the part of a lot of peanut farmers?

Secretary VENEMAN. I do not believe that there is a threat to U.S. peanut production in this country because Mexico is not a major, or even much of a peanut producer at all. The threat, I think, that the peanut producers feel is that we are tariffying Section 22 for Mexico only. We do not think that that undermines Section 22 in any other country. It remains in effect.

But I think the main concern is in that area. If you look at the economic analysis, it will show that the export opportunities for peanuts in Mexico are fairly significant and should give us opportunity.

Senator BRADLEY. Is there a number that you can attach to that?

Secretary VENEMAN. We can give you some economic analysis. There should be some additional export opportunities for Mexico.

[The information requested was not received at press time.]

Senator BRADLEY. So, basically it is the fact that it tariffies the quota, and, therefore, the peanut farmers worry about that happening with other countries. But your point is, it will only happen in a free trade arrangement situation. If, for example, you added another country, that might happen, but it is related only to the free trade agreement.

Secretary VENEMAN. That is right. The Section 22 is only related to the NAFTA agreement, and only with Mexico, not with Canada.

Senator BRADLEY. Yes. That is a good point, and an important point. Thank you for clarifying.

The CHAIRMAN. Thank you, Senator.

Senator Daschle.

Senator DASCHLE. Thank you, Mr. Chairman. Ms. Veneman, some of us thought that we had assurances from the administration that the outstanding subsidy issue between United States and Canada would be resolved through NAFTA, that the United States-Canadian agreement would be reopened to deal with these issues. Why was the United States-Canada agreement not reopened?

Secretary VENEMAN. Senator, I heard that earlier today, that there were some assurances from the administration. I can tell you, that is the first time I have heard that. The United States-Canada agreement was negotiated, as you know. It did not address certain issues that some of the grain producers are concerned about.

There was a fairly early on decision, particularly by the Canadians, that they did not want to participate in the trilateral negotiations as it pertained to agriculture.

Therefore, the United States proceeded to negotiate the agriculture chapter of the NAFTA with Mexico alone, under the assumption that the Canada-United States agreement on the agriculture chapter would remain in place to effect United States-Canada trade.

So, there was not success, certainly, in opening up the Canada agreement to resolve the outstanding problems. I know they are numerous. I have had many discussions over the years about them. We have, as I said previously, pursued the Canadians on the transparency issue on numerous occasions; we have a durum case filed that has been heard on selling at below cost of acquisition, plus handling, storage, and other costs. It is a case we would not have filed without the provision that gave us that right in the United States-Canada agreement.

We continue, certainly, to hear about the transportation subsidies with Canada through Thunder Bay. That is an issue that is not an export subsidy because it is not conditioned only on the export of the products. We will continue to pursue that issue in the GATT negotiations.

Senator DASCHLE. Well, I am really surprised that you are surprised that this issue has just now come up. I mean, it has been the subject of a number of discussions, and, certainly, I know I am not alone in understanding that this agreement was going to be opened up. Why did we reopen CFTA for automobiles but not agriculture?

Secretary VENEMAN. I do not know. I am not aware of what happened in the auto negotiations and I cannot comment on that, Senator.

Senator DASCHLE. Do you think that Canada enjoys better access terms to the United States as a result of these separate market access agreements?

Secretary VENEMAN. I think it is important to recognize that our trade in agriculture with Canada has gone up 44 percent since the United States-Canada agreement was implemented 4 years ago.

Senator DASCHLE. But that is not what I am asking. I am asking whether, under the separate access agreements, Canada is going to have better access to the United States.

Secretary VENEMAN. To the United States?

Senator DASCHLE. To Mexico.

Secretary VENEMAN. No. We have better access to Mexico than Canada does, because Canada did not want to open up some of its non-tariff barriers. So, they remained closed. Mexico keeps licenses on some of the products that Canada has. So, we have a greater access agreement with Mexico than does Canada.

Senator DASCHLE. Will Congress have the ability to review the terms of the Canadian-Mexican access agreements?

Secretary VENEMAN. That is in the NAFTA.

Senator DASCHLE. So, we will have a chance to look at it.

Secretary VENEMAN. I think you would probably have it.

Senator DASCHLE. Mexico took the U.S. meat industry somewhat by surprise, as you know, this summer, by imposing a Mexican version of the EC's third-country meat directive. In June, Mexico joined the European Community as the only meat importers in the world to demand that each processing facility seeking to export to Mexico be certified as eligible for export by Mexican officials.

As we have experienced with the EC, this kind of facility certification can be used to virtually shut off imports. While it appears that the Mexicans have backed off this plan, they have not withdrawn this directive. What actions has USDA taken to deal with this problem?

Secretary VENEMAN. I agree with you, Senator, that that is a very disturbing development on the part of Mexico, and we certainly hope that they are not going to take such actions in the future. We were able to get past the August 15 deadline on that issue. They will have some inspections of our plants, but it has been on an agreed-to basis between USDA inspection officials and Mexican inspection officials.

One of the things, as I said earlier in this hearing, that has resulted since we have had these talks going on with Mexico is we have also been able to bring both our APHIS people and our FSIS people, along with their Mexican counterparts, into more productive discussions on issues such as this.

We also have the sanitary and phytosanitary provisions of the NAFTA which will govern disputes such as this in the future in the trilateral setting. And we believe that that sanitary and phytosanitary text will help with dispute resolution if, in fact, it would get to that point.

Senator DASCHLE. Is the USDA seeking a Memorandum of Understanding on this?

Secretary VENEMAN. I am not sure whether or not we have an MOU on it; I would have to find out. But we have had numerous bilateral discussions. My understanding is we have reached agree-

ment. I can get you additional information for the record, if you would like.

Senator DASCHLE. Thank you.

[The information requested was not received at press time.]

Senator DASCHLE. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Pryor.

Senator PRYOR. Thank you, Mr. Chairman. Ms. Veneman, first, on September the 8th, I submitted 12 questions relative to cotton and how the cotton markets and cotton producers, et cetera, might be affected with this agreement should it go into effect.

Last night at 7:23, over the fax machine I received an answer to the 12 questions, and I frankly have not had time to examine all of them. What I would like to do, Mr. Chairman, is ask unanimous consent to put my questions to the USDA in the record, and also the responses I received from USDA last evening.

The CHAIRMAN. That will be done.

Senator PRYOR. I think it would be helpful to have that placed in the record.

[The questions and answers appear in the appendix.]

Senator PRYOR. Mr. Chairman, finally, if I might, I would ask a question that relates to EEP. Of course, we are talking about the export enhancement program. The President announced back in early September that he was broadly expanding EEP, that he was going to do a huge EEP program and it was going to help our wheat farmers.

Now, subsequent news articles in the New York Times say that this is merely a reshuffling of the existing programs. Our own ambassador to GATT states, "The multi-country wheat EEP announcement does not constitute any significant increase in the program level. It would merely annualize our EEP program and is not likely to result in significant increases in either the tonnage of subsidized wheat or our overall spending for the EEP program." And those are the quotes from our own ambassador. Do you agree or disagree with that statement?

Secretary VENEMAN. Well, I think it lies somewhere in between. We heard statements last weekend that the administration was not using the EEP program at all and suddenly decided to start using it, just because it was the election. That is certainly untrue. As you know, we have been using the EEP program aggressively for the last several years. In some ways, this is a new process, but it also adds additional countries. So, I think the truth does lie somewhere in between.

We have used a process with these EEP initiatives where we have announced them for different countries at different times when they ran out, when we needed one. What we did this time is we had a super EEP, so to speak, for wheat, which incorporates all of the EEPS that we had, plus add some more.

What that does is a couple of things. It creates certainty in the market as to where we are going to be selling and where we are going to be countering the subsidies of other countries with our EEP program, and, secondly, it assists in simply the process of getting all of these through the review process. So, I think that it is beneficial. It is a beneficial process. And, as I said, it is something in between the article you read and——

Senator PRYOR. Well, it was not necessarily the article, it was our own ambassador's statement to the GATT Council, and that is what has confused me. I think it has confused a lot of wheat farmers. I think the President actually made this announcement in Senator Daschle's State of South Dakota back in early September, if I am not mistaken.

And, then, to have our own ambassador say, well, it does not amount to much, and the New York Times say we are just reshuffling the program, I am very confused, and I think a lot of farmers are confused about it.

Secretary VENEMAN. Well, that is what I tried to explain. I did not know about our ambassador to the GATT's statement. I am sorry.

Senator PRYOR. Yes. Well, thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. Madam Secretary, it has been most informative, and we are appreciative of that. We have no further questions at this time. I know that a number of my colleagues have many more things that they would like to ask you, but we have used over half the time and we have witnesses from the energy and agriculture sectors, and I would urge my colleagues to propose written questions, if they will.

Senator RIEGLE. Mr. Chairman, I will not, then, go over that line right now. I would like to just make one comment then and I will give you some questions for the record. But I am very much concerned about the fact that Canada, as you know, has opted out of NAFTA concerning eggs, poultry, and dairy. It turns out that dairy is the largest agricultural sector in my State.

And I am concerned about the advantages this gives the Canadians in this situation. I think we have got to have a detailed explanation. The Chairman does not want to take the time to go into that now, and I appreciate that, because there are others waiting. But I think we need a detailed explanation.

Also, in the area where Carla Hills says there are going to be winners and losers in agriculture, I think you have got to be forthright with us in telling us what the sectors are that are going to be hardest-hit in the United States; and those farmers who are going to lose market possibilities, where are they, and what might they do as an alternative? How might they shift their production to something else? I think you have got to give us a road map on that. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Secretary VENEMAN. Mr. Chairman, may I respond to the dairy question quickly and we will do additional for the record?

The CHAIRMAN. Well, if you will, but make it relatively short if you can. I know we are going to have some more votes as we go along, so our time will be cut short.

Secretary VENEMAN. Quickly, though. For your diary producers, we have the advantage, not the Canadians. We are the ones that got access to the Mexican market; the Canadians did not. As I have talked to dairy producers around this country, they are very excited about the export potential in a market that is clearly dairy deficient. So, we are the winners in dairy, not the Canadians. That is all I wanted to say.

Senator RIEGLE. Well, we cannot prolong this. I disagree with that interpretation, because the Canadians are free to come in and under price us in Mexico. Surely, you can see that point.

Secretary VENEMAN. They are still subject to licensing and we will not be.

Senator RIEGLE. Well, we will see. Thank you, Mr. Chairman.

Secretary VENEMAN. Thank you, Mr. Chairman.

The CHAIRMAN. It is difficult to see who was going to get the last word on that, but thank you very much. [Laughter.]

Thank you very much, Madam Secretary.

Secretary VENEMAN. Thank you, Mr. Chairman.

The CHAIRMAN. I do think the questions are pertinent, and we will look forward to the written answers.

[The responses to written questions were not received at press time.]

The CHAIRMAN. We, next, have a panel of agriculture witnesses. Mr. Pete Wenstrand, who is vice president of Government Relations for the National Corn Growers Association; Mr. Ray Prewett, who is the executive vice president of Texas Citrus Mutual and Texas Vegetable Association; Mr. Charles Thibaut, who is the chairman of the National Legislative Committee, American Sugar Cane League; and Mr. Madison Angell, who is the president of the National Association of Wheat Growers. If I have mispronounced a name, by all means, correct me.

I am going to ask my colleagues, because of the time problem, to limit their questioning to 3 minutes as we make the rounds again. We have had good attendance by the members, coming in and out as they attend their other committee hearings, and I am sure that we will probably end up with some votes which will further limit our time. Mr. Wenstrand, if you would proceed, please.

STATEMENT OF PETE WENSTRAND, VICE PRESIDENT, GOVERNMENT RELATIONS, NATIONAL CORN GROWERS ASSOCIATION, ESSEX, IA

Mr. WENSTRAND. Mr. Chairman and members of the committee, thank you for the opportunity to present the views of the National Corn Growers Association. I am Pete Wenstrand, a farmer from Essex, IA. Starting tomorrow, I have the privilege of serving as First Vice President of the NCGA.

The National Corn Growers Association has endorsed the North American Free Trade Agreement for several reasons, which I will discuss in detail later. First, I would like to commend the Finance Committee for your attention to this agreement and to your dedication to see that NAFTA is good for the country.

When we testified on behalf of fast-track negotiating authority many months ago, we recognized that Congress has the final say on the destiny of NAFTA. If your examination concludes that this agreement is not good for U.S. agriculture or our Nation in general, we trust that you will inform the President, as well as us, of your findings so that we can attempt to address your concerns. If you determine that it is a good agreement, we hope that you will act swiftly to move the process along.

From the perspective of the U.S. corn grower, Mexico has been a steady market until recent years. For the 1985–1992 period, Mexico averaged buying 2.4 million metric tons of corn.

In the 1989–1990 marketing year, Mexico had a bad crop and they imported 4.6 tons. However, Mexico subsequently increased its own corn subsidies, resulting in more production and beginning a downward trend in corn imports.

This year, foreign purchases dropped to almost 1 million metric tons, reflecting what we were concerned was more of a norm, rather than the exception. As a result, Mexico, which was once among our top three export customers, fell to number 10. Given the current uncertainties of all of our export markets, the United States needs a positive turnaround with our historic customer.

As you know, Mexico has had an arbitrary licensing program that can choke off corn imports at any time. The removal of this barrier was the number one criterion for us to judge a NAFTA agreement to be successful.

The pact before us today would eliminate the import licensing program and replace it with a tariff rate quota. The initial level of duty-free imports would be 2.5 million metric tons, with a compounded growth of 3 percent per year for 15 years. At the end of that period, all trade in corn would be unhindered.

While one would always hope for immediate free trade when it is of benefit, or for a higher quota, the level negotiated is certainly a substantial improvement over the recent trend. The 2.5 ton level would place Mexico back among the top five export customers for U.S. corn farmers.

This agreement would also improve sales of value-added U.S. agriculture products to Mexico. All indications suggest that pork, beef and poultry sales to Mexico will increase as a result of this agreement.

Few question that the agreement, on the whole, will create new industries and jobs in Mexico, creating new wealth. With this increased affluence, an improved diet will be demanded by the Mexican citizens. This further expands the potential for sales of not only meat and livestock, but certainly would cause more corn disappearance, but also other food items which the Mexicans will require.

U.S. corn producers stand to benefit from the increased exports of our bulk commodity, as well as processed products that magnify the value of our grain. Of course, NAFTA would link the United States, Mexico and Canada in the largest and richest free trade zone in the world, with 390 million people and a $6 trillion economy. This trade union promises to be a valuable hedge against the many unfair trade practices around the world.

Most specifically, we hope this pact will send a clear message to Brussels. As you know, we are continually frustrated by the lack of import access to the European Community, while the EC subsidizes exports freely to the rest of the world. NAFTA should signal that the United States will not sit idly by while the EC continues to rob our farmers of their markets.

Even with this said, however, I think it is just as important to point out that our trading partners who deal with the United States fairly should not have anything to fear from NAFTA. In fact,

it should improve all three countries' economies, setting the stage for increased buying power and enhanced trade around the globe.

Of course, most of the discussion of NAFTA has been focused on Mexico, but Canada is the other major partner in this three-country union. Canada is the number one customer for U.S. high-valued exports and is the destination of almost 10 percent of all our agriculture exports.

The National Corn Growers Association opposed the United States-Canada free trade agreement because of the institutionalizing of the countervailing duty on U.S. corn. A few years later, GATT ruled in our favor and Canada adhered to the finding and the NCGA position was justified. I mention this just to illustrate the fact that we do not take these agreements lightly and will fight to ensure U.S. interests are protected. We did welcome Canada's entrance into these talks and are excited about our neighbor to the north helping create the agreement.

Finally, just let me touch on concerns that this agreement will cost jobs in the United States. We must accept the challenge to discover the job opportunities that this agreement represents. For instance, Iowa produces approximately 25 percent of the hogs raised in this country.

If NAFTA accelerates a demand for pork, there will be new jobs in livestock breeding, feed milling, veterinary services, meat packing, et cetera. This is only one example of how a trade agreement can represent opportunities.

We must firmly create jobs and increase farm prices in this country, and I firmly believe NAFTA will, by adding value to our products, by improving the economies of our closest neighbors, and by creating more trade. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

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

The CHAIRMAN. Our next witness will be Mr. Ray Prewett, executive vice president of Texas Citrus Mutual and Texas Vegetable Association, from my home town. I am delighted to have you here.

STATEMENT OF RAY PREWETT, EXECUTIVE VICE PRESIDENT, TEXAS CITRUS MUTUAL AND TEXAS VEGETABLE ASSOCIATION, McALLEN, TX

Mr. PREWETT. Thank you, Senator, and members of the committee. I appreciate the opportunity to testify here today. I am Ray Prewett, from Mission, TX. Before summarizing my testimony, I would like to clarify that I represent two separate organizations, as Senator Bentsen said: Texas Citrus Mutual, and the Texas Vegetable Association. And, because of different circumstances for vegetables in our area and in Texas as compared to citrus, the two organizations do have somewhat different positions.

Most people in our area of south Texas realize the immense benefits and the large number of winners that we will see from this agreement. I wanted to make that clear before I state my concerns here today.

First, on the citrus position. After careful study of the citrus provisions in this agreement, Texas Citrus Mutual has come to the conclusion that we have no choice but to oppose the proposed

NAFTA agreement in its present form. My comments are directly primarily at fresh citrus, because we ship over 80 percent of our grapefruit and oranges from our area to the fresh market.

I would like to make a brief statement that I think Secretary Veneman's comments were primarily about juice in the phaseout period that is granted under the agreement. Those vary by season, as far as fresh fruit is concerned. But, for oranges, the longest is 5 years, and, for grapefruit, the longest is 10 years; for juice it is 15 years.

I have provided my testimony and some background information on the tremendous growth that we are seeing in the Mexican citrus industry at the present time, and I have documented a differential in production costs in our two areas which is the basis for our concern.

We are extremely disappointed that there is not some kind of effective transition protection in the agreement for fresh U.S. citrus. Our only practical protection is the Mexican fruit fly problem in Mexico, which is currently limiting the amount of fresh grapefruit and fresh oranges coming to the United States from Mexico, and we do expect Mexico to solve that problem, at least in certain areas, over a period of time.

It is very important to understand that, because citrus is a tree crop, it is a long-term investment and growers do not have the flexibility of changing to a different crop every year.

Although there is no significant protection for the fresh U.S. citrus industry in this agreement, the citrus industry in Mexico has been given a tremendous break in the agreement. Frozen concentrated orange juice is, by far, the most important citrus export product from Mexico. The proposed agreement grants Mexico a 50 percent immediate reduction in duty on the first 10 million gallons of FCOJ exported to the United States.

The primary effect of this immediate tariff reduction will be to assure that these first 10 million gallons come from Mexico, and not from Brazil or some other area. But it will allow Mexico to sell that quantity at a significantly higher price, and, therefore, will be a major benefit to Mexico.

On the fresh side, we see, certainly, some opportunity in the long-term to sell an increased amount of grapefruit to Mexico, but presently Mexico is not a significant consumer of grapefruit. They are planting and producing most all of their grapefruit for the export market.

So, our position on citrus is as follows: for us to support the agreement would require either an increase in either tariff level before the phaseout, or at least some kind of snap-back provision to protect against adverse price impact of Mexican fresh grapefruit and oranges in our market.

Now I would like to turn to our position as far as the Texas Vegetable Association is concerned. First, we would like to mention that, just in the lower Rio Grande Valley, in 1986, which is the year we last have official statistics on a regional basis, there were 77,730 acres of melons and vegetables.

There are at least 10,600 seasonal farm workers employed in these labor-intensive industries. While estimates are difficult to make as to the impact of this agreement, we do estimate that, over

the next 3 years, 25-40 percent of the vegetable acreage in our area will be lost, with much of it going to Mexico. This could mean as many as 3,533 on-farm jobs, as well as other related jobs, that could be lost in our area over the next 3 years.

As one example, I would like to refer, briefly, to broccoli. Three years ago, we had 5,000 acres of broccoli that was being grown for our freezer plants in the Rio Grande Valley. Now we have only 1,500 acres. We realize that happened without the agreement, but we think the agreement will accelerate the impact.

We have proposed, with respect to one vegetable crop—squash—that there be another look taken and that there be some reduction in the duties on squash coming out of Mexico that is grown for the process market so that it can be used in our freezer plants in the valley, at least during the period of April 15 to May 15.

We also have some recommendations that we feel strongly about. A lot of our vegetable producers do operate in Mexico, and it is very difficult to get a lot of our production inputs that those growers and other growers in Mexico use. I am talking about seed, chemicals, fertilizer, transplants, and other crops.

And, while we know it is normally up to the other country to decide how to facilitate the import of such items, we believe this agreement provides an opportunity, and there is certainly a need to make it much easier to get these kinds of production inputs into Mexico.

The only thing I will say, since my time has run out, is that, in other areas of my testimony, it states that we are very much concerned about the insect and disease problems that we face in citrus and vegetables, because of problems they have that we do not have.

The most serious of those is probably the threat of tristeza, which is not presently in Mexico, but it is moving in that direction. If Mexico were to get tristeza, it would be a major threat to the citrus industry in the Rio Grande Valley. Thank you.

The CHAIRMAN. Thank you. We will take your entire statement, all of you, in the record.

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

The CHAIRMAN. Mr. Thibaut, if you would proceed. You are the chairman of the National Legislative Committee of the American Sugar Cane League, from Thibodaux, LA.

STATEMENT OF CHARLES THIBAUT, CHAIRMAN, NATIONAL LEGISLATIVE COMMITTEE, AMERICAN SUGAR CANE LEAGUE, THIBODAUX, LA, ACCOMPANIED BY LUTHER A. MARKWART, EXECUTIVE VICE PRESIDENT, AMERICAN SUGARBEET GROWERS ASSOCIATION, WASHINGTON, DC

Mr. THIBAUT. Thank you, Mr. Chairman. Mr. Chairman and members of the committee, my name is Charles Thibaut. I am a Louisiana sugar cane farmer, and Chairman of the Legislative Committee of the American Sugar Cane League. The domestic U.S. sugar industry is united in its opposition to NAFTA in its present form.

Although we have consistently overcome natural and economic adversity in the past, we frankly believe we cannot overcome the effects of the proposed North American Free Trade Agreement.

The domestic sugar industry employs approximately 117,000 people, with an annual payroll well in excess of $1 billion. Secretary of Labor Lynn Martin stated before this committee that there would be 150,000 jobs lost as a result of NAFTA. We know where 78 percent of those jobs will be lost forever.

Either Secretary Martin's figures are incorrect, or certainly the domestic sugar industry is taking a disproportionate share of these jobs losses. Most of our field workers are persons of limited skills. It is likely they will move down the pay scale and not up the scale to better jobs.

Mr. Chairman, what comfort can an unemployed sugar mill worker in Jeanerette, LA find in knowing that there are jobs created on Wall Street? Mexico is currently a net importer of sugar. Under the proposed agreement, Mexico will more than likely become a surplus producer and exporter of sugar well before the 15th year of the transition period.

Mexico currently utilizes approximately 1.5 million tons of sugar annually as beverage sweetener. By substituting high-fructose corn syrup for sugar in their soft drink industry, it is anticipated that Mexico will become a surplus producer in less than 5 years.

The United States and Canada have already made very expensive transitions from a sugar-dominated market to a sweetener market equally shared by sugar and corn sweeteners. It is abundantly clear that U.S. farmers and factory workers paid their price for this transition. Under the proposed NAFTA, the U.S. sugar industry will have to pay that price once again.

As was done in the United States, Mexican producers and factory workers must bear the burden of their own transition. But the proposed NAFTA allows their displaced sugar to be dumped and pushed into the U.S. market at the expense of U.S. producers, traditional foreign supplies and more U.S. jobs. This is unfair.

Mexico should not and cannot be allowed to export sugar to the United States that has been displaced by Mexican high-fructose corn syrup. This influx into the United States of unlimited amounts of displaced Mexican sugar will render the no-cost provision of the Farm Bill impossible to achieve, and, thus, defeat the intent of Congress.

To ease the burden of the U.S. sugar industry, the agreement must be modified in several respects. First, Mexico will be given increased access to the U.S. market any year it is projected to achieve surplus producer status.

The determination of surplus producer status must be modified to include in the consumption calculations, not only sugar, but also other caloric sweeteners, particularly corn sweeteners.

Secondly, the surplus producer calculation must be made on the basis of verifiable history and not just on vague projections, as presently provided.

Thirdly, there must be an access limitation incorporated into the agreement. At the end of the 15th year, or at any earlier time that Mexico achieves surplus producer status for two consecutive years, Mexico will be permitted to send its entire net surplus production to U.S. markets. This provision must be stricken.

Fourth, under the agreement as presently drafted, U.S. Section 22 protection for refined sugar and sugar-containing products must

be phased out over 10 years. This transition period should be increased to 15 years, consistent with the transition period for raw sugar.

These necessary changes will mitigate several potential damaging effects that are currently in the proposed agreement. First of all, they will reduce the false incentive for Mexico to increase production of a surplus commodity.

In addition, Mexico will not be allowed to dump its displaced sugar into our market. The U.S. sugar industry will be ensured a true 15-year transition period instead of allowing Mexico virtually unlimited access after a mere 6 years. There will be a 15-year transition period for refined sugar, and our most sensitive sugar-containing products.

Finally, our changes will guarantee the integrity of the sugar program and access to our domestic market for our traditional foreign suppliers. The fast-track procedure provides for this 90-day review and consultation period for Congress and the industry to identify and correct flaws in the agreement.

We formally and respectfully request that Congress direct the administration to resolve these problems in the text of the agreement in the manner in which we have prescribed in order to prevent serious damage to the U.S. sugar industry. We appreciate the opportunity to testify today and will answer any questions you may have. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Our next witness is Mr. Madison Angell, who is the president of the National Association of Wheat Growers, from Mocksville, NC. We are pleased to have you.

STATEMENT OF MADISON ANGELL, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, MOCKSVILLE, NC

Mr. ANGELL. Mr. Chairman, members of the committee, I appreciate this opportunity to present testimony on the recently negotiated NAFTA. I am Madison Angell, from Mocksville, NC, a grain farmer, and I am President of the Wheat Growers Association.

Mr. Chairman, to capsulize, the NAFTA would eliminate the Mexican import licensing system that has been used continuously to restrict imports of wheat from the United States. In its place, a 15 percent tariff would be applied on wheat imports in the United States, which would be phased down to zero over a 10-year period. Provision is made for accelerated reductions in the new duty, with the consent of parties to the agreement.

In contrast, U.S. wheat presently enters Mexico duty-free, with the exception of a 10 percent tariff that is applied to the durum wheat. The NAFTA does not contain a definition of export subsidies, unlike the United States-Canada Free Trade Agreement, which prohibits the use of the Canadian Western Grain Transportation Act subsidies on grain exported to the Western United States.

The NAFTA accord would allow the use of this subsidy scheme on the westbound grain movements to Mexico. The United States would be free, under the NAFTA, to use its export subsidy system,

the Export Enhancement Program, to compete against Canada and non-NAFTA countries in the Mexican wheat market. While this provision provides the United States the opportunity to take this into the Mexico market, this can only be done with the sustained use of our export subsidies.

The current state of North American wheat trade defies geography. Canada's principal wheat-producing region is centered around Regina, Saskatchewan, some 2,821 miles from the Mexican wheat import market in Mexico City, yet, Canada enjoys 76 percent of the wheat market.

The reason for this abnormality is that the United States has been unwilling to match subsidized competition, and there has been no indication that our government will go head-to-head against the Canadians in the future if NAFTA is implemented.

Regrettably, the NAFTA agreement fails to address the question of price transparency. This important issue was sidetracked in the United States-Canadian Free Trade Agreement, and has not been included in the Uruguay Round of GATT negotiations. Unlike the open market U.S. trading system, sales price are not revealed in exporting countries with monopolistic marketing regimes, such as the Canadian Wheat Board. The lack of price transparency makes it impossible to determine unfair trading practices.

A bilateral panel is currently reviewing the pricing of Canadian durum wheat exports to the United States to determine if the grain has been sold below Canada's acquisition price. If so, the sales will be in violation of the United States-Canada Free Trade Agreement. The panel results are to be known in December of 1992. The findings, however, will not cause Canada to reveal its prices to an independent body for monitoring, as U.S. wheat growers have urged.

Price transparency should be provided for in the NAFTA agreement to ensure that U.S. prices and supplies are not undermined by subsidized Canadian imports, and that the U.S. exports to Mexico are not systematically displaced by subsidized Canadian sales.

Finally, I would like to discuss another North American grain issue which we hope the Congress will incorporate into the trade legislation. It, too, results from the unsatisfactory outcome of the United States-Canada Free Trade Agreement.

The 1990 Farm Act explicitly forbids the practice of commingling foreign grain with U.S. grain for export under U.S. taxpayer assisted programs. More than 80 percent of U.S. wheat exports utilize these programs in one form or another, yet there is no present means of assuring that foreign grain is not mixed under these shipments.

With the implementation of the United States-Canadian Free Trade Agreement, all U.S. wheat and oats exported to Canada must be accompanied by an end-use certificate which details where the grain is going. We believe that it is important that the same method be used to protect the integrity of U.S. grain.

The adoption of this procedure would not disturb the status quo, inasmuch as foreign grain could still be blended with U.S. grain for domestic utilization and for export without government sponsorship.

We see no alternative to end-use certificates which would promote compliance with the 1990 Farm Act. Options such as transit

billing or diminimus requirements would actually permit and expand the volume of foreign grain to be exported under these programs.

Thank you again, Mr. Chairman, for the opportunity for today's presentation. I will be glad to answer questions at any time.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Mr. Prewett, as I listen to you, I got the feeling that, other than the caveats and some relatively minor modifications, that your association, on fruits and vegetables—I am not talking about citrus—is reasonably well satisfied with the agreement. Yet, I hear from Florida a very contrary view; people that feel strongly that NAFTA is just going to put them out of business. Why the difference in the viewpoint?

Mr. PREWETT. Well, I think, Senator, an awful lot of it has to do with our proximity to Mexico. Our producers have been involved in growing vegetables in Mexico for many, many years, have taken our technology there and have been successfully been growing melons and onions, for example, for many, many years, as you are aware.

The only way that many of those producers feel like they are going to be able to survive is to continue to produce in Mexico and, in fact, to expand their production in Mexico. So, that is the first thing, I think. They see Mexico as an opportunity to produce and we also see opportunity to sell some vegetables into Mexico. So, I think it is the different circumstances that our two production areas have.

The CHAIRMAN. Let me get into citrus because I have been in that myself. We are talking about a 5-year phaseout on fresh oranges, as I understand it.

Mr. PREWETT. Correct.

The CHAIRMAN. And 10 years on grapefruit. You have, it seems to me, an industry that is both capital and labor intensive. Given the cost of money in Mexico and the shortage of capital generally, yet the abundance of cheap labor, how does the cost of production in Mexico compare to our cost of production in this country?

Mr. PREWETT. Our best estimates are that it costs about $1.60 per 40 pound carton to produce grapefruit/ oranges in Mexico, and about $3.60 in the lower Rio Grande Valley. So, there is a substantial disparity in cost. But from there, you get into the kind of quality they grow in Mexico, which, in most cases at present, will not match our quality.

Part of that is because they are growing a lot of their fruit to be shipped to the Mexico City market where it eventually ends up in the home where it is squeezed for juice and they are not concerned about the exterior appearance. But, nonetheless, their costs of production are substantially less and that is the basis for our concern.

The CHAIRMAN. Mr. Wenstrand, on the question of corn producers, the agreement does not do anything directly, does it, about Mexico's subsidies? So, why do you think our exports will increase as a result of NAFTA?

Mr. WENSTRAND. I am sorry, Mr. Chairman. Which subsidies are you referring to?

The CHAIRMAN. I am talking about the subsidies that I understand Mexico gives its corn producers.

Mr. WENSTRAND. I will admit, I am uncertain as to the status of those subsidies. It is my understanding that there are, overall, changes going on in agriculture in Mexico, including for corn producers.

As you know, corn is highly regarded culturally in Mexico; it is a very important product. That is one of the reasons why it is was such a difficult issue in the negotiations. I think overall economic growth—the change in diet demands, specifically for meat and possibly for processing as well—will supply that demand.

As you know, the import licensing system was very arbitrary. And, as I understand it, even though corn above the 2.5 million metric tons is subjected to a very high tariff, if they get into a situation where they have production problems, that tariff can be waived. So, I think overall economic growth will supply that demand for U.S. corn.

The CHAIRMAN. I see my time has expired. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Angell, would American wheat producers generally support the NAFTA if end-use certificates were required on Canadian wheat coming into the United States, and if price transparency were addressed and solved, and if the administration were to use EEP in wheat sales to Mexico?

Mr. ANGELL. Well, really, the concept of NAFTA, we think, is good. We are still concerned with the contents of it. I have been in contact with a number of our member States. Right now we could not really give you a definite answer until our convention in February. However, it would be very dubious, as it stands now, that we could support it. Our people are real concerned about what is happening. They are real concerned about the fact that we are duty free now but tariffs would apply to wheat going into Mexico in the future.

Senator BAUCUS. If these three areas are not addressed, would wheat producers probably oppose NAFTA?

Mr. ANGELL. My personal opinion is we surely would. But I would really like for all of our States to agree on that.

Senator BAUCUS. I appreciate that. Now, why do you suppose the administration, so far, has not addressed these three issues? That is, why is the administration, in your judgment, not using EEP in sales to Mexico?

Mr. ANGELL. Sir, I really could not answer that. Our wheat farmers would really like a good answer to that, also, as to why they are not doing it.

Senator BAUCUS. Does it have something to do with America's reluctance to go toe-to-toe with Canada on wheat sales, although we are very willing to go toe-to-toe with a community that is much farther away, the European Community?

Mr. ANGELL. Well, I am sure that we do not want to go toe-to-toe. We would like to keep good relations with Canada. That has probably got quite a bit to do with it. We have never seen any indication in the past that we would compete with the Canadians. However, we have great difficulty in finding out what prices the Canadians are getting for the wheat. I know in our negotiations,

a lot of times on exports, the Canadians always come in and get some of the deals.

Senator BAUCUS. But is it true that, even though the Canadians are our neighbors and we like to be friendly with neighbors, that the Canadian practices with their transportation subsidies, and also with the lack of price transparency are probably just as much a subsidy as, say, the European system is with respect to American wheat sales worldwide.

Mr. ANGELL. Oh. Yes, sir. The subsidies for transportation, in some cases, amounts to as much of $20 a ton on some movements. That is a factor, and they are hidden. That is one of our concerns. We would like to really know the ways that Canada is subsidizing their grain exports.

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

The CHAIRMAN. Thank you. Senator Packwood.

Senator PACKWOOD. Mr. Angell, I did not quite understand your answer to Senator Baucus's questions, and I think he meant it theoretically. But if Canada were to get rid of transparency and the transportation subsidies, and, instead of export subsidies they just said, fine, we will go toe-to-toe with the United States with no export subsidy, in your judgment, would the U.S. wheat growers then be willing to say, fine, we will go toe-to-toe with you so long as neither one of us have those subsidies?

Mr. ANGELL. Yes, sir. I think our wheat growers and American growers are willing to go toe-to-toe with anybody in the world on our exports. We can produce the food and we can do it if we get a level playing field to do that with.

Senator PACKWOOD. All right.

Mr. ANGELL. That is our problem right now.

Senator PACKWOOD. I understand that. I think your problem is justified, vis-a-vis Canada. But now I am curious, from the standpoint of the good of the United States, how this committee decides it. Let us say your problems with Canada are solved and you are willing to go toe-to-toe.

Before asking you that, let me ask you a question. I am intrigued with the chart that comes with your testimony on the wheat imports into Mexico. They vary tremendously from year to year vis-a-vis the United States and Canada, both before and after the North American Free Trade Agreement. What is the reason?

Going back to 1983, we did not export anything, and Canada exported 364,000 metric tons. The next year, both countries hardly did a thing; the same in 1985–1986. Then, in 1988–1989, we go—it is either 8 or 9, 63, I cannot make it out—to 66, 219 to zero, and 300 to 62. Then, last year, they get 70 percent of the market, yet, their practices have not changed any over the years. Why this tremendous fluctuation?

Mr. ANGELL. A tremendous amount of that is due to the weather fluctuations in the countries and the supplies. Canada has had a couple of years in there they were oversupplied; other years they were not. Then, again, competition in the price with subsidies. It is very hard for us to understand, as wheat farmers, how this happens.

Senator PACKWOOD. So, that basically is not necessarily Canada's subsidy, they may have a bad crop year, we have a good crop year, or maybe vice versa. Or maybe Mexico has a good year and they do not need to import anything from us. There are a lot of variables involved.

Mr. ANGELL. Yes, sir. There are some variables involved.

Senator PACKWOOD. Now I want to ask this theoretical question again. I remember when we were doing the Israeli Free Trade Agreement. The avocado growers were opposed to it because they were afraid of avocados coming in from Israel.

I will start with Mr. Thibaut. Hypothetically, what would happen if we solved the Canadian problem with wheat and we would have then corn and wheat for this agreement and sugar and citrus against it.

What would happen if the entire sugar and citrus industry just disappeared from the United States and we imported all of our sugar and citrus? I realize there would be a tremendous dislocation in unemployment, and wheat and corn would have a tremendous increase in employment. Given that situation, how would the country suffer

Mr. THIBAUT. Well, you would lose about 117,000 jobs, to begin with.

Senator PACKWOOD. Would we gain any jobs elsewhere?

Mr. THIBAUT. In sugar?

Senator PACKWOOD. No, no, no. In other agricultural industries.

Mr. THIBAUT. I cannot answer that question. I know that in sugar we will lose 117,000 jobs. And the consumer, over the last 8 to 10 years, has had a nice price for sugar. The price for sugar in the United States, as a percentage of disposable income, is the cheapest in the world.

The program has worked; why mess with it? You are going to lose all these jobs. If you displace these workers, they are not going to move up the job scale, they are going to move down the job scale.

Senator PACKWOOD. I will ask this last question and then come back on another round. Should we, then, in this agreement, renegotiate it to make sure that no jobs are lost in any U.S. industry?

Mr. THIBAUT. Yes, sir. Absolutely.

Senator PACKWOOD. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Breaux.

Senator BREAUX. I do not want all my sugar farmers to become wheat farmers. I think the word should go out from these hearings today to the administration, but particularly to our friends in Mexico who really want this agreement—referring to Mr. Thibaut's testimony—there are an awful lot of members of the Senate that have some real concerns about your testimony and agree with your testimony and the points that you have made.

It is my understanding that if NAFTA passed in its current situation, that Mexico, which is now an importer of sugar, would not be able to import any raw sugar into their country to make themselves a surplus producer, but they could import in an unlimited amount of HFCS—high-fructose corn sweeteners—in order to create a surplus in their domestic sugar production thereby allowing them to export all of their surplus sugar to the United States without any duty restrictions whatsoever.

So, this provision is a "trick provision."

Mr. THIBAUT. That is correct.

Senator BREAUX. I mean, there is a trick going on in NAFTA that allows them to become a surplus producer by importing a product to replace some of their sugar consumption. Is that agreed?

Mr. THIBAUT. That is correct. That is correct. They are not going to increase their acreage in sugar cane. All they have to do is, as you said, import the high-fructose corn syrup and replace that sugar in their soft drink industry.

Senator BREAUX. Well, this really is a trick provision, as I would call it. They do not have to produce one more acre of sugar but could become a surplus producer of sugar——

Mr. THIBAUT. That is correct.

Senator BREAUX [continuing]. Under the terms and the way the text is drafted under NAFTA. Now, it seems that the text can be corrected. The agreement says, "Net production surplus means the quantity by which a party's domestic production of sugar exceeds its total consumption of sugar for a marketing year." The problem could be corrected by changing the phrase "consumption of sugar" to "consumption of caloric sweeteners." Would that be correct?

Mr. THIBAUT. Yes, Senator. Exactly.

Senator BREAUX. That would correct the problem in this area that you are concerned about. Now, Secretary Veneman, said in her statement that the industry wanted this solution that you have recommended today.

But, she said, in the negotiations, that Mexico rejected this suggestion and it became clear that we would have to offer concessions in other areas to change Mexico's position. That is what the administration is telling you. What do you think about that?

Mr. THIBAUT. Well, that is fine for the corn people. But for the sugar people, that is going to really hurt us. We cannot afford that, to put possibly 1.5 million tons of sugar into this market that sometimes reacts violently to 10,000 tons of sugar. The administration traded sugar away there.

Senator BREAUX. Well, I think your testimony is good. It is on target. I think you all have been willing to make some recommendations and I think that our friends in Mexico should recognize the validity of those recommendations and they should, in fact, agree to these changes.

Mr. THIBAUT. Thank you, Senator.

The CHAIRMAN. Gentlemen, I know this 3-minute time limitation is cutting you pretty short. We will do a second round, if you desire. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. I have a resolution, S.R. 109, that would change the process by which we would deal with this NAFTA eventually on the Senate Floor, and we would change the procedure by allowing more time on the Floor and we would also open it up for amendment in any one of five areas. That may be the way—there will be some differences on this committee about that—that, in the end, we can really go in and correct the defects in this package.

I think this is a loaded gun pointed at a lot of industries in our country and sugar is one of them. You have laid that out. Now, my understanding is, even though your technical advisory group was

set up to help develop a sound negotiating strategy. The administration was directed to work with you. I gather that they really did not do that, and that, in the end, they reported back to you what they had done. Is that essentially the case?

Mr. THIBAUT. That is exactly right. When they have those meetings they just come in and tell us what they have done. As far as the sugar industry having input into what was going on into the negotiations, as you know, the negotiations were secret, and we had no input into them whatsoever.

Senator RIEGLE. So, the whole advisory thing, in your case, was sort of a sham.

Mr. THIBAUT. Yes, sir. Exactly.

Senator RIEGLE. All right. Now, if the impact occurs, as you think it will—and I agree with you, we are going to have a lot of damage in Michigan in our sugar-producing industry there—what are people likely to do who are now producing sugar that get knocked out of the game in this country? I mean, what do you turn to? What line of work do you go into?

Mr. THIBAUT. In south Louisiana, we have tried crop after crop and none of them have worked for us. We have a very severe climate in south Louisiana, and sugar cane is the best suited crop to our area. I cannot speak for other areas, but if we do not have sugar cane in south Louisiana, we cannot grow tomatoes, we cannot grow cabbage, we cannot grow wheat, soybeans; we just cannot.

Senator RIEGLE. Right. And the workers that are now working in your industry, if they are displaced, what do they do? Are they supposed to move to Mexico to find a job?

Mr. THIBAUT. As you know, they are not going to do that. They are going to go on the welfare rolls, if that is going to happen.

Senator RIEGLE. Well, that is the problem. I mean, I see this as a package that is going to create a lot of jobs in Mexico, but I do not see too many jobs being created in the United States. In fact, we have had testimony here, from the Secretary of Labor and others, about job losses in this country, and we have just identified one here.

Mr. Prewett, let me ask you. I am concerned about enforcing these rules of origin. That has always been a problem with Mexico. Now that they are entering into free trade agreements with other countries in Latin America, how do we avoid the problem of Mexico becoming a staging area through which items come from other countries and, in a sense, Mexico is used as a platform to come in here? How do we really develop an enforcement mechanism that can deal with this problem? I mean, I do not see a practical way to do it, quite frankly. Do you see one?

Mr. PREWETT. Well, Senator, we are very concerned about that, as well, primarily with respect to orange juice. Now, I would say that the NAFTA agreement has the strongest possible language of what you can do, theoretically anyway, of saying that all of the orange juice that is going to get the benefit of this reduced tariff from Mexico has to be grown in Mexico, 100 percent of it. Enforcing that, of course, will be the problem.

Senator RIEGLE. Yes. Your problem is, you do not live in a theoretical world, you have got to live in the real world. That is where this thing breaks down. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman. Gentlemen, thank you for your testimony. I will preface what I say again by the fact that I think it is a lot easier to get a special interest group, such as a large group of sugar growers in Idaho—to be opposed to something than it is to get the people who are going to benefit from this to come out and say why they are for it. I know there are a lot of people who think this is going to be a big plus—a lot of responsible people, I might add—for the overall economy.

But I want to go back, Mr. Thibaut, with you, and ask why is there a contradiction over the potential Mexican sugar exports between USDA analysis and other government experts; where do you see this conflict?

Mr. THIBAUT. If I might, I would like to ask Luther Markwart to answer that question for me.

Senator SYMMS. All right.

Mr. MARKWART. One of the concerns, Senator, is that we have to look at what the Mexicans really wanted in the agreement and what they asked for, because what both government and industry are trying to do is project something into the future which we really cannot determine. But if you look at what the Mexican negotiators want, in February, when they met in Dallas, their request was for 1.5 million tons of access to the U.S. market.

Now, why would they ask for something that huge? That is the entire import quota for the United States. Why would they ask for something of that size with no intention of ever making the shift and putting sugar in here?

Later on in the negotiations, they wanted to shorten the period from 6 years to 3 years, where, if they were a net surplus producer in 3 years in the first part of the agreement, then they would have unlimited access to the U.S. market for their surplus production.

And, as I understand today, already some of the Mexicans that were involved in the negotiations, the private sector people, are already in the United States looking for huge amounts of money to develop their sugar industry and those deals are all based on a successful conclusion of the NAFTA. So, it is watching what they are doing, is our concern.

Senator SYMMS. So then, in the long-term, you do not see any benefits for the sugar industry in the United States. Is that your point?

Mr. MARKWART. No.

Senator SYMMS. My first question to Ms. Veneman was about the safeguards. Now, when we did the Canadian Free Trade Agreement, we had a separate agreement on timber by a Memorandum of Understanding between the Canadian Government and the U.S. Government.

Do you see any way that there could be a separate Memorandum of Understanding that would enforce the safeguard that you are looking for, that if we had an agreement that they could not go in and purchase sugar from one country and then bring it back in and sell it in the United States? Would that make you feel more comfortable?

Mr. MARKWART. Well, not really. Some of those safeguards are already in there. They have made an attempt at that. The problem

that I think was mentioned earlier is the verification. Sugar is fungible. You cannot look at it, taste it, or touch it and tell where it came from. It is a basis of checking the paper work on it, and that is the concern.

The CHAIRMAN. Thank you. Senator Durenberger.

Senator DURENBERGER. Mr. Chairman, I thank you for the opportunity, and I appreciate the time restraints that we are all under. I do have questions I want to propose to each of these. But I need to ask Pete Wenstrand a question about something that came up here in the last hearing; it keeps coming up, particularly since the middle of March, that is: the issue of ethanol production.

I cannot find anything—nobody seems to be able to find anything—in this agreement that deals with the issue of ethanol production and the potential for sales on the part of American corn producers or other ethanol producers to Mexico.

Also, I wonder if you would give us a little advice or a little observation about the degree to which the corn growers see Mexico as a primary competitor in the ethanol market in this country and in other countries in this hemisphere, for example.

Mr. WENSTRAND. Senator, as Mexico as competitor in ethanol production, or as a user?

Senator DURENBERGER. Well, comment on both, if you will, to the extent that you know the answer. I am concerned about the potential of their being a competitor, as well.

Mr. WENSTRAND. As far as being a competitor, just without a lot of background on the issue, I do not think that there is a big reason to be concerned about Mexico being a competitor on ethanol production. Certainly, up to this point now, corn is the preferred product for ethanol production.

And if you are going to do it, it usually takes large capital investments and fairly significant plants to be a low-cost producer. So, actually I would think, hopefully, that, over the long run, there might be more opportunity for ethanol use or production in Mexico.

Certainly, as far as corn processing, in general, across the world, other sources of starch are used on occasion, such as tapioca, in Asia. To my knowledge, I do not know of any processing of starch like that in Mexico. So, I would be glad to try and further answer that question in writing.

[The questions and answers appear in the appendix.]

Senator DURENBERGER. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. Peter, I will start with you. I think you were in the audience when I asked the question of Ms. Ann Veneman about the Dallas study. I am sure you have heard about the Dallas Reserve Bank study. I would like to have your reaction to that. If you agree with her analysis of that, how do you see the general agreement from the standpoint of income negative or income positive for agriculture?

Mr. WENSTRAND. Senator, I must admit, that is the only report that I have ever seen which states that agriculture, in general—specifically my industry, corn—would be a loser, whether it be in the NAFTA situation, or other situations, specifically the Uruguay Round. I think every analysis I have seen states that expanded trade benefits U.S. corn producers.

I must admit, I had my own questions about the study, and apparently their assumptions and their analysis were completely different assumptions than every other analysis that was used.

Senator GRASSLEY. There is currently, again, Peter, a President decree in Mexico that prohibits the use of corn in feed, with exceptions granted in some regions of the country in which feed ingredients are not available. Do you think that this prohibition should be eliminated by Mexico as part of the implementation of NAFTA?

Mr. WENSTRAND. Certainly, as you stated, there are areas which prefer U.S. corn because of logistical, transportation, or cost reasons. We would certainly like to see that expanded.

I think that, again, I do appreciate the difficulty the Mexicans had negotiating, given the cultural significance of corn in their country. Certainly, anytime you can expand the exports, we would support that provision.

Senator GRASSLEY. Also, Mr. Prewett, from your statement on page four. I have two questions about two different statements, but they all deal with the subject of job loss. "We will estimate that there will be a decline of 25 percent to 40 percent in vegetable acreage, and, therefore, a similar decline in the number of farm worker's jobs over the next 3 years. This would mean 3,533 farm workers may lose their job over the next 3 years."

Do you have any way of knowing whether or not those jobs, from your estimation, would be domestic workers or foreign workers, or some of each?

Mr. PREWETT. Mostly domestic workers. Yes.

Senator GRASSLEY. And then, "We realize many vegetable jobs will be lost in Mexico and other areas, with or without an agreement, but we believe a significant number of these jobs can still be saved by making some common sense changes to the agreement."

This statement appears to verify that the NAFTA agreement, in and of itself, does not create job losses, since you state jobs will be lost with or without the agreement. That being the case, are we overall better off with or without NAFTA in the long run?

Mr. PREWETT. Senator, all I can comment on is the two industries that I represent. And, in vegetables, it is a mixed situation. We are not opposed to the agreement on vegetables. We are opposed to the agreement, as it stands, on citrus at the present time.

I guess those of you in Congress will have to make that overall decision about what is best for the country. We certainly see a lot of benefits to the agreement. But, in citrus, specifically, and, to some extent, vegetables, for our area, we do see a number of net job losses.

Senator GRASSLEY. Thank you.

The CHAIRMAN. Thank you. Senator Daschle. Thank you, Mr. Chairman.

Senator DASCHLE. Mr. Angell, I would like to clarify the degree to which the Canadians have an advantage right now with regard to wheat in the Mexican market. They have 76 percent of the market today. Has that been consistent for some time?

Mr. ANGELL. They have generally had the best end of that market all along.

Senator DASCHLE. So, the fluctuations that Senator Packwood was talking about with regard to Mexican wheat imports do not

necessarily relate to United States or Canadian exports to Mexico. Canada has been able to maintain a consistent advantage over a long period of time.

Mr. ANGELL. Basically, I think the exception we were talking about was a year or so later, that the relation of the Canadians being able to do as much as they wanted to, but they did not have the wheat to do it with. But, in most cases, they do have the advantage. Really, that relates back to the price transparency we are still talking about, because we are unable to know just how they are subsidizing.

Senator DASCHLE. Well, that is really the point that I think has been brought up now on a couple of occasions already. But the nub of the problem, it seems to me, with regard to the wheat market, is price transparency. We have the advantage of using the Canadian Free Trade Agreement as a prototype to determine what advantage the Canadians have enjoyed with regard to the export of wheat. How does the lack of transparency under the Canadian Free Trade Agreement relate to the advantage that Canadians enjoy in exporting wheat to the United States?

Mr. ANGELL. It still is the factor that we do not really know how well or what methods they are using to subsidize the wheat. It is just not available, exactly what we are competing with price-wise.

Senator DASCHLE. How do our producers accommodate that lack of information? I mean, what is it that you can do to counter it? Obviously, in this country, you do not use EEP, so what mechanism do we have to protect ourselves from what clearly appears to be a fairly significant subsidy in transportation?

Mr. ANGELL. Well, this is really one of the things, if we could get it clarified through the NAFTA, where we can really understand what the other guy is doing and how he is dealing, or what is happening behind the scenes. It is harder to deal with something when you do not really understand what you have got going against you. I think that is our main problem right now.

Senator DASCHLE. Senator Baucus asked you if you could support the agreement if you had price transparency. Does that imply that you could not support it without price transparency?

Mr. ANGELL. We need to have that, and, speaking for some 70,000 some wheat growers that we have out there, we really want to make our support unified and be sure that I am representing all of them. But I feel like, with a level playing field, and price transparency, end-use certificates, and this type thing, if all of these come, I think perhaps our wheat growers can do that.

Senator DASCHLE. But, short of that, I would assume that you——

Mr. ANGELL. It is going to be very dubious whether our guys would go along with it.

Senator DASCHLE. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Gentlemen, we have another important an interesting panel waiting. Are there those that feel the need for a second round of questioning?

[No response.]

The CHAIRMAN. If not, gentlemen, thank you very much. Our next panel consists of Mr. Eugene Ames, Jr., who is the chairman of the Independent Petroleum Association of America, and presi-

dent of Venus Oil Co., from San Antonio, TX; Mr. Russell Ginn, who is chairman and chief executive officer of Tom Wheatley Valve Co., and he is the treasurer, executive committee member and director of the Petroleum Equipment Suppliers Association from Houston, TX; Mr. William Greehey, who is the chairman and chief executive officer of Valero Energy Corp., San Antonio, TX; and Mr. T. Boone Pickens, Jr., the chairman of the board and chief executive officer of Mesa Petroleum, Inc., Dallas, TX. Gentlemen, we are pleased to have you.

If anyone is under the misconception that this is not a Texas panel, you are wrong.

Senator BREAUX. Yes. I was noticing that, Mr. Chairman.

The CHAIRMAN. Mr. Ames, if you would proceed.

STATEMENT OF EUGENE AMES, JR., CHAIRMAN, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA, AND PRESIDENT, VENUS OIL CO., SAN ANTONIO, TX

Mr. AMES. Thank you, Mr. Chairman and distinguished members of the Senate Committee on Finance. My name is Gene Ames, Jr. I am President of Venus Oil Co. of San Antonio, TX, an independent exploration and production company. I am also chairman of the Independent Petroleum Association of America, the national trade association which represents the interests of the Nation's independent crude oil and natural gas producers.

IPAA and 45 cooperating oil and gas associations from around the country have submitted written testimony to the committee which I intend to summarize. I note that we will file amended testimony for the record at a later date. My statements today are made on behalf of IPAA.

We have consistently supported and advocated workable and beneficial integration of the energy industries in the United States, Canada, and Mexico. But, our support of free trade is conditional. Free trade must never prevent the U.S. Government from taking necessary steps to assure fairness in markets within the free trade zone.

Although progress toward our ultimate goals of free and fair trade in North American energy has been very difficult, we believe that the negotiators have made significant progress.

The draft agreement provides some immediate benefits for certain segments of the U.S. petroleum industry. Under this agreement, the American petroleum service and supply industry may have new opportunities for drilling and service contracts and to profit from their success. We also believe that NAFTA contains an important first step toward greater access to growing Mexican natural gas markets.

NAFTA provides a broad framework for increasing trade liberalization among the signatories. Although the agreement is far from perfect, we recognize that achieving the goal of free trade is an ongoing process. We must continue to work together to promote greater integration of our energy markets.

We are hopeful that the implementing legislation and further unilateral actions by the Mexican Government may build on the limited energy sector achievements in NAFTA to create significant energy-related benefits for Canada, Mexico, and the United States.

But, full integration of North American energy markets cannot happen as long as Mexico's oil and gas market remains essentially closed to competition, while the U.S. energy market is essentially wide open.

We are disappointed with the Mexican reservation clause in the agreement. The lack of political commitment to full energy investment and trade liberalization in Mexico will hamper growth in cross-border energy trade.

Mexico's refusal to address comprehensively the fundamental problems created by its own restrictions on participation in petroleum markets, with or without free trade, means that this monopoly will continue to burden Mexico's oil and gas consumers and limit Mexico's petroleum production.

We recognize that the reservation clause in the agreement refers only to the Mexican States' exclusive rights. We hope this means that, as the burdens of the monopoly on the Mexican economy become more intolerable, the Government of Mexico will consider new and creative ways of involving Mexican, Canadian, and American independent oil and gas producers in Mexico's petroleum industry.

Otherwise, the monopoly on exploration and development of petroleum resources and on natural gas direct sales and pipeline construction and operation will also frustrate and limit economic development in Mexico, and limit efforts to reduce Mexico's over-reliance on the use of fuel oil.

In summary, we view this agreement as a step in the right direction. Under NAFTA, we believe that U.S. energy producers and independent oil and gas operators will see immediate benefits and long-term development of competitive North American markets.

Put simply, IPAA believes that NAFTA is an opportunity that should not be missed. Thank you.

The CHAIRMAN. Thank you very much.

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

The CHAIRMAN. Mr. Pickens.

STATEMENT OF T. BOONE PICKENS, JR., CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, MESA INC., DALLAS, TX

Mr. PICKENS. Mr. Chairman, I am Boone Pickens, CEO of Mesa, Inc., of Dallas. As an oil and gas producer and businessman, I have done business throughout the world. In fact, the last time I appeared before you I outlined a roadblock set by corporate Japan to prevent Americans from gaining access to the Japanese economy.

It has become clear to me that in a new global economy, economic opportunity is not restricted to the Far East or a unified Europe. In fact, even greater economic potential lies just to our north and south, in Canada and Mexico. I know, because I have done considerable business in Canada, and lived in Calgary in the mid-1960's.

My written testimony focuses on the overall benefits NAFTA will bring to U.S. economy, but I want to focus my oral comments on what NAFTA means, first, for America's independent oil and gas producers; second, for the environment; and, finally, for the Texas and U.S. economies.

America's oil and gas industry lost 450,000 jobs in the past 10 years. That is more than the U.S. auto and steel industries combined. Federal subsidies, government bail-outs and hand-outs are not the answer. Instead, we have to increase the demand for natural gas by developing new markets for this premium, abundant U.S. fuel.

NAFTA provides that opportunity. It opens the door to increased natural gas exports to Mexico by giving U.S. producers unprecedented access to end-users in Mexico. As more companies open manufacturing facilities in Mexico and that Nation's economy continues to expand, the demand for natural gas will increase dramatically.

From 1990 to 1991 alone, U.S. natural gas exports to Mexico increased by 275 percent. NAFTA would enable U.S. oil and gas firms to compete for 50 percent of the $4.7 billion in goods and services purchased by PEMEX each year. Within 10 years, U.S. companies can compete for 100 percent of those contracts.

In the first year that NAFTA is in effect, this provision alone could create more than 20,000 U.S. jobs, most of them in the oil and gas industry. In addition, NAFTA eliminates about half of all tariffs on oil and gas equipment. The remaining tariffs will be phased out within 8 to 10 years.

Unfortunately, some critics believe NAFTA will increase environmental problems, particularly along the United States-Mexico border. Those critics would have you believe Mexico is soft on pollution.

Those who wage that argument have not met President Salinas. I have, and know this: President Salinas is very concerned about environmental problems. For instance, because of the government's efforts to solve Mexico City; critical air pollution problem, citizens could not drive 1 out of every 5 days last winter and, for a couple of months, 2 out of 5 days.

I met with President Salinas in Mexico City 3 months ago. He told me that he has decided to use natural gas as a way to start solving Mexico City's air pollution problem. It may be the only way to go, because, compared with gasoline and diesel, natural gas vehicles reduce carbon monoxide emissions by up to 99 percent.

In addition, I have also had meetings with government, business and energy leaders at all levels in Mexico, including Mexico's Secretary of Commerce, Dr. Jose Jaime Serra Puche, the Mayor of Mexico City, Manuel Camacho Solis, and the President's point man on pollution, Fernando Menendez Garza.

One part of their plan calls for 300,000 public and private fleet vehicles to be converted to natural gas or propane. Mexico's leadership is committed to natural gas vehicles as an immediate solution to their pollution problems.

Cooperation and communication is outstanding between the Mexican Government and U.S. businessmen. We have been asked by the Mexican Government to participate in a task force to help develop a strategic plan for their natural gas industry.

My company is actively pursuing natural gas vehicle opportunities in Mexico City. We have manufacturing facilities in Iowa and Texas, and we expect to export thousands of our natural gas and propane conversion kits to Mexico. NAFTA will help us, but it is

also going to help every U.S. company interested in this new market.

That leads me to my final point: what this means for the Texas and U.S. economies. U.S. natural gas exports to Mexico are expected to increase nearly fourfold by the year 2000, from a current level of almost 300 million cubic feet per day to a billion cubic feet. Meeting that increased demand will create 16,000 new jobs in the United States.

Let me close with this comment. We can approve NAFTA and create an integrated market of $6 trillion and 360 million people, or we can turn our backs and not take advantage of the economic opportunities in Mexico and Canada. Thank you.

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

The CHAIRMAN. Mr. Ginn, as I understand it, you represent a group of manufacturers of oil equipment, and I would like to hear from you next.

STATEMENT OF RUSSELL E. GINN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, TOM WHEATLEY VALVE CO., AND TREASURER, EXECUTIVE COMMITTEE MEMBER AND DIRECTOR, PETROLEUM EQUIPMENT SUPPLIERS ASSOCIATION (PESA), HOUSTON, TX

Mr. GINN. Thank you. Mr. Chairman, members of the committee, good morning. I am Russell Ginn, Chairman and CEO of Tom Wheatley Valve Co. of Houston, TX. My statement today is offered on behalf of 205 member companies of the Petroleum Equipment Suppliers Association.

PESA represents U.S.-based equipment manufacturers, service companies, and supply companies which make up the oilfield service industry. We appreciate the invitation from Senator Bentsen and the members of the Senate Finance Committee to comment on the effects of the proposed North American Free Trade Agreement on our industry.

We see NAFTA as an opportunity for the U.S. oilfield manufacturing, service, and supply sectors because it will facilitate exports to the important Mexican market, allowing our member companies to retain jobs and technological leadership at home.

While NAFTA will not provide equitable national treatment at its implementation, we believe that it will improve our position over the status quo regarding access. Although we are disappointed at the length of time for the phaseout of set-asides and tariffs, we feel it of vital importance to our industry to support NAFTA.

Many people believe that the companies in the oil and gas industry are all large, multinational corporations employing workers around the world. But, as you, Mr. Chairman, and Senator Breaux clearly understand, my company is more typical of an oilfield supplier, in that we employ approximately 90 people in Texas. In all, PESA member companies have operations in 39 States and the District of Columbia.

This past decade has seen a massive shake up of the oil service industry. More than half of the more than 900,000 Americans working in the U.S. oil and gas extraction industry in 1981 have lost their jobs. Today, equipment service companies and drilling

contractors provide about 200,000 jobs in the United States, down 23,000 this year alone.

Five years ago, the domestic oil and gas industry accounted for about 65 percent of our member companies' total sales. Today, the reverse is true. Export sales account for nearly 70 percent of total revenues. It is clear that without sales to the international marketplace, a number of equipment manufacturers and service companies would not survive.

A key factor in penetrating those markets is the elimination of trade barriers. NAFTA will provide us an opportunity to significantly increase our presence in Mexico, which offers strong, long-term business prospects for our industry.

In 1990, Mexican expenditures for exploration and production equipment, the core business for PESA member companies, were estimated at $560 million. Mexico is now undertaking a national energy modernization program to ensure that oil production meets a projected annual increase of 5 percent in internal demand, while maintaining a constant level of exports.

This translates into a minimum $20 billion in new investments over the next 5 years, much of which will be for products and services which could be provided by the U.S. equipment manufacturing, service and supply sectors.

PEMEX has been the sole operator in Mexico since the domestic oil industry was nationalized in 1938, and has long shown a procurement preference for Mexican suppliers and contractors. The government procurement chapter of NAFTA provides formal access to the Mexican market for the first time to oilfield service companies from the United States and Canada.

Throughout the negotiations, the Mexicans had insisted upon exclusion on parts of that market from the agreement. The eventual negotiated settlement allows access to 50 percent upon implementation. The exclusions will be phased out over a period of 10 years. Even though we would have preferred to have seen the phaseout period significantly shorter, say, 3 to 5 years, we believe this is a genuine improvement over our current position.

Similarly, the chapter on market access improves our current position regarding tariffs on exports from the United States into Mexico. Currently, the Mexican Government charges a tariff of up to 20 percent on imported oil field equipment, but other duties and taxes can increase that effective amount to as high as 33 percent. Those tariffs will be reduced to 16 percent in the first year of implementation and phased out in 8 years.

Products which fall into other rate categories will see their tariffs reduced over periods of 5 or 10 years. NAFTA will provide a limited, immediate benefit with parity being achieved at the end of 10 years.

In summary, the U.S. oil equipment manufacturing, service and supply companies see Mexico as a strong, long-term potential market because of its large oil reserves, and declining U.S. activity is causing many of us to emphasize export sales in order to survive.

We are confident of our competitive edge over Mexican companies, due to management methods, quality of goods and services, and technological expertise. The North American Free Trade

Agreement will make an important contribution to our ability to participate in that market by removing trade barriers.

Finally, I could not close my remarks without acknowledging the efforts and cooperation of the U.S. negotiating teams for the chapters on government procurement and market access, with whom our association has worked over the past several months. Thank you very much for this opportunity to comment on the North American Free Trade Agreement. We urge its approval by Congress.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Mr. Bill Greehey is the chairman and the chief executive officer of Valero Energy Corp., and an old friend of mine.

STATEMENT OF WILLIAM GREEHEY, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, VALERO ENERGY CORP., SAN ANTONIO, TX

Mr. GREEHEY. Thank you, Mr. Chairman, members of the committee. Our company is headquartered in San Antonio, and our principle asset is a specialized refinery that is located in Corpus Christi, TX. We upgrade high-sulphur residual oil into premium product, primarily unleaded gasoline.

We are also in the process of finalizing construction of a $230 million project to upgrade butane into MTBE. I think all of you know MTBE is a clean-burning, low-vapor pressure, high-octane gasoline blend stock which is really a key ingredient to the reformulated gasoline which has been mandated by the Clean Air Act.

We also own a 49 percent interest in Valero Natural Gas Partners, which owns and operates natural gas pipelines throughout Texas, and we are also one of the nation's largest producers of natural gas liquids. Again, I appreciate the opportunity to present our views in support of the NAFTA agreement.

Our company is proud of our long relationship with Mexico. Valero began selling gas to Mexico back in the early 1940's. We recently expanded our relationship by completing a 400 million cubic feet a day pipeline connection between the border from McAllen, TX, which ties into the PEMEX system at Reynosa, Mexico. While the Mexican imports of natural gas are still at low levels, they are growing rapidly and could be far in excess of 1 billion cubic feet a day within a few years.

And, with the economic activity generated in Mexico by NAFTA, it will virtually assure the type of increase in demand, thereby creating significant increases and opportunity and jobs throughout the oil patch in the United States.

Turning to a direct investment opportunity in Mexico, on September 2, I participated in a signing ceremony in Mexico City where we committed to our first major investment in Mexico.

This is a project similar to the one we have in Corpus Christi where we are upgrading butane into MTBE. It is a $350 million joint venture in which we will have a 35 percent interest, which ultimately can be increased to 51 percent.

Although we were hopeful that the treaty would remove more of the investment and trade restrictions which are currently in place, we feel that the treaty represents a significant first step.

Environmental concerns have become a top priority for Mexico as it struggles with severe air pollution, particularly in its larger cities. Mexico is moving toward stricter enforcement of its environmental regulations, and we are willing to help them meet their environmental concerns.

Within the past year, President Salinas shut down two of Mexico's largest refineries because of their contribution to air pollution. This was done at a time when unemployment is high and the demand for refined products in Mexico is growing.

We have recently had discussions with President Salinas, as well as Chairman Rojas of PEMEX, and Commerce Secretary Serra-Puche concerning two additional environmental projects which we are interested in pursuing in Mexico to assist that country to minimize the benefits of their own domestic energy production, while, at the same time, improving their air quality.

There are, in my opinion, many energy projects which will be open to U.S. companies as a result of NAFTA if we are innovative and competitive and are able to demonstrate that we can move forward in helping Mexico in their production of energy and the protection of their environment.

I am also convinced that the adoption of NAFTA will provide American companies in the energy industry such as Valero with significant investment opportunities in the Mexican energy sector.

It will benefit American workers in our domestic facilities by providing more jobs, and will, at the same time, benefit Mexico by helping build its economy and assisting in dealing with its energy and environmental problems. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Mr. Ames, I note that Mexico has precluded you from risk sharing, either upstream or downstream, in the production of oil and gas. Yet, in the NAFTA, they will let you negotiate so-called performance contracts. What does that mean, and what do you gain by that?

Mr. AMES. The performance or incentive service contracts open the door for, as Mr. Greehey said, innovative arrangements, which I presume primarily will benefit the service and supply segment of our industry, which, of course, is needed, because this part of our infrastructure is so severely depressed.

The CHAIRMAN. Mr. Pickens, PEMEX has had really a lock on the production of oil and gas down there, and the services and utilization of it. I am told now that, under this agreement, PEMEX and CFE are under an obligation to be guided by commercial considerations. How significant is that, what does it mean, and how do you enforce it?

Mr. PICKENS. The last part of the question, how do you enforce it, I do not know.

The CHAIRMAN. How do we see that they really are guided by commercial considerations? That they act like a private enterprise company rather than a State-owned company? That is a point of agreement, as I understand it. And it is supposed to be a breakthrough. As PEMEX makes its contracts and buys and sells in the

market, it will be guided by commercial standards and not something that is a State standard, so to speak.

Mr. PICKENS. Well, we know there has been a big change in PEMEX in just the last——

The CHAIRMAN. Well, I want to hear about that. That is part of the deal.

Mr. PICKENS. But it has been broken up into five parts, I am told, where PEMEX did, somewhat, stand alone.

The CHAIRMAN. I am not talking about their management control, I am talking about their philosophy. Is there a change there that you can see taking place?

Mr. PICKENS. For me, yes. Because I am now negotiating, and Bill said he was dealing with Francisco Rojas. I have also met with him and I think the attitude is totally different in PEMEX under the guidance and direction of President Salinas. But I find him to be very open and easy to talk to, which I did not expect to happen when I first went to Mexico City.

But, ask me how it will be administered and carried out, I do not know exactly the structure of the agreement as to who would determine that. But I see a total attitudinal change by PEMEX over what I expected to see.

The CHAIRMAN. Mr. Ginn, under the NFTA, PEMEX is required to open up half of its procurement immediately to qualified NAFTA bidders. Now, that is no guarantee that American companies get half that business.

Mr. GINN. That is right.

The CHAIRMAN. But it does open up the competition. What is your best guess as to what that means for American business?

Mr. GINN. Well, our experience recently has been that PEMEX is much more open to other products. I guess they see this process turning. I do not mean just as this agreement has been negotiated, but in the last year, year and a half. And we are seeing more openness towards their market. I think they have been acquiring, in many instances, with respect to our association, inferior products and using inferior methods. They see the opportunity of upgrading their situations and improving their production. I really believe that we will have reasonable opportunity to sell into that marketplace and be successful. I really do.

The CHAIRMAN. We will move it to 5 minutes. We have very few of us left here. Mr. Greehey, you apparently have done pretty well in Mexico as it is. Do you see any improvement or opportunities that are added to the current conditions if we implement NAFTA insofar as your type of business?

Mr. GREEHEY. I think that we are going to have to work with them and be innovative and imaginative in what kind of projects can be privatized. But their whole infrastructure needs a lot of capital investment. And, as Mr. Pickens said, they really want to work with us and help us.

For example, I am concentrating on environmental projects where we never take title to anything and we clean up products for them and make them better. This does two things: it gives them cleaner products and mediates some of their pollution problems. They are very receptive to these kinds of projects.

The CHAIRMAN. I see my time has expired. Senator Breaux.

Senator BREAUX. Thank you, Mr. Chairman. Thank the members of the panel for their presentations. I know, Mr. Chairman, that you mentioned that this panel was a Texas-oriented panel. But I want you to know, they have walked a lot of miles in Louisiana, as well, every one of them, and we are glad to have them here.

I guess that one of the problems that we have heard about is Mexican Government's refusal to allow performance-based contracts. You are not going to be able to go down there and get royalties for any kind of exploration and production projects that you might work on.

Is that a problem, or can contracts be worked out that would have performance-based incentives that really accomplish the same overall goal without doing violence to the Mexican constitution which prohibits royalty-type of arrangements? Anybody want to comment on that? Any exploration people, IPAA?

Mr. AMES. Well, I would say that there is permissive language that permits PEMEX, permits the Mexican Government to enter into performance-based incentive contracts. Now, that is a very broad description, and only time will tell what sort of innovative approaches that they are willing to go into. But they need American independent oil and gas technology and capital to help them develop their smaller oil and gas fields in order to maximize Mexico's production.

Senator BREAUX. Well, let me ask this. Would American exploration and production companies be able to go into Mexico and work with PEMEX under the existing prohibitions of risk type of contracts?

Mr. AMES. Not pre-NAFTA. And post-NAFTA, the door is open to discussions and to try and work out some form of incentive contract. We do not know what can be done yet, and we only learn as we try to work out arrangements with them.

Senator BREAUX. I guess Valero is already selling gas down there. Is there a tariff on it, or are there any difficulties now? I mean, you are pretty much not affected by NAFTA with regard to natural gas sales down there. It does not improve, it does not get worse, it is about the same, is it not?

Mr. GREEHEY. Well, you know, Mexico is a growing market for natural gas. We are strictly transporting for PMI, which is the marketing arm of PEMEX. But today we are moving over a couple hundred million cubic feet of gas a day, which is really helping the producers in south Texas. This will cause additional drilling in that area and will result in additional American jobs. But our working relationship with PEMEX has been outstanding.

Senator BREAUX. If you have a need for some extra natural gas, I have got some suggestions where you might find some.

Mr. GREEHEY. I am going to hold you to that.

Senator BREAUX. Mr. Pickens, I have read exciting things about what you are attempting to do in Mexico as far as the environment and the supplying of natural gas equipment for vehicles. Can you tell us, what is the status of that project?

Mr. PICKENS. We are trying to negotiate a long-term contract with PEMEX now to deliver natural gas to us in the Mexico City area to convert vehicles to natural gas. We would make those con-

versions and then, at the same time, put in the fueling facilities in Mexico City.

And the numbers, of course, are huge, and the problem is critical as far as Mexico City is concerned. They have 2.5 million vehicles in the city, and I think their first cut at it would be to convert the fleet vehicles in there which get up to 450,000 fleet vehicles.

The cost of all that is somewhere on the order of $2.5 billion. So, the numbers get very large, and then you look into their other cities and you can see cities of 2 and 3 million, several of them that have problems that may not be as critical as Mexico City's but they do have problems. So, my point is, the President of Mexico is very intent on doing something about the pollution problem in these cities, and so, with it, I think, comes a great amount of business for American companies.

Senator BREAUX. Well, one short question as a final one. Do any of you have any difficulties or see any potential problems in doing business with PEMEX, which is a government-owned company, when something goes sour with a contract; for example, having someone to proceed against?

We have all experienced problems in the past with doing business with PEMEX where you do not have an opportunity to sue because they are a government entity, so how you get your rights protected? Is this a potential problem that NAFTA needs to address? Any comments on that?

Mr. PICKENS. We have not signed any contract with PEMEX, so, consequently, I am not at the point of having any problem over a contract. But I can see a great amount of support from the Secretary of Commerce, Dr. Serra-Puche, in assuring us that whatever contracts we have PEMEX will be honored. And, to this point, I feel comfortable with it, but, again, I have not signed any contracts yet.

Senator BREAUX. Yes.

Mr. GINN. Senator, equipment suppliers deal with national oil companies throughout the world, and I do not see any different problems with PEMEX than we have elsewhere. We have approximately $100 million worth of business going on now successfully, so we see an expansion of that as opposed to creating a new situation completely.

Senator BREAUX. Thank the panel very much.

The CHAIRMAN. Thank you. Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman. I would like to ask unanimous consent to insert into the record an article that is out of the current issue of National Journal, which is a journal that writes on the Federal Government.

The headline is, "In Mexico, Lobbyists Strike Gold." And it runs through the question of all the hired guns in this town that have been put on the payroll of the Mexican Government and Mexican industry to sort of grease the skids to put this agreement through here.

The CHAIRMAN. Without objection, that will be done.

[The article appears in the appendix.]

Senator RIEGLE. The picture on the front is William Brock, who used to be our trade representative for this country, and obviously is a heavy hitter in trade policy and has a lot of relationships. He

is being paid $30,000 a month by the Mexican Government to lobby this bill through here. He is one of many. That is $360,000 a year.

That may or may not sound like a lot of money to any of you; it sounds like a lot to me. It is more than we pay the President of the United States. It puts a very bad taste in my mouth that the top trade officials of our government, in effect, leave these positions, go through the revolving door, and end up out there working for other governments in situations like this. I think the public has sort of had it up to here with this kind of an arrangement. It sort of permeates this whole situation, quite frankly. I will not cite all the other people in here, because it will be in the record.

And I very much respect all of you and the positions you have taken—some of you I have known for many years—but some of you have your own private business deals going this very day down in Mexico, so you obviously have a private interest that cross-relates with the fact that you are in here testifying, I take it essentially, from a public interest point of view, in terms of what you think is good public policy. But the two overlap. I mean, they are a little hard to separate. Which ones of you have got private business dealings going in Mexico today, and which ones do not? How about you, Mr. Greehey?

Mr. GREEHEY. We are finalizing negotiations on building a MTBE plant in Mexico. We are also discussing with them two other major environmental projects.

Senator RIEGLE. All right.

Mr. GREEHEY. And, incidentally, all we have is an office in Mexico City and with one employee who represents us in those negotiations.

Senator RIEGLE. Very good. Mr. Ginn, do you?

Mr. GINN. Senator, at this point, the only business we have in Mexico is when they want a product we manufacture or one of our members manufacture that is not available in Mexico now, manufactured in Mexico. So, effectively we are limited to only those products they need that are not manufactured inside Mexico. So, we do not have any project.

Senator RIEGLE. Right. Mr. Pickens, beyond what you discussed with Senator Breaux, do you have other deals cooking down there right now?

Mr. PICKENS. No, that is it.

Senator RIEGLE. Mr. Ames?

Mr. AMES. No, sir, Senator. I have no private business. My sole interest is in trying to expand markets and find business for independent producers in this country.

Senator RIEGLE. Well, I am concerned about that. Now, am I right in understanding that a Mexican company, if it wants to come up and drill in the United States, can do so, but that an American company, if it wants to go down and drill in Mexico, cannot do so? Is that essentially correct, or not?

Mr. PICKENS. I think so.

Senator RIEGLE. Is that fair? Mr. Ames, do you think it is fair?

Mr. AMES. No, sir, I do not. I think that there must be a movement and that Mexico needs to move to expand their markets to let American independent producers go in there and drill to help them develop their resources.

Senator RIEGLE. If we are going to do that, though, is this not the time to do it, when you are striking the deal? Is this not the time to get that understanding and not put it off to some unforeseen date in the future?

Mr. AMES. Obviously, if we had a perfect NAFTA, it would be right. But it is my understanding that it is politically impossible in Mexico because of their constitutional prohibitions. So, I think this is a start in that direction.

Senator RIEGLE. Do you think it is fair, Mr. Pickens?

Mr. PICKENS. I agree with Gene on it. We have got a constitutional problem in Mexico. What I see in NAFTA, as it relates to oil and gas producers in the United States, I would say that you work your way out of it as time goes by. And I would be willing to accept what we have and believe that it is a fair agreement at this time.

Senator RIEGLE. Well, if we cannot go down there and drill, why would we want to allow their folks to come in here and drill?

Mr. PICKENS. Well, for one thing, we have only 755 rigs operating in the United States and we have available to us about 3,000 rigs. So, if somebody wants to come in and spend the money in the United States, I would say, let them come in and spend it. We are basically a mature producing area, especially for oil, in the United States. Consequently, we have a low number of rigs operating because it does not make economic sense for us to drill right now. So, if they want to come in and do it, let them come in and do it.

Senator RIEGLE. Well, does that not cut two ways, though? If they come in and drill, is that not just as likely to put an American driller out of the game as keep him in the game?

Mr. PICKENS. No. I do not think it would put any driller out of the game. You are talking about a drilling contractor?

Senator RIEGLE. I am talking about somebody that is prepared to come in and——

Mr. PICKENS. You are talking about a producer.

Senator RIEGLE. Yes.

Mr. PICKENS. I do not think you would put any producer out of the business.

Senator RIEGLE. We have got a lot of people out of the business right now, though, according to your statistics.

Mr. PICKENS. But not because of competition, because the price of our product is so low.

Senator RIEGLE. Well, you may be right. You know that business; I do not. I suppose it depends on——

Mr. PICKENS. I am not sure I do. I have lost $200 million in it in the last 3 years. [Laughter.]

Senator RIEGLE. Well, apparently that is easy to do. I can tell you some of the people that are in that game up in my State feel under great pressure too, and they are concerned about additional pressure, quite frankly. My time is up.

The CHAIRMAN. Thank you, gentlemen.

Senator RIEGLE. Thank you, Mr. Chairman.

The CHAIRMAN. Well, the next man I want to call on has been a long and very valued member of this committee. He has chosen to go back into the private sector. We are going to miss him. I

think this is probably the last hearing of this committee that he will be attending.

Senator SYMMS. Well, thank you very much, Mr. Chairman. Before you said that, I had already jotted down a note here that I wanted to thank you for the way you have conducted these hearings.

I think that this Finance Committee has been truly kept abreast of the process and we have allowed the witnesses to come in here and testify, and I think our Chairman worked very closely with the administration to see that the Trade Ambassador was available for members of the committee; she was very cooperative, and I think it has been a very good process.

There is no question that it is very hard to come out with a NAFTA agreement that pleases every single person and still have a perfect agreement, but I do think that the Chairman deserves a great deal of credit for doing what he could to guide this in a very positive direction for the country. I also would like to say that I believe that we can work out these differences.

I would just say, Mr. Chairman, that in my office, the only people from Idaho that I have heard from are the sugar producers. And, of course, they were opposed to this agreement before the agreement was released to the media, and before they even knew what was in it just because of the fear, the hype of it. On the other side of it, I believe that there are a lot of companies in Idaho that will benefit from the passage of NAFTA. There is a potential for great work here, and it brings me to a question I wanted to ask these fellows here at the table. I appreciate all of their testimony.

But, in the transport of this natural gas from the United States to Mexico, Mr. Pickens, you mentioned about that there would be a trade of some gas in Mexico City, that you would buy gas from PEMEX. But would you still be exporting gas physically?

Mr. PICKENS. Would we, our company?

Senator SYMMS. Yes.

Mr. PICKENS. No.

Senator SYMMS. Your company, but the industry in general.

Mr. PICKENS. Oh, I think so. I think you will see gas come in like Bill was talking about. Valero gas comes in and there is other gas moving into northern Mexico.

Senator SYMMS. By pipeline, is that the way it is run?

Mr. PICKENS. That is right. Yes. This would release gas from PEMEX that would not be in the northern part of the country, but I think the gas that we would be buying in Mexico City would come in from Vera Cruz.

Senator SYMMS. Well, with respect to the environmental cleanup of Mexico City, we have had one major company in our State that has recently been working on an agreement—I do not know whether they have signed the agreement or not—to manage a substantial environmental clean-up project in Mexico City. As we are speaking they are doing this. It happens to be, Mr. Chairman, a company that I have mentioned to you before in dealing with high-speed rail.

But the potential then for construction companies and construction jobs is also enormous, is it not, from American companies with their management capabilities to build infrastructure and manage the building of infrastructure for gas transmission, for clean-up of

environmental plants, and waste disposal. Is that not a great market potential in Mexico? Would all of you agree with that?

Mr. GREEHEY. Absolutely.

Mr. GINN. Yes.

Mr. PICKENS. Sure.

Senator SYMMS. Well, I guess I would ask one other question. I know you all have already stated your support for this agreement. But do you think that it is not possible, if all boats do rise with the tide, that some of the perceived problems that those who are in opposition to this agreement, perceived threats to specific jobs in certain industries or production capacities, such as sugar, that if, in fact, the economy of Mexico could be made to grow, that some of those problems might not ever occur?

In other words, you expect, I would think, Mr. Pickens, that your gas business is going to get bigger in Mexico as their economy gets stronger, that they will buy more gas. Is that not correct?

Mr. PICKENS. Well, I think there is more to it than selling gas in Mexico. I think that we see leadership in Mexico today that we have never seen there before, not in my lifetime. And I think it is an opportunity that we should take advantage of.

I am convinced that if the people on the property next to me build a nice house, it increases the value of my property. And I think dealing with Mexico, as we have dealt so with the Canadians for years and years, that if we can have that kind of a relationship with them, that both sides of the border will prosper.

I think the environmental problems are things to consider, of course. I think the sugar growers probably make a point; I do not know their business that well. But I do believe that it is time to bring North America together in some kind of a trade agreement.

We have a positive trade deficit, or trade in our favor with Mexico now. I can see that growing. And the better jobs that you have in Mexico, the more money they will spend, and a great part of that is spent with us. So, overall, the gas business is a small part of that. I think it is just smart to do.

Senator SYMMS. I thank you very much. Mr. Chairman, again, I thank you. I will not be here to vote on this when it comes to the Senate, but I do hope that we will see this agreement pass. I believe that the difficulties that we have aired here in this committee can be, to some degree, worked out, and that there is way more good for both this country, Mexico, and Canada to get this agreement than to not get it.

I totally share that point of view, and I do think that we stand on the threshold of seeing a great opportunity for not only Americans, but for Mexicans to have a more beneficial, happier life in the future if we can expand trade and break down these borders.

I just think it is a plus all the way around and that the other problems can be worked out. And I certainly hope we see this come to reality in the very near future. Thank you, again, Mr. Chairman. It has been a privilege working with you on this committee these years.

The CHAIRMAN. Thank you very much, Senator. Let me make a point about what is happening in Mexico, because Boone made that point about President Salinas, a man of substantial political courage and vision. You have seen Mexico actually pushing Japan inso-

far as possibly being the second-largest customer of this country. You have seen trade with Mexico more than double in just 4 years. You have seen us go from a deficit in trade with Mexico to a surplus in trade with Mexico.

And, when you talk about low income in Mexico, you still have to remember that they buy more from us per capita than do the Europeans, who are much more affluent. So, it certainly follows that, as their income increases, they will be an even better customer.

So, I think we are seeing quite a breakthrough in the kind of relationship that we have with that country, and we ought to take advantage of it for our mutual benefit and to achieve a net increase in jobs on both sides.

I said, with some pride, that this was a panel from Texas. But, let me also say, they are broad-gauged business people with national and international experience whom I felt could make a contribution, and they have done so. Thank you very much.

[Whereupon, the hearing was concluded at 12:28 a.m.]

APPENDIX

Additional Material Submitted

Prepared Statement of Eugene L. Ames, Jr.

Mr. Chairman and distinguished members of the Senate Committee on Finance, my name is Gene Ames, Jr., President of Venus Oil Company of San Antonio, Texas. I am Chairman of the Independent Petroleum Association of America (IPAA) and I am here representing IPAA and 45 Cooperating Oil and Gas Associations from around the country.

IPAA is the national trade association which represents the interests of the nation's independent crude oil and natural gas producers, the "wildcatters" who, over the years, have found most of the oil and gas this nation has produced. Independents drill about 85% of all domestic wells, produce about 60% of domestic natural gas, and about 40% of the crude oil. The Cooperating Associations are state, regional, and national petroleum industry and professional organizations with strong interest in oil and natural gas production, transportation, and marketing issues. The organizations which I have been asked to represent appreciate the opportunity to offer testimony on the North American Free Trade Agreement (NAFTA), a matter of great importance to the energy industry and to our country's entire economy.

In October 1991, IPAA's Executive Committee established a NAFTA Task Force comprised of IPAA members and representatives of many of our Cooperating Associations. The NAFTA Task Force was assigned the responsibility to examine energy issues presented by NAFTA and to assist IPAA in developing and advocating policy positions regarding NAFTA. The Task Force has met with top U.S. and Mexican government officials as well as with our friends in Congress and has consistently advocated workable and beneficial integration of the energy industries in the U.S., Canada, and Mexico.

In 1988, IPAA supported the concept of a Free Trade Agreement with Canada (FTA) because of our belief in the benefits of fair and open markets for energy producers and consumers alike. IPAA leaders and staff worked with the Senate to assure that free trade would be fair trade. We sought assurances that the implementing legislation would provide that nothing in the agreement would in any way undermine the authority of the Department of Energy (DOE) and the Federal Energy Regulatory Commission (FERC) to create a "level playing field" for all suppliers of natural gas to markets in the U.S. and Canada. This was important because, earlier in the 1980s, FERC had occasion to take an action, known as Opinion No. 256, with respect to natural gas pipeline transportation rate design issues in order to assure that U.S. consumers could compare, on an "apples and apples" basis, opportunities to purchase natural gas from domestic and Canadian suppliers. Our goal was to assure equal access to U.S. and Canadian markets for natural gas supplies, regardless of the country of origin.

As a result of IPAA's efforts, the legislative history of the implementing legislation of the FTA included language assuring that nothing in the FTA could be interpreted as amending the Natural Gas Act nor undermining FERC's ability to take actions like Opinion No. 256. In the intervening years, however, our own government has frequently appeared reluctant to address the issue. The FTA has even been used as an excuse for the government's unwillingness to address the matter, despite the clear and unambiguous legislative history preserving all the authority necessary to assure a level playing field of equal opportunity for American and Canadian natural gas suppliers. Currently, FERC is in the process of implementing its pipeline restructuring rule (Order No. 636) which, if properly realized, will address our primary rate design concerns.

I have related this bit of history in order to let you know that we have had wide and not very happy experience with some aspects of free trade—not the concept, but the actions on the ground. Our support for free trade is conditional: free trade must never prevent the U.S. government from taking necessary steps to assure fairness (reciprocity of opportunity) in markets within the free trade zone. While we are cautious about NAFTA, we continue generally to support the effort to expand the FTA, but only if the ultimate goal is reciprocity of opportunity.

When our NAFTA Task Force started its work in late 1991, the first task was to come up with a list of goals which should be attained by our negotiators. The following list was developed and circulated to the Administration and Members of Congress.

- **A fair regulatory environment.** The "grandfathering" of Opinion No. 256 agreed to in the U.S.-Canada Free Trade Agreement should not be eroded. Also, "energy consultation mechanisms" should not be used as a "back door" to subvert due process in normal regulatory proceedings.
- **Direct and Non-Discriminatory Access to Mexican markets.** PEMEX, a government corporation, has an exclusive right to construct gas pipelines and has a monopoly on gas production and wholesale sales. Domestic U.S. producers seek the right to contract directly with end-users in Mexico and have the benefit of common carriage on the Mexican pipelines. Although exports to Mexico have increased in recent years, PEMEX has been slow to develop its natural gas transportation grid. If possible, foreign investors should be allowed to participate in new Mexican pipeline projects. Pipeline rate designs and open access rules should be symmetrical.
- **Equity participation in exploration.** Mexico only permits development contracts for cash rather than compensation from a percentage of production. Domestic U.S. producers, especially small, independent producers, seek to enter into development projects in a competitive Mexican system where risks will be rewarded with a fair share of profits in the event of success.
- **Reduction or elimination of import duties on natural gas and oil.** A free trade zone in energy including Canada, U.S. and Mexico would be established.
- **Oil and gas prices should be determined by market forces,** with neither subsidies nor discrimination permitted.
- **Continuation of environmental reform in Mexico.** Natural gas can provide a solution, as evidenced by the recent export agreement between SoCal and an electric generating plant in Baja California.
- **Access to reserve data,** production history, survey information, seismic data and well logs. Mexico has access to Texas data via the Texas Railroad Commission. Comparable data should be made available to U.S. producers. Private parties should be allowed to shoot new geoseismic data across the border.
- **Special agreements should address development of reservoirs** which cross international borders. After the President announced last month that Canada, Mexico, and the U.S. have agreed on terms for a North American Free Trade Agreement, the negotiators worked on specific language to implement the agreement in principle.

On August 12, the President announced that Canada, Mexico, and the U.S. have agreed on terms for NAFTA. On September 6, the draft agreement, which included Chapter 6 covering Energy and Basic Petrochemicals, was released. On September 14, the Industry Advisory Committee on Energy for Trade Policy Matters (ISAC–6) issued its report on NAFTA which we endorse and incorporate by reference. We offer the following additional comments on the draft NAFTA language.

Energy is an area where the American and Canadian energy producing industries and Mexican energy consumers have been able to work together—all pulling for open access to North American energy markets. The headline in the July 21 *Wall Street Journal* said, "Mexico Wins Demands in Trade Talks To Keep Full Control of Its Oil Industry." But, the U.S. and Canadian negotiators were never trying to take "control" of Mexico's oil industry in the first place. Instead, the U.S. negotiators (and IPAA's NAFTA Task Force) have attempted to get Mexico to agree to certain very reasonable and modest changes in the system which might offer increased opportunities for American business to assist development of Mexico's petroleum resources within Mexico's own energy structure. While we are not happy with the limited progress on energy issues in the agreement, especially with respect to lack of opportunities for exploration and development in Mexico by Mexican, Canadian, and American independent producers, that is not the end of the story.

Although progress toward our ultimate goals of free and fair trade in energy has been very difficult, we believe that the negotiators have made significant progress

toward these goals. As you know, the energy chapter contains the following major elements, some of which are directly related to our NAFTA Task Force's work for an acceptable energy chapter in the agreement.

- **Reservation Clause**—With respect to the petroleum industry, the Mexican government reserves to itself activities and investment in activities involving production and transportation of crude oil and natural gas, etc.
- **Respect for Constitutions**—The parties have agreed to respect their Constitutions.
- **Performance-based incentive in drilling and service contracts** will be permitted.
- **Access to Mexican Gas Markets**—When end-users and suppliers of gas (or petrochemicals) agree that a direct sale is desirable, such sales are authorized. As law in the signatory countries may require, the appropriate state enterprise may be involved and the "modalities" are left up to the parties.
- **Petrochemical Marketing**—Mexico will liberalize import restrictions on many petrochemicals. Fourteen of the remaining 19 "basic" petrochemicals, the production and sale of which are reserved to the state, would be reclassified as "secondary" and open to competition from abroad.
- **Procurement by PEMEX** and CFE (the electricity generating monopoly) of goods and services from U.S. and Canadian sources will be increased. Fifty percent of all equipment contracts above $250,000 and all construction projects above $8 million will be open for competitive bidding.
- **Electric Generation**—Foreign investment up to 100% ownership would be permitted in certain types of electrical generation facilities.

With respect to the Mexican reservation clause, we are disappointed. The lack of political commitment to full investment and trade liberalization will hamper growth in cross boarder energy trade. Mexico is not alone, however. U.S. restrictions on crude oil exports and Canadian restrictions on investments, for example, also need to be addressed. But, the primary impediment to full integration of North American energy markets, which IPAA supports, remains the nature of Mexico's petroleum industry.

Restrictions on participation in petroleum markets, with or without free trade, can harm oil and gas consumers and producers. We recognize that the reservation clause refers only to the Mexican state's exclusive rights. We hope this means that the government of Mexico will consider new and creative ways of involving Mexican, Canadian, and American independents in Mexico's petroleum industry. Otherwise, the lack of competition may adversely affect economic development in Mexico.

This is not to say that the agreement is a bad one. NAFTA represents the best which was politically achievable by the parties at this stage in the development of free and open North American energy markets. To the extent that NAFTA is viewed as a broad framework for increasing trade liberalization among the signatories, it is a positive development. We must continue to work together to promote greater integration of our energy markets. This cannot happen as long as Mexico's oil and gas market remains essentially closed to competition while the U.S. energy market is essentially wide-open.

In addition to the energy chapter, however, there are other terms of the agreement which may have positive implications for companies engaged in energy-related trade in Mexico. The Mexican Government has agreed to protect investment and restrict anti-competitive activities in the energy trade. The draft agreement also includes a reference to liberalization of trade restrictions. So, while the agreement includes an exemption related to Mexico's constitutional requirements, it also includes a "ratchet" which states that government policies may not be made more restrictive than they are now and, if liberalized, may not subsequently be made more restrictive. The chapter on monopolies and state enterprises contains a provision requiring each country to ensure that government-owned monopolies (like PEMEX and CFE for example) do not use their monopoly positions to engage in anti-competitive practices in non-monopoly markets. Because the energy chapter states that end-users and suppliers of natural gas have the right to negotiate supply contracts, it appears that PEMEX is prohibited from anti-competitive actions in the gas supply business. This is an important accomplishment which we strongly support.

The dispute resolution provisions will also apply to energy matters. Of course, the actual utility of these ratchet, anti-monopoly, and dispute resolution provisions in the real world of natural gas trade is debatable. As ISAC–6 points out, "The effect of these provisions [related to natural gas] could be the ability of a state enterprise [PEMEX] to refuse to agree to a contract [to transport natural gas], thereby effectively vetoing a purchase or sale agreement . . . ." The critical question is whether the provisions related to direct sales of natural gas, augmented by the ratchet, anti-

monopoly, and dispute resolution provisions, will result in actual improvements over the status quo. Mexico's post-agreement actions on the ground will have to answer this question. Under the agreement, PEMEX should be willing to transport gas on behalf of American suppliers to Mexican end-users. If it does not, a remedy must be provided, if the agreement is to become more than words on paper.

In summary, the draft agreement is marginally positive with respect to energy issues. It is possible that the draft agreement raises and effectively deals with some very important energy issues. While it does not establish anything approaching the "free trade" in energy which would represent true reciprocity of opportunity by American, Canadian, and Mexican national in each others' countries, it may be meaningfully (if marginally) positive with respect to energy issues in general. It all depends on how it is implemented.

We are very hopeful that the implementing legislation and further unilateral actions by the Mexican government may build on the limited energy-sector achievements in NAFTA to create significant energy-related benefits for Canada, Mexico, and the United States. After all, while we might not have achieved all the goals we set for ourselves when our NAFTA Task Force began its work, the agreement certainly does not make things any worse for us. NAFTA also opens some new opportunities which were unavailable before. As stated in the September 14 ISAC–6 report, "to the extent that the treaty prevents each government from returning to more restrictive public positions and reflects the willingness of governments to move beyond this agreement to further liberalization and eventual reciprocity, the treaty can be seen as a marked improvement from current conditions." We agree.

Of course, we could also say that the agreement could have been much better. But, we prefer to emphasize the importance of what has been accomplished and work to build on these gains. We prefer to see this as the middle of the process, not the end. We are convinced that open markets in Mexico which will permit American, Canadian, and Mexican independent oil and gas producers to search for, find, and produce Mexican petroleum is the reasonable approach to Mexico's growing oil import dependence and its lack of capital needed for its exploration, production, refining, and distribution operations. Historically, government monopolies have not match the efficiencies and benefits of competition. In light of this, we hope that before long Mexico's government will expose the energy sector to the rigors of the market. In the long run, there is no alternative. When Mexico does this, we hope to build on the accomplishments in this agreement to bring about the open and free trade in energy that will ultimately benefit all North American petroleum producers and consumers.

PREPARED STATEMENT OF MADISON ANGELL

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to present testimony on the recently-negotiated North American Free Trade Agreement (NAFTA). I am Madison Angell, a grain farmer from Mocksville, North Carolina and president of the National Association of Wheat Growers.

Mr. Chairman, to capsulize, the NAFTA would eliminate the Mexican import licensing system that has been used continuously to restrict imports of wheat from the U.S. In its place, a 15 percent tariff would be applied on wheat imports from the U.S. which would be phased-down to zero over 10 years. Provision is made for accelerated reductions in the new duty with the consent of the parties to the Agreement. In contrast, U.S. wheat presently enters Mexico duty free, with the exception of a 10 percent tariff that is applied to durum wheat.

The NAFTA does not contain a definition of export subsidies (Article 506). Unlike the U.S.-Canada Free Trade Agreement which prohibits the use of Canadian Western Grain Transportation Act subsidies on grain exported to the U.S., the NAFTA accord would allow the use of this subsidy scheme on westbound grain movements to Mexico.

The U.S. would be free under the NAFTA to use its export subsidy system, the Export Enhancement Program (EEP), to compete against Canada and non-NAFTA countries in the Mexican wheat market. While this provision provides the U.S. the opportunity to protect its interests in the Mexican market, this can only be done with sustained use of export subsidies.

The current state of North American wheat trade defies geography. Canada's principal wheat producing region is centered around Regina, Saskatchewan some 2,821 miles from Mexico City, yet Canada enjoys 76 percent of the Mexican wheat import market! The reason for this abnormality is that the U.S. has been unwilling to match subsidized competition, and there has been no indication that our government will go head-to-head against the Canadians in the future if the NAFTA is implemented.

Regrettably, the NAFTA agreement fails to address the question of "price transparency". This important issue was side-tracked in the U.S.-Canada Free Trade Agreement, and it has not been included in the Uruguay Round of GATT negotiations. Unlike the open market U.S. trading system, sales prices are not revealed in exporting countries with monopolistic marketing regimes, such as the Canadian Wheat Board (CWB). The lack of "price transparency" makes it impossible to determine unfair trading practices.

A bi-national panel is currently reviewing the pricing of Canadian durum wheat exports to the U.S. to determine if grain has been sold below Canada's "acquisition price". If so, the sales would be in violation of the U.S.-Canada FTA. The panel results are to be known in December 1992. The findings, however, will not cause Canada to reveal its prices to an independent body for monitoring as U.S. wheat growers have urged. "Price transparency" should be provided for in the NAFTA agreement to ensure that U.S. prices and supplies are not undermined by subsidized Canadian imports, and that U.S. exports to Mexico are not systematically displaced by subsidized Canadian sales.

Finally, I would like to discuss another North American grain issue which we hope the Congress will incorporate into trade legislation. It too results from the unsatisfactory outcome of the U.S.-Canada FTA.

The 1990 Farm Act explicitly forbids the practice of commingling foreign grain with U.S. grain for export under U.S. taxpayer-assisted programs. More than 80 percent of U.S. wheat exports utilize these programs in one form or another; yet there is no present means of assuring that foreign grain is not mixed into these shipments.

With the implementation of the U.S.-Canada FTA, all U.S. wheat and oats exported to Canada must be accompanied by an "end use" certificate which details where the grain is going. We believe it is imperative that the same method be used to protect the integrity of U.S. grain. The adoption of this procedure would not disturb the status quo, inasmuch as foreign grain could still be blended with U.S. grain for domestic utilization or for export without government sponsorship.

We have seen no alternative to end-use certificates which would promote compliance with the 1990 Farm Act. Options such as transit billing or de minimus requirements would actually permit and expand the volume of foreign grain to be exported under these programs.

Thank you again Mr. Chairman for the opportunity to present testimony at today's hearing. I will be pleased to respond to questions at the appropriate time.

MEXICAN WHEAT IMPORTS
July/June Marketing Year
(1,000 metric tons)

Year	United States	Canada	Total
1983/84	0	364	566
1984/85	27	0	491
1985/86	4	0	92
1986/87	122	236	463
1987/88	317	378	752
1988/89	963	66	1,116
1989/90	219	0	260
1990/91	300	62	400
1991/92*	86	431	650

*estimated
As of August 27, 1992.

PREPARED STATEMENT OF THOMAS R. DONAHUE

Mr. Chairman, the AFL–CIO welcomes this opportunity to present our views on the proposed North American Free Trade Agreement.

Our detailed comments are contained in a written statement that we have submitted for the record, and I will be happy to summarize our position.

Now that we have in hand the final text of NAFTA, it is very clear what this agreement would and would not do.

It would not create good new jobs for the millions of Americans on the lower and middle rungs of the economic ladder. On the contrary, it would lead to the destruction and the export to Mexico of hundreds of thousands of jobs, and it would put heavy downward pressure on wages in the United States.

The Bush administration claims otherwise, based on economic studies that presume there would be no change in the investment patterns of U.S. and Mexican companies—a rather dubious assumption at best.

As you know, there have been projections that up to 550,000 jobs would be lost as a result of NAFTA. While economists may debate what the actual figures will eventually be, there are some chilling facts that no one can challenge.

It is a fact that over the past two decades, hundreds of U.S.-based manufacturers have closed their operations here and set up new factories in Mexico. There are now 500,000 jobs in the maquiladoras across the border—many of them directly exported from the United States.

It is a fact that U.S. companies can pay Mexican workers a fraction of what American workers are paid, and that is the reason the Americans firm operate in Mexico. In 1991, the average hourly compensation for American manufacturing workers was $15.45, while for Mexican manufacturing workers, it was $2.17. In the maquiladoras, it was even less than that—just $1.25.

Any time that Mexico further devalues the peso, the gap between the U.S. and Mexican wage levels would grow even wider.

Finally, it is a fact that the North American Free Trade Agreement would encourage the flow of jobs—and the investment that produces those jobs—to Mexico.

In the automotive sector, it would let Mexico retain protections for its domestic producers for at least 10 years, and even longer if the Mexican government demands future commitments from the companies. NAFTA would permit the Canadian government to retain the safeguards of the Auto Pact—but the United States would have no comparable protection for either parts production or assembly.

In the apparel sector, where 80 percent of the work force is female and 20 percent is of Hispanic origin, the agreement would result in massive job dislocation without offering any prospect of reemployment.

In the land transportation sector, NAFTA would allow Mexican carriers to operate in U.S. border states in three years, and it would give Mexican carriers access to all of the United States for transporting freight and persons originating south of the border in six years.

But even though Mexican truck drivers and bus drivers might work full-time in the U.S., they would not be protected by our minimum-wage laws.

In addition, there are no specific provisions in the agreement on the enforcement of safety and operating regulations, incompatible commercial drivers' licenses, drug and alcohol testing programs, or handling of hazardous materials.

In its chapter on "temporary entry for business persons," NAFTA departs from one of the cardinal principles of U.S. immigration policy, which is that employers can hire temporary entrants only when they show that they are unable to recruit workers here.

We have already seen the importation of nurse strike-breakers from Canada, and now we would add Mexican nurses to the labor pool.

Mr. Chairman and members of the Committee, these and many other provisions of NAFTA would not generate new American jobs. They would destroy ones we already have.

Indeed, when you hear the conflicting testimony of corporate executives who are defending this agreement, I urge you to ask them two questions.

First: if this Agreement passes, just how many new permanent jobs will your company create in Texas, Oregon, New York, and Kansas that would not otherwise be there?

Second: just who will be eligible for those jobs? Will they go to working people—assembly-line workers, secretaries, and truck drivers—or will NAFTA simply repeat the pattern of the last decade, when the most affluent got even higher incomes while the middle class saw its income levels going down?

If the answers to these questions are forthright—if they are more than vague generalities about economic growth—they should be very illuminating.

On what does the administration base its argument that NAFTA would create many more American jobs? It assumes that if trade between the United States and Mexico is liberalized, then we can export many more goods and services to Mexico and that will mean more jobs here.

This is the bedrock on which their case rests. It is borrowed from the classical arguments for free trade. It might apply when two economies are at similar levels of development, such as Germany and Denmark or the nations in the southern cone of South America.

But it does not apply to the U.S. and Mexico, which are at vastly different stages of development. The Mexican gross domestic product is only 5 percent of ours, and the average annual income of Mexicans is only $2,490, compared to $19,100 in this country.

The fact is that Mexican consumers do not have sufficient wealth—they do not have the purchasing power—to buy exports from the United States at a level that would generate vast numbers of new jobs here.

It is significant that most of the recent growth in trade between our two nations is actually between different units of U.S.-based multinational corporations—with the maquiladoras now accounting for over 45 percent of cross-border commerce. If one removes that 45 percent from the numbers, then Mexico becomes our sixth- or seventh-ranking trade partner, not the third-ranking as the administration is so fond of saying.

In other words, the growth is largely in multinationals trading within themselves as part of the process that exploits cheap Mexican labor.

It is now clear that NAFTA is not about creating U.S. jobs, and it is just as clear that it is not about protecting the environment.

Some claim that it is the greenest trade agreement in American history. Since no previous trade agreement said anything about the environment, that is technically true. But in fact, this agreement is a green light for the most greedy corporate polluters on the North American continent.

It has no provisions to remedy the terrible environmental degradation that already exists along the border.

It would expose U.S. health and safety standards to being challenged as "barriers to trade."

And it does not allow for trade actions to address violations of environmental standards. In other words, it offers no recourse—none except for "consultations"—against a country that has consistently failed to enforce its own environmental laws in order to attract new investment.

This means that if Mexico continues to wink at environmental abuse in order to attract investment, all we can do is to consult.

This is not an idle concern. The GAO has already documented that furniture manufacturers from southern California have relocated to Tijuana, so that they could escape California's air emission standards. The GAO has also reported on the U.S. investors in the maquiladoras who do not comply with existing Mexican environmental laws.

Despite all this, it would be wrong to say that NAFTA would be harmful for all Americans.

For large American investors, NAFTA is a major triumph. It provides new security for private investment and reduces government regulation of investment.

That is the central objective of NAFTA, and it meets that goal with flying colors.

For example, it guarantees the repatriation across borders of profits, dividends, and capital gains. It guarantees the convertibility of currency at market rates.

It guards against the expropriation of property and it guarantees prompt compensation.

It allows for the collection of business information for statistical purposes—but it ensures that specific information will be kept confidential if disclosure would prejudice the investor's or the investment's competitive position."

The enforcement for much of this is everything that an investor or a multinational corporation could hope for. NAFTA sets up a detailed supranational dispute settlement mechanism that provides for binding arbitration.

It is fascinating to compare the enforcement here with the enforcement of the rights of working people—or more precisely, the complete lack of it.

In the entire agreement, there are no specific enforceable provisions guaranteeing freedom of association, the right to collective bargaining, the establishing of appropriate minimum wage structures, health and safety protections, and the eliminating of child labor.

Mr. Chairman, the North American Free Trade Agreement from start to finish is nothing more than the latest version of Reagan-Bush trickle-down economics and

an enlargement of the interests of U.S. and Canada-based multinational corporations, to the detriment of U.S. workers.

The Congress should reject the agreement and send a new set of U.S. negotiators back to the table.

We can and we must do better.

Thank you.

Preliminary Report of the

Labor Advisory Committee for Trade Negotiations and Trade Policy on The North American Free Trade Agreement

September 16, 1992

The Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) believes that the North American Free Trade Agreement (NAFTA), as presently drafted, does not promote the economic interests of the United States, and if entered into force, would worsen the serious economic and social problems facing the United States

On its own terms, the draft agreement is inequitable and non-reciprocal, and would encourage the transfer of U.S. production to Mexico, bring about an increase in imports from that country and, consequently, reduce domestic employment and wages

The Advisory Process

The LAC was established by the Trade Act of 1974, as amended, to provide advice and information to the United States Trade Representative and the Secretary of Labor with respect to, among other items, the negotiating objectives and bargaining positions of the United States before the nation enters into trade agreements with foreign countries. According to its charter, the LAC is to address specific issues and general policy pertaining to labor and trade negotiations. Since all aspects of trade negotiations affect workers, the LAC's mandate is comprehensive.

The Committee is to meet on any trade agreement and provide a report to the President, the Congress and the Office of the United States Trade Representative at the conclusion of negotiations. Specifically, Section 135 of the Omnibus Trade and Competitiveness Act of 1988 requires that the Committee's report shall be provided " not later than the date on which the President notifies the Congress under Section 1103(a)(1)(A) of such act of 1988 of his intention to enter into that agreement."

The President's cynical rush to conclude negotiations and to then notify Congress of his intent to enter into an agreement with Mexico and Canada has rendered this requirement meaningless. While the agreement was announced on August 12, 1992, copies of a complete draft were not made available to the LAC. Even the chapters that were provided remained classified, contained numerous bracketed sections, were not released to the general public, and were not distributed to the full membership of the Committee. It is clear that negotiations continued for weeks after the announcement of a "completed" agreement. It was not until September 8, 1992, that all the chapters were made available to some advisors

Nevertheless, USTR informed the Committee that its report should be submitted by September 9, 1992, giving the LAC insufficient time to review, analyze and prepare a report on a trade agreement that took 14 months to negotiate. Obviously, such a deadline made it impossible for the Committee to carefully examine the entire agreement. Indeed, with such short notice, the LAC could not formally meet — as directed by law — to discuss the agreement and fulfill the requirements of the Federal Advisory Committee Act, which mandates advance public notice of Committee meetings

These circumstances were anticipated by the LAC in a June 18, 1992, letter to Ambassador Hills, which stated:

> "Given the acceleration of negotiations, and the possibility of reaching an agreement in the near future, the LAC is concerned that there will be insufficient time to review and analyze a completed text and submit a report to the Congress. . . . The LAC takes its responsibility to advise the Executive Branch and the Congress on trade agreements seriously. In the case of NAFTA, notice of just a few weeks would not permit the Committee to effectively carry out that responsibility and would greatly diminish the value of private sector advice as required by U.S. trade law."

Regrettably, the Administration chose to ignore the Committee's concerns and has, in our judgment, violated the spirit, if not the letter, of the law.

This is a subversion of the advisory process and a crass and unprecedented demonstration of political manipulation — an effort to inhibit informed debate and discussion on a trade and investment agreement that has serious and far-reaching consequences for the American people.

Negotiating Priorities of the LAC

Since the President announced his intention to begin NAFTA negotiations in the Spring of 1990, the LAC has regularly provided advice to the USTR and DOL on appropriate United States objectives for negotiation with Canada and Mexico

Those negotiating priorities included.

- The negotiation of provisions whereby infractions of labor rights or workplace standards in production for export can be addressed by trade actions by any of the three countries. Areas to be addressed included the right to organize and bargain collectively, the establishment of strong workplace health and safety standards, appropriate minimum wage structures and the elimination of child labor
- The negotiation of provisions to address the huge differential in wage levels among the three countries by

workers employed by U.S.-owned companies exporting to the American market. Current levels of compensation for these workers bear no relationship to their levels of productivity.

- The negotiation of provisions to address the existing environmental degradation of the border area, based on the "polluter pays" principle, as well as the provision of government funds for increased enforcement of environmental laws and regulations in all three countries. It was emphasized that any agreement must specifically permit trade actions to address violations of environmental standards.
- The allocation of sufficient funds to improve the infrastructure of the border area, including sewers, water, electricity, and needed housing and schools.
- The continuation of current U.S. trade remedy law, including safeguards, subsidies, dumping, Section 301, and Section 337. The LAC was particularly concerned that a dispute settlement mechanism would infringe on U.S. sovereignty and weaken U.S. law.
- The negotiation of protections for import-sensitive industries, such as textiles and apparel, tuna and glass in the United States.
- The negotiation of tough rules of origin — with content requirements of at least 80 percent — so that any benefits derived from an agreement will accrue to workers and producers located in the three countries.
- The immediate elimination of duty-drawback programs.
- The continuation of federal, state and local "Buy American" laws and regulations.
- Exemption of fruit and vegetables from the agreement, and the continued enforcement of Section 22 of the Farm Bill and meat import quotas.
- The enforcement of strict sanitary and phyto-sanitary standards with no restriction on improvements in those standards.
- The continuation of necessary federal and state regulations concerning the provision of financial and insurance services.
- Strict limitations on the "temporary entry" of persons to provide services, including transportation services.
- The enactment of legislation to deny trade benefits to companies that transfer production to Mexico, and a requirement that these companies cover health insurance, pay severance, training and job search costs for dislocated workers.
- The negotiation of provisions to provide additional debt relief for Mexico, so that it can begin investing at home to improve the standard of living of its people.
- The enactment of a significantly improved Trade Adjustment Assistance program to provide guaranteed benefits to workers harmed by trade.

NAFTA Harms the Economic Interest of the United States

The agreement, as presently drafted, is a complete rejection of the Committee's advice. The LAC, therefore, believes that the draft agreement does not promote the economic interests of the United States and, as such, fails to meet the overall negotiating objectives of the United States as set forth in Section 1101 of the Omnibus Trade and Competitiveness Act of 1988. Indeed, the Committee believes that this agreement, if entered into force, would worsen the serious economic and social problems facing the United States today by encouraging U.S. investment in Mexico and thereby reducing domestic employment and levels of compensation.

The LAC is painfully aware that serious discussions over the policies needed to address the economic impact of international trade and investment all too frequently degenerate into a debate between so-called free trade and protectionism. For the Committee, the overriding issue in these discussions is not free trade versus protection, open markets versus closed markets, or more investment versus less. Rather, the LAC believes that it is necessary to judge economic ties among nations by how they affect the lives of ordinary citizens. If increased trade among nations results in economic growth, we are concerned with who will benefit — the tiny number of people on the top rungs of the economic ladder or the vast number of workers on the bottom and middle rungs. And we do not believe that Americans must choose between economic autarky and an unrestrained international free market. The issue is not whether the United States should be engaged internationally. Rather, the issue is how to structure this engagement so that the benefits of economic activity are equitably distributed.

Regrettably, this view of the world is rejected by the draft NAFTA agreement, which is based on two complementary beliefs. First, that further trade and investment liberalization — even if inequitable and non-reciprocal — is by definition good. And second, that the desires of U.S.-based commercial interests are identical to the interests of the nation as a whole.

This second point is central to the LAC's objections to the proposed agreement. By encouraging U.S. companies to expand the transfer of production to Mexico, the agreement will serve only to increase unemployment in the United States and reduce the incomes of average Americans.

Under current trade arrangements, tens of thousands of U.S. workers have lost their jobs. Tens of thousands more have seen employment opportunities vanish, as U.S. companies moved production to Mexico, taking advantage of the poverty of Mexican workers and the absence of any effective regulations on corporate behavior. The proposed free trade agreement will encourage greater capital outflows from the United States, bring about an increase in imports from Mexico, reduce domestic employment as the United States moves deeper into a recession, and accelerate the process of deindustrialization that has confronted this country during the 1980s.

The Administration claims, however, that the proposed NAFTA would stimulate the economy and create new American jobs. But why would companies build new plants in the United States when they could lay off workers here, move to Mexico, pay workers less than $1 an hour, ignore health and safety regulations, disregard environmental laws and get away with flagrant violations of trade union rights? Common sense dictates that the Administration's claims are nonsense, but NAFTA supporters have been churning out economic studies to "prove" that it would create, not eliminate, American jobs.

In February 1991, the International Trade Commission (ITC) released a report, *The Likely Impact on the U.S. of a Free Trade Agreement with Mexico*, which concluded that both the gains and the costs would be minimal. According to the ITC, "unskilled workers in the U.S. would suffer a slight decline in income, but skilled workers and owners of capital services would benefit..." What the report doesn't say is that, by their definition, more than 70 percent of American workers are unskilled! In other words, the study actually concludes that NAFTA would accelerate the further enrichment of the wealthy and the impoverishment of the majority of citizens.

As for jobs, the ITC and other pro-NAFTA studies show only negligible net gains, ranging from zero to 130,000 over various time frames. The Economic Policy Institute (EPI) has analyzed a number of these studies and found serious flaws. The only way that these studies found any job increases at all was by assuming: 1) despite NAFTA's incentives and guarantees, there will be no net shift in U.S. investment to Mexico; and 2) Mexican manufacturing plants will continue to use U.S.-made components and machinery, even though NAFTA eliminates the incentives to do so. Using the same basic model as many of the pro-NAFTA studies, but making a minor correction for just one of the above inadequacies — assuming that the risk of investing in Mexico falls only 10 percent as a result of NAFTA — EPI economists found that the U.S. gross domestic product would drop by $36 billion and the United States would lose 550,000 high-wage jobs over the next 10 years.

Another study, conducted by Skidmore and University of Massachusetts economists, specifically addressed the question of the probable increase in U.S. investment in Mexico. The authors concluded that NAFTA will result in the loss of between 290,000 and 490,000 U.S. jobs through the end of the decade. In addition, the study predicted that this job loss could reduce the real wages of all Americans by as much as 2.3 percent.

In the same vein, economist Edward Leamer, in a 1992 paper published by the National Bureau of Economic Research addressing the wage effects of a U.S.-Mexico free trade agreement, suggests that low-skilled workers in the U.S. will see their earnings reduced by about $1,000 per year. As with the ITC study, Leamer's definition of "low-skilled workers" amounts to about 70 percent of the workforce.

Unfortunately, the NAFTA is simply the most recent manifestation of "trickle-down" economic theories — a rigidly ideological belief that overall progress eventually will be achieved if the organization and structure of economic and social affairs is left entirely to private capital. During the 1980 Republican presidential primaries, President Bush derided this simplistic ideology as "voodoo economics," with gains achieved through "smoke and mirrors." Now his Administration proposed to compound the economic damage caused by this approach during the past 12 years by extending it to free trade with Mexico.

Workers have long since learned that when market forces are left to their own devices they cannot be expected to bring sustained, equitable economic growth and social progress. Many of the major achievements of this nation — the establishment of the minimum wage, the abolition of child labor, the development of workplace health and safety laws, the creation of environmental protections and collective bargaining were intended to temper and restrain some of the most brutal effects of the free market. Free markets literally need to be made civilized — channeled in democratically agreed-upon directions if the economy is to serve the people.

What is at stake is not more or less trade with Mexico, but the nature and quality of that trade. The United States will stand to lose in the competition for world markets because the economic relationship outlined by this agreement with Mexico will contribute to the further deindustrialization of the American economy and to the erosion of the skill base of this country.

Where are the protections in this agreement against further deindustrialization of the American economy? Where are the protections against the erosion of our skill base in manufacturing? Where are the counter-incentives to massive transfers of investment and production to Mexico? Where are the protections for Mexican workers to help ensure that they, and not just their employers, will reap benefits from increased investment — that would mean they might become consumers for the products that they and we produce?

As NAFTA is currently drafted, we know that U.S. corporations, and the owners and managers of these corporations, stand to reap enormous profits. The United States as a whole, however, stands to lose an enormous amount.

By ignoring the easily anticipated social consequences of economic integration, the accord may increase tensions and frictions, not only in the United States, but between the United States and Mexico — sharpening differences and blocking the development of a more harmonious relationship. This should be of serious concern to policy planners in both countries.

For the United States, the agreement will result in less job creation, less productivity increases and regression in environmental and other social standards. For Mexico, it could institutionalize a comparative advantage based simply on cheap labor — turning that country into one large export platform, sacrificing balanced and equitable economic devel-

opment and condemning the majority of Mexicans to a lifetime of unrelieved poverty.

The LAC believes we can and must do better. As presently drafted, the agreement should be rejected by the Congress.

The following represents the views of the LAC on various sections of the proposed NAFTA and on Administration proposals concerning labor and the environment. Given the time constraints placed upon the Committee by the Administration, many of labor's concerns can only be highlighted, and we will continue our review and analysis of the draft agreement as the Congressional consultation process proceeds.

Labor Rights and Standards

The proposed NAFTA text does not contain provisions to address the serious problem of differing labor rights and standards among the three countries. Activities undertaken thus far under the Memorandum of Understanding, signed by the U.S. and Mexican governments on May 3, 1991, are without substance, and can only be described as political window dressing.

Since well before the start of the negotiations between the United States, Canada and Mexico, the LAC has insisted that concerns over labor rights and standards be addressed in the agreement. Our concerns have been clear from the outset — while *de jure* Mexican labor standards may equal or even exceed their American and Canadian counterparts, the de facto implementation and enforcement of those standards is an entirely different story. The operation of the Maquiladora program provides ample and tragic evidence of this reality.

It is folly to structure trade relations to pit workers in the three countries against one another. Negotiations should be designed to benefit the citizens of all the nations, not to encourage a barbaric competition based on substandard employment. Contrary to the Administration's assertions, such a competition would inevitably lead to plant closures, job losses and lower standards of living in the higher-wage nations. For all of the countries, it could mean the degradation of workplace health and safety standards, a possible increased use of child labor and a general deterioration of labor-management relations.

During the course of the negotiations, the LAC has stressed to the Administration the need to elevate the concerns of labor to an equal level with the concerns of business. If the United States can negotiate enforceable intellectual property rights protection for the holders of patents and copyrights, surely similar efforts to protect, for example, the health and safety of workers can be achieved. Regrettably, the Administration has chosen to ignore the Committee's advice.

Instead of incorporating labor rights and standards into the text of the agreement, the Administration has opted to address these concerns through other mechanisms — a completely inadequate response.

On May 1, 1991, President Bush and the Administration indicated to the Congress that they would attempt to address these issues in a series of side agreements between the U.S. Department of Labor and the Mexican Secretariat of Labor and Social Welfare (STPS). By not dealing with these within the context of the agreement itself, the "Action Plan" is nothing more than a list of promises. Trade agreement enforcement mechanisms were never even contemplated.

Indeed, the "Action Plan" is nothing of the sort. It is merely a description of the positive aspects of Mexican labor practices. There is no effective program to deal with differential enforcement of occupational safety and health standards, no effective program to alleviate problems associated with child labor, no effective program to address subsistence level wage rates or the effective absence of union representation in the maquiladora region.

Administration efforts, to date, indicate how shallow their efforts have been. In the area of occupational safety and health, the two governments recently have completed a comparative document that describes the two nations' systems. However, the Administration refused to permit any outside advice on the development of this document and refused to make a draft available for comment. The two nations held a conference on health and safety hazards in the iron and steel industry. However, the conference was hastily planned and beset with problems. There has been absolutely no follow-up since the conference concluded in February of 1992.

The Administration also claims to have made advances in the areas of employment standards and child labor. While meetings have been held and studies are supposedly under way, there has been no consultation with the LAC.

The Administration also touts its efforts to improve the collection of labor statistics in Mexico and coordinate that collection with counterpart activities in the United States. However, there is no indication that a plan has been proposed to utilize these statistics for appropriate enforcement purposes.

Binational efforts on worker rights and general labor-management relations systems have assumed a similar aura. These activities have borne little fruit beyond agreements to further mutual understanding of how the two systems work.

In conclusion, the Administration has focused almost exclusively on description and other similar academic exercises, and has chosen not to develop any plans to address known problems in a meaningful and tangible manner. The latter is precisely what could have been accomplished had the issues of labor standards and worker rights been put on the table amongst the other U.S. negotiating goals.

The LAC believes that it is essential to reopen negotiations to ensure that the agreement includes specific, enforceable provisions guaranteeing the rights of freedom of association and collective bargaining, and ensuring the establishment of appropriate minimum wage structures, necessary health and safety protections, and the elimination of child labor. The LAC stands ready to work with the Administration and the Congress to achieve that end.

NAFTA and the Environment

The proposed NAFTA text does not contain provisions to address the existing environmental degradation of the border

area, and fails to provide for a funding mechanism that would ensure increased enforcement of environmental laws and regulations in the region. The text fails to allow for trade actions to address violations of environmental standards. Without this provision, there is no recourse against a country that chooses to provide lax environmental protection and enforcement as an incentive to attract new investment and the relocation of production. The absence of enforceable provisions would, at the very least, inhibit the enactment of stronger environmental protections at the federal, state and local levels of government because of concerns that such regulation could place domestic industry at a competitive disadvantage. The need for establishing an environmental trade action provision is underscored by recent GAO reports, which document furniture manufacturers relocating from Southern California to Tijuana in order to escape California air emission standards, as well as U.S. investors in the Maquiladora program failing to comply with existing Mexican environmental laws.

The "Parallel Track": The Integrated Border Environmental Plan

The proposed Integrated Border Environmental Plan does not offer a realistic approach to addressing environmental concerns in the border region. The Plan relies on a "cooperative framework," failing to provide concrete mechanisms for improving environmental enforcement and monitoring of environmental trends along the border.

Key elements of the Plan are a restatement of voluntary cooperative goals that EPA and SEDESOL established but never accomplished several years ago, including the tracking of transborder shipments of hazardous waste, establishing waste inventories and developing a substantive joint inspection program. By continuing to rely on this voluntary framework, the Plan is relegated to a non-binding document that will be ignored once NAFTA is finalized.

While much of the Plan focuses on commitments to exchange information between the EPA and SEDESOL, these "commitments" are non-binding and fail to include measures that assure public access to information. Denial of information on contamination and environmental practices of corporations operating in Mexican border communities is a serious concern for public officials and citizens' groups on both sides of the border. In recent months, community and public health officials, investigating a rise in birth defects in border cities, have repeatedly been refused access to environmental records by SEDESOL officials who are responsible for compiling data on U.S. plants operating across the border.

Funding provisions within the Plan do not approach the level of need that has been identified by public officials in border states and even by pro-NAFTA organizations such as the Border Trade Alliance. For example, the total U.S government budget for 1992-93 is $241 million. This compares with $5.5 billion that the Border Trade Alliance estimates is required to correct existing problems and to prepare the border environment for a NAFTA agreement.

The proposed budget provides only a token allocation toward environmental pollution enforcement. The U.S. has earmarked $6.3 million for enforcement in 1992 and Mexico plans to spend just $3.7 million on enforcement in the border region. With regard to allocations toward infrastructure and environmental enforcement, the Plan provides no specific information regarding what percentage of these funds represent new revenues and what percentage are simply "repackaged" allocations that are part of ongoing state and federal projects

Equally important, nothing in the draft agreement or the Integrated Border Environmental Plan addresses needed border cleanup funded by those entities that created the pollution. The concept of "the polluter pays" must have a central place in any environmental plan.

In summary, based on the exclusion of environmental concerns within NAFTA and the "parallel track" as represented by the Integrated Border Plan, the Labor Advisory Committee believes that the Administration has not made substantive progress toward meeting the objectives set forth in the President's May 1 Action Plan. Based on current texts, the fundamental legal and institutional changes necessary to protect border environment and public health remain unaddressed. Moreover, no viable plan has been devised to ensure that sustained revenues will be allocated to address environmental enforcement and infrastructure needs. Without securing these revenues, environmental problems that have accompanied rapid industrial growth will continue to escalate.

Dislocated Workers

In his May 1, 1991, report to Congress, the President promised to work with Congress to develop an adjustment program to provide "prompt, comprehensive and effective services" to dislocated workers The Administration took no action until May 1992, a year later, when the Department of Labor began a consultation process with the Congress and a number of private sector organizations, including the LAC. The Committee provided DOL with extensive material and advice concerning the development of an improved Trade Adjustment Assistance Program We were told that our advice would be carefully considered and would be reflected in a survey of opinion being undertaken by DOL, as preparation for continued discussions with Congress and others. The results of that survey were released on August 21, 1992, and reflect considerable private-sector concern over potential worker dislocations resulting from NAFTA.

On August 24, 1992, the President announced a completed Administration proposal for worker adjustment. From the timing of these announcements, it is clear that the "consultations" undertaken by DOL were not serious, and mocks the good-faith efforts of the LAC, the Congress and others to assist in the development of a program that would truly address the problems facing American workers

The Administration's August 24 proposal to assist workers who will lose their jobs as a result of NAFTA is worse than

64-026 O - 93 - 8

seriously deficient; if implemented, it will reverse the nation's 30-year-old commitment to workers injured by international trade and trade policy, which the Trade Adjustment Assistance (TAA) program represents. Despite the numerous deficiencies of TAA, the Administration's proposal will leave many workers who will injured by NAFTA much worse off than they would be under the current TAA program.

Income support, which is an entitlement under TAA, would be severely limited and "needs-based" under the Administration's proposal. The availability of income support would be so circumscribed that the Administration has already estimated that barely 5 percent of the 3 million workers who experience long-term joblessness every year would receive it under their proposal.

Under the "Catch 22" eligibility criteria that the Administration has formulated, workers would have to enroll in training early during their period of unemployment, but would not be told until their unemployment insurance had run out whether they will be eligible for so-called needs-based income support. Many if not most of the workers who currently receive income support under TAA would therefore be denied income support under the Administration's proposal.

Income support is not the only area in which the Administration's proposal falls short of current TAA. Under the Administration's proposal, training would be provided only by means of vouchers, which would be capped at $3,000 per worker per year. Under TAA, training may be provided by direct reimbursement or voucher; more importantly, there is no $3,000 cap — only a requirement that the cost of training be "reasonable".

Under TAA, supplemental assistance is available to defray reasonable transportation and subsistence expenses for separate living quarters when training is not within commuting distance of the worker's home. The Administration's proposal is silent on such assistance, and presumably would no longer provide it.

TAA provides job search allowances and relocation allowances. The Administration's proposal is not specific on these points and presumably would not provide either.

Thus, for workers who would otherwise have been eligible for TAA, the Administration's proposal represents a severe cutback. For workers who will be injured by NAFTA, improvements are needed in the TAA program, not cutbacks, and certainly not elimination of the program and the 30-year commitment to victims of the nation's international trade policies.

Instead of being curtailed, income support and other benefits under TAA should be improved, in recognition of the seriousness of the injury that workers will sustain if they lose their jobs as a result of NAFTA.

Among the improvements needed for TAA are restoration of the 1974 wage replacement formula, lengthened duration of benefits, medical insurance, bridge benefits for workers near to retirement and a new emphasis on targeted job creation

Wage Replacement Formula

Eligible trade-injured workers currently do not begin to receive trade readjustment allowances until their unemployment insurance entitlement have been exhausted. The amount of their TAA cash benefit is the same as their most recent weekly unemployment insurance benefit.

From the 1974 Trade Act until the cutbacks of 1981, workers received weekly cash benefits in the form of TAAs and UI combined, equivalent to 70 percent of their prior pay — up to a maximum of the average manufacturing wage. Restoration of this benefit formula is certainly justified. Current unemployment benefit levels are inadequate to meet the income support needs of jobless workers. The average weekly unemployment insurance benefit was only $168 in 1991, just 37 percent of the average wage in covered employment and well below the poverty line for a family of three. Restoring 70 percent wage replacement would go a long way toward remedying this shortcoming of the current TAA program.

Duration of Benefits

While the evidence of long-term benefits from retraining is mixed, one thing is clear: Training that is not of sufficient duration or quality to build career-enhancing skills is like throwing a six-foot rope to someone drowning 12 feet off shore. Allowing workers to complete a full two-year training program would greatly strengthen TAA.

Medical Insurance

Unemployed workers injured by trade need medical insurance coverage for themselves and their families. Current law allows workers to reimburse their former employer for up to 18 months of coverage at group rates, but for most of the unemployed it forces a cruel choice between groceries and medical insurance. There also is evidence that lack of medical insurance inhibits dislocated workers from undertaking long-term training. The average premium for medical insurance available to workers is $3,200 per year — $62.50 per week, or nearly 40 percent of the average weekly unemployment benefit. Medical insurance should be a benefit under TAA.

Bridge Benefit

A special bridge benefit is needed for workers who will be eligible to retire within four years after they lose their job. Training requirements should be waived for such workers, who may have spent many years in an industry; they often have specific job skills that were of great value to their former employer but have little transferability in the job market.

Targeted Job Creation

Targeted employment creation also needs to be incorporated into the TAA program. Dislocated workers may be helped by income support in the short run, but their old jobs are gone forever. Economic conversion proposals, including planning grants, subsidized loans and labor-management alternative use committees, provide a mode for what could be done. Jobs related to commercial technologies that meet

national needs should receive priority consideration (e.g., mass transit/high speed rail, high-definition television, etc.).

Many other improvements in the TAA program are needed, as detailed more fully in recommendations provided by the AFL-CIO to the Administration and the Congress.

The Administration's touted increase in funding of $1.3 billion per year (less than $400 million of which is earmarked for NAFTA-related dislocations) is a drop in the bucket when measured against the enormity of the nation's unmet human investment needs. In 1980, outlays for the TAA program alone totalled more than $1.6 billion (nearly $2.8 billion in current dollars). Thus the "new money" proposed by the Administration would not be sufficient to restore even half of the cutback in outlays since 1980 for TAA alone; the "new money" earmarked for NAFTA-related dislocations would restore only one-seventh of the cutback in TAA since 1980.

The United States devotes only 0.6 percent of GDP to public employment and training programs of all kinds (unemployment insurance, training, job creation and job search assistance combined). Canada, by contrast, devotes 2 percent of GDP to public programs of these kinds; in the major countries of Western Europe, the proportion is 2.5 percent.

In other words, the United States has a shortfall of 1.5 percent of GDP for public investment in labor market programs of all kinds, or nearly $100 billion per year. This is a useful benchmark against which to measure the adequacy of the Administration's funding proposal.

Moreover, restrictive rules built into their proposal make it questionable whether even the $1.3 billion will be expended. With income support so limited and training vouchers capped at $3,000 regardless of the actual cost of training, utilization of the Administration's proposed new program no doubt will be limited.

A further shortcoming of the Administration's proposal is its virtually complete abdication of federal responsibility for program development and for oversight, monitoring and quality control. Despite the serious allegations brought by the GAO and others against training program abuses by unscrupulous or unqualified training providers, the Administration's proposal would wash its hands and ignore entirely or almost entirely the need to correct these serious problems and prevent them from reoccurring in the future. Nor would any leadership be provided at the federal level in the important area of training program development.

Rules of Origin

The purpose of rules of origin in a "free trade" agreement is to encourage greater production and trade within the "free trade" area by exempting products that meet the rule from the application of normal tariffs. To the extent that this promotes employment and production within the region, the rules can be considered "successful." There should be no misconception that imports from outside the "free trade" area are, in any way, limited or excluded by the adoption of rules of origin for the NAFTA countries; those imports simply pay the applicable tariff, which has been negotiated internationally in the GATT.

The rules contained in the draft agreement involve, in most cases, changes in tariff classifications that demonstrate that the product has been "substantially transformed" from its component elements and materials within the three NAFTA countries. In some cases, though, involving complex products that are produced and sold globally, a specific percentage of North American content is required in addition to the tariff classification rule.

The general "value content" rule for conferring tariff benefits under NAFTA is that 60 percent of the transation value, or 50 percent of the "net cost" of the product, be from the three NAFTA countries. The net cost definition excludes selling and marketing costs, profits and royalty payments, and limits interest payments that can be counted toward local origin. However, net cost includes administrative costs that are not related to production and a variety of other, non-production costs. The LAC believes that the definition in the U.S.-Canada agreement that included only direct costs of processing and assembly in calculating value content should have been adopted, with the percentage requirement increased to 80 percent.

In textiles and apparel, autos, computers, televisions and a few other products that account for significant trade between NAFTA countries, special rules of origin were written. For textiles and apparel, only products cut and sewn in the NAFTA countries from fabrics incorporating yarn spun in the NAFTA countries can qualify for NAFTA benefits. In each of the other cases, because of the weakness of the negotiated rules, sizable foreign content can be incorporated into products assembled in one of the NAFTA countries and still qualify for NAFTA benefits. The computer and auto industries have rules that would allow them to continue their practice of importing high value-added parts and components and still keep the tariff benefits of the agreement. If this structure remains, one of the ways to improve the job prospects for North American workers in these industries will be lost. The LAC believes that this chapter should be renegotiated.

National Treatment and Market Access for Goods

This chapter of the draft NAFTA addresses a variety of measures, from tariffs and import licensing to export restrictions used by the parties to regulate trade in goods. While moving in the direction of "market-determined" trade, the draft does not by any measure establish free trade. Significant inequities in trade practices will remain, even after the transition period. What has been negotiated, is not a free trade agreement, but a new trilateral trade arrangement, and it should be judged on the basis of fairness, reciprocity and national interest. The LAC believes that the agreement falls far short of meeting these goals. A whole series of Mexican and Canadian practices that are harmful to U.S. production and employment have been grandfathered. By prohibiting

the introduction of new measures to regulate or manage trade, these advantages have been solidified.

Tariffs

The agreement provides for the staged elimination of tariffs on most goods over a 10-year period, and for a small group of certain goods over 15 years. Since USTR did not provide the Committee with the tariff-elimination schedules until September 4, 1992, we cannot at this time comment on the appropriateness of goods scheduled for immediate duty-free status when the agreement would be entered into force on January 1, 1994, or for the goods that will be duty free on January 1, 1998, January 1, 2003, and January 1, 2008, respectively. Nevertheless, the LAC is concerned about the overall structure of tariff reductions and believes that it will in large measure perpetuate Mexican tariff advantage throughout the transition period. The LAC has long argued that tariff rates should at least be equalized before any mutually agreed reductions take place. This advice has been rejected.

These inequities were enlarged because the United States agreed to use applied rates of duty, rather than MFN rates of duty, as the starting point for reductions. This means that Mexico receives immediate duty-free treatment for a huge class of goods that are listed under the Generalized System of Preferences (GSP), without having to give anything in return. Complete duty-free treatment will be conferred, despite the fact that many of the GSP products have only limited duty-free status because of competitive need limits written into that law.

The draft, in Annex 408.1, provides for the parties to reduce or eliminate their MFN duty rate, i.e., the tariff applied to imports from other countries, on a whole series of products related to automatic data processing machines and their parts. It goes on to provide that when the scheduled reductions have taken place, these goods will be treated as having North American origin. In other words, products can be imported from the Far East, for example, and then classified as if they were produced in the United States. The LAC believes this proposal is preposterous, has nothing to do with an North American trade agreement and should be rejected.

Duty Drawback and Waiver

These measures, used largely by Mexico and Canada, permit the refund or waiver of customs duties on materials used in the production of goods, if that good is exported. The programs provide a powerful incentive for the two nations to use third country inputs and export to the United States. Their operation has an extremely negative impact on domestic production.

The agreement allows Mexico to continue these programs until the year 2001 and, for Canada, it actually extends duty drawback for two years, beyond what was agreed to in the Canada-U.S. FTA. The LAC believes that these provisions are unacceptable and that these measures should be eliminated immediately.

National Treatment and Import and Export Restrictions

The draft agreement permits a significant and non-reciprocal number of exceptions to National Treatment and prohibitions on Import and Export Restrictions. U.S. derogations are few and remain under negotiation. By not listing exceptions, the United States will be prohibited from introducing new measures on both imports and exports at the federal and state level even in the future. It is unclear, for example, if the United States will be able to continue to restrict the export of Alaskan oil.

The agreement allows Mexico to require import licenses, and therefore restrict, a huge list of products for five to 25 years. Those products include such things as automotive goods, pumps, cranes, bulldozers, all kinds of construction equipment, elevators, various kinds of industrial machinery and data processing equipment. These are the types of products that the United States would expect to be able to export to Mexico. Further, the agreement totally exempts Mexico from general obligations undertaken by the other parties concerning the imposition of export measures.

Country of Origin Marking

The draft agreement exempts transistors, semiconductors, integrated circuits and ceramic bricks, together with their containers, from country of origin marking requirements. This exemption would make the enforcement of existing trade agreements more difficult and eliminate useful information for both the producing and consuming public. The LAC strongly opposes this special deal.

Automotive Goods

Auto trade between the three NAFTA countries accounts for more trade than any other single product group. The United States and Canada negotiated an Auto Pact in 1965 that was modified, but not eliminated, by the implementation of the "Free Trade Agreement" in 1989. A main focus of the NAFTA negotiations was the phased elimination of Mexico's Auto Decree, which covers the production and sale of cars. Adopted in 1989, this decree was the latest in a string of decrees that affected auto production and trade in Mexico.

The goal of the negotiators, as was the case in the 1965 U.S.-Canada auto talks, was the integration of auto production of the three countries into a single "rationalized" production system. For the companies, this means closing inefficient production plants, removing government regulations concerning the location of production, taking advantage of the lowest cost production site and forcing workers, communities and suppliers into competition to lower their costs. The LAC believes that the draft agreement accomplishes these goals for the companies, at the expense of U.S. auto workers.

Export Performance

Mexico's export performance requirements are enshrined for 10 years. The current Mexican requirement for each auto assembler to balance its trade in Mexico ($1 in exports for every $1 of imports) would be immediately cut to 80 cents

of exports from Mexico for each dollar of imports into Mexico. This would be phased down to 55 percent over 10 years and eliminated entirely at the end of the 10th year.

The companies already assembling cars in Mexico (GM, Ford, Chrysler, VW, Nissan) could increase their imports into Mexico without having to increase their exports out of Mexico under this formula. However, the trade balancing requirement is an export performance requirement and the United States should have demanded its elimination or retaliated against it 20 years ago, and certainly should not have agreed to its continuation for 10 years.

Domestic Content

Mexican domestic content requirements are enshrined for 10 years. The current Mexican requirement for 36 percent sourcing from domestic parts companies (or joint ventures with majority Mexican ownership) would be cut to 34 percent for five years and then phased down 1 percent each year reaching 29 percent in the 10th year. This requirement would be completely eliminated after the 10th year.

Also included in this part of the Auto Decree phase-out, is an understanding that the Mexican parts industry would be assured of a large share (starting at 65 percent, declining to 60 percent in the fifth year and then 50 percent for years eight through 10) of the growth in the Mexican market compared with 1991-92 model year production. It is not clear yet how this calculation will be made, but it is clear that the Mexican government has made certain that production by its local parts companies will not shrink as the Mexican market becomes more open to imports of vehicles and parts.

The most disturbing element of the draft automotive accord is found in these areas.

- Mexico retains protections for its domestic producers for at least 10 years, and longer if the Mexican government demands future commitments from the companies.
- The Canadian government retains the safeguards of the Auto Pact.
- The United States has absolutely no comparable protection for either parts production or assembly. The fundamentally inequitable nature of this arrangement is sufficient reason to require renegotiation and underscores the low priority given to the impact of this deal on U.S employment and production.

The companies are interested in "rationalization" of their operations in the three countries. This has included increased Mexican sourcing in the recent past and the companies have no problem with continuing this pattern. There would be increased vehicle and parts exports from the United States to Mexico under these provisions, but we believe these will be more than offset by increased imports from Mexico in a short period of time.

In the years following the negotiation of the U.S.-Canada Auto Pact in 1965, the share of vehicle assembly for the two countries that took place in Canada doubled from about 8 percent (roughly Canada's share of sales) to more than 15 percent. Until the recent recession, employment in Canada's auto industry was higher than in the late 1970s, while employment in the U.S. industry fell by 20 percent. It is this type of "rationalization" that Mexico (and the companies) will use as a model for the next stage of North American "integration"; it is a model that, with the inequity in protections for local production and employment, could again lead to serious employment losses for the United States.

Tariffs

The light-duty truck tariff will be reduced from 25 percent in the United States and 20 percent in Mexico to 10 percent for each country immediately. It will then be phased out over five years for imports into the United States and Mexico. The difference in tariff phasing is very unusual and harmful to U.S. workers.

The reduction in the tariff to 10 percent initially and the quick U.S. phase-out will eliminate an important protection for U.S. production in this growing sector of the auto market. Both GM and Chrysler will be building new Mexican plants to produce vehicles subject to this tariff and they would be the biggest beneficiaries of this provision. A large share of light-duty truck production for the North American market could shift to Mexico under the terms of this tariff phase-out.

CAFE

The negotiated rules for CAFE (Corporate Average Fuel Economy) allow each company to choose, after the third year of the 10 year phase-out period, to have its Mexican value counted as "domestic," i.e., counted with U.S. and Canadian value to reach the 75 percent value-added level. A company can, however, choose to continue to have its Mexican production count as "foreign". If a company makes the choice to have its Mexican production counted as "domestic," this is not reversible. At the end of the 10-year period, all Mexican output will be considered "domestic" for CAFE purposes.

This provision is structured to benefit the Big Three and foreign assemblers now in Mexico.

The LAC believes the inclusion of Mexican value-added as "domestic" will allow the Big Three U.S. companies to concentrate their small car production in Mexico. This would leave U.S. production vulnerable to a sharp increase in oil prices or a change in the share of sales held by small cars. This change could lead to significant job loss for American auto workers if production in Mexico for export to the United States increases as a result of such a shift in small car production, or if U.S. demand for small cars increases sharply.

[illegible]panies that import large cars into the United States from outside North America could assemble small cars in Mexico and meet the CAFE standard for their total "foreign fleet" by keeping their Mexican production as "foreign" until the end of the 10-year period. This option is beneficial for current Mexican producers, Volkswagen and Nissan.

With revisions of the CAFE standards now under review by Congress, and with the impact of those revisions on U.S. production and employment impossible to assess at this time, changes in the law's definitions should not be made by NAFTA.

Rules of Origin

The rule of origin issue, as it relates to automotive products, is covered generally in the rule of origin section of the report. While there was some progress in specifying the "tracing" of imported value incorporated into vehicle parts, the tracing should have been more extensive, the percentage of North American value should have been substantially higher (at least 80 percent), and the "net cost" measure should have been rejected in favor of a direct cost of processing standard. The 62 1/2 percent rule for some automotive goods, touted by the Administration, does not even take effect until the year 2002.

It is our view that the Administration failed to fulfill the standard for the automotive rule of origin it set in the President's May 1, 1991, message to Congress. A tough rule of origin that maximizes local sourcing would have been at least 80 percent.

The draft agreement misses an opportunity to address one of the most serious problems facing the North American auto industry — the high level of imports of vehicles and parts from outside North America and low level of local content in the vehicles assembled here by non-North American companies. Workers in all three countries would benefit by raising the share of the market served by locally made vehicles and parts. The LAC believes it must be renegotiated.

Textiles and Apparel

The textile and apparel section of the NAFTA has completely ignored the needs of U.S. workers in these industries and has endangered their jobs. This is especially the case with respect to apparel. Our negotiators have not recognized that this is an industry primarily consisting of workers, and that it requires the concern of government.

Regrettably, this myopic approach to the impact of trade on U.S. apparel jobs has been accentuated in recent years through the Caribbean Basin Initiative program and the Special Regime with Mexico, the latter now replaced with NAFTA. This Western Hemisphere strategy was supposed to substitute Latin American apparel imports for those from Pacific Rim countries. Government data show that this is not the case. Apparel imports from Asia continue to grow along with those from Latin America. For the first six months of this year, apparel imports from all areas are up 19.7 percent and textile imports are up 19.4 percent.

The illusion of vast increases in apparel exports to a growing Mexican internal market is also disputed by the data. Census data on apparel exports include apparel parts leaving the country for assembly abroad and return to the United States. Assembly labor represents about 95 percent of the labor that goes into an average apparel product. According to official data, U.S. apparel exports to all countries totalled $3.3 billion in 1991. If the $2 billion in parts shipped for assembly in 1991 is deducted, apparel exports in that year totalled only $1.3 billion.

Typical of the cynical attitude toward apparel workers was Ambassador Carla Hill's request to the International Trade Commission earlier this year for advice on what would happen to U.S. industry investment in apparel assembly in the CBI as a result of NAFTA. Ambassador Hills was apparently not concerned over what would happen to U.S. apparel jobs as a result of NAFTA.

In this context, it is important to note that Hispanic workers in the U.S. apparel industry represent more than 20 percent of the apparel workforce. Overall, 80 percent of the workforce consists of women, with large numbers of minorities and new immigrants. Their jobs are to be traded for Mexican apparel jobs that pay a tenth or less of the wage level in the United States.

The lack of inclusion of provisions on labor standards in Mexico makes certain that the miserable conditions under which Mexican apparel workers live and work will be perpetuated.

Support for NAFTA by the U.S. textile and apparel trade association stems from the an understanding they reached with USTR on rules of origin after extensive and numerous meetings with U.S. and Mexican government negotiators. The yarn-forward provision, proposed by the industries, was readily accepted by USTR and the Mexican government and its industry and negotiated into the agreement. Textile industry representatives apparently believe that the U.S. textile industry will dominate the markets in all three countries. These meetings and the ultimate agreement reached took place without the participation of labor representatives and was presented to labor as a *fait accompli*.

But the textile and apparel section of NAFTA also provides for very substantial Trade Rate Quotas (TRQs) to satisfy concerns in Canada and Mexico about theoretical U.S. domination under the yarn-forward rule of origin. These TRQs total more than 300 million square meter equivalents and can grow, be renewed and increased under certain circumstances. TRQs are loopholes through which products, not meeting the yarn-forward rule, and originating outside the NAFTA countries, receive NAFTA benefits.

Even with strict yarn-forward rules of origin, it is likely that Mexico, given its need for capital investment, will find ways to adjust these rules. The press reported late last year that the President of Korea said that his country planned substantial investments in Mexico in apparel, among other industries, to gain easier access to the U.S. market. More recently, the press has reported on a joint venture in Mexico between a Chinese and U.S. firm to produce apparel in Mexico for the U.S. market. The report stated that the Mexican Export-Import Bank had loaned an initial $500,000 to the Chinese firm, with more to come.

The presumed "gains" for textile and apparel manufacturers may prove illusory because any NAFTA country at any time can ask for a review of the rules. A five-year review is mandated. The consultation mechanism permits parties to NAFTA to ask for additions or deletions to the rules and the TRQs. Speed up of integration is also permitted.

While the ultimate structure of the industry remains uncertain, what is certain is that this draft agreement would

encourage the export of U.S. apparel jobs. This will inevitably lead to a large number of factory closings, a substantial increase in unemployment and severe injury to the communities in which apparel workers live and work. There is no program in force to retrain apparel workers who lose their jobs as a result of NAFTA, even if alternative job opportunities can be specifically identified.

In short, the NAFTA and its contemplated extension to the rest of the Hemisphere under President Bush's Enterprise for the Americas Initiative will move U.S. apparel jobs to wherever labor costs are lower. This is unacceptable to the LAC and the agreement must be renegotiated.

Emergency Action/Safeguards

Article XIX of the GATT, together with its legal counterpart in the United States, Section 201 of the Trade Act, permits the imposition of protective measures, including quotas, to remedy or prevent injury to domestic industry and workers that is caused by imports. The NAFTA would, as a practical matter, eliminate the ability of workers to receive effective relief from injurious imports from either Mexico or Canada.

While providing the illusion of possible safeguard action, the draft text includes procedures and definitions that make the finding of injury unplausible at best, while at the same time, prohibiting the imposition of measures that would remedy injury caused by imports. Major problems with the draft text include the following:

- Safeguard actions can be brought only once during the transition period and after that time, only with the consent of the other party. Therefore, as a practical matter, even the theoretical safeguard protection will end at the conclusion of the transition period.
- Bilateral safeguard actions can be taken for only three years, and the parties to NAFTA are excluded from global actions unless their imports account for a substantial share of total imports, or their import growth rate exceeds that from all other sources. Current law allows for a maximum duration of eight years for safeguard measures, and does not exclude Mexico from global actions.
- The strongest remedy permitted is a return to tariff levels in place prior to the implementation of the agreement. Quantitative limitations are prohibited.
- It must be proven that injury is directly caused by tariff reductions under the NAFTA, a requirement that will be almost impossible to fulfill.
- A petitioner must demonstrate that it is representative of the domestic industry as a whole, producing like or directly competitive goods. Since upwards of 70 percent of U.S.-Mexico trade is intra-firm trade, this requirement puts workers at a tremendous disadvantage. U.S. corporations will not join in a petition concerning goods produced by one of their subsidiaries, even if those imports are causing injury to U.S. workers.
- The draft text specifically provides the right of "any association whose purpose is to represent the interests of consumers..." to participate directly in hearings on safeguard petitions. There is no definition concerning the representativeness of such organizations, and they could simply be front groups for importers. No specific mention is made of workers or their unions.

The LAC believes the safeguards chapter of the NAFTA is fatally flawed, seriously weakens existing protections for U.S. workers, fails to address the unique nature of trade in North America, and requires renegotiation.

Financial Services

The central objective of the NAFTA is encouraging and providing security for U.S. investment in Mexico. Any increase in the ability of U.S. financial services providers to operate in Mexico, furthers that goal. The draft agreement, while increasing the possibility of U.S. presence in the financial services sectors of Mexico, does not provide for reciprocal treatment and, most importantly, will inhibit, if not prohibit, future changes in the domestic regulation of the financial service sector.

In the words of the description of the proposed NAFTA prepared by the three governments, this chapter "establishes a comprehensive principles-based approach to disciplining government measures regulating financial services." Given the fragility of the U.S. financial sector, and the extreme harm done to the American people through the deregulation of the banking sector in the 1980s, the last thing this country needs is restrictions on the ability of government to regulate the provision of financial services. Yet, that is exactly what the NAFTA would do. For example, it is unclear from the draft text whether or not a number of states that provide worker compensation insurance on an exclusive state fund basis, would be forced to change their laws. These states prohibit private insurance companies from offering worker compensation insurance, and therefore would appear to be in conflict with agreement provisions that guarantee the "right to establish". No explicit derogation in this area has been taken by the U.S. government.

The LAC believes that the implications of this agreement require more careful consideration that the "fast track" approval procedures allow. In addition to the issue of domestic regulation, the Committee is concerned about the following:

- It is unclear that increased U.S. activity in this area will result in an increase in U.S. jobs. It appears that the agreement does not provide for increases in cross-border transactions in financial services, and therefore requires a commercial presence. Indeed, what has been negotiated is an investment agreement, not a trade agreement, and the LAC believes that the price for increased investment access in Mexico for U.S. financial institutions, is the jobs of U.S. workers in manufacturing.
- It is unclear how reserve requirements for bad debts or losses for U.S. banks and insurance companies will be structured for new obligations in Mexico. The LAC believes that it is essential for any agreement to require that specific reserves be set aside for obligations in that

country and not be tied to the U.S. parent. Under no circumstances should U.S. taxpayers be asked to insure, directly or indirectly, bank deposits or loans made in Mexico.

- Finally, the agreement specifically excludes exchange rate policies from coverage. This is a crucial deficiency. The devaluation of the Mexican peso has been the primary cause for the free fall in Mexican labor costs during the last 10 years and has been a major reason for the tremendous increase in U.S. investment in Mexico. It is reported that Mexico is considering a further devaluation, which will serve to increase the wage differential between U.S. and Mexican workers and further encourage the movement of U.S. and foreign manufacturing to Mexico to produce for export to the U.S. market.

Cross-Border Trade in Services

The huge scope of this chapter makes a detailed analysis of its content impossible within the time provided by USTR. Nevertheless, it is clear that an agreement on cross-border trade in services merits greater congressional deliberation than the fast-track process will allow. It addresses an enormous body of U.S. law and regulation at the federal, state, and local levels and will have the effect of prohibiting democratically elected bodies at all these levels of government from enacting measures deemed inconsistent with the provisions of the agreement. This reality, together with permitting Mexican and Canadian companies to use their employees to provide services in the United States has truly radical implications that must be more fully understood. The LAC believes that, if entered into force, this agreement would significantly reduce the ability of government to appropriately regulate economic activity in the public interest.

The United States, Mexico, and Canada all have hundreds of measures that are inconsistent with the terms of this agreement. For those measures to be maintained, an explicit exception must be taken. For example, without a derogation, the United States could not require FAA supervision of airplane repair and maintenance. It is extremely important to ensure U.S. protections are maintained for all services covered by this chapter and guarantee the right of governments to enact new measures in the future.

The chapter also commits the parties to harmonize their professional licensing requirements and encourages temporary licensing. Parties, for example, would have the right to challenge any state licensing requirement on grounds that it constitutes a "restriction on supply." This is likely to have a significant effect on professional licensing, which is primarily a state affair.

Fifteen million Americans work in professional occupations that have a major stake in protecting the standards of their profession. Provisions of this section alone will have major impacts on U.S. labor, employment, and immigration laws and practices that should be fully explored in open hearings before the appropriate committees of Congress.

The draft states that benefits would be denied to "an enterprise of a Party that is owned or controlled by persons of a non-Party and that has no substantive business activities in the territory of a Party." However, this does not require that the service on the territory of a Party, thereby permitting the actual service work, such as claims entry, to be shipped to a non-Party country.

Finally, the relationship between the cross-border movement of natural persons envisioned by the Chapter on Cross-Border Trade in Services and the Chapter on Temporary Entry needs to clarified. The former may open up additional categories of guest workers beyond those established in the latter chapter.

Land Transportation Services and Landside Maritime Activities

The NAFTA sections dealing with land transportation and certain landside maritime activities have been negotiated with no regard for the significant economic disparity in the transport sectors between the United States and Mexico. This, together with the obvious lack of specificity in the agreement with respect to operating and safety standards, raises a myriad of concerns that must be fully considered and analyzed. They include:

- the enforcement of safety and operating regulations;
- the grave economic and safety implications of unlimited entry into the U.S. by Mexican transportation operators;
- wage and economic disparity;
- highway safety;
- incompatible commercial drivers' licenses and drug and alcohol testing programs;
- handling of hazardous materials;
- the potential adverse effects for U.S. intermodal ports;
- and overall, the adverse impact open cross-border trade in services will have on U.S. transportation companies and their employees.

U.S. transportation workers in all the modes are subject to a broad array of rigorous training and certification, health and physical fitness, and drug and alcohol testing requirements. Yet none of these issues has been dealt with sufficiently in the draft agreement now under consideration.

Insofar as safety is concerned, practical experience over the past decade helps us reach the conclusion that the federal regulatory and enforcement scheme that has prevailed in the United States on an industry-wide basis has been entirely ineffective. The importance of this matter, in the context of NAFTA, cannot be overstated in the face of the nation's crumbling transportation infrastructure, which is incapable of absorbing further punishment and abuse without hampering safety and threatening the environment.

By any measure, NAFTA will wreak economic havoc in the transportation sector, leaving in its wake massive job dislocation and compromised safety standards on our nation's highways. The U.S. Trade Representative has moved to liberalize land transportation and certain landside maritime activities at the expense of U.S domestic transportation car-

riers and their employees, and at the risk of compromising safety throughout our transportation network. This is unacceptable and the LAC believes the draft agreement must be renegotiated.

Motor Carrier Sector

Within three years, the agreement opens up U.S. border states to Mexican transport, and within a period of six years, would give Mexican transportation carriers (truck and bus) unencumbered access to the United States for the transportation of freight and persons originating south of the border. In return, U.S. transportation companies will be granted the same freedoms to operate in Mexico. This timetable for lifting barriers to cross-border transportation promises to create an uneven playing field on which U.S. transportation companies and their workers will be forced to compete.

This position is shared by others. For example, on August 26, 1991, in testimony submitted to the USTR, the Texas Motor Transportation Association, which represents Texas truck and bus concerns, stated: "... the (U.S.) motor carrier industry is not capable of absorbing the ruinous competition that will result if Mexican truck and bus companies are allowed to operate within the United States."

There is a fundamental disparity in the cost of doing business between U.S. and Mexican transportation companies. One needs to look no further than to a comparison of the wages of freight truck drivers in the United States and their counterparts in Mexico. Mexican truck drivers earn about 21,000 pesos daily, or roughly $7 a day, while U.S. truck drivers earn around $13 an hour, not taking into account the cost of health insurance, pensions and other benefits. It should be emphasized that this agreement will permit Mexican truck drivers to work full time in the United States and not even be subject to U.S. minimum wage laws.

Daily Minimum Wage Rates Mexican Workers

Job	*Daily Wage*
Freight truck driver	$6.74
Dredge operator	$6.57
Bulldozer operator	$6.48
Journeyman automotive mechanic	$6.40
Delivery truck driver	$6.11
Journeyman automotive electrician	$6.08
Journeyman plumber	$5.91
Journeyman machinist	$5.85
Warehouse clerk	$5.58

(Source: Harlingen Chamber of Commerce)

It is inconceivable that U.S. companies and their employees can compete with the substandard wages and working conditions of Mexican transportation workers. As such, there is no scenario in which trade liberalization in land transport services doesn't add up to economic hardship for transportation companies and significant job dislocation on the U.S. side of the border with no associated benefit for the nation as a whole.

Under NAFTA, U.S. carriers would find themselves competing with possibly unsafe, low-cost Mexican carriers for business in a new international traffic zone within essentially limitless boundaries. Since most corporate decisions are driven by the bottom line, it is easy to predict which side loses out. Much like the mass exodus we continue to witness by U.S. companies moving plant operations into low-wage Mexico, one can envision similar activities by transportation companies and the users of their services.

The lifting of investment restrictions is another key concern. After a phase-in period, U.S. and Mexican investors will be free to hold up to 100 percent ownership in transportation carriers in each other's country. The eventual lifting of investment restrictions will have the net effect of moving capital north to south, thereby allowing the same U.S. companies that today exploit cheap Mexican labor in the manufacturing sector to move their goods back into the United States via low-wage, poorly regulated Mexican transportation companies.

This is best illustrated by a question asked during the August 26, 1992, NAFTA briefing in Washington, D.C., conducted by the chief negotiator for land transportation services. A manufacturing representative inquired as to a U.S. company's freedom under NAFTA to not only contract with a Mexican transportation company to move its goods north of the border, but to actually purchase a transportation company to handle the movement of manufactured goods. The USTR representative responded favorably to this scenario.

Clearly, the land transportation chapters of NAFTA represent a dream-come-true for those U.S. companies searching for ways to better exploit the wage disparity between our two countries. Not only will U.S. companies continue to enjoy hefty profits by expanding low-wage manufacturing operations in Mexico, they will now be free to ship from, for example, Mexico to Boston without ever hiring the services of a U.S. employee-operated carrier.

Regulatory enforcement is another key issue. Already, under status quo conditions, a strong case can be made for the need to beef up U.S. enforcement of existing regulations, as we witness Mexican operators engage in illegal U.S. domestic point-to-point service, or "cabotage," with the use of unsafe, substandard equipment. Reports from the field indicate that Mexican operators are known to travel well beyond the legal border zone and engage in cabotage, a practice prohibited by federal law.

Yet the USTR has stated repeatedly that, in lieu of a more effective federal enforcement scheme, we must rely on state highway patrol and other state and local enforcement agencies to ensure Mexican compliance with standards of operation. The truth of the matter is that NAFTA does not in any way

ensure adequate federal or state enforcement of operating and safety regulations. And this should be an issue of grave concern to policy makers.

The Bush Administration is asking Americans to accept a free trade agreement with a promise that the standards subcommittees will complete their work at a later date. These subcommittees are charged with negotiating operating and safety standards that make the three countries "compatible" with one another. Whose standards will prevail as these committees proceed with their work? The following are just a few of the problems not addressed by the draft agreement:

- There are no effective hours of service regulations or drug testing programs in Mexico. Canada has drug testing, but not on a random basis. The United States is the only country with random drug testing.
- Mexican drivers are not required to carry a medical certificate as are U.S. drivers.
- The Department of Transportation is moving toward anti-lock brake regulations for trucks. Mexico has none.
- Enforcement of standards relating to the transport of hazardous materials and the problems arising from language differences.

These and many other issues should send a chilling message to anyone who has witnessed first-hand the safety hazards that continue to plague U.S. highways.

Under present conditions our nation's highways already are plagued by unsafe, undercapitalized, poorly regulated motor carriers. Poorly maintained equipment, hours of service abuses, inadequate government enforcement, and a cut-throat, unhealthy operating climate inspired by deregulation, describe the day-to-day environment on the nation's highways. Moreover, the soaring volume of hazardous materials shipped via truck and rail has placed much greater pressure on fire fighters, other first response personnel and transportation workers to deal with a growing number of accidents and incidents involving dangerous and toxic substances. Now, enter NAFTA.

Under a scheme of liberalized trade policies one can only imagine the difficulty with enforcing U.S. safety standards among Mexican truck and bus operators doing business in the states. And it is naive for anyone to assume that with ratification of a free trade agreement, the U.S. will suddenly experience a resurgence in the enforcement of safety regulations. Such a position is baseless and unsupported by practical experience.

Congress must not allow NAFTA to become a pawn for gutting the vast regulatory framework that defines the manner in which U.S. transportation companies operate in the United States. The federal government, the U.S. Congress, and state and local governments have adopted measures intended to assure safe operations for workers and the public, compliance with environmental standards, adequate worker injury compensation, efficient interstate and intrastate commerce and fair treatment of workers. Clearly, the cost of doing business in the United States goes well beyond putting a vehicle on the highway.

Rail Sector

NAFTA negotiations also raise concerns with respect to U.S. rail transportation services including operations, maintenance, and locomotive and car manufacturing and repair.

U.S. rail workers already have paid the price for the lifting of trade barriers in the form of lost jobs. For example, St. Louis, Mo.-based American Car used to employ some 4,000 members of the Brotherhood Railway Carmen (now a division of the Transportation Communications Union) to build freight cars. In the late 1970s, tariffs on foreign-built rail cars were lifted, a move that effectively wiped out American jobs in favor of low-wage jobs in Mexico. This occurrence, coupled with the devastating effects of railroad deregulation, has wiped out some 250,000 jobs in all the crafts since 1980.

Rail issues to be considered relative to NAFTA include the eventual gutting of U.S.-Mexico operating arrangements as they relate to crew shift changes, the potential for contracting out to Mexico of maintenance of way, shop craft and other work, and U.S. rail industry investment in Mexico's rail infrastructure.

Clearly, NAFTA paves the way for the eventual pursuit of changes in U.S. law that would permit the industry to by-pass U.S. employees by allowing Mexican trains (carrying "international freight") to travel into the United States using low-wage Mexican workers. NAFTA also creates an environment in which the U.S. rail industry can pursue new operating/investment arrangements with its Mexican counterpart. Under this highly plausible scenario, it is easy to predict the eventual U.S. job dislocation and new safety hazards resulting from a new "seamless" international rail industry that will seek to exploit fully the wage advantages offered by the Mexican work force.

It must also be pointed out that a flood of $7-a-day Mexican truck drivers into the United States poses significant economic threats to U.S. rail companies and their employees in the same manner that motor carrier companies and employees would be adversely affected. A similar scenario that has U.S. trucking companies losing out to low-cost Mexican trucking entities can be applied to U.S. railroads, as they also face a significant economic disparity.

Landside Maritime

There are also several concerns with respect to the landside maritime section of NAFTA, which covers areas such as crane operations, stevedoring, terminal services and, perhaps most important, investment policies. Provisions that lift investment restrictions in certain landside maritime activities will have the net effect of weakening the economic security of U.S. port operations and threatening maritime jobs.

Under NAFTA, it is envisioned that U.S. investors will be free to invest in, and in essence pay for, the building and expansion of Mexico's intermodal ports. In a practical sense, such a liberalized investment scheme simply encourages the flight of U.S. capital to Mexico's port infrastructure.

It is easy to predict that the substandard wages paid to Mexican workers will make Mexico-based ports a "cheap escape" at the expense of U.S. jobs. Congress should reject a free trade agreement that in effect encourages diversion of business from U.S. ports to Mexican ports. This becomes an even greater concern as the Mexican motor carrier and rail sectors become more efficient and better able to handle greater volumes of business from port to land.

Temporary Entry for Business Persons

Like the U.S.-Canada Free Trade Agreement (USCFTA), the NAFTA includes a chapter entitled "Temporary Entry for Business Persons." This section of the agreement spells out the obligations of each Party regarding temporary immigration requirements for nationals of other Parties. The NAFTA language on temporary entry mandates the wholesale revision of U.S. immigration law on temporary entry.

A cornerstone of U.S. immigration policy is that employers should not be allowed to hire temporary entrants without showing that they are unable to recruit resident workers. The NAFTA represents a drastic departure from this principle because it specifically precludes labor certification of this type.

A second protective feature of U.S. immigration law is numerical limitation on temporary entry of professionals. The NAFTA will phase out all ceilings on the enumerated categories of professionals and commits the Parties to avoid and eliminate visa requirements.

This expanded temporary entry will encourage business to respond to shortages of professional and skilled workers by recruiting Canadians and Mexicans instead of taking steps that promote increased productivity. Those steps include reorganizing the workplace, providing training and education and increasing the involvement of workers in planning and decision making. Only by promoting these changes can the United States hope to compete in the world economy. Instead, the Bush Administration, while giving lip service to the need to improve the skills of U.S. workers, wants to permit employers to take the path of least resistance: increasing their access to foreign guest workers.

Changes in temporary entry rules should be part of a comprehensive strategy for resolving U.S.-Mexican immigration issues instead of being hidden in a trade agreement.

The Chapter on Temporary Entry Is Deceptively Titled

The chapter is egregiously misnamed. In usual parlance, the term "business person" is used to refer to someone who is a business owner or executive-level managerial employee. This chapter deals, for the most part, with categories other than people who own or operate a business — professional and non-professional employees.

Trade agreements traditionally have included obligations regarding eased entry requirements for business representatives directly involved in the sale of internationally traded goods. This chapter covers the entry of business visitors who are not directly involved in international trade by permitting entrants to qualify as Part A business visitors simply by drawing their paycheck from a non-U.S. source. In other words, NAFTA greatly expands temporary entry in ways that have nothing to do with international trade.

The duration of the entrant's sojourn in the United States is not necessarily "temporary." INS regulations promulgated under the U.S.-Canada Free Trade Agreement allow the professional entrant's employer to renew their TC status annually for an unlimited number of years. Under current law, professional non-immigrants enter under the "H" visa category which has fixed time limits on the duration of their sojourn. In the NAFTA, professional non-immigrants can enter either as Part A Business Visitors or Part D Professionals with no limitations on their length of stay. Temporary here simply denotes the fact that the entrant is not eligible for conversion to permanent resident status, however, their stay may be life-long.

The NAFTA contemplates a continuing process of revising temporary entry regulations. The Working Group established under Article 1905 is charged with "the development of measures to further facilitate temporary entry of business persons on a reciprocal basis." International interagency deliberations under the USCFTA already have resulted in several additions to the list of eligible occupations.

Finally, the Working Group also will consider "the waiving of labor certification tests or procedures of similar effect for spouses of business persons who have been granted temporary entry for more than one year under Parts B, C, or D." This suggests a waiver of current provisions which do not permit spouses of temporary entrants to work, unless they qualify by themselves as coming within one of the categories of non-immigrants which is granted work authorization.

U.S.-Mexico Transition Rules Represent A Major Reallocation of Temporary Entrant Quotas

Under current law, the H-1B non-immigrant category (alien performing services in a specialty occupation) has an annual numerical limitation of 65,000. According to Schedule III, the United States and Mexico agreed to limit the number of professional temporary entrants to 5,500 annually. This limit does not include renewals or dependents or H-1 entrants. This gives Mexico an additional allocation equal to one-twelfth of the existing cap on H1-B visas. Furthermore, the agreement stipulates that this limitation will be in place for no more than 10 years. Thereafter, there would be no limits on the number of Mexican professionals who could be recruited by U.S. employers. In addition to the 10-year sunset provision, two other clauses commit the Parties to consider raising the ceiling after one year and consult on eliminating the ceiling after three years.

The NAFTA's Definition of "Business Visitor" Temporary Entrants Represents a Radical Revision of Current U.S. Law

The concept of a "business person" has been greatly expanded under NAFTA to include those who come into this

country to perform skilled and non-skilled labor. Under current law, business visitors are eligible for a "B-1" non-immigrant visa that does not permit them to perform skilled or unskilled labor. In the NAFTA, Business Visitors will include "Schedule II" professionals tour bus operators, and truck drivers.

The proposed NAFTA drastically revises the B-1 visa in its definition of the Part A Business Visitor. The principal restriction on the NAFTA Business Visitor is that they draw their paycheck from Mexico or Canada. They will be free to perform any of the occupations listed in "Schedule I" (which, in turn, subsumes all of the professional occupations listed in Schedule II). Unlike current B-1 entrants, NAFTA Business Visitors will be able to perform work that is unrelated to international commerce. Furthermore, NAFTA specifically forbids numerical restrictions on Business Visitor entrants.

Rules Governing NAFTA Professionals Differ Dramatically from Current "H-1" Visa Regulations

Under current law, professional non-immigrants may enter with H-1A (registered nurses) or H-1B (other specialty occupations). H-1 visas require prior certification by the employer of an inability to recruit resident workers for the job. H-1 entrants can stay for a maximum of six years.

In contrast, the new "FTA Professional" or TC entry created for Canadian professionals under the USCFTA permits entry without any labor certification. TC entrants may be hired even when resident workers are available. Furthermore, while the TC status must be renewed annually, there is no limit on the number of renewals. 8 C.F.R. 5 214.2(b)(1). In addition, the absence of a visa requirement makes it easier for the TC entrant to enter the local job market. While the H-1 visa documents the employer-employee relationship, the INS does not even record the employer of a TC entrant.

The NAFTA Dismantles the Labor Protections in the Immigration Nursing Relief Act of 1989

Under the "Immigration Nursing Relief Act of 1989" (INRA), employers seeking to bring in RN's under the H1-A visa category must attest that service would be disrupted without them; that the entrant be paid the prevailing wage; that the employer has taken steps to recruit or retain qualified citizens or residents; that there is no strike or lockout and that the hiring of the temporary entrants will not influence a union election.

The LAC is especially distressed to see the inclusion of health-related occupations in the list of professions eligible for temporary entry under the USCFTA and the NAFTA. According to the INS, RN's account for 36 percent of Canadian TC entrants for whom an occupation was reported in 1991. The health care industry has undergone drastic changes in the past decade that have worsened the working conditions of RN's, undermined their professional status and led to increased turnover and very high job vacancy rates in many areas. The Bureau of Labor Statistics reports that the salaries of RN's are generally lower than those enjoyed by individuals in jobs with similar characteristics in terms of qualifications and responsibility (see White-Collar Salaries in Private Service-Producing Industries, March 1989). Instead of improving working conditions, professional autonomy and career opportunities, many healthcare employers have responded with shortsighted policies such as reliance on temporary help agencies and the recruitment of foreign nurses. Giving these employers further encouragement to recruit temporary entrants from Canada and Mexico, in circumvention of the INRA, will undermine the efforts of nurses and allied health care professionals to improve their working conditions and better the quality of patient care they deliver.

Despite the protections imposed by the INRA, the recruitment of H-1 nurses continues to grow. Based on figures for the first six months of 1992, the number of new H-1 visas issued to RN's will approach a historic high of 8,000 — an 87 percent increase over 1991.

At the same time, recruitment of Canadian RN's under the TC status created by the USCFTA is likewise growing by leaps and bounds. The program started in 1989 and grew by 69 percent in 1990, 47 percent in 1991 and is now growing at the rate of 60 percent in the current year (data from the Immigration Nursing Relief Advisory Committee).

Mexico has the potential for becoming a major source of temporary entrant RN's under the NAFTA, despite the fact that it is a developing country. In 1989, the GAO reported that the Philippines accounted for 72 percent of all H-1 RN's during the period 1985-89. Furthermore, the experience of the USCFTA shows that the relaxation of entry requirements does have an impact. In 1989, GAO reported that Canadians accounted for less than 12 percent of H-1 nurses. Currently TC entrants — all Canadian — represent 30 percent of the combined total of TC and H1 RN's, and does not even account for the fact that some H-1 visa are still being issued to Canadians.

NAFTA Bars Enforcement of the Restriction on Cross-Border Recruitment of Strikebreakers

In response to concerns raised by the Labor Advisory Committee, the United States advocated language permitting Parties not to issue a document where the employment of an entrant might adversely affect a labor dispute — see Article 1903. While the language of this article would allow a flat prohibition on the entry of scabs, it is unenforceable.

Under the USCFTA, professional temporary entrants obtain their permission to enter when they approach the border. For a border official to deny entry under Article 1903, each border station would need a constantly updated list of labor-management disputes in the affected industries and occupations Because such a system is not feasible, strikebreakers will not be "caught" at the border.

The only other way to enforce this provision is to require employers to certify that they are not involved in a labor dispute in order to be eligible to hire TC entrants. The Immigration Nursing and Relief Act of 1989 (see below)

requires that employers who wish to hire H1-A entrants make an attestation to the Department of Labor to the effect that, among other things, there is no labor dispute in progress. In contrast, NAFTA specifically prohibits the use of such labor certification procedures; see Section 2(a) of Part C (Intra-Company Transferees) and Section 2(a) of Part D (Professionals).

The no-strikebreaker provision cannot be applied to Part A Business Visitors because these entrants require no employment authorization (they work for a foreign employer). Business Visitors could be used to perform struck work if a U.S. employer were to subcontract with a Mexican or Canadian labor contractor.

The USCFTA has been used to recruit strikebreakers. Members of the Service Employees International Union have been involved in a bitter and prolonged strike against a hospital in Watertown, N.Y., where the management used the USCFTA to hire permanent replacements. SEIU members picketed the recruitment site in nearby Kingston, Ontario. A local newspaper interviewed the hospital's personnel manager: "JoAnn Seller, employment manager at the hospital, said the recruiting drive is mainly for registered nurses who might be replacing the nursing assistants who are on strike. ... Any Canadians hired would get permanent positions and not just be taken on for the duration of the strike, said Mrs. Seller. The Canadian market has been targeted because the free-trade agreement makes it easier for Canadian health-care professionals to work in the United States, she said." (Kingston Whig-Standard, 3.31.92). Absent the USCFTA, this activity would be prohibited under the Immigration Nursing Relief Act.

The NAFTA would allow the Watertown tragedy to be repeated. Even if Article 1903 procedures were adopted, the union would not become aware of the presence of TC scabs until they arrived at the hospital — and the NAFTA does not provide for withdrawal of the temporary entry status after it has been granted.

Enforcement of Professional Temporary Entry Under the U.S.-Canada Free Trade Agreement Is Lax And No Visa Is Required

The Immigration and Naturalization Service (INS) collects statistics on the entry of "TC" professionals as provided for in the USCFTA. These data show, for example, that during Calendar Year 1991, 8,971 Canadians entered with TC status. While nurses were the largest single category, and engineers second, the INS reports no occupation for nearly one third of the total. Under the USCFTA, only certain occupations are eligible for TC status. Therefore, this lack of data means that, at best, the INS does not have an adequate reporting system to monitor the impact of the USCFTA or, at worst, it means that Canadians are being granted TC entry status without declaring a profession.

The NAFTA Is a Major Step Towards Eliminating Controls on Temporary Entrants From All Countries

The USCFTA represented the first significant revision of immigration laws under the guise of a free trade agreement and the NAFTA goes even further. At each step, the Bush Administration argues that the impact is de minimis. However, similar provisions have been tabled by various countries in the Uruguay Round of the GATT negotiations, including the United States into submission on financial services. Furthermore, the Bush Administration's "Enterprise for the Americas Initiative" clearly envisions the extension of NAFTA rules to all the countries of the Western Hemisphere.

Temporary Entry Should Be Severely Curtailed Because It Harms Both Resident Workers and Foreign Workers

Under current law, temporary entrants who enter the United States to perform professional services may work only for the employer who petitioned for their visa or offered them the job which permitted entry. If the guest-worker separates from that employer, they are not eligible to work for another and usually must return home. This greatly magnifies the impact of the threat of dismissal and renders temporary entrants vulnerable to extreme employer coercion. Although unions have defended the right of H-1 visaholders to participate in a strike without being subject to deportation, their vulnerable status acts as a powerful deterrent to supporting a union.

Resident workers are harmed because they may not find employment for which they are qualified because employers prefer to hire temporary entrants. U.S. residents will be forced to compete with easily intimidated guest workers who are severely impaired in their knowledge of or ability to exercise their rights under U.S. (or home country) labor and employment laws. The Bush Administration has made no argument as to why expanded temporary entry is either in the national interest or will benefit workers.

Dispute Settlement in Antidumping and Countervailing Duty Cases

Chapter 19 of the NAFTA, "Dispute Settlement in Antidumping and Countervailing Duty Cases," requires unacceptable changes in U.S. law by allowing for a binational panel, and not the U.S. court system, to have the final decision on our antidumping and countervailing duty determinations. This binational panel is more than just an advisory body with no legal power. The United States would be required to change its laws to give the binational panel "exclusive" authority to review disputed rulings. And, if the binational panel rules against the United States, the mandated changes in our law would require that our agencies make new rulings which are consistent with the binational panel's findings. This is a dangerous plan that could undermine current U.S. antidumping and countervailing duty law, and inhibit future changes in those statutes. It also raises serious constitutional questions relating to our judicial process and the separation of powers. This binational panel sets a precedent that all other nations

will probably insist upon in trade negotiations with the United States, such as those contemplated in the Enterprise for the Americas Initiative.

Another major problem with Chapter 19 is that it does not make clear that labor organizations have standing as domestic producers to file and participate fully in antidumping proceedings on behalf of their industries. This is a critical deficiency that needs to be corrected so that organized labor's standing is not left up to the interpretation of an administrative agency, a court, or a binational panel.

The increase in the transparency of the antidumping and countervailing duty laws and procedures of Mexico in Chapter 19 is supported by the LAC, and we hope that it will be achieved in practice. However, it should be made clear that such changes will merely establish reciprocal procedural treatment that is long overdue. It is unacceptable that the price for transparency is the creation of a binational panel which could remand final decisions back to our government agencies for redetermination in order to comply with the binational panel's ruling.

Background and Advice

The protection of domestic employment and manufacturing from the unfair trade practices of subsidies and dumping has been an important part of U.S. trade policy for almost 100 years. Since the United States has the largest and most open market in the world, we are especially vulnerable to the harmful effects of these unfair trade practices. The United States' ability to use its antidumping and countervailing laws to protect its industrial base from these market-distorting practices are among the most important trade remedies that we have. Therefore, the ability of the democratically elected government of the United States to exercise its sovereignty in protecting itself from unfair trade practices must not be weakened by any trade agreement.

The LAC strongly believes that the United States' ability to use its existing trade remedies, or adopt new remedies, should not be compromised under a NAFTA, and has communicated that view repeatedly to the Administration.

The President's Advisory Committee for Trade Policy and Negotiations (ACTPN) took a similar stance in its report on the "Negotiating Objectives for a North American Free Trade Agreement" (October, 1991). The ACTPN wrote:

> The integrity of U.S. unfair trade laws should be protected. No exemptions to U.S. antidumping and countervailing duty laws should be created as part of the NAFTA process .... The ACTPN is particularly concerned regarding the potential for circumvention and diversion of U.S. trade laws through third country dumping. ... An effective dispute resolution mechanism that does not undercut U.S. unfair trade laws should be developed. Such a dispute resolution should not have the power to change unfair trade determinations.[1]

Many members of Congress have also emphasized the importance of maintaining strong U.S. trade remedies. For example, in their October 23, 1991 letter to Ambassador Carla Hills, Congressmen Gephardt, Levin, Moody, Pease, and Wyden wrote:

> A NAFTA must maintain or strengthen U.S. trade remedies such as Section 301, countervailing duty and antidumping laws; an agreement must not infringe on the ability of U.S. businesses and workers to have their complaints heard before U.S. administering authorities and courts. ... A NAFTA must not change current procedures or law for deciding countervailing duty or antidumping disputes between U.S. and Mexican parties.[2]

Chapter 19 is a rejection of that advice.

Review of Antidumping and Countervailing Determinations

The LAC is pleased that Chapter 19 clearly states that each country has "the right to apply its antidumping law and countervailing duty law to goods imported from the territory of any other Party". Unfortunately, the binational panel system established in Chapter 19 undermines this right to apply our law by giving the binational panel the power to influence how the United States applies its laws. The LAC opposes this plan to create a binational panel to review antidumping and countervailing duty rulings by the U.S. government.

Chapter 19 requires that:

- "the Parties shall replace judicial review of final antidumping and countervailing duty determinations with binational panel review" (1904.1);
- a country's "final determination shall not be reviewed under any judicial review procedures of the importing Party if an involved Party requests a panel" (1904.11);
- the U.S. must change its law to provide "that if binational panel review is requested such review will be exclusive" (1904.1561(10));
- "No Party shall provide in its domestic legislation for an appeal from a panel decision to its domestic courts" (1904.11);
- the binational panel will "determine whether such determination was in accordance with the antidumping or countervailing duty law of the importing party" (1904.2);

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1 *Negotiating Objectives for a North American Free Trade Agreement*, The North American Free Trade Agreement Task Force of The President's Advisory Committee for Trade Policy and Negotiations, October 1991 pages 41 and 42

2 Letter to Carla Hills from Congressmen Richard A. Gephardt, Sander M. Levin, Donald J. Pease, Ron Wyden, and John Moody, October 23, 1991, page 2

-if binational panel rules against the determination, it will "remand it for action not inconsistent with the panel's decision" (1904.8);

-the U.S. must change its law to provide that our "competent investigating authority shall, within the period specified by any [binational] panel formed to review a final determination . . . , take action not inconsistent with the decision of the [binational] panel or [extraordinary challenge] committee" (1904.15(d)(11)); and

-any "decision of a panel under this Article shall be binding on the involved Parties" (1904.9).

The only possible appeal of a ruling by the binational panel can be an appeal to an "extraordinary challenge committee" if an involved Party alleges both (1) "gross misconduct, bias, or a serious conflict of interest" of a binational panel member or that the binational panel "seriously departed from a fundamental rule of procedure" or "exceed its powers" and (2) any of these allegations "has materially affected the panel's decision and threatens the integrity of the binational panel review process" (1904.13). Thus, there is only a very limited ability to appeal an binational panel's decision.

What Chapter 19 creates is a system whereby a binational panel, and not a court in the United States, will have the final review of antidumping and countervailing duty determinations by the U.S. government. This binational panel will decide if the U.S. government has properly applied its own rules. If the binational panel rules against the U.S. government, this binational panel can send the determination back to the U.S. government to be redetermined in a manner that is acceptable to the binational panel. And, based on required changes in our laws, the U.S. government's investigating authority must take action to comply with the binational panel.

There are numerous questions about the constitutionality of this binational panel system. By granting exclusive power to the binational panel, and agreeing to revise final determinations in order to be in compliance with the binational panel's decision, the draft agreement deprives American citizens who are injured by unfair trade practices of the rights to seek relief through the administrative and legal systems in this country. These binational panels are not courts of law established under the Constitution of the United States.

The binational panel is composed of five members selected from lists of 25 candidates prepared by each nation. A majority of the panelists must be lawyers. Thus, instead of U.S. courts with lifetime tenured judges who were approved by the U.S. Senate having final review of how the U.S. government applies its antidumping and countervailing duty laws, a binational panel comprised of U.S. and foreign lawyers, will have the power to reverse decisions by the U.S government. Unlike judges in the U.S. court system, panel members are likely to be trade specialists, who, after finishing their panel work, will probably go back to working for the very industries and governments that they are judging.

Another problem with the binational panels is that they will create a new body of law applicable to disputes between the United States and both Canada and Mexico. The result will be a set of differing interpretations of the same U.S. laws and regulations depending on the nationalities of the parties involved. For example, the U.S. International Trade Commission accepted the ruling of the U.S.-Canada binational panel for the case involving pork from Canada but announced that it will not apply the principles declared by the panel in cases regarding other countries.[3]

The chapter provides that if a Party alleges that another Party did not comply with this binational panel system, that Party may request consultations. If the matter is not resolved through consultations, the complaining Party may request the creation of a Special Committee. If the Special Committee and/or additional consultation does not resolve the dispute, the complaining Party may suspend the operation of the binational panel system. The Special Committee can "terminate" this suspension if it finds that the suspension was "manifestly excessive" or if the Party who the complaint was against corrected the problem. Some may argue that this allows us to ignore rulings by the binational panel rulings that we do not agree with. However, why create such a binational review system with "binding" authority if the United States intends to ignore its decisions? If we only want an advisory panel, then we should not be amend our laws to require our agencies to comply with binational panel rulings.

The Right of a Country to Change its Laws

Chapter 19 also states that each country has "the right to change or modify its antidumping law or countervailing duty laws (1902.2). Unfortunately, like our ability to apply or laws, our right to change our laws is subject to review by the binational panel. The binational panel can even rule against our changes if they are intended to correct a previous decision by the binational panel. But, unlike the binational panel's review of the application of the law, the United States would not be required to comply with the binational panel's rulings related to changes in our laws.

When one country wants to change its laws, the country to which the amendment applies may request that it be consulted with prior to enactment. Although consultation can be requested, the amending Party does not need to other country's consent to make any changes in its antidumping and countervailing duty laws. The LAC is not opposed to this consultation provision as long as it is made clear that this procedure does not interfere with Congress's ability to pass changes in our antidumping and countervailing duty laws in a timely manner (1902.2)

3 Reference to U.S. International Trade Commission *Fresh, Chilled or Frozen Pork from Canada* (Views on Second Remand), Investigation No. 701 TA 298 (Final), Pub No. 2362 (February 1991), P. 4, in "Memorandum To LICTT Representatives from Jesse G. Krier and Dennis Craythorn (May 22, 1992)"

Chapter 19 creates a process where "A Party to which an amendment of another Party's antidumping or countervailing duty statute applies may request in writing that such amendment be referred to a binational panel for a declaratory opinion" (1903.1). This section states that this binational panel is to consider whether the amendment is: (1) inconsistent with GATT, the GATT Antidumping and Subsidies Codes, or "the object and purpose of this Agreement" or (2) "such amendment has the function and effect of overturning a prior decision of a panel" and does not conform with GATT, the GATT Antidumping and Subsidies Codes, or "the object and purpose of this Agreement" (1903.1).

If the binational panel rules against the amending Party, the Agreement requires that the two parties consult in order to find a mutually satisfactory solution which "may include seeking corrective legislation." If no corrective legislation is enacted and no other agreed upon solution has been reached, the Party that requested the panel may "take comparable legislative or equivalent executive action" or "terminate this Agreement" (1903.3). The LAC believes that this structure will have the effect of inhibiting the enactment of improvements in U.S. unfair trade statutes.

Institutional Arrangements and Dispute Settlement

The draft agreement establishes a Trade Commission and a Secretariat to oversee the implementation of the agreement and the settlement of any disputes that might arise concerning its interpretation and application. Since the agreement covers virtually the entire body of U.S. law and regulation, this section has far-reaching implications, not only over the implementation of existing statutes but also for the promulgation of standards and procedures in the future.

The committee's central concern is the ability of any party to the agreement to call for the establishment of an arbitral panel empowered to make judgments about whether or not measures enacted by the parties are consistent with the agreement. It appears that the decisions of any such panel would be binding on the parties. Many of the LAC's concerns expressed in the section on Dispute Settlement in Anti-Dumping and Countervailing Duty Cases are present here.

While the concept of creating a structure that can enforce agreements freely entered into is not necessarily bad, the ultimate value of such a structure rests on the kind of rules it was to administer, and the confidence one can have that it will administer those rules freely. Here, the NAFTA represents the worst of all worlds—rules disadvantageous to the United States, coupled with what appears to be binding arbitration by a panel proposed by the Trade Commission that has the power to reject, at least for Mexico and Canada, the application of U.S. laws.

For example, the draft agreement recognizes, as the appropriate standard, international rules that are weaker than U.S. commerce laws. One such international standard, the Codex Alimentarius, allows residues of banned substances, such as DDT, on food. Under this agreement, the U.S. standard, which is stronger than the international standard could be challengeable, as a barrier to trade.

The LAC believes that trade agreements should not have the ability to restrict the application of U.S. law and regulation. Under the U.S. Constitution, judgments concerning the legality of any such laws are left to the U.S. courts. Here, a supranational body is established, and the LAC has little confidence that U.S. interests will be protected.

Technical Barriers to Trade

This chapter imposes discipline on virtually the entire range of standard-related measures adopted by federal, state and local governments, to protect safety, human, animal or plant life or health, the environment or consumers. It also addresses technical regulations and procedures used to determine those standards. This represents an enormous body of U.S. law and regulation involving things such as labelling requirements, risk assessment, pharmaceutical testing, chemical hazard classification and communication, enforcement programs, and transportation safety, to mention just a few.

It promotes the harmonization of standards and cites international standards, many of which are weaker than U.S. law, as the basis for rules in the NAFTA countries. U.S. rules that are stronger than the international norms would be challengeable as barriers to trade, with the final decision being made by an arbitral panel established by the agreement. At minimum, this chapter would interfere with U.S. rule-making procedures, restrict review processes, and expose legitimate domestic regulations to preemption.

It appears that the one area not covered by the agreement relates to worker rights and standards. While the text purports to address, for example, consumers and the environment, there is no specific provision directed to workers. Even the listing of international standards omits the International Labor Organization as a recognized standard-setting body. The LAC is concerned that this chapter would restrict the application of the worker rights section of Section 301 of the Trade Act of 1988 and underscores the refusal of the Administration to address the problems of worker rights and standards.

Government Procurement

This chapter opens federal government procurement, over certain specified dollar thresholds, to suppliers from other NAFTA countries. For the first time, it includes the provision of services as well as goods, and commits the parties to seek to extend coverage to state and provincial governments.

The LAC believes that these provisions are disadvantageous to the United States. The United States has opened up far more procurement opportunities than have the other parties to the agreement, and the status of Mexican parastatal firms has not been effectively addressed.

The consumer power of government is a powerful domestic tool that should not be given away in exchange for the vague hopes of expanded trade opportunities. U.S. governments, at all levels, have a long history of legislating their consumer

power into laws that aid in economic development. Since 1933, federal government purchases have been regulated by the Buy America Act. Buy America was put into effect because it makes good sense that government spending of tax dollars should be used to stimulate the U.S. economy and to promote U.S. employment. Buy America says that federal government outlays will be used to purchase U.S.-made products provided they are adequate quality and available at reasonable cost. State and local governments have been even more active with Buy America and Buy Local laws. Thirty-five states have some form of preference codes or Buy America/Buy Local legislation.

The draft agreement would nullify the Federal Buy America Act, and threaten the existence of state statutes. The addition of services to coverage has far-reaching implications that must be carefully explored by the Congress. The LAC believes that this chapter must be renegotiated.

Telecommunications

The proposed text appears to preempt the regulatory authority of the states, as conferred in the Communications Act of 1934, as amended. Section 2(b) of that Act specifically reserves certain powers to the states. In addition, Section 410 of the Act, captioned "Use of Joint Boards—Cooperation With state Commissions," establishes the framework by which the Federal Communications Commission (FCC) and the States' regulatory bodies are to cooperate to resolve problems arising from the shared federal-state jurisdiction over common carrier telecommunications matters.

The FCC was established in 1934 as an arm of the Congress, to carry out certain aspects of regulation of interstate and foreign commerce. This chapter imposes Executive Branch powers over the FCC, and is entirely silent as to the exclusive powers of the Congress.

The LAC believes that this section should be renegotiated to clarify federal-state regulatory questions as well as Congressional-Executive Branch jurisdictional issues. In addition, the following concerns must be addressed:

- The role of the Network Reliability Council established by FCC must be maintained.
- While Article 1305 would appear to proscribe numerous forms of anti-competitive behavior, including cross-subsidization, Article 1302 appears to allow that practice and contradicts more than 20 years of FCC policies designed to eliminate cross-subsidization.
- Article 1304 covering standards related measures should be amended to ensure workers' safety as well as users' safety.
- The chapter should be recast to ensure that each party is allowed to require tariff filings for service providers.
- As with other parts of the agreement, any program for harmonization of standards, must include worker representatives and not result in a lowering of U.S. standards.

Intellectual Property

For those sectors covered, this chapter provides strong protection for the holders of patents and copyrights, including requirements for the domestic prosecution of violators, as well as the right to stop goods in violation of the agreement at the border. These measures stand in sharp contrast to complete absence of provisions protecting labor rights and standards.

Nevertheless, despite overall discipline provided by this chapter, the protection of legitimate intellectual property rights for large numbers of workers in the entertainment and mass media sectors has not been achieved.

According to Article 1706, paragraph 1 of the Intellectual Property section, producers, but not performers, are accorded "national treatment" with respect to rights over "secondary uses" of sound recordings. If the purpose of this provision is to reflect U.S. law, it does not; neither performers or producers currently have any protection under U.S. law against the secondary use of sound recordings. If the purpose of this provision is to give a right to producers and not to performers, then we strongly protest. Performers would be robbed of revenue to which they are entitled, and which, for them, is the equivalent of the wages other workers earn.

The LAC strongly objects to provisions of the agreement, by which Canada claims a "cultural exemption," which would apply to film/video recordings, music and audio recordings and radio, television and cable services. For example, the Canadians have enacted laws which establish a broadcast quota, thus denying American workers in the entertainment and mass media industries revenues which would be theirs, but for discriminatory treatment. Not only are workers affected by this, but also the U.S. economy. The copyright industries, which include motion pictures and sound recordings, contribute significantly to the U.S. economy.

In addition to the immediate economic harm resulting from the Canadian "cultural exemption," this exemption will be used as a precedent in the Uruguay Round negotiations on intellectual property (TRIPS) for the formulation of similar exclusions. If the United States agrees to the "cultural exemption" in NAFTA, it will undermine its position on the principle of national treatment in the GATT TRIPS negotiations.

Finally, the LAC is very concerned that provisions in this chapter relating to trade secrets may have the effect of weakening or preventing improvements in "right to know" laws and regulations concerning hazardous goods and materials.

Agriculture

The draft agreement not only poses serious problems for this country's farmers, but could also impact negatively on thousands of workers in the domestic food processing industry. The LAC is concerned that, by exempting Mexico from the Meat Import Act, and eliminating tariffs on feeder cattle, the agreement will encourage livestock packing plants to move their operations south of the border to take advantage of low wages and lower safety and sanitation standards. Such

moves have already occurred for vegetable processing, which will no doubt accelerate with the elimination of tariffs on fruits and vegetables.

The elimination of Section 22 protection for sugar, peanuts, cotton, and dairy products will also be harmful to domestic production. Absent strict enforcement of rules of origin requirements, imports from third countries will also grow.

The committee is particularly concerned that the sugar section of the agreement grants Mexico unlimited access to the U.S. sugar market after a six-year transition period, if Mexico achieves a "sugar net exporter" status for two consecutive years. This status can easily be obtained by encouraging domestic use of corn sweeteners as opposed to sugar.

While the agreement alleviates some of our fears that Mexico would import cheap European and Cuban sugar and export domestically produced sugar to the United States, by only allowing domestically produced "exportable sugar surplus" to be shipped to the United States, it does phase out the U.S. "Section 22" limits on imports of refined sugar and sugar containing products over 10 years.

We could expect a flood of cheap Mexican sugar into the United States if the NAFTA is ratified in its present form. The effects of the sugar provision would depress U.S. sugar prices and prevent the cost-free operation of the U.S. sugar program. The imports could replace a significant portion of U.S. production and cause massive job dislocation in this important industry.

Finally, the LAC believes that the draft agreement will unduly limit the ability of the United States to use domestic programs as tools to foster the farm and rural economy.

Sanitary and Phytosanitary Measures

This section of the agreement imposes disciplines on the development, adoption, and enforcement of measures taken for the protection of human, animal, or plant life from risks arising from animal or plant pests or diseases, food additives, or contaminants. It promotes the harmonization of regulations between the parties at the local, state and national level.

The text empowers, as acceptable standards, international rules that in many cases are weaker than U.S. law and regulation. For example, the international food safety standard listed is Codex Alimentarius, which allows residues of banned substances, such as DDT, on food. U.S. standards stronger than the international norm would be challengeable as barriers to trade and would be subject to binding arbitration by a panel established by the NAFTA Trade Commission.

The LAC believes that, at minimum, the agreement exposes legitimate domestic health and environmental policy decisions to preemption. Further, it will restrict the ability of the United States, at all levels of government, to enact strong standards to protect public health.

Energy

This chapter applies to governmental measures relating to crude oil, gas, refined products, basic petro chemicals, coal, electricity and nuclear energy. Because the Mexican Constitution reserves the control of oil and related products to the Mexican state, Mexico, as a practical matter, is exempted from the obligations of the agreement. Mexico retains the right to control imports, exports, and investment in this sector, while the United States would be prohibited from taking similar steps in the future, even if circumstances warrant such action.

The inequitable and non-reciprocal structure of this chapter underscores the fact that the NAFTA does not establish free trade, but rather, establishes a different kind of trade arrangement, that is simply disadvantageous to the United States. There is little logic or value in adopting an agreement where the obligations are so one-sided.

Investment

The central objective of the NAFTA is providing security for private investment and reducing the role of government in regulating or directing that investment to promote the public interest. While the general obligations of the chapters are comprehensive, exemptions to those obligations taken by the parties are lengthy, non-reciprocal, and extremely disadvantageous to the United States. Obligations undertaken at the federal level will be extended to the states within two years, thereby limiting those government's ability to supervise and regulate investment.

For covered measures, protections for investors appear strong. The draft guarantees the repatriation of profits, dividends, capital gains, etc. It assures for the convertibility of currency at market rates. It guards against the expropriation of property and guarantees prompt compensation. It allows for the collection of business information for statistical purposes but insures that specific information will be kept confidential if disclosure would "prejudice the investor's or the investment's competitive position." These and many other protections for investors are enforced by a detailed supranational dispute settlement mechanism that provides for binding arbitration. This mechanism goes far beyond normal practice and underscores the principal theme of the agreement — protection for financial interests.

This stands in sharp contrast to sections in the chapter relating to environmental protection. There, provisions of the draft are feeble, establishing no standards or enforcement mechanisms. The agreement merely states that it is "inappropriate" to encourage investment by relaxing health, safety or environmental measures, and that the parties "should not" do so to attract investment. It goes on to state that if such actions take place, consultations are provided. Presumably, consultations could take place without an agreement and, according to the Administration, have been going on for some time. The environmental section merely affirms the dismal status quo and is without substance.

Except for a few sectors, such as basic telecommunications, maritime services and ill-defined social services, parties may not maintain measures inconsistent with the agreement unless they are specifically listed, and for those that are listed, the

measures may not be made more restrictive, and if liberalized, may not subsequently be made more restrictive Here, the agreement allows Mexico and Canada to regulate large amounts of foreign investment in their national interest while prohibiting similar actions on the part of the United States. Differences in treatment include the following:

- Canada can screen the direct acquisition of business assets over $5 million and the indirect acquisition of over $50 million for investments in uranium, oil and gas, financial services, transportation and culture. For all other investments, the threshold is $150 million and $500 million respectively. The United States would be prohibited from adopting a similar screening mechanism.

- Despite its prohibition in the general obligations, Canada can condition investment on the transfer of technology, production processes, or other proprietary knowledge. It can also consider in its screening process, an investment's effect on employment, exports, and competition with other Canadian industries, among other things. The United States would be prohibited from adopting such requirements.

- Canadian performance requirements under the auto pact are continued. The United States would be prohibited from adopting such requirements.

- Canadian cultural industries are exempt from coverage.

- Mexico can screen investments over $25 million, with the threshold increasing to $150 million after 10 years. The United States is prohibited from such action
- Performance requirements in the Mexican auto decree can continue for 10 years.
- Restrictions on sales in Mexico by Maquiladora plants are continued for eight years, thereby requiring a certain level of exports.
- The agreement maintains for seven years, export requirements for firms in Mexico operating under the "ALTEX Decree."
- The agreement maintains for eight years, export requirements for firms in Mexico operating under the "PITEX Decree."
- Mexico excludes totally from coverage oil and basic petrochemicals, satellite communications, and railroads.

The LAC believes the non-reciprocal nature of the commitments is, by itself, sufficient reason to require renegotiation It is foolish at best for the United States to tie its hands in this manner when future circumstances may require increased supervision and regulation of investment.

Finally, the LAC believes the absence of any reference to labor rights and standards demonstrates the total lack of concern for workers. Violations of these rights or standards by international investors are subject to no limitation or channels of appeal. Addressing this issue, must be a central goal in a renegotiated agreement.

PREPARED STATEMENT OF SENATOR DAVE DURENBERGER

[September 8, 1992]

Mr. Chairman, I am pleased that you are holding this hearing today on the vitally important is sue of expanding trade with our neighbor to the South. And I also want to commend Ambassador Hills for her persistence during the NAFTA negotiations and her continued perserverence at the arduous GATT talks.

Even though the negotiations are completed, I understand that the negotiators must still work out hundreds of detailed pages of specific text. That will take several months.

I have always been inclined to support opening world trading markets because I believe free trade will enhance the economy and lives of the people of Minnesota and America. However, before I determine how I will vote on the agreement, I will have to review the hundreds of pages of text that comprise the agreement.

Mr. Chairman, open world markets are vital to the economy of Minnesota. With 17 percent of our manufacturing jobs linked to exports, Minnesota ranks ninth among the states in manufacturing employment linked to exports. Export trade is worth more than $8 billion to our state's economy—more than 18 percent of Minnesota's production. In addition, import trade plays a vital role in our State economy. In 1990, import and export activities just in the Port of Duluth-Superior supported nearly 3,000 Minnesota jobs.

I was an early supporter of the free trade agreement we negotiated with Canada several years ago. But I had, and still have, some reservations about a similar economic integration with our neighbor to the south, Mexico because of the huge disparity between our economies.

In wages, in environmental enforcement, in labor conditions, Mexico is decades behind the United States. Like many of its Third World neighbors in the hemisphere, Mexico has been struggling under the weight of more than $100 billion in commercial debt while trying to cope with an exploding population and environmental degradation.

But as we have learned from the economic transformation in the Pacific Rim, it is only in raising economic productivity and economic wealth that a nation can reduce its social and environmental degradation. And improved economic conditions in Mexico hold the promise of new export opportunities for all types of American products and services.

If recent history is a guide, NAFTA could benefit the people of the United States, Canada and Mexico. Since Mexico embarked on its economic reform program in the mid-1980s, U.S. exports to Mexico have jumped by nearly 130 percent, from $12.4 billion to $28.4 billion.

And while the United States has reduced its trade deficit with Mexico from $4.9 billion to $1.8, if you exclude trade in petroleum products, our trade balance moved from a deficit of $1.5 billion in 1986 to a surplus of $2.7 billion in 1990.

Minnesota businesses and farmers have also benefited from the expansion of trade with Mexico. In just two years, from 1987 to 1989, Minnesota's share of exports to Mexico went up 80 percent—from $90 million to $163 million. Mexico is now the State's ninth largest export market.

Between 1987 and 1989, Minnesota exports of livestock jumped 700 percent—from less than $60,000 to $4.2 million. Our state exported $24 million worth of agriculture products; processed food product exports tripled from $10.6 million to more than $31 million. And sales of computer and industrial machinery jumped nearly 90 percent to $75 million.

This agreement could also give a big boost to the Minnesota farm economy. Our 33,00 soybean farms currently export 50 percent of their soybeans throughout the world. Mexico could become a tremendously important market for our soybean growers and for our corn growers because of Mexico's proximity to the U.S. Shipping costs are so much lower for U.S. farmers than for competitors in Europe and Australia that if we could open up and expand the economy of Mexico, and the rest of Latin America, we could gain an overwhelming share of their market.

As I indicated earlier, I cannot make a final determination about this agreement until I see the actual text of the agreement. My concerns focus specifically on what the negotiators have agreed to in the area of environmental standards in Mexico and working conditions in factories.

Moreover, I have yet to receive a satisfactory response to my July 1, letter to Mexican President Carlos Salinas concerning recent changes in Mexican import inspection rules on frozen beef, pork, lamb, and poultry. These changes constitute significant non-tariff trade barriers that will hurt Minnesota farmers and food processors.

I am referring to two barriers created by Mexico. First, on June 29, the Mexican government began performing organoleptic tests (sight, touch, and smell) on US frozen boxed beef intended for processing in Mexico. These tests are currently performed on all US meat products by the US Department of Agriculture's Food Safety and Inspection Service (USDA–FSIS).

Stopping US trucks for up to 24 in order to conduct such unnecessary inspections imposes prohibitive labor and cold storage costs for Minnesota and other U.S. exporters.

Second, there have been reports that the Mexican government may require U.S. meat and poultry products entering Mexico to come from pre-approved plants. The European Community has attempted to institute a similar non—tariff trade barrier.

I believe these actions violate the spirit of open trade between Mexico and the United States and must end before this agreement is ratified by the United States Senate.

Prepared Statement of Senator Dave Durenberger

[September 30, 1992]

Thank you, Mr. Chairman. I would first like to thank Deputy Secretary Veneman for being here today. Ann is one of the experts on international agriculture trade and is a dedicated public servant. Before assuming the number two position at the Agriculture Department she served as Under Secretary for International Affairs and Commodity Programs and as Associate Administrator of the Foreign Agricultural Service. I am glad that the United States has had her on our team.

Ann was supposed to attend the Minnesota State Fair with me in early September. The President requested that she remain in Washington, which was too bad, because she would have been able to hear first hand what Minnesota farmers are thinking and worrying about when it comes to the North American Free Trade Agreement. I was fortunate to discuss the NAFTA with these farmers and am glad that we have the opportunity today to discuss their concerns with Deputy Secretary Veneman.

First I want to express my general support for the NAFTA. Though there are still many concerns about the details—particularly with sugar—it is important to realize that a successful NAFTA will be beneficial to American agriculture. To borrow from Sidney Weintraub, an economist at the University of Texas, "When the Latins sell to us, they buy even more back. When the Asians sell to us, they buy from Japan. And when the Europeans buy from us, they buy from each other. Latin America is our best opportunity."

The United States needs markets for its products, and the NAFTA will expand our market access. American producers are held back because they have the capacity to produce more but do not have the market access to expand. This is especially true in America's agriculture sector where technology continues to increase our ability to produce.

Mexico is Minnesota's seventh largest export market. 17% of Minnesota's exports to Mexico are agriculture and food products. The food and agriculture industry is Minnesota's largest exporter, exporting over $12 billion of products; and making up 22% of the state's economic base when measured by export sales. Furthermore, when Minnesota's agriculture and food producers grow, Minnesota producers of farm inputs grows and more jobs are created. An example of this sort of linkage on the farm level is the use of Minnesota-grown hay and corn for feed by the Minnesota dairy and livestock producers. Food processors in Minnesota also purchase more than 40% of the state's farm output for value-added products. In total terms, the food and agriculture industry's use of inputs produced within Minnesota is almost twice as large as that of the next largest user, high-tech manufacturing. Food and agriculture has stronger ties to the rest of the State's economy than any other major industry.

A fair NAFTA agreement would significantly increase Minnesota's productivity and bring prosperity into the hard-hit rural areas of Greater Minnesota—the area of the state that does not include the Twin Cities. Of the 162 thousand food and agricultural workers, 73 thousand are directly involved in the production of export products. The revenue earned by food and agricultural exports circulates through Minnesota's local sector, via labor earnings and purchases of Minnesota-produced inputs, creating an estimated 257 thousand jobs.

The western half of Minnesota depends on food and agriculture for almost half of its employment, both for all jobs and jobs directly related to exports. Overall, one out of three jobs in Greater Minnesota is connected in some way to food and agriculture production.

It is clear from these statistics that it is of absolute importance to me that we get a fair deal for NAFTA in order for Minnesota's food and agriculture industries to grow and prosper. I would also like to stress the importance of the NAFTA in relation to the GATT. The Uruguay Round of the GATT has failed. The inability of the EC to make meaningful reforms in its Common Agriculture Policy (CAP) has kept the talks at a standstill for more than a year. Though there was hope for a breakthrough in the talks at the beginning of the summer; the refusal of the EC to reform their oilseeds subsidies in the face of a $1 billion US retaliation reveals politically unable they are to open their markets.

PREPARED STATEMENT OF RUSSELL E. GINN

I am Russell Ginn, Chairman and CEO of Tom Wheatley Valve Company of Houston, Texas. My statement today is offered on behalf of the 205 member companies of the Petroleum Equipment Suppliers Association. Founded in 1933, PESA represents U.S.-based equipment manufacturers, service and supply companies which make up the oilfield service industry. I serve the Association as Treasurer, as a member of the Executive Committee, and as a Director. I appreciate the invitation from Senator Bentsen and the members of the Senate Finance Committee to comment on the effects of the proposed North American Free Trade Agreement on our industry.

We see NAFTA as an opportunity for the U.S. service and supply sector because it will facilitate exports to the important Mexican market, allowing our member companies to retain jobs and technological leadership at home. While it cannot be described as a true "free trade" agreement providing equitable national treatment at the beginning of implementation, we believe that it will improve our position over the status quo regarding access to the Mexican market and tariffs on exports from the United States to Mexico. Although we are disappointed at the length of time (as much as ten years) for the phaseout of set-asides and tariffs, we feel it of vital importance to our industry to support NAFTA.

My company is a valve manufacturer and we compete for market share in an ever-shrinking oil and gas industry in the U.S. Many people believe that companies in the oil and gas industry are all large, multinational corporations employing workers around the world. My company is a more typical example of an oilfield supplier: we employ about 90 people in a single facility. In all, PESA member companies have operations in 39 states and the District of Columbia.

This past decade has seen a massive shakeup in the oil service sector. Of the 149 public companies operating in 1981, 77 are no longer publicly traded today. Half of them disappeared through mergers; the rest went out of business. Over that same period, more than half of the 900,000 Americans employed in the U.S. oil and gas extraction industry have lost their jobs. Today, equipment service companies and drilling contractors provide about 200,000 jobs in the United States, down 23,000 this year alone *(Source: Bureau of Labor Statistics)*.

Five years ago, the domestic oil and gas industry accounted for about 65% of our member companies' total sales. Today, the reverse is true—export sales account for nearly 70% of total revenues. It is clear that without sales to the international marketplace, a number of these equipment manufacturers and service companies would not long survive.

As drilling activity has shifted to overseas operations, many of the products and services that were once produced in the United States for worldwide use are increasingly being sourced from international locations. This has resulted in the industry's unprecedented job loss at home, the increasingly burdensome trade deficit, a significant loss of capital investment within the United States, and the potential that America will lose its once dominant position of technology leadership.

The health and stability of the U.S. oilfield service industry translates into the ability of the world's energy producers to continue their search for oil and gas. An important part of that process is the elimination of trade barriers, to provide a level playing field for all suppliers in a given market. The North American Free Trade Agreement offers us an opportunity to significantly increase our presence in the important Mexican market.

Mexico offers strong long-term business prospects to the service and supply sector that can help to compensate for declining U.S. drilling activity. Its estimated proved reserves of oil are nearly twice those of the United States, and its natural gas reserves about two-fifths those of the U.S. PEMEX, the state-owned oil company, estimates that only one-fifth of the country's hydrocarbon potential has been explored. During the mid-to-late 1980's, declining oil prices led to a cash shortage and the

country underinvested in its exploration and production programs. As a result, production has remained flat in spite of increasing internal and external demand.

In 1990, the latest year for which we have data, Mexican expenditures for exploration and production equipment, the core business for PESA member companies, were estimated at $560 million (Source: Spears & Associates). A survey of our membership indicates that the U.S. provided approximately one-sixth of that total, or $93 million in goods and services.

Mexico is now undertaking a National Energy Modernization Program to ensure that oil production meets a projected annual increase in internal demand of 5%, while maintaining a constant level of exports. This translates into a minimum $20 billion in new investments over the next five years, much of which will be for products and services which could be provided by the U.S. service and supply sector.

For example, in the Bay of Campeche PEMEX plans to drill 113 wells and install 9 platforms. This project may expand to as much as $6 billion over the next 5–6 years. As you can see, the potential for increased business opportunities for U.S. companies could be very significant if we can obtain improved access to that market.

PEMEX has been the sole operator in Mexico since the domestic oil industry was nationalized in 1938. It functions as a fully integrated company, engaged in exploration, production, transportation, refining, and petrochemical operations. PEMEX has long shown a procurement preference for Mexican suppliers and contractors. A few U.S. service and supply companies have established manufacturing capability within Mexico in order to do business there, but the vast majority of the service and supply companies face tariff and non-tariff obstacles when they try to serve the Mexican market from their U.S.-based operations.

Sometimes PEMEX must seek out foreign suppliers for products and services. Much of the technology PEMEX will need to meet its production target under the modernization program, such as horizontal drilling and 3–D seismic capability, is not available from Mexican companies.

Currently, the Mexican government charges a tariff of up to 20% on imported oilfield equipment; but other duties and taxes can increase this effective amount to as high as 33%. As a result, foreign suppliers are under a significant price penalty and often find themselves non-competitive with Mexican suppliers.

NAFTA will make significant improvements in the ability of U.S.-based companies to compete in the Mexican market for oilfield products and services by eliminating these barriers over a period of up to ten years.

The Government Procurement chapter of NAFTA, under which purchases by PEMEX and the state-owned electric utility CFE will fall, provides formal access to the Mexican market for the first time to oilfield service companies from the U.S. and Canada. Throughout the negotiations, the Mexicans had insisted upon exclusion of parts of that market from the agreement, reserving them for Mexican companies. The eventual negotiated settlement limits access to 50% at the beginning of implementation. This will be phased out over a period of 10 years. Even though we would have preferred to see the phaseout period significantly shorter—three to five years—we believe we will find ourselves in an improved position over the status quo. The agreement also provides for improved bid transparency and for bid challenge procedures.

Additionally, NAFTA guarantees access for onsite procurement by PEMEX, and ensures opportunities for even those contracts under the threshold level by aggregating like purchases; this will greatly facilitate access to the Mexican market for our supply store members. It also allows outside contracting for turnkey or major integrated projects; although unfortunately it includes a local content prerogative of 40% for labor-intensive projects and 25% for capital-intensive projects.

U.S. petrochemical companies will also benefit from the provisions of the Energy and Basic Petrochemicals chapter, which provides substantially increased access to the Mexican market.

The chapter on Market Access improves our current position regarding tariffs on exports from the United States into Mexico, although again it will take longer to implement than we had hoped for. Most oilfield products currently fall into the highest rate category of 20%. Those tariffs will be reduced to 16% the first year of implementation and phased out in eight years. Products which fall into other rate categories will see their tariffs reduced over periods of five or ten years. Again, the immediate benefit will be limited, but parity will be achieved at the end of ten years.

In summary, the U.S. oil service companies see Mexico as a strong, long-term potential market because of its large oil reserves. We are confident of our competitive edge over Mexican companies due to management methods, quality of goods and services, and technological expertise. The North American Free Trade Agreement

will make an important contribution to our ability to participate in that market by removing trade barriers.

I could not close my remarks without acknowledging the efforts and cooperation of the U.S. negotiating teams for the chapters on Government Procurement and Market Access, with whom our Association has worked over the past several months. PESA's leadership would like to express its sincere appreciation for their dedication and hard work.

Thank you very much for this opportunity to comment on the North American Free Trade Agreement. We urge its approval by Congress.

PREPARED STATEMENT OF SENATOR CHARLES E. GRASSLEY

[September 22, 1992]

Thank you Mr. Chairman. I am delighted that we are continuing this series of hearings on the north American free trade agreement.

Regrettably, I will not be able to stay for the entire hearing since I will have to leave shortly to attend another hearing on POW/MIA's. However I do want to express my appreciation to both Mr. Robinson and Mr. Donahue not only for their participation in this morning's hearing, but also for their participation as chairman of the Advisory Committee for Trade Policy and Negotiations, and the Labor Advisory Committee of the NAFTA. While I may not be able to ask questions of each of them, I want to assure them that each of their testimony's will be thoroughly reviewed by my office.

Mr. Chairman, we are at a crossroads in this body as to whether or not we can meet the challenge of an expanding global economy, acceleration of technological changes in the world market, and a sufficiently trained workforce to effectively compete with the changes taking place. A well trained workforce, availability of capital, and a strong development of commercially oriented technologies remain important determinants of America's competitiveness in the future.

The 1890's and beyond will be years in which we must be prepared for the shifts in a global economy. These shifts will require each of us to have a vision that clearly reflects the realities of a changing world.

While a free trade agreement with our neighbors to the north and south will bring extensive economic benefits to people living in each of our respective countries, we must also make sure that we not only protect American jobs, but the health, safety, and environmental standards to the citizenry of each of the respective countries involved in this agreement.

Mr. Chairman, I look forward to the testimony of our witnesses this morning and before leaving for my next hearing I want to thank you for your leadership on this subject, which as you know, is so vital to the economic well being of this great nation of ours.

PREPARED STATEMENT OF CHARLES E. GRASSLEY

[September 30, 1992]

Thank you Mr. Chairman: I am pleased that we are having this hearing this morning. While we have had a series of hearings of great importance to the NAFTA, the hearing on agriculture this morning holds particular significance for me.

As a Senator from Iowa, I am of course interested in how the NAFTA will impact the agricultural products of my state. From what I have been able to learn from the various agricultural groups, the text of the agreement and editorials in Iowa's newspapers it would appear that the agreement holds out a positive first step for our producers.

If this agreement can eliminate tariffs, quotas and other barriers to trade in Mexico, I am hopeful it will provide farmers access to 92 million Mexican consumers for their products. Iowa's exports to Mexico in 1991 were led by food products ($36.6 million dollars) and industrial machinery and computers (23.1 million dollars.) Together these industries accounted for 55% of the states's 1991 exports to Mexico. As a result, Mexico in 1991 ranked seventh among Iowa's 143 export markets.

Protecting the health and viability of American farmers remains a high priority with me. I am concerned with not only the affects of NAFTA on agriculture, but also with the impact from a GATT agreement. As I have said in the past, "no agreement is better than a bad agreement." In the case of the NAFTA I feel comfortable in stating that, at first blush, it would appear that it would be beneficial to farmers in my State. I'm not as confident at this time with the GATT.

If I may Mr. Chairman, I would just like to share with the committee a few of the comments I received from some of Iowa's farm leaders:

- the farm bureau said, it's a good trade agreement; it will expand our markets. I know some people are downplaying it, and I think most of it is because of politics.
- the corn growers have recently endorsed the agreement and said earlier that, "the trade pact is still likely to be an improvement for U.S. growers because the barriers that limit exports going to Mexico would be less arbitrary and shipments would be more predictable than under the current system."
- an editorial in the Des Moines Register stated the following; "in Europe, the treaty that established the common market there is 35 years old, and it is still being refined. Economic union is a long and not always smooth process. But is there any doubt that the nations of Western Europe are vastly better off today than they would have been if their postwar leader's hadn't had the vision to forge a common destiny? So it is with the North American Free Trade Agreement now. The treaty must not be evaluated solely for its short term implications. It must be seen as an instrument for building a shared destiny for all the nations of North America into the next century.

Mr. Chairman, while these are but a few comments from my fellow Iowan's, I believe they clearly reflect the perceptions of a positive first step, not only for an export market for Iowa's products, but for the Nation as a whole. I eagerly await the testimony of our witnesses this morning and I look forward to the answers to the questions I have prepared.

Thank you Mr. Chairman.

PREPARED STATEMENT OF BILL GREEHEY

Mr. Chairman and Members of the Committee: My name is Bill Greehey. I am Chief Executive Officer of Valero Energy Corporation which is headquartered in San Antonio, Texas. We have, as our primary asset, a specialized refinery located in Corpus Christi. The refinery upgrades high-sulfur residual oil into premium products such as unleaded gasoline. We are also in the process of constructing a $230 million project to upgrade butane into MTBE. The project is to be placed in service in early-1993. MTBE is a clean-burning, low-vapor pressure, high-octane gasoline blendstock which is a key ingredient of the reformulated gasoline mandated by the Clean Air Act.

We at Valero also own 49-percent of Valero Natural Gas Partners, L.P. which owns and operates 7,200 miles of natural gas pipelines throughout Texas. The partnership is also one of the nation's largest producers and marketers of natural gas liquids ("NGLs") operating numerous natural gas processing plants and related fractionation facilities which separate the NGLs produced at the plants.

I appreciate the opportunity offered by the Committee to present our views in support of the adoption of the North America Free Trade Agreement (the "NAFTA"). With our facilities located near the Mexican border and as a long-time trading partner with Mexico, Valero has a strong interest in promoting U.S.-Mexican economic cooperation.

Our company is proud of its long relationship with Mexico. Valero began selling natural gas to Mexico back in the 1940's. It has also been selling gasoline to the Mexican market. We have recently expanded our relationship by completing a 400 MMcfd pipeline connection across the border from McAllen, Texas which ties into the Petroleos Mexicanos, or PEMEX system at Reynosa, Mexico. This interconnect began flowing gas on August 1st of this year and these additional supplies of natural gas from the U.S. are helping to furnish Mexico's growing need for clean-burning fuels. While the Mexican imports of natural gas are still at low levels, they are growing rapidly and could be far in excess of one billion cubic feet a day within a few years. Indeed the increased economic activity generated in Mexico by NAFTA will virtually assure this type of increase in demand, thereby creating significant increases in opportunity and jobs throughout the oil patch in the U.S.

Turning to direct investment opportunities in Mexico itself, on September 2nd I participated in a signing ceremony in Mexico City, where we committed to our first major investment in Mexico. It is a joint venture in which we will have a 35% interest which ultimately can be increased to 51%. Our principal partners are Mexican corporations which will initially own 55% of the project. Based upon the experience we have gained from our MTBE plant construction in Texas, we were selected as participants in a joint venture to construct a world-scale, 13,000 barrels per day MTBE plant in Mexico. Under the agreement the government of Mexico will have no ownership interest in the project but PEMEX will enter into a long-term contract to purchase all, or a substantial portion, of the plant's production for the project which will be blended into PEMEX'S gasoline to help resolve the air quality prob-

lems in Mexico's largest cities. As a part of the arrangement PEMEX will supply all of the butane feedstocks for the project.

The type of investments by Valero which I just described are small examples of the new opportunities for growth and development in the energy sector that will be offered to American companies if NAFTA is adopted. Although we were hopeful that the text of the treaty would more fully recognize the need for free market competition among the NAFTA signatories and would remove more of the investment and trade restrictions which are currently in place we feel that the treaty represents a significant first step. If you balance the national interests of each country against the opportunities, we are confident NAFTA is beneficial to all three countries.

NAFTA creates a framework for cooperation between governments in order to pursue commercial cooperation between the public and private sector entities. In this regard, the Mexican government has indicated a recognition of the need for the protection of foreign investment in Mexico, the need for the reduction in monopoly practices, the need to enforce environmental laws and the freeing up of the cross-border trade in energy. Again, this is a significant and dramatic evolution in their economic history.

Thus, passage of NAFTA would facilitate the opportunities for companies such as ours with proximity to Mexico and long-standing business relationships with that country to participate in the growth of its energy industry and the consequent strengthening of its economy. Although Mexico's constitution prevents foreign ownership of oil and gas reserves in Mexico, Mexican officials have indicated some flexibility in allowing foreign business investments in downstream operations.

Environmental concerns have become a top priority for our neighbor to the South as Mexico struggles with severe air pollution, particularly in its largest population centers. Mexico is moving towards stricter enforcement of its environmental regulations and we are willing to help them meet their environmental concerns. Within the past year, President Salinas shut down two of Mexico's larger refineries because of their contributions to air pollution, this at a time when unemployment is high and the demand for refined products in Mexico is growing. While increased production at some of that country's other refineries have been able to make up some of the product loss from the two plants, its likely that Mexico will increase its imports of gasoline, particularly unleaded gasoline, which will provide U.S. refiners with opportunities to supply Mexico from the U.S. In addition, new opportunities for the development of downstream projects will be presented and offer attractive investment potential for the U.S. energy industry.

To cite my own company as an example, we have recently had discussions with President Salinas as well as Chairman Rojas of PEMEX and Commerce Secretary Serra-Puche, concerning additional projects which we are interested in pursuing in Mexico to assist that country to maximize the benefits of their own domestic energy production while at the same time improve their air quality. One of these proposals would involve treating and removing hydrogen sulfide from natural gas supplies which are currently shut in because they are too toxic. Another proposal involves the installation of facilities to clean up high-sulfur, heavy-residual fuel oil which is currently being burned to generate electricity but emits large amounts of pollution in the process. These facilities would produce electricity and other light refined products but would eliminate the emission in the atmosphere of hundreds of tons of sulfur each day.

These are merely two examples of projects which will be open to U.S. companies as a result of NAFTA, if we are innovative and competitive and are able to demonstrate that we can help move Mexico forward in the production of energy and the protection of the environment.

Although Valero is proceeding to take advantage of investment and trade opportunities in Mexico, there are, to be sure, remaining barriers which will still exist to restrict opportunities for growth in those sectors. As I noted earlier, certain areas remain out of bounds for foreign investment and in other areas limits are placed on percentage of ownership by American companies in Mexican companies, particularly in refining, natural gas processing and pipeline transportation. While we hope there will be a further liberalization of restrictions in the energy area, we are convinced that adoption of NAFTA will facilitate increased investment opportunities in these areas and provide a critical first step to broader market access.

Adoption of the NAFTA will provide American companies in the energy industry, such as Valero with significant investment opportunities in the Mexican energy sector. It will benefit American workers in our domestic facilities by providing more jobs and will, at the same time, benefit Mexico by helping build its economy and assisting it in dealing with its energy and environmental problems.

No doubt we would have preferred even fewer barriers to cross-border transactions and investments in the energy area. However, when the countries' disparate

political and economic interests are put into perspective the framework of NAFTA, on balance, creates tremendous economic opportunities that almost make rejection of the Treaty unthinkable.

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

[September 8, 1992]

Mr. Chairman, I want to join with my Committee colleagues on both sides of the aisle in welcoming Ambassador Hills to our meeting. I think it fair to say that none here fails to acknowledge your dedicated public service and landmark accomplishment in bringing the NAFTA to the draft stage.

I want to go even further: you have opened the Mexican market in a way that will be seen twenty years from now as visionary. You will have verified those trade theories that insist capital intensive and labor intensive economies have a natural synergism in a trade communion. And you will have shown that economic cooperation lifts all boats toward ever-greater prosperity.

There remains much work to be done, Mr. Chairman. I think it's our responsibility in the Congress to sustain the credibility of our negotiators by approving the draft and the necessary implementing legislation. I want to remind my colleagues that this agreement has many of the mechanical features of our own constitution in the sense that it is a flexible, living document that will allow the three signatories' economic systems to evolve in an orderly, mutually beneficial way.

At the same time, I recognize the many concerns that some segments of our society have with the draft, they need to be addressed by Congress, to be sure, and I will comment on them in the balance of my remarks, which I request be submitted for the record, Mr. Chairman.

Mr. Chairman, there are two categories of implementing problems that we need to monitor very closely. The first is the mechanics of implementation; the second is the need to assure that the business practices of all parties are rooted in high standards with enforced compliance, where necessary.

Let me turn to the first issue: implementing the agreement's principles. Here the burden will fall heavily on the Customs Service. More than ever, we need the Customs Modernization Act, which I recommend be separated from the current trade bill, S. 5100. Agreement at the border is the best evidence to most shippers that NAFTA is working. Customs will have an awesome responsibility: disputes resolution activity, rules of origin enforcement and border clearance automation are among the key mechanics of this effort. Last week, in Utah, I organized a meeting between the Customs Brokers Association in my state, representing nearly 1,000 companies, and high officials from the Customs Service. This session demonstrated to me that without NAFTA, and without a major automation effort by Customs, the potential growth of trade between our three countries can only be imperiled by disorder, hostility and suspicion.

Shifting to my second categorical concern, business practices, I outrightly reject the claims of agreement opponents that NAFTA was drafted in a way that lessens high U.S. labor, health, safety, or environmental standards. Nor do I give any particular credence to claims that low labor and environmental standards in Mexico will cause corporate runaways to that country.

The interagency effort made by this administration has addressed each of these problems in detail.

For example, the Trade Adjustment Assistance proposals of the President offer a five-year, $10 billion program to trade-injured workers. This is much preferable to the recommendation of AFL–CIO leader Lane Kirkland who seeks a dedicated tax, that is a tariff surcharge, for such programs. Business doesn't need any more taxes, which inhibit job creation, market expansion and investment in plant and equipment.

Our Labor Department, EPA and other Federal agencies have conducted joint studies and seminars with Mexico on workplace health and safety procedures, training over 900 maquiladora industry managers in new procedures, for example. The notion that U.S. corporations can enter Mexico, enjoying abysmally low labor and environmental standards as a means to boost profits, is outdated thinking that belongs on the scrap heap of border problems that we are now well underway in redressing.

Nor do I want to give just scant attention to the genuine concerns of American workers who will be affected by the agreement in the short term. The Labor Department's programmatic capacity to handle displaced workers will increase nearly tenfold under the President's plan.

But I want to energize the thinking of this sector by pointing out some facts: Mexican imports amount to less than one-half of one percent of U.S. GDP. Over half of Mexico's exports to the U.S. are *already* eligible for tariff- or duty-free treatment, and are therefore not even affected by NAFTA. In the past five years, since we began serious thoughts of a free trade agreement with Mexico, U.S. exports have gone up over 300 percent, with Mexicans now buying U.S. goods and services at a rate of $350.00 per capita, higher than the $266 spent by the European Community in the U.S.

Rather, the opposite effect can be anticipated. Virtually all sectors of the U.S. economy will benefit. Most Mexican barriers and tariffs are *eliminated* or severely curtailed by the agreement. We can reasonably expect more jobs in all areas, something that virtually all U.S. economists agree on. Most notably, we will see immediate growth in such areas as manufactured goods, which is itself a union-intensive activity in the United States. Other growth sectors include agriculture, financial services, energy, and, in particular, other technology areas that Mexico needs for its modernization program, such as computer systems and software, medical devices and pharmaceuticals, telecommunications, and transportation equipment from U.S. aerospace and heavy cargo road vehicle industries.

Having just returned from Utah, I can't tell you how enthusiastic the environmental equipment and services industry is in my state, with market visits, trade shows and other business planning already well underway. As well they should: this year has seen a $650 million border environmental cleanup program put in place by the Mexican and U.S. Governments.

Mr. Chairman, the business opportunities spawned by NAFTA are ours to lose. And they will be lost if we don't adopt a Janus-like attitude toward the agreement: we need to look ahead to opportunity, while bringing along those few groups of our society who will need to be cross-trained and upgraded into the new skill levels of the next century. NAFTA is both a shot-across-the-bow warning as well as a blueprint to build an economy that' is a first step toward inevitably closer global economic cooperation.

Thank you, Mr. Chairman.

Prepared Statement of Senator Orrin G. Hatch

[September 10, 1992]

Mr. Chairman, I want to join the general applause for Secretary Martin's contributions to the NAFTA agreement.

At the outset of these negotiations, three issues troubled Americans greatly: first, that Mexican workers would rush into America, taking our jobs; second, that low wage and other labor standards in Mexico would cause U.S. jobs to migrate there; and third, among the worst of cynics, that the free trade agreement was some type of scheme to enslave low-paid Mexican workers. Not surprisingly, Madam Secretary, you were in great demand during the negotiations.

Before addressing these expectations, let me add that the conduct of the negotiations has few parallels in. treaty-making history where the three critical pillars of government, business and labor had every opportunity to participate as full partners. Not every interest was—or could be expected to entirely satisfied. Compromise is the essence of every political agreement, and this was no different. What is different is the open-ended nature of settlements where substantial agreements could not be reached. That is good policy-making, Mr. Chairman: the protagonists and antagonists are allowed to let change evolve: we have done this in the auto provisions in NAFTA, with agriculture, as well as in many other areas.

And as regards the legitimate concerns raised by American labor, the agreement is a remarkable document filled with opportunities to continue to strive toward real equality in standards between our two countries.

And, as regards those initial misgivings, they have been eminently managed.

—A free trade agreement is not a common market; free movement of labor is not and was never intended to be a feature of our FTA with Mexico.

—From the outset, the Labor Department took the lead in negotiating across-the-board improvements in Mexican worker safety and health, child labor and workers' rights laws. Our planning not only created the massive threefold increase in worker training and assistance programs that I know Secretary Martin will address momentarily, but also included efforts to raise the general level of U.S. manufacturing standards and individual productivity to make us more globally competitive. For example, the auto domestic content provisions of NAFTA rose from 50 to 62.5 percent. This will not just create jobs, it will give

U.S. manufacturers the opportunity to focus the higher skilled jobs in the U.S., thus raising our manufacturing technology standards.
—Finally, I have never understood or given any credence to claims that we were trying to enslave Mexican workers. Bear in mind that President Salinas requested an FTA. He did it to raise the prosperity of his country and along with it the stability of the political system wherein Mexican labor has always been a wild card.

Mr. Chairman, I know that several American labor leaders have been invited to Mexico to meet with counterparts there. They have simply not been able to find allies in the labor movement opposed to the agreement. Yet, it has been Mexican workers who are making the sacrifices necessary to put in place the rigorous labor and environmental standards that we have been demanding.

—It is Mexican, not American plants, that have been shut down for non-compliance with new environmental standards.
—And, it is Mexican workers that have been getting a negotiation advantage in seeking better wages and working conditions because of the NAFTA proposal. As in the U.S., there are dissident quarters in Mexico that fear job losses because of automation. But they are clearly in the minority.

On our side, there has been much for labor to praise, to include the continued growth of the 600,000 core of jobs related to our Mexican trade.

I thank the Chair and urge my colleagues on the Committee to spearhead the approval of the agreement.

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

(September 30, 1992)

Mr. Chairman, I want to join in welcoming Deputy Secretary Ann M. Veneman of the Department of Agriculture, and the distinguished panel of agricultural specialists.

I hope that this hearing today can give us a broader understanding of NAFTA and the ways in which it will affect the U.S. agricultural industry as well as the economy.

Because of its well-placed position on the continent, the United States has stood to benefit greatly from such countries as Mexico and Canada. Some of the greater benefits have been through agricultural exports to these two countries.

In 1990, Mexico imported almost 70 percent of its food and agricultural imports from the United States. In 1991, Mexico was the third largest single market for U.S. farm exports (behind Japan and Canada), with purchases over $2.8 billion. In 1992, Mexico is predicted to purchase a record $3.4 billion in U.S. agricultural products.

Like Mexico, Canada is also a major importer of agricultural products. Canada remains the second largest U.S. market for agricultural imports and the No. 1 market for U.S. high-value exports, taking almost one-fifth of U.S. exports of these products and nearly 10 percent of all U.S. agricultural exports in 1989.

It is therefore evident, Mr. Chairman, that we have much to gain. To be sure, there are some legitimate concerns that will have to be addressed and reviewed as the treaty unfolds over the next few years. These include the possible extension of sugar tariffs from 15 to 20 years, and other arrangements regarding better equity of labor, food safety and environmental conditions associated with production, so as to assure that Mexico gets no unfair price advantage.

I, for one, fully expect that we will work out the differences to the mutual benefit of Mexico and the U.S. And I say this knowing that President Salinas will no longer be in office. However, I am convinced that the seeds sown here will promise benefits that no political successor could afford to ignore.

Until recently, the Mexico market was not conducive to American exporters. Like many countries, Mexico tried to grow and industrialize through import substitution rather than export promotion. Mexico imposed formidable tariff and non trade barriers on imports. Since 1985, however, there has been an almost 180-degree shift in Mexican economic policy, largely because the old policy had brought the country to the brink of insolvency.

In 1986, Mexico joined the General Agreement on Tariffs and Trade (GATT). As part of the agreement, Mexico agreed to a ceiling of 50 percent tariffs. More recently, Mexico has cut its import licensing requirements by more than half. These trade liberalization efforts, as well as the economic revitalization that has occurred in the wake of President Salinas' structural reforms has resulted in a greatly expanding market for industries within the United States.

The adoption of NAFTA will ensure that the changes that have already taken place will not be lost but will be improved upon. In the short run it immediately eliminates Mexico's non-tariff barriers such as import licensing requirements as well as eliminates tariffs for about half of U.S. exports immediately. It will eliminate all other tariffs over periods of 5, 10, or 15 years. The NAFTA also protects our most sensitive commodity sectors here in the United State by placing import-sensitive commodities in the longest tariff phase-out categories and by utilizing safeguards for others.

The U.S. is in a position to greatly benefit from the NAFTA. These benefits will come in the form of increased jobs as well as an increase in exports to Mexico. Some of the other results will be:

A. LOCKS IN RECENT GAINS

Because of the natural comparative advantages of Mexico and the U.S., and relatively strong Mexican economic performance (averaging 3.6 percent income growth for the past 3 years). NAFTA will assure that U.S. agricultural exports to Mexico will continue to grow.

B. ASSURES A LARGER MARKET

Mexico's population (86 million), is growing at 2 percent a year and is becoming more urban. It is a significant market now for U.S. agricultural products. The agreement will boost incomes in Mexico and increase demand for a greater volume and variety of food and feed products.

C. INCREASES PRODUCTION EFFICIENCY

The NAFTA agreement will lead to gains in efficiency in both Mexico and the United States as producers respond to greater market opportunities. U.S. agriculture will benefit from greater trade, higher agricultural export prices, and increases in economic efficiency and productivity.

D. EXPANDS TWO-WAY TRADE

Mexico imported primarily bulk commodities prior to 1987 (mostly coarse grain and soybeans) . But Mexico is now one of the largest and fastest growing markets for U.S. high-value products. High-value products now account for almost 70 percent of all U.S. agricultural sale to Mexico, up from 40 percent in 1987.

E. GRAIN, MEATS MAJOR GAINERS

Grains and meats are expected to account for the majority of the expanded value of U.S. agricultural trade by the end of the 15-year transition period. The ultimate elimination of tariffs under NAFTA will give a strong boost to further growth of export markets for U.S. meat. Beef trade is expected to nearly double by the end of the transition period. U.S. poultry exports, already up sharply in recent years, are expected to grow further as Mexico's import licensing requirements are removed and Mexican demand expands.

F. GAINS SEEN IN HORTICULTURE

NAFTA will boost market opportunities for a variety of U.S. horticultural products as a result of the lower trade barriers and income growth in Mexico. U.S. exports of fresh vegetables to Mexico during their off-season will also increase as Mexican consumers demand more high-quality fresh produce. U.S. tree nut exports to Mexico, which have doubled in recent years, will continue to expand as NAFTA eliminates Mexico's 15–20 percent tariffs.

U.S. agricultural exports to Mexico already support 81,000 jobs in food processing, transportation, packaging, and the economy at large. the agreement will add as many as 54,000 more jobs—two-thirds more.

The U.S. economy and agricultural sector stands to benefit greatly from the passage of NAFTA. I urge the other Senators to recognize the need for this agreement and work to ensure its passage.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF CARLA A. HILLS

INTRODUCTION

Thank you, Mr. Chairman, for the invitation to appear before this committee to discuss the landmark North American Free Trade Agreement, or NAFTA.

When the President launched the NAFTA negotiations 14 months ago, he promised an agreement that was in the best interest of the American worker and farmer, consumer and exporter. He has delivered on that promise, and more.

The agreement reached after more than a year of intense negotiations, and close consultation with Congress and the private sector, will mean:

- More jobs for auto workers in Michigan, Ohio, and Pennsylvania;
- More work for the New Jersey telecommunications worker;
- More markets for the Texas petrochemical equipment maker;
- More sales for the Illinois and Iowa corn farmer;
- More opportunities for the Connecticut insurance broker;
- More business for the Montana rancher;
- More protection against piracy for the Silicon Valley software designer;
- A more vigorous economy and a higher living standard for all Americans.

This is an historic agreement and Americans in every state and in every occupation can claim and share in its benefits. It is an agreement for both blue collar and white collar workers; for factory and office workers; and, for store clerks and farm hands.

Here is why:

- This agreement makes America more globally competitive. It links the United States to our first- and third-largest trading partners, Canada and Mexico, to create one of the largest, richest market in the world, with 360 million producers and consumers and $6 trillion in annual output. NAFTA will give U.S. companies the same competitive edge that regional trade ties give European and Japanese firms.
- This agreement will generate new, higher-paying jobs for Americans. More than 600,000 Americans now owe their jobs to our exports to Mexico. This number is expected to swell to over 1 million by 1995 with NAFTA. Over 1.5 million Americans already owe their jobs to our exports to Canada. This agreement will not only create more jobs, but better jobs, for we know that workers in export-related jobs earn 17 percent more per hour than the average American wage.
- This agreement will help Mexico grow, which has a high payback for us: 70 cents of each Mexican import dollar -- and 15 cents of each additional dollar of Mexican income -- is spent on U.S. goods and services. Economic

growth will not only make Mexico a better customer, but also a stronger and more stable neighbor, easing pressures for illegal immigration. The lesson of history is clear: if opportunities do not go to the people, people will go to the opportunities.

- This agreement will be of particular benefit to small and medium-sized companies that are experiencing the fastest export growth. Unlike big companies, small and mid-sized firms often do not have the resources to locate around high trade barriers. With trade barriers removed, U.S. firms need not move to Mexico to sell to Mexico.

- This agreement does more to improve the environment than any other agreement in history. It maintains U.S. environmental, safety, and health standards; allows us to enact even tougher standards; and encourages our partners to strengthen their standards.

- Finally, it safeguards U.S. workers by ensuring a smooth transition to free trade over 15 years.

Never before has a trade agreement offered such a balance of economic growth, opportunity, worker benefits, and environmental sensitivity. NAFTA will contribute to a higher standard of living, and a better quality of life for Americans.

I would like this afternoon to review briefly for the Committee the benefits free trade with Canada and Mexico will bring to the American people.

NAFTA: LOWER BARRIERS, MORE GROWTH, BETTER JOBS.

Mr. Chairman, I do not need to tell you, a long-time proponent of free trade, about the advantages this country can reap from more open foreign markets -- especially markets on our borders. You wrote in Roll Call in July that, "The United States has much to gain from a more open and more prosperous Latin America. The average Mexican already buys more from us than his much richer Western European counterpart." Indeed:

- Mexico is now our fastest growing major export market, our second largest market for manufactured goods, and our third largest market for agricultural products.

- U.S. exports to Mexico will top $40 billion this year -- nearly four times what they were in 1986 -- yielding a projected surplus of $6 billion to $7 billion, more than three times higher than last year.

By tearing down Mexico's remaining barriers, NAFTA will increase U.S. exports and jobs.

Let me highlight just some of what it will achieve:

- **First, tariff elimination makes U.S. products more competitive.** Approximately 65 percent of U.S. industrial and agricultural exports to Mexico will be eligible for duty-free treatment either immediately or within five years.

- **Second, U.S. vehicles and parts will enjoy greater access to Mexico which has the fastest growing major auto market in the world.** The phase-out of tariffs, import restrictions, and local-content requirements on motor vehicles and parts expands opportunities for our auto industry. U.S. autos and light trucks will enjoy greater access to Mexico. With NAFTA, Mexican tariffs will

immediately be removed on light trucks and cut in half on passenger cars. Within 5 years, duties on three-quarters of U.S. parts exports to Mexico will be eliminated. Mexican "trade balancing" and "local content requirements," which have effectively kept out U.S. exports of vehicles and parts, will be entir ly eliminated in 10 years.

- Third, strict rules of origin restrict benefits of NAFTA to North American-made products. For autos, for example, only vehicles with substantial North American parts and labor content will benefit from tariff cuts. NAFTA will require that autos contain 62.5 percent North American content, considerably more than the 50 percent required by the U.S.-Canada Free Trade Agreement, to obtain preferential treatment. NAFTA contains tracing requirements so that individual parts can be identified to determine the North American content of major components and sub-assemblies, such as engines.

- Fourth, NAFTA opens Mexico's $6 billion market for telecommunications equipment and services. For equipment, Mexico has agreed to streamline its testing and certification procedures and immediately eliminate tariffs on over 80 percent of current U.S. telecommunications exports to Mexico. It gives U.S. providers of voice mail or packet-switched services non-discriminatory access to t e Mexican public telephone network and eliminates a l investment restrictions by July 1995.

- Fifth, elimination of barriers enhance opportunities in the textile and apparel sectors. Barriers to trade on $250 million (over 20 percent) of U.S. exports of textiles and apparel to Mexico will be eliminated immediately, with another $700 million freed from restrictions within 6 years. All North American trade restrictions will be eliminated within 10 years and tough rules of origin will ensure that benefits of trade liberalization accrue to North American-made products.

- Sixth, open markets for our agricultural goods will increase farm exports. Mexico imported $3 billion worth of U.S. agricultural goods last year, making it our third-largest market. NAFTA will immediately eliminate Mexican import licenses, which cover 25 percent of U.S. agricultural exports, and will phase out most remaining Mexican tariffs within 10 years, and the remaining few within 15 years.

- Seventh, for the first time in 50 years, Mexico's closed financial services markets will be opened. U.S. banks, securities firms, and other financial firms will be allowed to establish wholly owned subsidiaries and be treated the same as local firms. Transitional restrictions will be phased out by January 1, 2000.

- Eighth, U.S. insurance firm will gain new opportunities in the Mexican market. Firms with existing joint ventures will be permitted to obtain 100 percent ownership by 1996, and new entrants to the market can obtain a majority stake in Mexican firms by 1998. By the year 2000, all equity and market-share restrictions will be eliminated, opening up completely what is now a $3.5 billion market.

- **Ninth, NAFTA will create new horizons for our land transportation industry.** More than 90 percent of U.S. trade with Mexico is shipped by land, but U.S. truckers currently are denied the right to carry cargo or set up subsidiaries in Mexico, forcing them to "hand off" trailers to Mexican drivers and return home empty. NAFTA will permit U.S. trucking companies to carry international cargo to the Mexican states contiguous to the United States by 1995, and gives them cross-border access to all of Mexico by the end of 1999. U.S. railroads will be able to transport goods and passengers in Mexico, and U.S. companies can invest in and operate land-side port services. The combination of truck, rail, and port breakthroughs will help create an efficient, intermodal North American transport system. It also will help reduce congestion in border cities.

- **Tenth, NAFTA will provide a higher level of protection for intellectual property rights than has been achieved in any other bilateral or multilateral agreement.** U.S. high technology, entertainment, and consumer goods producers that rely heavily on protection for their patents, copyrights, and trademarks will realize substantial gains under NAFTA. The agreement will also limit compulsory licensing, resolving an important concern with Canada.

- **Eleventh, the agreement creates greater market access in energy and petrochemicals.** NAFTA allows U.S. producers to invest and compete in virtually all petrochemicals, and it enhances the access of U.S. energy firms to Mexico's electricity, gas, energy services and equipment markets.

- **Finally, NAFTA offers better investment rules.** NAFTA ensures that U.S. investors in Mexico are accorded equal treatment, and eliminates "domestic content" rules and export requirements, permitting increased sourcing of U.S. inputs.

NEW RULES GUARANTEE BENEFITS

Having negotiated these remarkable new opportunities, we also made sure to negotiate rules and procedures to guarantee that we reap the benefits of free trade.

- NAFTA contains rapid and effective dispute settlement procedures. A new trilateral trade commission will regularly review trade relations and discuss specific problems. Dispute resolution panels will take no longer than 8 months from start to finish. Countries that win a dispute may demand trade compensation if the losing country does not comply with the panel ruling, and may retaliate if the compensation is inadequate.

- NAFTA does not change U.S. trade laws that protect American industry from unfairly dumped or subsidized imports. But it substantially improves the ability of U.S. firms to challenge Mexican decisions involving allegations of dumping or subsidized sales in the Mexican market.

U.S. JOBS AND ADJUSTMENT

These extensive and dramatic market-opening provisions, and the rules designed to support them, will generate new export opportunities for our entrepreneurs and new jobs for our workers. As a result, we believe that adjustment pressures on the U.S. economy will be minimal.

First, while some have raised fears that NAFTA will result in U.S. firms relocating en masse to Mexico to take advantage of lower-wage labor, the fact is that labor rates are only one determinant of plant location. If wages were the only factor, many less-developed countries would be economic superpowers. Businesses base investment decisions on a range of factors including productivity, availability of capital, interest rates, quality of infrastructure, and education of the work force. Based on all factors, on average, U.S. workers remain at least 5 times more productive than their Mexican counterparts.

Second, while many have asked how we can compete against Mexican labor, the fact is we already are competing -- and successfully so. As Mexico has unilaterally lowered its trade barriers, our trade balance has swung from an almost $6 billion deficit in 1987 to a projected $6 billion to $7 billion surplus this year.

Moreover, imports from Mexico account for less than 1/2 of 1 percent of U.S. GDP, and over half of those imports today are eligible for duty-free treatment. By tearing down Mexico's remaining tariffs, which are two-and-a-half times as high as our own, NAFTA will level the playing field, not flood it.

Adjustment Provisions

However, to further assure a smooth transition for sensitive U.S. industries, NAFTA includes an elaborate adjustment regime, as the President committed it would, including:

- Lengthy transition periods of up to 15 years for the lowering of U.S. tariffs in our most sensitive sectors;
- Safeguards to protect U.S. workers and farmers against injury -- or the threat of injury -- from imports; and
- Tough rules of origin to ensure that only North American-made products obtain the benefits of free trade.
- An elimination of Mexico's duty drawback program and export performance requirements that will prevent Mexico from becoming an export platform, or "pass through" for products from non-NAFTA countries.

Worker Adjustment Assistance

In addition to these adjustment provisions within the NAFTA, the President is committed to providing worker adjustment assistance. Last month, he announced a new, comprehensive worker adjustment program -- Advancing Skills through Education and Training, or ASETS -- a $10 billion, 5-year commitment.

The President's plan -- which is based upon information obtained from Congressional, business, and labor consultations -- nearly triples the current level of expenditures for worker training. Of the $2 billion per year, $670 million is available for workers affected by this agreement, and $1.33 billion is allocated to states without regard to the cause of worker dislocation.

For the first time, a trade agreement will be accompanied by a program tailored to train workers to take advantage of the new opportunities it creates. The President's proposal features:

- Universal coverage of all workers whose jobs may be at risk, or who have lost their jobs, or who are on notice of job loss;

- Continuity of program funding through a capped entitlement thereby eliminating year-to-year funding uncertainties;

- Rapid response services and access to a wide range of support services and labor market information to ensure that intervention starts early, when it is most effective;

- "Skill grants" for retraining so workers can choose the most appropriate training programs and providers; and

- Income support payments to workers in training who have exhausted their unemployment insurance benefits and who need such support to complete their training.

Bilateral Cooperation on Labor Issues

Mexico and the United States are committed to the maintainance and enforcement of fair labor standards, the promotion of safety and helath in the workplace, and worker rights. Economic growth in Mexico resulting from NAFTA will provide increased economic resources to address labor issues. At the same time, U.S.-Mexico labor cooperation has provided an opportunity for Mexico to accelerate benefits accruing to workers, through U.S. technical assistance and training.

In 1991, U.S. Secretary of Labor Martin and her Mexican counterpart signed a Memorandum of Understanding (MOU), which established a framework for U.S.-Mexico cooperation on key labor issues. As a result, over the past year, the U.S. and Mexican Departments of Labor have undertaken a series of joint initiatives relating to workplace safety, occupational hygiene, child labor, and comparative labor-management relations.

We expect shortly to sign a new bilateral agreement that will intensify this cooperation, enabling us to focus on issues such as industrial hygiene and workplace safety standards, and training to improve enforcement of those standards.

ENVIRONMENT

Just as NAFTA has focused constructive attention on labor issues, so, too, has it focused constructive attention on the environment. At first, many saw NAFTA as a threat to the environment; the creation of a pollution haven.

That's just wrong. Mexico's 1988 environmental law is patterned after ours, and is stricter in some cases. President Salinas has made enforcement a priority, shutting down over 1,000 polluting firms in the past few years. And the NAFTA itself, and our parallel cooperative activities will help ease congestion at the border and generate new resources to clean up the environment.

Now, I believe, most view NAFTA as an opportunity. The Administration certainly views it as such, and we have seized it.

Indeed, NAFTA goes further than any other previous trade agreement in addressing environmental concerns, and in actively promoting environmental protection.

Specifically, it embraces the notion of "sustainable development," and explicitly:

- Maintains our right to enforce existing U.S. health, safety, and environmental standards;

  Allows the parties, including states and cities, to enact even tougher standards -- there will be no preemption.

- Encourages the NAFTA parties to strengthen standards by "harmonizing upwards"; and

- Preserves our right to enforce our international treaty obligations to limit trade in controlled products, such as endangered species.

In addition, NAFTA's investment provisions support our environmental goals by:

- Discouraging countries from lowering environmental standards to attract investment;

- Permitting parties to impose stringent environmental requirements on new investment, so long as they are not discriminatory; and

- Permitting the parties to require environmental impact statements on new investments.

The NAFTA agreement contains several other provisions that are designed to promote environmental protection, including dispute settlement provisions that encourage input from scientific experts on disputes involving environmental and health issues and place on the party challenging an environmental or health standard the burden of proving that it is inconsistent with the agreement. Moreover, when environmental standards are challenged, the respondent can choose to have the matter heard by a NAFTA panel, rather than a GATT panel.

Extensive Cooperative Activities

These environmentally sensitive provisions in the NAFTA -- and there are others -- are complemented by an extensive program of bilateral cooperation with Mexico, including an integrated Border Plan, developed pursuant to the President's May 1 commitment. As momentum has built behind NAFTA, this cooperation has intensified.

Indeed, the United States and Mexico will shortly sign a new bilateral environmental agreement establishing a "Joint Committee for the Protection and Improvement of the Environment." The scope of this agreement will extend beyond the border region, and will strengthen our cooperative efforts to combat pollution and improve enforcement of environmental regulations.

To enhance environmental protection efforts, President Salinas has increased his enforcement budget from less than $7 million to $77 million, and allocated $460 million over 3 years to the Border Plan.

In turn, President Bush's FY 93 budget includes $241 million for border cleanup, 70 percent greater than the 1992 amount. Unfortunately, Congress has not only failed to pass these funds, it has cut them drastically: by $98 million in the House, and by $120 million in the Senate.

At the same time Congress was cutting the President's budget request for border cleanup, some have suggested that we levy a tax on cross-border trade to raise funds for environmental improvement. We are opposed to this idea. It is unsound trade policy, since the

purpose of the NAFTA is to lower barriers, not to raise taxes. To do so would defeat the very purpose of agreement: to generate growth and jobs.

CONCLUSION

The successful conclusion of the NAFTA is an historic achievement for U.S. trade policy, which, over the past four years, has contributed significantly to our nation's economic growth. Far more foreign markets are open today to U.S. firms than 45 months ago. As a result, last year the United States became the world's Number 1 exporter with a record $422 billion in exports.

Export gains have meant more business opportunity and more jobs across all sectors. Since 1988, all 50 states have expanded exports to the world, on average by 72 percent. The surge in exporting has generated almost $120 billion in added output for America's companies and farms, and has supported 1 million new jobs. In short, the President's trade strategy is paying off.

The history-making negotiations for free trade in North America are emblematic of this Administration's bipartisan trade strategy. Since I have been USTR, we have worked with you, Mr. Chairman, the members of this Committee, and with other Congressional leaders to establish clear trade objectives, and then to engage in tough international negotiations and to use the trade tools at our disposal to achieve those objectives.

Never before has a trade negotiation involved such an extensive process of Congressional and private sector consultations as has the NAFTA. The number of Congressional and private sector briefings that we have held since the talks began over a year ago, amount to more than three per day.

We want -- we intend -- to continue to work just as closely with you and the Members of this Committee in drafting the implementing legislation for the North American Free Trade Agreement. Our goal is to make this continental growth package a reality as soon as possible for all Americans.

RESPONSES OF AMBASSADOR HILLS TO QUESTIONS SUBMITTED BY SENATOR PRYOR

1. What options are there to improve the agreement for the U.S. rice industry to provide for more rapid elimination of the 10 percent import tariff differential between rough and milled rice?

A. NAFTA negotiations have been concluded. Our agricultural negotiators pressed their Mexican counterparts on several occasions during the course of the negotiations to eliminate the differential between rough and milled rice. The Mexicans would not move on that issue.

2. What options are there within the agreement to provide for more rapid elimination of all rice tariffs?

A. The U.S.-Canada Free Trade Agreement included a provision for accelerated tariff reductions. The NAFTA includes a similar provision. This could provide an opportunity to revisit reductions in Mexican rice tariffs in the future.

Regarding Cotton Provisions:

1. Although cotton production in Mexico has declined in recent years, there is a potential to produce 1.0 million bales or more. Other Central and South American countries have the potential to increase production and exports significantly. And, cotton produced in the former Soviet Union is currently offered at prices well below those for U.S. growths. **In view of these and other factors, does the agreement include any provisions which will prohibit Mexico and other future signatories from importing low priced cotton from other countries then exporting significant quantities of Mexican grown cotton to the United States and Canada?**

2. The cotton title of the Food, Agriculture, Conservation and Trade Act of 1990 contains a number of provisions designed to make U.S. cotton competitive with all growths on a consistent basis. Although the program is not currently being operated in a manner allowing U.S. cotton to compete with cotton produced in the former Soviet Union, the FACT Act provisions have generally worked well for the U.S. cotton industry. **Are there any provisions in NAFTA or commitments made by negotiators that will require any changes in the cotton provisions of the 1990 FACT Act?**

3. Imports of raw upland cotton have been limited under authority of Section 22 of the Agriculture Adjustment Act of 1933, as amended. The provisions of NAFTA include a commitment to increase Mexico's quota to approximately 45,000 bales immediately, then increase that level by 3% per year. At the same time, a tariff would be charged for any imports of Mexican cotton in excess of the quota, but the tariff would decline to 0 over 10 years. Consequently, at the end of 10 years, there would be no quota and no tariff on imports of Mexican grown cotton. **Will this bi-lateral agreement with a cotton producing and exporting country impact in any way the ability of the United States to maintain the GATT waiver which allows the U.S. to limit imports of cotton from other countries to insure the operation of U.S. farm programs are not disrupted? Can the U.S. government state, without reservation, that the provisions of NAFTA will not serve as a basis to eliminate the waiver and that U.S. government will continue to vigorously defend the waiver?**

4. The provisions of Section 22 of the Agriculture Adjustment Act of 1933 include a provision stating: "No international treaty heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirements of this section." **How do the provisions of NAFTA meet this criteria?**

5. The cotton title of the Food, Agriculture, Conservation and Trade Act of 1990 includes provisions which trigger special increased global import quotas when U.S. cotton prices are uncompetitive. **How will the marketing access provisions of NAFTA be applied if either or both of the provisions of the FACT Act are triggered?**

6. Several members of the Administration have indicated the North American Free Trade Agreement (NAFTA) could be expanded to include additional Central and South American countries. **Since many Central and South American countries produce and export raw cotton and have potential to rapidly increase production, will tariffication and eventual elimination of quotas and tariffs on raw cotton imports into the United States apply to cotton produced in these countries under the same terms as for Mexican grown cotton?**

7. The so-called Dunkel text of the Uruguay Round of GATT negotiations includes market access commitments which call for tariffication of quotas such as the Section 22 cotton import quotas. Under GATT, the proposed tariff rate for cotton traded in excess of the market access commitment is significantly lower than the initial tariff in NAFTA and the market access commitment under Dunkel is capped while the level under NAFTA is eventually unlimited. **How will the provisions of any future Uruguay Round agreement be reconciled with the provisions of NAFTA? Will the NAFTA tariff level for cotton be reduced immediately to the level agreed upon in any future Uruguay Round? Will the Uruguay market access commitment supersede the NAFTA level?**

8. The textile and apparel provisions of NAFTA included rules-of-origin which generally apply a so-called "yarn-forward" test to products to determine if the product receives preferential tariff treatment. Cotton producers urged U.S. negotiators to seek a "fiber-forward" rule-of-origin to ensure that cheap fiber would not be imported and converted into products which would ultimately displace U.S. fiber markets. While the "yarn-forward" rule is more stringent than some sectors supported and there are "fiber-forward" rules for two particular products, the rules are significantly more liberal than cotton producers would have preferred. **During the negotiations, didn't the Mexican side also express support for a "fiber-forward" rule and if so why were so many concessions ultimately made to develop a relatively liberal rule? And, if additional countries are brought into NAFTA, doesn't that action further dilute the effectiveness of the NAFTA rule-of-origin in stimulating use of U.S. fiber by NAFTA participants?**

9. Under terms of NAFTA, quotas on imports of raw cotton from Mexico will increase immediately to 45,000 bales from approximately 18,000 bales, and will ultimately become unlimited after 10 years. Mexico has capability to produce at least 1.0 million bales per year and other Central and South American countries, which could be added to NAFTA, also have significant production capability. **Does the agreement have any provisions requiring orderly marketing of cotton to minimize the impact of potential large increases of imports on U.S. producers? If imports do increase dramatically over historical trade patterns, what action can be initiated by the U.S. government and/or industry to ensure Mexico, or other NAFTA signatories, are not exporting at below market prices and disrupting the operation of U.S. markets and/or U.S farm programs?**

10. Administration officials have repeatedly stated NAFTA could be beyond Mexico and Canada. **If the treaty if ratified by Congress, what countries are likely to seek admission and will the provisions of NAFTA be altered as additional countries are added?**

11. The U.S. cotton industry has a widely accepted method of resolving disputes between buyers and sellers. **Will the dispute resolution provisions of NAFTA infringe, in any way, on commercial arbitration rules?**

12. It is virtually impossible to confirm the country-of-origin of raw, upland cotton through physical or chemical testing. **What will be required by U.S. authorities to ensure, to the extent practicable, that cotton traded between the U.S. and Mexico is NAFTA origin?**

	Cotton Production (000's 480 lb. bales)		
	1970	1980	1991
Mexico	1,450	1,595	890
Nicaragua	362	348	133
Paraguay	30	482	1,190
Peru	390	455	304
Venezuela	73	39	75
Colombia	540	531	587
Argentina	385	390	1,286
Brazil	2,251	2,857	3,087

Cotton production capacity also exists in: El Salvador, Guatemala, Costa Rica and Honduras

Source: "World Cotton Situation", USDA, FAS Circular Series FC8-92, August 1992

RESPONSES TO COTTON QUESTIONS

1. Although cotton production in Mexico has declined in recent years, there is a potential to produce 1.0 million bales or more. Other Central and South American countries have the potential to increase production and exports significantly. And, cotton produced in the former Soviet Union is currently offered at prices well below those for U.S. growths.

   In view of these and other factors, does the agreement include any provisions which will prohibit Mexico and other future signatories from importing low priced cotton from other countries then exporting significant quantities of Mexican grown cotton to the United States and Canada.

   Under Mexico's current quota to the U.S. market, Mexico has been able to import foreign cotton, substitute it for Mexican-grown cotton and then has been allowed to ship Mexican cotton to the United States to fill its quota. Despite this ability, Mexico has rarely filled its quota, indicating that the economic incentives to do so do not exist due to strong demand for cotton in the Mexican market.

   Under the proposed NAFTA, as is the case under Mexico's current quota to the U.S. market, Mexico would not be prohibited from importing non-NAFTA cotton, substituting it for consumption of domestically grown cotton and then allowing Mexican cotton to be exported to the United States at NAFTA preferential rates. The United States would be governed by this same rule for U.S. cotton or other products such as beef exported to Mexico.

   For a number of reasons, however, we believe it highly unlikely that Mexico's cotton exports to the United States would rise appreciably under the NAFTA.

The U.S. Section 22 cotton import quota has rarely been filled by Mexico or other countries. Under the quota system, Mexico can export about 18,510 bales of cotton to the United States, which has been met only once in recent years. It is unlikely that gaining duty-free status for up to about 46,000 bales of cotton in the NAFTA will provide any substantial incentive for Mexico to increase cotton exports to the United States. And, clearly there will be even less incentive for Mexico to ship cotton to the United States at the above-quota, or second-tier, tariff rate.

We expect that the current trend in Mexico of declining production and increased consumption and imports of cotton will continue. These production projections are supported by Mexico's elimination of internal supports for cotton, an ongoing pattern of weather problems in cotton producing areas, and relatively high production costs.

The prospects for Mexico's continued economic growth should translate into heightened consumer demand for textiles and garments within that country. In addition to increased domestic demand, further investment in Mexico's textile industry for the supply of the export market is already evident.

Raw cotton imports by Mexico have increased from 210,000 bales in marketing year (MY) 1990/91 to 300,000 bales in MY 1991/92 and are projected to more than double in MY 1992/93 to 660,000 bales. According to analysis at USDA, U.S. cotton exports to Mexico are expected to increase under the NAFTA. Income growth and textile trade opportunities under NAFTA are likely to increase Mexican production and demand. The United States, the world's largest cotton exporter, is likely to be the major supplier of the increase in Mexican cotton mill demand. The United States typically supplies about 85-90 percent of Mexico's cotton import needs.

2. The cotton title of the Food, Agriculture, Conservation and Trade Act of 1990 contains a number of provisions designed to make U.S. cotton competitive with all growth on a consistent basis. Although the program is not currently being operated in a manner allowing U.S. cotton to compete with cotton produced in the former Soviet Union, the FACT Act provisions have generally worked well for the U.S. cotton industry.

   Are there any provisions in NAFTA or commitments made by negotiators that will require any changes in the cotton provisions of the 1990 FACT Act.

   No cotton program provisions established by the 1990 FACT Act will have to be changed because of the NAFTA.

3. Imports of raw upland cotton have been limited under authority of Section 22 of the Agriculture Adjustment Act of 1933, as amended. The provisions of NAFTA include a commitment to increase Mexico's quota to approximately 45,000 bales immediately, then increase that level by 3% per year. At the same time, a tariff would be charged for any imports of Mexican cotton in excess of the quota, but the tariff would decline to 0 over 10 years. Consequently, at the end of 10 years, there would be no quota and no tariff on imports of Mexican grown cotton.

   Will this bilateral agreement with a cotton producing and exporting country impact in any way the ability of the United States to maintain the GATT waiver which allows the U.S. to limit imports of cotton from other countries to insure the operation of U.S. farm programs are not disrupted? Can the U.S. government state, without reservation, that the provisions of NAFTA will not serve as a basis to eliminate the waiver and that [the] U.S. Government will continue to vigorously defend the waiver?

Tariffication of our Section 22 quotas in the NAFTA would not increase the vulnerability of our GATT waiver. GATT Article XXIV outlines specific requirements for establishing free trade areas and permits countries adhering to those requirements to provide preferential access to each other. Countries participating in such free trade agreements are essentially exempted from their obligation under GATT Article I to provide MFN treatment to other GATT members. The NAFTA will fully conform with Article XXIV. In that regard, the increased access provided to Mexico through the tariffication of our Section 22 quotas will be new access and will not come at the expense of other countries' current access.

Contingent on a final agricultural agreement in the Uruguay Round, we will continue to vigorously defend our waiver for Section 22 in the GATT vis-a-vis other GATT members.

4. The provisions of Section 22 of the Agriculture Adjustment Act of 1933 include a provision stating: "No international treaty heretofore entered into by the United States shall be applied in a manner inconsistent with the requirements of this section."

How do provisions of the NAFTA meet this criteria?

A. In the absence of any legislative modifications, section 22(f) would prohibit applying any provision of the NAFTA contrary to the requirements of section 22. Furthermore, the NAFTA will not enter into force for the United States until Congress has enacted the necessary implementing legislation.

The NAFTA implementing legislation will provide Congress with the opportunity to consider whether to provide the necessary modifications to permit the NAFTA to enter into force for the United States, including those modifications to accommodate the NAFTA in light of section 22(f).

In fact, Congress has already amended section 22(f) to accommodate a free trade agreement. In section 301(c) of the United States-Canada Free-Trade Agreement Implementation Act of 1988, the Congress amended section 22(f) to read:

"No trade agreement or other international agreement heretofore or hereafter entered into by the United States shall be applied in a manner inconsistent with the requirements of this section; <u>except that the President may, pursuant to articles 705.5 and 707 of the United States-Canada Free-Trade Agreement, exempt products of Canada from any import restriction imposed under this section</u>." (The underlined portion was added by section 301(c).

5. The cotton title of the Food, Agriculture, Conservation and Trade Act of 1990 includes provisions which trigger special increased global import quotas when U.S. cotton prices are uncompetitive.

How will the marketing access provisions of NAFTA be applied if either or both of the provisions of the FACT Act are triggered.

If a special import quota is triggered under provisions of the FACT Act, there are no stipulations about sources of foreign cotton. Therefore, subject to existing requirements regarding such things as packaging and contamination, cotton imported under a special quota could be from any country that is otherwise approved for trade with the United States.

A special global import quota would not change the quantity of Mexican cotton permitted to enter at a zero duty under the NAFTA. This market access commitment would remain in place irrespective of the special global import quota. Moreover, even if Mexico were to export to the United States the full amount permitted to enter at zero duty under the NAFTA, it could still compete on an MFN basis for additional access under the terms and conditions of the special import quota.

6. Several members of the Administration have indicated the North American Free Trade Agreement (NAFTA) could be expanded to include additional Central and South American countries.

   Since many Central and South American countries produce and export raw cotton and have potential to rapidly increase production, will tariffication and eventual elimination of quotas and tariffs on raw cotton imports into the United States apply to cotton produced in these countries under the same terms as for Mexican grown cotton?

   It is possible that at some time in the future we will begin negotiations with other countries of the Western Hemisphere, with the goal of bringing them into the free trade area. Any future free trade agreements between the United States and Central and South American countries would be negotiated on a case-by-case basis, not necessarily on the same terms as those agreed to with Mexico in the NAFTA.

7. The so-called Dunkel text of the Uruguay Round of GATT negotiations includes market access commitments which call for tariffication of quotas such as the Section 22 cotton import quotas. Under GATT, the proposed tariff rate for cotton traded in excess of the market access commitment is significantly lower than the initial tariff in NAFTA and the market access commitment under Dunkel is capped while the level under NAFTA is eventually unlimited.

   How will the provisions of any future Uruguay Round agreement be reconciled with the provisions of NAFTA? Will the NAFTA tariff level for cotton be reduced immediately to the level agreed upon in any future Uruguay Round? Will the Uruguay market access commitment supersede the NAFTA level?

   The principles agreed to in the NAFTA for tariffying of non-tariff barriers are actually based on the principles developed in the Uruguay Round. However, there are differences in the approaches in the NAFTA and the Uruguay Round. In the NAFTA we are proposing the ultimate reduction to zero of all tariffs; the current Uruguay Round proposal is for measured reductions in tariff levels. All NAFTA quotas will grow over the transition period; in the Uruguay Round there is growth only if current access is less than 5 percent of domestic consumption.

   If we conclude the Uruguay Round on the basis of the current Dunkel draft text, and the current figures in the U.S. country submission, Mexico would indeed receive the lower MFN tariff rates implicit in the Uruguay Round. The market access commitments made in the NAFTA would become a part of any commitments made in the Uruguay Round. Any growth in the market access commitments in NAFTA, however, would be additional to that proposed in the Uruguay Round.

8. First, the "yarn forward" rule of origin for the NAFTA which generally applies in the NAFTA is significantly stronger than the "fabric forward" rule that applied under the U.S.-Canada Free Trade Agreement, which was the starting point for the NAFTA negotiations.

   In addition, the "yarn-forward" rule was a compromise position among affected U.S. industry groups. On one extreme, the Cotton Council, along with the man-made fiber producers, advocated a "fiber forward" rule of origin. At the other extreme, certain apparel producers advocated a "single transformation" rule, which would allow fibers, yarns and fabrics all to be imported. The Cotton Council was actively involved in deliberations between the

U.S. government negotiatiors and industry representatives. They are well aware that most domestic textile mills and virtually all apparel producers strongly opposed a fiber forward requirement. Similarly, on the Mexican side, while certain Mexican fiber interests sought a fiber forward rule for textiles and apparel in the NAFTA, other interested parties in Mexico opposed such a rule and a compromise solution was found for the NAFTA at "yarn forward." Both Governments thoroughly explored the fiber forward options but determined it was not feasible in most cases.

Furthermore, certain technical changes were made to the CFTA rules of origin for textiles and apparel specifically on behalf of the Cotton Council and other fiber producers in an effort to satisfy their concerns. For example, in the CFTA, knit fabrics were under a fiber forward rule for man-made fiber only; in the NAFTA, this was expanded to include cotton fiber. Also, in the CFTA, the rule of origin for cotton and man-made fiber spun yarn was single transformation; in the NAFTA, it was changed to fiber forward.

Finally, the strengthened rules of origin in the NAFTA will be the model for future free trade agreements in the textile and apparel sector. Given their strength and competitiveness, the U.S. cotton industry can be expected to prosper under future FTAs.

9. Under terms of NAFTA, quotas on imports of raw cotton from Mexico will increase immediately to 45,000 bales from approximately 18,000 bales, and will ultimately become unlimited after 10 years. Mexico has [the] capability to produce at least 1.0 million bales per year and other Central and South American countries, which could be added to NAFTA, also have significant production capacity.

Does the agreement have any provisions requiring orderly marketing of cotton to minimize the impact of potential large increases of imports on U.S. producers? If imports do increase dramatically over historical trade patterns, what action can be initiated by the U.S. government and/or industry to ensure Mexico, or other NAFTA signatories, are not exporting at below market prices and disrupting the operation of U.S. markets and/or U.S. farms programs?

Under the proposed tariff-rate quota for cotton, U.S. imports of cotton from Mexico in excess of the quota will be assessed a tariff that would initially be trade restrictive. This over-quota tariff will be phased-out gradually over a 10-year period.

If, after the quota restrictions are lifted, and Mexico is suspected to be exporting cotton to the United States at below market prices, the NAFTA does not preclude the United States from bringing an anti-dumping case against Mexican cotton imports.

10. Administration officials have repeatedly stated that the NAFTA could go beyond Mexico and Canada.

If the treaty [is] ratified by Congress, what countries are likely to seek admission and will the provisions of NAFTA be altered as additional countries are added?

A. The Agreement will contain an "accession clause" that will permit the NAFTA member countries to decide whether -- and on what terms -- other countries may join the Agreement. This clause will not specify which other countries may join, although it is likely that new entrants would be drawn from the Western Hemisphere.

Entry will not be automatic. Any country seeking to join would have to negotiate its accession, not only by conforming to the general principles of the NAFTA, but through trade concessions in specific areas. The precise tariff concessions and other terms of the deal we struck with Canada and Mexico would not automatically apply to any new entrant -- either in terms of what the new entrant would promise or what we would provide in return.

11. **The U.S. cotton industry has a widely accepted method of resolving disputes between buyers and sellers. Will the dispute resolution provisions of NAFTA infringe, in any way, on commercial arbitration rules?**

The NAFTA will have no impact on commercial arbitration rules applicable to disputes between U.S. buyers and sellers. Like the U.S.-Canada Free Trade Agreement (CFTA), the NAFTA has a dispute settlement chapter. Indeed, the NAFTA dispute settlement chapter will supersede the CFTA chapter. This chapter, however, applies only to disputes between the Governments of the United States, Canada, and Mexico with respect to the terms of the NAFTA. It is not a vehicle for the resolution of private commercial disputes.

The Agriculture chapter of the NAFTA does contemplate, however, that an advisory committee established under the general dispute settlement chapter will work toward a system for resolving private commercial disputes that arise in connection with cross-border transactions in agricultural goods.

12. **It is virtually impossible to confirm the country-of-origin of raw, upland cotton through physical or chemical testing. What will be required by U.S. authorities to ensure, to the extent practicable, that cotton traded between the U.S. and Mexico is NAFTA origin?**

Exports of cotton for which NAFTA preferential treatment is claimed must be accompanied by a Certificate of Origin, certifying that the cotton is originating. A company that knowingly provides a false certification of origin may lose its ability to ship with NAFTA preference, and may be subject to civil or criminal penalties.

In the event that a U.S. company believes that non-originating cotton is being exported to the United States with NAFTA preference, the U.S. company may request that U.S. Customs audit the exporter. If a Customs audit uncovers irregularities, the exporter may lose NAFTA preference and may be subject to civil or criminal penalties.

RESPONSES OF AMBASSADOR HILLS TO QUESTIONS SUBMITTED BY SENATOR RIEGLE

1.

QUESTION: On what basis can you justify the greenfield investment (new investment in rural areas, like Kentucky and Tennessee) provision in the NAFTA, especially given that one of the strategic problems of the auto industry is excess capacity?

Given the world-wide glut of auto production capacity, why are we going to be encouraging new capacity in the North American market and why are we going to encourage this new capacity to be in Mexico?

ANSWER: NAFTA contains no specific incentives to increase capacity in the North American auto industry. NAFTA recognizes that investment decisions are best left to private investors, who will base those decisions on a variety of factors including access to markets, location of suppliers, available infrastructure, quality and cost of labor, and a variety of financial considerations. NAFTA does contain provisions to provide greater fairness for U.S. investors and to eliminate certain performance requirements on U.S. investors -- including export requirements on existing auto assembly plants in Mexico.

If an investor decides to invest in auto production -- as either an entirely new or replacement facility -- the trade liberalizing provisions in NAFTA will encourage him to put investment in North America. Goods which qualify as North American products under the NAFTA's rules of origin will have duty-free access to 360 million consumers. NAFTA provides no incentive for investment in one NAFTA party over another.

2.

QUESTION: How does the NAFTA deal with existing foreign producers in the Mexican market, like Nissan and VW, and the effect that their expansion will have on global capacity and the U.S. market?

ANSWER: All existing foreign producers in the Mexican market are subject to the same treatment during and after the transition period. Although GM and Ford have been active in the Mexican market for more than 50 years, Chrysler (through acquisition of American Motors Corporation), VW and Nissan have all been operating in Mexico for more than 20 years.

Nissan and VW's expansion plans were announced prior to initiation of NAFTA negotiations. According to reports, Nissan's increased capacity would include the Sentra and a station wagon version of the Sentra. Sentra production is intended for the Mexican market, and the station wagon will be exported to Japan and Latin America. Nissan has indicated that exports of these vehicles to the United States and Canada are expected to be minimal. These vehicles are similar to vehicles which Nissan currently produces in the United States. VW's increased car capacity is intended meet growth in the Mexican market. The Big Three have not recently announced any expansion in Mexico.

There are no provisions in the NAFTA, or elsewhere, which deal directly with global capacity. Strict rule of origin provisions will govern trade in vehicles under NAFTA preferential tariffs. Vehicles which do not meet the rule of origin will pay the applicable MFN duty.

3.

QUESTION: Regarding the local content requirement -- Canada has the Auto Pact (50%) and Mexico has its national value-added requirement (36%). However, the U.S. has no comparable domestic content requirement against which the 62.5% NAFTA requirement will be implemented.

It is my understanding that our original position on this issue was that Canada's Auto Pact was not to remain under the NAFTA. Given that this did not happen, what will the U.S. have to guarantee that like Canada and Mexico, we will have products sold in our market that are made in part by U.S. workers?

ANSWER: Canada does not maintain a 50% local content requirement, and Auto Pact provisions do not apply to all Canadian producers. Producers who want to bring in duty-free parts and vehicles from anywhere in the world must meet the Auto Pact's Canadian value-added provisions. Companies not complying with these provisions may nevertheless still import, produce or sell in Canada. From January 1, 1998, Auto Pact producers in Canada will not need to meet these

value-added requirements in order to bring in parts from the United States duty-free. From January 1, 2003, Auto Pact producers in Canada will not need to meet these requirements in order t import duty-free from Mexico.

U.S. parts exports to Canada account for more than 68% of all parts imports into Canada. Imports from Mexico into Canada account for approximately 5% of Canadian parts imports. The U.S. in-vehicle content of vehicles produced in Canada is anywhere from 25% to 75% of the vehicle.

A similar situation applies to vehicles produced in Mexico by the Big Three and sold in the U.S. market. Big Three vehicles exported to the U.S. from Mexico contain anywhere from 40% to 60% U.S. content. The current 36% requirement allows 64% of the content to be "foreign," and that comes predominantly from the United States. As far as we are aware, only one of the Big Three firms is even meeting the 36% requirement, which is reduced and eliminated by the NAFTA. Mexico accepted the argument that local content requirements are counter-productive to rationalization and competitiveness. Therefore, Mexican local content requirements are being phased-out (to provide a transition for current manufacturers), and will be totally eliminated in ten years. After that time, Mexico will maintain no requirement that a portion of the products sold in its market is Mexico-made.

4.

QUESTION: Under the Agreement, what will the U.S. position be if in 10 years Mexico wants to maintain its value-added requirement, as we have allowed Canada to do under the NAFTA?

ANSWER: Under the Agreement, Mexico may not maintain any such requirements. The United States would oppose any attempt by Mexico to do so and could resort to consultations and dispute settlement.

5.

QUESTION: Some have suggested that the domestic treatment of CAFE for Mexican small car production after three years will encourage small car production currently going on in the U.S. to move to Mexico. What are your views on this potential loss to the U.S. manufacturing base?

ANSWER: Currently, U.S. manufacturers may use Mexican content (or any other "foreign" content) in their production. As long as the content of a car line is kept below 75% U.S. and/or Canadian content, it is classified in the "import fleet". Conversely, if the content is above 75% U.S./Canadian content, the vehicle is in the "domestic fleet". Mexico wanted the same treatment that was granted to Canada when Congress adopted the provision in 1975.

The inclusion of Mexican content in the CAFE "domestic" content definition applies to all cars, not just small cars. Each manufacturer will continue to makes its own sourcing decisions according to its own requirements. The CAFE distinction between "domestic fleet" and "import fleet" and the requirement to count Mexican content as "domestic" for CAFE purposes could in fact encourage some manufacturers to modify sourcing decisions based on nationality of the supplier.

6.

QUESTION: What is the reason behind the special rule for CAMI (GM-Suzuki joint venture), which exempts it from the 62.5 percent content requirement under the NAFTA, except as part of GM'S overall Canadian production? Is it good policy to have one company's unlimited future production exempt from the NAFTA's content requirements?

ANSWER: CAMI is not exempt from the NAFTA's 62.5 percent regional content requirement. As noted, CAMI is not an independent automobile producer; it is a joint venture in which GM and Suzuki have equal shares. However, GM takes the majority of CAMI's production for distribution through its own dealer network. The NAFTA provides that as long as GM owns at least 50 percent of CAMI stock and takes at least 75 percent of CAMI's production, CAMI's production may be averaged with that of GM for the purpose of determining regional content.

7.

QUESTION: Does the NAFTA contain a provision to cancel the duties owed by Honda under the Canadian FTA, thereby enabling prior shipments of Honda vehicles which the U.S. Customs Service found to be in violation of the CFTA content requirement of 50%, to qualify under the NAFTA requirement of 60%?

ANSWER: NAFTA contains no provision to cancel duties owed by Honda or any other firm. NAFTA does revise the CFTA rules for calculating regional content to remove ambiguities that have led to disagreements between the U.S. and Canada over interpretation of the CFTA. The new rules in the NAFTA provide greater clarity and certainty for determination of regional content. In the interest of avoiding further disputes, and litigation in U.S. courts, it is intended that the clarification of NAFTA rules for calculating regional content will be applied to all customs entries of automobiles that have not been finally liquidated. Importers will be liable for whatever duties are owed.

8.

QUESTION: Is the rule-of-origin on autos stricter under the NAFTA and will it be able to prevent situation like the Honda case?

ANSWER: The NAFTA rule of origin resolves the ambiguities that led to interpretive differences between the United States and Canada. In addition, in order to prevent the roll-up of domestic costs that distorted measurement of regional content under the CFTA, NAFTA imposes a tracing requirement on the origin of automotive parts used in motor vehicles. This tracing requirement is particularly extensive for passenger cars and light trucks. Finally, the required regional content level itself is raised from 50 percent to 62.5 percent in two four-year stages.

The combined effect of all these changes is to make the rule of origin for motor vehicles more demanding, and to eliminate the troublesome ambiguities of the CFTA.

9.

QUESTION: What is the reasoning behind a staggered 8-year phase-in timeframe for the 62.5 percent North American content under the auto rule-of-origin?

ANSWER: The staged i p ementation of the higher content levels recognizes two facts: first, that some motor vehicle producers are complying with the CFTA's 50 percent regional content requirement but are not at the 62.5 percent regional content required by the NAFTA; and, second, that these motor vehicle producers have existing arrangements with non-NAFTA suppliers of auto parts that cannot be easily shifted to NAFTA suppliers until new models come on line. The two four-year staging periods are intended to give these motor vehicle producers an opportunity to enter into design and supply arrangements with North American suppliers.

RESPONSES OF AMBASSADOR HILLS TO QUESTIONS SUBMITTED BY SENATOR SYMMS

1 <u>Current Safeguards and Remedies</u> The United States has trademark and copyright laws which parties can use to protect unique products. Currently in the field of textile print design, illegal duplication of U.S. print fabric designs is rapidly increasing. What steps can and will you currently take to remedy this situation? And, what recommendations would you propose for legislation, if necessary, to provide you with additional authority to act?

<u>Answer:</u>

The Administration has had an active program of bilateral and multilateral negotiations aimed at improving the international protection of U.S. intellectual property rights, including designs, and strengthening enforcement. To that end we have concluded numerous bilateral agreements with countries in all areas of the world. The recently concluded NAFTA agreement contains extensive provisions on intellectual property, both on levels of protection and enforcement. And the Uruguay Round text also contains extensive provisions on intellectual property.

The Administration has also taken a number of actions under U.S. trade laws to obtain better protection of U.S. rights and to combat piracy. I believe these laws have worked well and they provide to the us the effective tools for advancing U.S. trading interests in this area.

2. <u>Pakistan as a Special Case:</u> Pakistan seems to be a particularly notorious case where markets are closed to U.S. goods and designs are being stolen. What is the Administration currently doing to enforce intellectual property rights in Pakistan? Should Pakistan be listed as a priority foreign country under "special 301"?

<u>Answer:</u>

We have an ongoing interest with the protection and enforcement of intellectual property rights in Pakistan. Over the course of the past several years, we have held a number of consultations and discussions on these issues with Pakistani officials. Additional exchanges and meetings between USTR and Pakistani officials are likely in the nea

future during which IPR issues will be discussed further. New patent, trademark and copyright laws have been considered by the Pakistani administration, but these laws have not been enacted.

With respect to the issue of piracy of designs, we have only very recently received complaints about Pakistani practices. We are now examining the most effective way to raise this issue with Pakistani officials so as elicit a prompt and effective response. With respect to Pakistan's status under the special 301 provisions of the trade law, we review their status annually and we are prepared to take action with them if the circumstances so merit.

3. Special 301: Can this problem be addressed under the special 301 provisions dealing with intellectual property? Is the Administration seeking to use "special 301" to halt these unfair practices?

Answer:

I believe the special 301 statute has proved to be an effective tool to address piracy of U.S. intellectual property rights. Over the course of the three years that the statute has been in effect we have made good progress with a great many countries. Thus I believe that if it becomes necessary, we can use it to address the problems of textile designers as well.

4. GATT Negotiations: The GATT negotiations have been very intense on intellectual property rights. However, my understanding is that there is no specific language establishing that illegal duplication of textile print designs is an unfair trade practice. Would you support a specific provision as part of the GATT to specify that copying textile print designs is an unfair practice and establish international remedies to enforce intellectual property rights in the textile field?

Answer:

The intellectual property provisions of the Dunkel text of the Uruguay Round do provide certain protection for textile print designs. To the extent that such designs are copyrightable, they are fully protected. To the extent that they constitute industrial designs, they are also protected. Thus I do not believe that it is necessary to provide specific provisions beyond those already contained in the text to protect fabric designs.

PREPARED STATEMENT OF LYNN MARTIN

Mr. Chairman and Members of the Committee, let me begin by thanking you for the opportunity to come before you today to discuss the North American Free Trade Agreement and what that agreement will mean for the United States and for American workers.

Just over 18 months ago, Mr. Chairman, President Bush requested authorization from the Congress to enter into fast track negotiations with Canada and Mexico to create a free trade zone that would stretch from the Yucatan to the Bering Straits. The President believes very strongly, and correctly, that the removal of barriers to North American free trade will spur U.S. exports, create quality jobs for America's working men and women, and improve living and working conditions for all North Americans.

At the same time, we are aware of the difficulties some sectors of the economy may face in making the transition to a more open and competitive trade environment. Moving to a high skill, high wage economy, which we must do to enhance our living standards, means that many people who possess few skills will need increased training and education. In his May 1, 1991, response to Congress, the President offered a direct and substantive response to these concerns. He promised this Committee, the Congress, and the American people that NAFTA will include adjustment measures that would reduce the likelihood of injury from the Free Trade Agreement.

Today I can report to you unequivocally that the President will continue to follow through on that commitment. This is reflected in the body of the agreement itself, and in the extensive and ongoing bilateral cooperation program that we have undertaken with the Mexican Government on labor issues. Finally, our new worker adjustment proposal is consistent with his commitment. The proposal establishes a general framework within which we will continue our consultations on worker adjustment to insure assistance and retraining for any workers adversely affected by NAFTA. I am proud to say that the Department of Labor has taken a lead role in all three of these areas.

The Department's role in the negotiation of this trade agreement was, to my knowledge, unprecedented. The interests of American workers were represented directly and consistently throughout the negotiating process. The Department was represented on each of the 19 NAFTA negotiating groups and DOL officials led negotiations for the U.S. side in two of the negotiating groups. As one example of our role in this process, we strongly supported and encouraged our negotiators in their efforts to assure that the tariff reduction schedules included in the agreement will allow potentially vulnerable import-sensitive American industries time to adjust.

To ensure that American workers and industries have sufficient time to adjust to trade liberalization, the Administration negotiated an agreement that will gradually phase out both tariff and non-tariff barriers on all goods qualifying as North American under its rules-of-origin provisions. For most goods, existing tariffs will either be eliminated immediately or phased-out in five or ten equal annual stages. For particularly sensitive goods, however, the tariff phase-out period will be more gradual, and will last for up to 15 years to allow adequate time for U.S. producers and workers to adjust to a free trade environment. Examples of products where we have provided a 15 year phase-out include certain household glassware, selected footwear items, and some fruits and vegetables.

Moreover, the Department of Labor led the negotiations on the Agreement's safeguards chapter, which is perhaps the most crucial of all with respect to the issue of protections for America's working men and women. In his May 1, 1991, report to Congress, President Bush promised that the agreement would allow us to respond quickly and effectively to any sudden, injurious increase in imports from Mexico or Canada once the NAFTA takes effect. The NAFTA we negotiated fulfills this pledge in four ways.

First, NAFTA includes a *bilateral safeguard* mechanism which will permit a tariff "snap-back" to pre-NAFTA or MFN levels for up to three years—or 4 years in the case of extremely sensitive products—should increased imports of Mexican goods resulting from the elimination of duties stipulated by the NAFTA constitute a substantial cause or threat of serious injury to a domestic industry.

Second, the NAFTA's *global safeguard* provisions allow for the imposition of tariffs or quotas on imports from Mexico or Canada as part of a multilateral safeguard action, should imports from either or both countries be a substantial cause of serious injury or threat to a domestic industry.

Third, the NAFTA Emergency Action Chapter establishes *open and transparent procedures* that must be followed by any of the parties prior to taking a safeguard action. These procedures, which are consistent with U.S. law, ensure that all safeguard actions will be carried out in a open and impartial manner.

Finally, to discourage the use of unjustified action by Canada and Mexico against our exports, the NAFTA Emergency Action Chapter includes *compensation provisions* that require a country taking an action to compensate the country whose exports are affected. If no compensation is agreed upon, the affected country may retaliate by tariff action with substantially equivalent effects.

In addition to these safeguards for American industry and workers, the Department also played a key role in assuring the inclusion of tough rules-of-origin provisions that will ensure that the free-trade benefits of NAFTA accrue to North American products and their workers, not to countries outside the region.

In the automotive sector, for example, only vehicles with substantial North American content will benefit from tariff cuts. To be eligible for NAFTA benefits, automobiles and light trucks must have at least 62.5 percent North American content, considerably more than the 50 percent required by the U.S.-Canada Free Trade

Agreement. NAFTA also contains tracing provisions so that individual parts can be identified to determine the North American content of major components and subassemblies such as engines.

In the textile sector, to cite another example, in general duty-free treatment for textiles and garments will be given only to products woven and processed in North America from the yarn-spinning stage forward.

Sharing the concerns of many that the NAFTA not lead to increased immigration of foreign workers, the President made specific commitments on labor mobility in his May 1, 1991, response to the Congress. In that report he promised, and I quote, "Our immigration policy is sound and we do not contemplate changes in our law with the possible exception of technical changes to facilitate temporary entry of professionals and managers as was done under the agreement with Canada."

Mr. Chairman, the President has honored that commitment. There are no provisions for the movement of labor. Moreover, we have maintained the right to protect our permanent employment base and to implement our immigration policies. There will be only technical changes to the current law to allow for the temporary entry of Mexican professionals and managers as was done for Canada.

In addition to these crucial provisions for workers included in the agreement itself, the President also made a specific commitment that the Department of Labor would pursue a bilateral cooperation program with Mexico on labor issues. This commitment, as you know, was made in direct response to concerns that were raised about the adequacy and enforcement of labor standards in Mexico, and the potential effect of disparities between U.S. and Mexican systems in a free trade environment.

The cooperative program that we conducted in fulfillment of the President's pledge was carried out under the auspices of the U.S.-Mexico Binational Commission, on a parallel track with the NAFTA negotiations. Pursuant to a five year Memorandum of Understanding that I co-signed with Mexican Secretary of Labor and Social Welfare Arsenio Farell Cubillas on May 3, 1991, we have conducted a vigorous program of cooperative activity in the areas of worker safety and health, child labor, labor law, worker rights, and labor statistics.

Let me briefly describe some of the significant actions we have taken.

In addressing allegations of lax health and safety standards in Mexico, DOL and the Mexican Ministry of Labor and Social Welfare, or STPS, made a concerted effort to learn more about each other's systems for the formulation and implementation of policies and programs to protect worker safety and health. Our Occupational Safety and Health Administration (OSHA) and STPS began by conducting a comparative study of occupational safety and health regimes, as a foundation for future improvements in safety and health standards and enforcement. At the same time this report was being developed, the U.S. and Mexico also concluded a number of concrete activities in areas of obvious immediate concern—activities that have served to strengthen Mexico's technical knowledge of worker safety and health issues and enforcement procedures. Much of the technical assistance and training we provided, I am pleased to report, has been put to good use by the Mexican Government in several unilateral initiatives it has undertaken.

We have worked closely with Mexico and Canada in initiating a series of seminars designed to help identify "what works" in preventing accidents in specific industries. The first such conference was sponsored by Mexico and held in Mexico City in February, 1992, and focused on safety and health issues in the iron and steel industry. It was attended by over 130 American and Mexican experts from government, labor, management, and academia, as well as by observers from Canada. Future joint conferences will address Occupational safety and health issues in the construction, petrochemical, and electronics industries. Mexico has also held conferences on the bottling, rubber, and footwear industries.

To help Mexico develop an improved health enforcement program for its workforce, OSHA sponsored technical assistance and training programs for Mexican officials in OSHA's industrial hygiene analytical laboratory and, under an agreement signed with STPS, has allowed Mexico to use the OSHA laboratory for specialized sample testing until such time as Mexico has its own laboratory in place.

To help Mexico meet its goal to reduce the incidence of chemical source illnesses and injuries, OSHA has provided Mexico with relevant information and technical assistance.

To help Mexico train officials in occupational safety and health, OSHA instructors have begun conducting courses in Mexico for enforcement personnel and others. OSHA has also hosted Mexican officials at the OSHA Training Institute in Illinois, to examine course offerings and simulations of worksite conditions used for inspector training programs.

And, OSHA and STPS have engaged in an extensive exchange of technical, scientific, educational, instructional, and bibliographic material regarding occupational

safety and health. We have provided Mexico with comprehensive copies of preamble rationale and regulatory text of all OSHA-proposed and final rules for the past two years; CD-ROM versions of the entire OSHA Computerized Information System, including OSHA standards, procedures, and interpretations; several chemical data bases; and other technical data.

We have also worked closely with our Mexican counterparts to obtain a clearer picture of the incidence and determinants of child labor in Mexico. Both the U.S. and Mexico share a strong commitment to protecting the physical, emotional, and intellectual development of children, and we have placed a high priority on developing strategies and actions that will preserve, protect, and strengthen the health and well-being of the children in both countries in a manner that strikes the proper balance between work, study, and personal development. To achieve this, American and Mexican officials have developed a set of common goals, which include the exchange of information on strategies for compliance, as well as on enforcement policies and procedures; the targeting of rural areas and the agricultural sector; support for "stay-in-schooll" initiatives; and the pursuit of outreach activities to educate employers, parents, and youth about child labor laws.

Monitoring and evaluating the effects of the NAFTA will require a clear and comparable statistical picture of Mexican wages, productivity, and other labor indicators. Because such data have been unavailable or inadequate, we set an objective to assist Mexico in improving the duality, timeliness, and international comparability of its economic statistics so that both countries will be better able to monitor and evaluate the results of the NAFTA.

To accomplish this, in October 1991, U.S. statistical agencies, coordinated by OMB, signed a Memorandum of Understanding calling for comprehensive statistical cooperation between the U.S. and INEGI, the Mexican agency responsible for economic and demographic statistics. Since then, our Bureau of Labor Statistics has worked closely with the Ministry of Labor and INEGI in developing a broad range of training courses and seminars designed to improve the collection and analysis of social and economic data in Mexico. The major emphasis in these training sessions has been on the development, measurement, and analysis of productivity, labor force, employment, and wage statistics.

In addressing concerns regarding the enforcement of fundamental worker rights, the DOL and STPS have agreed to cooperate on activities to further mutual understanding of how each country assures basic worker rights, such as freedom of association, the right to organize and bargain collectively, mutual understanding of the cultural, legal, and economic context in which worker rights are defined, and of the prevailing labor management relations policies, processes, and practices.

As part of this agreement, the U.S. and Mexico are working together on a joint comparative study of labor law and worker rights. This process has included ongoing discussions between U.S. and Mexican officials designed to examine and compare the labor law systems in our two countries and to better understand how each system preserves and protects fundamental worker rights. Building on these discussions, a preliminary report comparing the basics of U.S. and Mexican labor law has been prepared, and a First Annual U.S.-Mexico Labor Law Conference has been scheduled for this fall in Mexico City.

The Labor Law Conference, which will be co-hosted by the Department of Labor and Mexico's Secretariat of Labor and Social Welfare, will examine in greater detail the constitutional and legislative foundations of labor law and worker rights in the United States and Mexico. It will include two days of workshops which will provide a unique opportunity for experts drawn from government, academia, labor, and the business community to come together to discuss a broad range of labor law issues. This conference will be a significant step in our continuing efforts to expand our knowledge on these issues of mutual concern.

A substantial portion of the Mexican work force participates in the informal sector—that is, outside the traditional economy. To better understand the extent and implications of this phenomenon, we have worked together to produce a series of research papers by experts who specialize in the informal sector, have held joint seminars, and have examined the functions of the informal sector in other countries. Our initial focus has been on gaining a better understanding of the factors affecting this sector's existence and growth or decline, its effects on economic and social policy, and the implications for workers. These studies will form the basis for the development of strategies ranging from creating incentives to encouraging formalization to more active labor law enforcement.

Soon, joint activities on the informal sector will enter a second stage as Mexican officials, working with experts from the World Bank and USAID, seek to identify linkages between the formal and informal sectors of the Mexican economy. These studies will focus on the role of micro-enterprises and subcontracting units; the role

of the informal sector in economic development; and strategies to broaden the social safety net to include workers in the informal sector.

More recently, Secretary Farell and I agreed on an extended framework for cooperation that will carry through to 1995. At a meeting on March 29, 1992, we agreed that the basis had been established for the formulation of strategies, supported by concrete activities and projects of bilateral cooperation on labor matters of common concern. These new, long-term activities, which complement those already set forth in the 1991–1992 Action Plan, will bring real, visible benefits to workers in both countries. Together these new actions lay the institutional foundation for continuing long-term collaboration and consultation, and set priorities for new programs of joint cooperation in two areas of mutual interest and concern.

Soon, we will sign an agreement to create a *Consultative Commission* on labor matters, which will oversee our joint action programs and assure that labor matters of concern to parties in both countries can be raised expeditiously.

The Commission will be co-chaired at the Secretarial level. It will meet at least once a year to review the implementation of cooperative programs and to consider any labor issues of interest or concern to either party. Technical experts or other non-government representative may also participate, as appropriate.

Second, a new cooperative initiative in the area of *workplace safety* will be undertaken. We have agreed to a variety of activities to encourage compliance with standards and to prevent accidents. We will examine existing standards to determine the need for improvement and decide whether emerging hazards will require new standards. We will study strategies which have proven themselves in both countries, and implement programs to identify and control hazards in the workplace. For example, we have agreed to develop common worksite hazard analysis methodologies for the chemical industry, so that employers in both countries will have an orderly and systematic approach for identifying, evaluating, and controlling hazards in the workplace.

Third, we will undertake a new initiative in the area of *industrial hygiene*. Both the U.S. and Mexico share an interest in protecting the physical and mental wellbeing of our workers within a healthful workplace environment. As our comparative study has shown, both countries have developed a broad regulatory program for the enforcement of health and safety standards. But as the economic interchange between our two countries expands, it will be increasingly important for us to achieve greater similarity in our respective industrial hygiene schemes. Consequently, under this new area of cooperation, the labor ministries will work jointly to upgrade their industrial hygiene programs by developing commonalities in their respective approaches to hazard communication standards; permissible exposure limits for airborne contaminants; sampling and laboratory analysis of airborne contaminants; the effects of noise, vibrations, and other physical agents on workers; ergonomic issues; and the protection of workers in agricultural industries.

We believe that these new initiatives will help accelerate the benefits to workers arising from greater economic interchange and guarantee the adequate protection of workers, with absolute respect for the legislation in force in each country. Our record of achievement to date, especially when taken together with numerous unilateral initiatives by the Mexican government, is already leading to a stronger system of labor protection in Mexico.

Finally, Mr. Chairman, let me turn to the matter of worker adjustment assistance. Last year the President committed to work with the Congress to ensure that workers who may lose their jobs as a result of NAFTA receive prompt, comprehensive, and effective adjustment services through an adequately funded worker adjustment program.

As the NAFTA negotiations were proceeding, the Department of Labor, OMB, and USTR convened a series of meetings this May and June with key Congressional staff and business and labor groups to begin framing the discussion on an adequately funded, effective adjustment program. To further explore the issues raised in these discussions with a broad cross section of interested parties, the Department invited 175 organizations representing business, labor, agriculture, and the public at large to respond to a "Consultation Outline." The Consultation Outline was also published in the *Federal Register* to insure the widest possible opportunity for participation in the consultation process. The outline solicited ideas and recommendations in seven areas:

(1) Impact of a NAFTA;
(2) Scope of an adjustment program;
(3) Timing of readjustment assistance;
(4) Eligibility
(5) Services and benefits;

(6) Role of income support; and
(7) Performance and oversight.

To date, we can summarize the comments received from 46 respondents as follows:

- While NAFTA will result in the net creation of jobs, some dislocations are also expected to occur.
- Most respondents favored broad-based eligibility, rather than eligibility based on the cause of dislocation.
- While some comments urged that the program be kept narrowly focused on NAFTA-related impacts, most of the responses suggested that NAFTA adjustment should expand beyond the scope of current programs, and be designed to respond to impacts that may occur in future years.
- A substantial majority favored early intervention in anticipation of the impact of NAFTA, while a small number were opposed to any provision of services prior to actual dislocation.
- There was support for a broad menu of services for workers, firms, and communities based on services and benefits provided through existing programs.
- Many of those who viewed services for workers as entitlements suggested that income support should be limited according to need or conditioned on participation in a qualifying activity.
- Most commentators agreed that" the goal of a worker adjustment program should be early reemployment of the affected worker at a comparable wage.

Last May, the President further committed to work with the Congress to ensure that the stated objectives for a worker adjustment program are met and adequately funded, and that any needed changes to U.S. laws to implement such a program should be in place by the time the agreement enters into force and could appropriately be addressed in legislation implementing a NAFTA. Following through on his commitment and taking into account the results of the consultation process, the President has decided we need a new worker adjustment strategy that:

- Assures that all workers who have been displaced, those who have been notified that their jobs are being terminated, and those at risk of losing their jobs have access to a comprehensive array of training and support services.
- Nearly triples the funds available to provide these services: $10 billion over 5 years—$2 billion annually.
- Provides continuity of funding through capped mandatory funding.
- Provides freedom and flexibility to workers to choose what, when, and where to take training.
- Provides income support to ensure that workers, who enter training early in their unemployment and who have exhausted unemployment benefits, can complete their training.

To fill in that strategy and move to the next round of consultations, the President is proposing the broad framework of a new dislocated worker program for adults—Advancing Skills through Education and Training Services—ASETS. ASETS would consolidate the existing Trade Adjustment Assistance (TAA) and Economic Dislocation and Worker Adjustment Assistance (EDWAA) programs into one comprehensive program that is readily accessible to the individual worker. The combined features of income support of the TAA program, and the wider range of rapid response, basic adjustment, and training services available locally under EDWAA, would be available to the full range of dislocated workers.

Broad program eligibility would include current workers who are at risk of losing their jobs, as well as those who are displaced or are notified that they are about to lose their jobs. Thus, services could be delivered while people are still employed, helping either to avoid the dislocation or ensure effective rapid transition to a new job.

Program funding through a canned entitlement would eliminate the year-to-year funding uncertainties, provide continuity of program funding, and enable a response to NAFTA impacts whenever they occur. Workers could be confident that needed resources will be available.

Rapid response services for all dislocated workers, as well as *access to a wide range of adjustment and support services* and labor market information means services would reach workers early, when intervention is most effective.

Basic transition services, including individual assessment and counseling, literacy and basic skills training, and job search assistance, would assist workers in identifying and accessing appropriate employment opportunities.

Skill grants for retraining, like Pell grants, of up to $3,000 per year for a maximum of two years would offer workers the opportunity to choose the most appropriate training programs and providers, including approved entrepreneurial or technical training programs, at colleges, community or junior colleges, public or private trade schools or institutions, or employers.

Income support payments would provide the financial assistance necessary to complete training.

Now, how would the program funding work? Again, the President's $10 billion, five-year initiative would nearly triple current federal funds available for retraining and transition assistance for all dislocated workers, not only those who may be dislocated as a result of NAFTA. Thus, services could be provided to all who need them. The funding flow would break into two component parts:

- Of the annual capped appropriation of $2 billion, $1.3 billion (67%) would be allotted among the States by formula to provide rapid response, basic transition assistance and skills grant. States would use these funds to address NAFTA-related employment shifts as well as other dislocations.
- $670 million (33%) would be retained by the Secretary of Labor for discretionary grants for national priorities. Of that amount, at least $335 million would be specifically for NAFTA-related dislocations. The other $335 million would be used for defense-related layoffs, environmental impacts, and other multi-state and industry-wide dislocations. Discretionary funds could be transferred between the two accounts as needed, and up to the full $670 million could be available for NAFTA related dislocations.

While we have estimated that we could serve all displaced workers who need services, experience shows that not all dislocated workers, or those vulnerable to dislocation, will have the same need for assistance. Of the 9.7 million workers currently unemployed, approximately 5.4 million lost their jobs, while the others left their jobs voluntarily, or are new job seekers. The majority, by far, secure jobs with minimal transition assistance.

About 1.2 million workers are estimated to be permanently dislocated each year due to plant closings and large layoffs. Many of these workers have difficulty transitioning to new jobs through their own efforts. Of these 1.2 million workers, our experience indicates that about a third would need and choose skills retraining each year. This means about 400,000 dislocated workers would take advantage of skill training grants each year. While virtually all dislocated workers would receive unemployment benefits, those who enter training early, exhaust their benefits, and need income support to complete their training would receive additional income assistance—about 150,000 workers. In addition, the program would serve approximately 165,000 currently employed workers, whose occupations or industries are experiencing significant changes and work force adjustments.

He note that virtually all economic studies project net job creation as a result of NAFTA, although some dislocation is inevitable. Among these studies, the Institute for International Economics (IIE) projects a gross increase in employment of 325,000 jobs and the highest gross job loss projection at 150,000 over a ten-year period. The funds proposed exceed all estimates of NAFTA-related training needs.

In January, the President announced a comprehensive, streamlined Federal job training system that provides one-stop shopping for job training services. Building on this plan, we are proposing reforms and initiatives to address the needs of specific populations including workers dislocated from their jobs. The ASETS service delivery, system would be modeled on the current Economic Dislocation and Worker Adjustment Assistance program under Title III of the Job Training Partnership Act. The Governor of each State would develop and manage a statewide delivery system and establish the State-level Dislocated Worker Unit which would be responsible for State program administration and rapid response The Governor would also designate substate areas and substate grantees who have responsibility for their local program operations. Other local organizations such as the Job Service, community-based organizations, and community colleges would provide services under contract to the substate grantee.

The President's initiative is revolutionary, proposes to reach at-risk workers as early as possible, and anticipates that plants, workers, and employers would utilize the longer-lead time to everyone's advantage.

The proposal is offered as a basis for further discussion with the Congress and others as a framework for shaping a program which would fully meet the needs of NAFTA workers.

Mr. Chairman, my remarks to the Committee this morning have focused on the Department of Labor's efforts to safeguard American workers against the possible localized adverse impacts of a North American Free Trade Agreement. That is only

appropriate given the Committee's immediate concerns and my responsibilities as Secretary of Labor. In concluding, however, I want to reemphasize my strong belief that a North American Free Trade Agreement will result in very substantial overall benefits for America and American workers.

In both the short and long term, this agreement will create quality jobs in the United States and a significant net increase in employment virtually all of the economic studies that have investigated the possible effects of the NAFTA on American labor support this conclusion. Moreover, and much more important to my mind, our experience supports it as well.

Mexico is already America's fastest growing export market. The value of U.S. exports to Mexico has nearly tripled over the past six years, from $12 billion in 1986 to $33 billion in 1991. In 1992, the value of our exports will increase to almost $44 billion and our trade surplus with Mexico will stand at over $8 billion. According to the Institute of International Economics, by 1995 trade with Mexico will support over 850,000 jobs, a substantial number of which are in the manufacturing sector. In fact, it is important to note that currently 85% of our exports to Mexico are manufactured goods, and that the U.S. manufactured goods surplus with Mexico is larger than with any other country.

The plain truth is that trade with Mexico provides substantially more and better jobs for Americans than it takes away. A fully implemented North American Free Trade Agreement will create more export and job opportunities, not less. Our task, Mr. Chairman, is to insure that each and every American has an opportunity to share in these benefits.

Mr. Chairman, I thank you for the opportunity to appear here.

PREPARED STATEMENT OF LINDA G. MORRA

Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss how to best help workers who lose their jobs because of business closures or permanent layoffs. Dislocated worker issues take on added importance in light of the recent signing of the North American Free Trade Agreement (NAFTA). Although most experts believe NAFTA will result in a net increase in jobs for the U.S. economy, they also agree that some job losses will occur. My testimony today will focus primarily on our recent work on the two major federal dislocated worker programs—Trade Adjustment Assistance (TAA) and Economic Dislocation and Worker Adjustment Assistance (EDWAA). I will also share with you our observations concerning the President's proposal to replace TAA and EDWAA with a single, comprehensive program.

We have found that both TAA and EDWAA have some shortcomings in how well they serve dislocated workers. Both programs are often slow in providing services to participants, and the services provided may not be tailored to each participant's needs. Income support needed to help participants complete training is often not available. Neither program collects sufficient information to adequately assess participant progress or measure program performance.

We believe the President's proposal to combine TAA and EDWAA into a single, comprehensive dislocated worker program is a step in the right direction. The proposal would eliminate confusion about participant eligibility and simplify the delivery of services to dislocated workers. However, many questions concerning the proposal need to be answered.

BACKGROUND

TAA and EDWAA were created to assist the approximately 1 million workers, annually, who lose their jobs due to business closures and permanent layoffs. TAA is an entitlement program that assists workers who lose their jobs because of increased imports. The Department of Labor determines the eligibility of groups of workers, and services are administered through the state and local offices of the Employment Service (ES). During fiscal year 1990, TAA served 38,500 dislocated workers at a cost of $150 million. Services include occupational and remedial training, job counseling, placement assistance, and support services, as well as job search and relocation allowances. TAA also provides up to 52 weeks of additional income support to its participants who exhaust their unemployment insurance benefits.

In contrast to TAA, EDWAA provides assistance to all dislocated workers regardless of the reason for their dislocation. EDWAA is funded through an annual appropriation, and the bulk of its funds are allocated to states based on state unemployment rates. Most of the funds are then passed through the states to a network of 628 Job Training partnership Act (JTPA) service delivery areas, which are administered by councils composed of private and public sector representatives. During pro-

gram year 1990, 288,000 workers were served at a cost of $390 million. Services provided under EDWAA are similar to those under TAA, except that EDWAA lacks TAA's additional income support feature.

The President's proposal would consolidate TAA and EDWAA into a single program providing services to all dislocated workers without regard to the cause of the dislocation. Workers would be eligible to receive three types of assistance—transition assistance, training assistance, and transition income support. Transition assistance would include skill assessment, counseling, job search assistance, and job referral services. Training assistance would be provided in the form of "skill grants" or vouchers for a maximum of $3,000, annually, for up to 2 years. They could be used for technical or entrepreneurial training at colleges or other training institutions. In addition, transition income support would be provided to workers who have exhausted their unemployment insurance benefits and need supplemental income support to complete training programs.

EARLY INTERVENTION

Reaching workers before or at the time of layoff increases the chances for prompt reemployment; however, TAA and EDWAA frequently are slow in reaching dislocated workers. When help is available before or at the time of job loss, far more workers seek assistance, and those workers who receive timely assistance appear to find jobs sooner and earn more than they would have without such help.[1] However, we found that workers served by TAA and EDWAA are often unemployed for 15 weeks or more before they receive any training assistance. Our analysis of TAA and EDWAA in Michigan, New Jersey, and Texas showed that 65 percent of the TAA participants and 41 percent of the EDWAA participants did not receive training in their first 15 weeks of unemployment.

Delays in the delivery of TAA training assistance were generally due to the worker certification and notification process. For workers to receive assistance under TAA, the Department of Labor must certify that they were dislocated as a result of increased imports. The certification process can take up to 60 days after the workers petition for assistance. Once certified, workers must be notified of eligibility for assistance, which can take another 60 days. Thus, workers may have to wait 4 months before they receive assistance.

EDWAA does not have a certification requirement, yet assistance for many EDWAA participants is also slow in coming. EDWAA legislation requires that, in the event of a business closure or permanent layoff, state rapid response teams are to establish contact with the employer and employee representatives. State rapid response teams provide information on services that may be available from local sources, but workers must go to the local JTPA service delivery areas to obtain assistance. Therefore, contacts with the rapid response team do not guarantee that workers will receive timely assistance.

Under the President's proposal, the certification requirement would be eliminated, and all workers would be eligible for assistance without regard to the reason for their dislocation. This could speed up the delivery of services, but currently under EDWAA there is no certification requirement and service delivery is still slow.

TAILORED ASSISTANCE

The reemployment potential of dislocated workers is enhanced when assistance options and independent assessments tailor services to the varied skills and interests of workers and local job opportunities.[2] However, in some instances, the mix of services offered by TAA and EDWAA is limited, and assessments are performed by service providers who have a vested interest in which services participants receive. As a result, participants may receive services that are not tailored to their specific needs. For example, TAA offers participants classroom training in a variety of occupations but generally does not offer the option of on-the-job training. Similarly, in some EDWAA projects, participants may be offered on-the-job training positions, but nothing in the way of basic skills training.

The President's proposal appears to provide greater training flexibility for participants. Participants would receive an assessment of their skills and counseling on

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[1] See U.S. General Accounting Office, *Plant Closings: Limited Advance Notice and Assistance Provided Dislocated Workers,* (GAO/HRD–87–105, July 17, 1987; U.S. Congress, Office of Technology Assessment, *Plant Closings: Advance Notice and Rapid Response Special Report,* OTA–ITE–321, September 1986; and National Academy of Science, National Academy of Engineering, Institute of Medicine, *Technology and Employment: Innovation and Growth in the U.S. Economy,* 1987.

[2] U.S. General Accounting Office, *Dislocated Workers: Labor-Management Committees Enhance Reemployment Assistance* (GAO/HRD–90–3, Nov. 21, 1989).

occupational options. Those participants interested in training would be given skill grants or vouchers worth up to $3,000, annually, for up to 2 years to help meet the cost of their retraining. Vouchers could be redeemed at any qualified college or training institution.

However, there are some unanswered questions. One question in the President's proposal is who would provide the assessments and how independent they would be. Currently, some EDWAA projects rely extensively on service providers, who have a vested interest in which services participants receive, to assess the needs of participants.

Another question is the sufficiency of the $3,000 annual grant. Our analysis of training costs for TAA participants in our three-state analysis showed that about 20 percent of the participants had training costs that would exceed the $3,000 annual grant suggested in the President's proposal.

A third question is what would happen to workers who would prefer on-the-job training rather than classroom training. It is not clear how workers wishing to obtain on-the-job training would be served under the President's proposal.

INCOME SUPPORT

Many dislocated workers need income support to participate in classroom training. We found that the availability of additional income support after workers exhaust their 26 weeks of unemployment insurance benefits gives them the option to enter longer-term training. TAA provides up to 52 weeks of additional income support, and 84 percent of the TAA participants in our three-state analysis enrolled in training lasting 26 weeks or more. In contrast, participants in EDWAA generally do not receive additional income support after they have exhausted their unemployment insurance benefits, and only 31 percent were enrolled in training lasting 26 weeks or more.

The President's proposal would provide income support to participants regardless of the reason for dislocation. However, the lack of specific information on how eligibility would be determined is an open question that could greatly affect the program's potential impact and cost. The proposal says that dislocated workers who have exhausted their unemployment insurance benefits, have enrolled in training, and need supplemental income to complete training would be eligible for income support.

TRACKING PARTICIPANT PROGRESS AND PROGRAM PERFORMANCE

Finally, we believe the reporting systems that track participant progress and program performance are also critical to assuring that federal assistance to dislocated workers is effectively and efficiently provided. Gathering basic information on both TAA and EDWAA often has been difficult because the Department of Labor does not require states to provide reliable comprehensive information on who the programs serve, the services they received, and how they fared after completing training. Even when states collect the information on their own, they do not collect the same types of information or their definitions are not consistent. Recent amendments to JTPA include additional reporting requirements that would extend to EDWAA. In addition, Labor has proposed some additional reporting requirements that would also extend to EDWAA. These additional requirements would require states to maintain individual participant files in a way that would allow administrators to assess who is being served, the specific services they received, and the outcomes achieved by specific groups of participants or related to specific services provided.

The President's proposal recognizes the need for extensive feedback from employers and workers, but does not comment specifically on reporting requirements. If reporting requirement similar to those proposed by Labor were included in the President's proposal, it would go a long way toward assuring that adequate information is available to track participant progress and assess program performance.

Mr. Chairman, the President's proposal is a good first step in developing a program that provides comprehensive services to all dislocated workers regardless of the cause of their dislocation. However, some questions still need to be answered.

RESPONSES OF MS. MORRA TO QUESTIONS SUBMITTED BY SENATOR RIEGLE

Question No. 1. What suggestions do you have for setting up a program that will be more responsive to the increasing numbers of dislocated workers?

Answer. Our analysis of TAA and EDWAA projects and the research of others has shown that more effective placement results are achieved when projects provide

timely assistance—before or at the time of layoff—and that assistance is tailored to the specific needs of each worker.

To achieve more timely assistance, programs need:

—more active outreach efforts that seek out dislocated workers rather than waiting for the workers to come to the project.

—less complex eligibility requirements. The TAA certification/investigation process is very time-consuming.

To assure that assistance is tailored to the specific needs of each worker, programs need:

—a broader mix of services. For many dislocated worker projects, the mix of services is quite limited. Some workers need basic skills training; others need classroom or on-the-job training; and still others only need help in searching for a job. The services provided should recognize the needs of all three groups of workers.

—independent assessments of worker needs. For many projects assessments are either not performed or are performed by the service providers who have a vested interest in the assessment results.

—additional income support after workers exhaust their 26 weeks of unemployment insurance benefits. The availability of income support gives workers more flexibility in selecting the training that best meets their needs.

Question No. 2. Did your research reveal the extent to which this program will be able to better assist NAFTA dislocated workers, relative to the TAA program we already have in place?

Answer. Because parts of the President's proposal are vague, it is unclear whether the proposed program would serve workers dislocated by the NAFTA better than the TAA program. While TAA has its shortcomings, there is no assurance that the President's proposal will provide more timely assistance, have a broader mix of services, or provide workers at least equal benefits.

One of the shortcomings of the TAA program is the lengthy and complex certification process. The President's proposed program would not need a certification process and should provide more timely assistance; however, it is unclear whether it will actually provide more timely assistance than TAA. As we have seen with EDWAA, the lack of a certification process may not speed up the delivery of services to dislocated workers.

TAA generally limits training assistance to classroom training which may not meet the needs of some dislocated workers. The use of training grants in the President's proposal is intended to provide workers more flexibility than the current programs in selecting training options. However, the President's proposal does not include on-the-job training. As a result, it is unclear whether the new program will provide assistance that is any more tailored to meet the needs of individual workers than TAA. The proposal is also vague about whether worker assessments will be conducted by independent agencies or by service providers with a vested interest in enrolling workers in their programs.

Overall, the substantial increases in funding planned for the new program will likely enable more workers to receive income support and training than are currently served by TAA, but some workers may lose some benefits. The President's proposal estimates that 400,000 workers would receive training under their program and 150,000 workers would receive income support. What portion of these workers would be NAFTA dislocated workers is unclear because the President's proposal includes workers dislocated from their jobs for reasons other than international trade. However, because the proposal limits eligibility for income support to only those workers that "need" additional income to stay in training, some workers currently eligible for TAA income support may lose benefits under the President's proposal.

Question No. 3. Will creating one comprehensive program for all dislocated workers, in fact better serve the workers dislocated by the NAFTA?

Answer. More workers will be served by combining the benefits of TAA and EDWAA into one comprehensive program that serves all workers regardless of the reason for their dislocation. However, because the President's proposal is vague, it is unclear whether workers dislocated by NAFTA will be better served.

Combining TAA and EDWAA into one comprehensive program should help reduce confusion about eligibility and speed up service delivery. However, because the President's proposal does not contain any specific provisions pertaining to timeliness, it is unclear whether the new program will actually provide more timely assistance than TAA and EDWAA. Although the proposal eliminates TAA's lengthy, complex certification process, this does not guarantee that the workers will receive assistance in a more timely manner. For example, as our analysis showed, EDWAA assistance is also relatively slow even though it has no certification requirement.

It is unclear whether the new program will provide a broader mix of services and more tailored assistance than TAA and EDWAA because the President's proposal lacks specific information on the types of services the new program will provide. For example, it does not mention on-the-job or basic skills training. The broader the mix of services, the more likely the program will meet the needs of the individual workers. The workers will also benefit if needs assessments are conducted by independent entities rather than service providers with a vested interest in which services workers receive. However, the proposal does not mention who will conduct individual needs assessments.

It appears that overall, the new program will provide more workers with income support and training than TAA and EDWAA. However, the President's proposal lacks specific information on how the eligibility for income support will be determined. This information is key for determining how many workers the proposed program will serve.

U.S. GENERAL ACCOUNTING OFFICE, HUMAN RESOURCES DIVISION,
Washington, DC., September 10, 1992.

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

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

This briefing report responds to your request for information on services provided to dislocated workers by the Trade Adjustment Assistance (TAA) and the Economic Dislocation and Worker Adjustment Assistance (EDWAA) programs. TAA and EDWAA are the two major federal programs created to help dislocated workers make the transition to new employment. This information is particularly important because the North American Free Trade Agreement has fueled concern about possible increased job loss and the federal role in helping workers make a smooth transition to new employment.

The 30-year-old TAA program assists workers who lose their jobs due to increased imports. The Department of Labor determines whether groups of workers have been adversely affected by trade and certifies that they are eligible for TAA benefits. The Employment Service (ES), through its state and local offices, administers the TAA program, which in fiscal year 1990 spent $150 million on cash payments and services for 38,500 workers. In contrast to TAA, the EDWAA program helps dislocated workers regardless of the reason for job loss. During program year 1990, states spent $390 million in Job Training Partnership Act (JTPA) funds to provide EDWAA services to 288,000 workers. States pass much of these funds on to local JTPA service delivery areas, which hold primary responsibility for administering the program.

TAA and EDWAA provide similar services, including job counseling, occupational and remedial training, placement assistance, and support services, as well as job search and relocation allowances. Workers eligible for TAA services may also receive EDWAA services. All dislocated workers may receive 26 weeks of income support through the Unemployment Insurance program, but TAA also provides up to 52 weeks of additional income support.

To help the Congress assess the services provided to dislocated workers by the TAA and EDWAA programs, we gathered information on (1) whom these programs serve, (2) how their services differ, (3) how workers fare, and (4) to what extent TAA and EDWAA coordinate services for TAA-eligible workers. This information was presented to your staff during our May 28 and May 29, 1992, briefings. The information is summarized below and presented in more detail later in this report.

The briefings and this report are primarily based on our review of the TAA and EDWAA programs in Michigan, New Jersey, and Texas. These three states accounted for about 31 percent of TAA participants and 24 percent of TAA expenditures during fiscal year 1990. They also represented about 14 percent of EDWAA participants and 19 percent of EDWAA expenditures during program year 1990. We also visited local programs in Lansing, Michigan; Passaic, New Jersey; and Tyler, Texas. In addition, we analyzed TAA and EDWAA data collected by the Department of Labor.

RESULTS IN BRIEF

Gathering basic information on both the TAA and EDWAA programs was often difficult because the Department of Labor does not maintain comprehensive, reliable

information on the implementation and results of these programs. Because of the lack of national data on the characteristics of TAA participants, the assistance provided to either TAA or EDWAA participants, and the results achieved by TAA, our analysis is primarily based on our work in Michigan, New Jersey, and Texas. However, in some instances even the data maintained by these states provided only limited information to answer questions about the two programs. Despite these limitations, we found sufficient information to identify several significant differences between the two programs in these three states:

—TAA served a larger proportion of harder-to-place populations than EDWAA.
—Both programs were slow to provide training, but EDWAA was slightly faster than TAA.
—TAA participants received more income support and were more likely to enter longer-term training.
—Both programs provided classroom training, but EDWAA also provided on-the-job training (OJT).
—Both programs lacked comprehensive information on how participants fared after completing the programs, but EDWAA collected more information than TAA.

In addition, local areas vary in the extent to which they coordinate TAA and EDWAA services. While officials at the state level coordinated with one another, they and local officials acknowledged that there is little coordination between program staff in many local areas.

TAA SERVED A HIGHER PROPORTION OF HARDER-TO-PLACE WORKERS

In each of the three states in our analysis, TAA programs (compared to EDWAA programs) served higher proportions of female workers, older workers, and workers with less than a high school education—groups that have traditionally had difficulty finding new jobs at comparable wages. For example, a composite of the three states showed that the proportion of female participants was about 21 percentage points higher in the TAA program than in the EDWAA program—62 percent in TAA compared to 41 percent in EDWAA.

Neither TAA nor EDWAA has guidelines on which demographic groups these programs should target. TAA participant characteristics generally mirrored the characteristics of workers in industries affected by imports. For example, in Texas and New Jersey, the majority of TAA participants had worked in the apparel industry. Most apparel workers in our analysis were older females with low levels of education. Thus, many of the TAA participants in these states were older females with low levels of education.

BOTH PROGRAMS SLOW IN PROVIDING TRAINING TO WORKERS

Although neither TAA nor EDWAA have standards pertaining to the timeliness of their services, officials generally agreed that early intervention (before or at the time of layoff) is the key to successful service delivery. In each of the three states we visited, however, many TAA and EDWAA workers had been out of work for at least 15 weeks before receiving training. In Michigan and New Jersey, in particular, nearly all of the TAA participants did not begin training during the first 15 weeks after layoff—89 percent in Michigan and 97 percent in New Jersey. About 41 percent of EDWAA participants in the three-state analysis were not enrolled in the program within the 15-week time frame. Although we were unable to determine the reasons for delays in EDWAA service, the delays in TAA service were at least partially due to the certification and worker notification processes.[1]

TAA SUPPORTS LONGER-TERM TRAINING OPTION

Providing income support in the form of cash payments for 52 weeks after workers exhausted their 26 weeks of unemployment insurance gave many TAA participants the option to enter longer-term training. Even though EDWAA legislation also allows for some income support, EDWAA participants seldom received cash payments after they exhausted their unemployment insurance, and few of them entered training lasting more than 26 weeks. In each of the three states analyzed, TAA participants, as compared to EDWAA participants, were more likely to enroll in train-

[1] To be eligible for TAA assistance, three or more workers must file a petition with the Department of Labor requesting certification. Then, if Labor's investigation shows that increased imports contributed importantly to their loss of employment, the workers are eligible for assistance. State officials are then responsible for notifying the workers that they have been certified and are eligible for assistance.

ing programs that lasted 26 weeks or more. For example, in Texas 90 percent of the TAA participants compared to 35 percent of the EDWAA participants entered into training that lasted 26 weeks or more.

While TAA encourages training, workers may receive income support without entering training.[2] In the three local areas we visited, about 39 percent of the TAA participants were granted training waivers that allowed them to receive income support even though they did not enter training. While waivers may be issued for many valid reasons, of the three states we analyzed, only Texas systematically monitored the waivers to assure their proper use. This monitoring appeared to reduce the average length of time participants received income support without entering training. In Texas, participants received an average of only 7 weeks of income support without entering training compared to 15 weeks or more in the other two states.

BOTH PROGRAMS PROVIDE CLASSROOM TRAINING, BUT EDWAA PROVIDES MORE OJT

Both TAA and EDWAA provided classroom training to their participants. In Michigan, New Jersey, and Texas, EDWAA provided classroom training to 47 percent of its participants—34 percent occupational skills training and 13 percent basic skills training. The TAA programs provided classroom training to 41 percent of its participants—28 percent occupational skills training and 13 percent basic skills training.

EDWAA provided OJT in addition to its classroom training while TAA generally did not. Although OJT is an authorized TAA program option, very few TAA workers received OJT. In the three states we visited, 28 percent of all EDWAA participants received OJT, compared to less than 1 percent of TAA participants.

DATA ON PLACEMENT RESULTS LIMITED

While EDWAA requires states to collect some information on how participants or groups of participants fared after completing the program, TAA does not. States are required to collect overall placement rate and wage data for EDWAA. For program year 1990, the national placement rate was 70 percent and the placement wage was $7.80 per hour. EDWAA also collects similar information 90 days after program completion. However, states are not required to report placement results by demographic group or provide wage and job retention data, beyond 90 days. We were unable to obtain any reliable information on how TAA participants fare because states are not required to collect TAA placement results and the three states we examined do not collect such data.

LIMITED COORDINATION BETWEEN TAA AND EDWAA

Both programs emphasize the need for coordination to improve the efficiency and effectiveness of service delivery. An important measure of the coordination between TAA and EDWAA is the extent to which TAA-eligible workers are receiving EDWAA services to supplement their TAA services. However, nationally only 10 percent of TAA participants received EDWAA services during fiscal year 1990. The level of coordination between TAA and EDWAA varied considerably within the three states we visited. While state-level officials communicated with one another, they acknowledged that there is very little coordinated service delivery among local agencies. The officials attributed the lack of coordination to the fact that separate agencies deliver TAA and EDWAA services. ES administers TAA while JTPA administers the EDWAA program. The officials also said local staff seldom meet to discuss service options and program resources. They cited complex TAA regulations, lack of TAA staff, and competition for clients as factors that also hinder communication.

We did not obtain written agency comments on this briefing report. However, we did discuss its contents with the Department of Labor and with state-level TAA and EDWAA officials who generally agreed with its contents. We have incorporated their comments where appropriate. We are sending copies of this report to the Secretary of Labor and other interested parties. Our work was conducted between October 1991 and June 1992 in accordance with generally accepted government auditing standards. Should you have any questions or wish to discuss the information provided, please call me on (202) 512–7014. Other major contributors to this report are listed in appendix II.

LINDA G. MORRA, *Director, Education and Employment Issues.*

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[2] Training waivers allow workers to receive income support for up to 26 weeks when they cannot participate in training for legitimate reasons, such as when there is no suitable training available or the training program is not scheduled to begin for 30 days.

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COMPARISON OF ASSISTANCE PROGRAMS

BACKGROUND

Over a million workers lost their jobs during 1990 and 1991 due to business closures and layoffs. Increased international competition, shifts in consumer preferences, and technological changes are some of the factors contributing to the closures and layoffs. While some workers adjust quickly and find new jobs, others need counseling and training to help them find new employment.

TAA and EDWAA are the two major federal programs designed to help dislocated workers ease the transition to new employment. Since 1962, the TAA program has assisted workers affected by imports. During fiscal year 1990, about 38,500 workers registered for TAA benefits and services. With the passage of the Job Training Partnership Act (JTPA) Title III in 1982, and the 1988 JTPA amendments establishing the EDWAA program, assistance has been available to workers dislocated regardless of reason. During program year 1990, EDWAA provided training and other employment services to 288,000 dislocated workers nationwide.

Figure 1 highlights the structural differences between the TAA and EDWAA programs. TAA is an entitlement program. The Department of Labor certifies groups of import-impacted workers as eligible for TAA benefits. State and local Employment Service (ES) offices administer the program, which spent $150 million on cash payments and services during fiscal year 1990. To reinforce the emphasis on training, workers must enter training to receive TAA income support unless they are granted a training waiver. Waivers allow workers to receive Trade Readjustment Allowances (TRA)—cash payments—for up to 26 weeks when they cannot participate in training for legitimate reasons, including: (1) no suitable training is available or (2) the worker's chosen training program does not begin within 30 days.

In contrast, the EDWRA program depends on annual congressional appropriations for funding. During program year 1990,[3] states spent $390 million for EDWAA services. The bulk of EDWAA funds are allocated to states on the basis of their unemployment rates. States then pass most of these funds on to the 628 local JTPA service delivery areas, which hold primary responsibility for administering the program. To encourage training, EDWAA requires that at least 50 percent of the funds allocated to states be spent on training activities.

Both TAA and EDWAA provide similar services, including job counseling, occupational and remedial training, placement assistance, and support services, such as transportation and child care. In addition, they can both provide job search and relocation allowances. Most dislocated workers may receive 26 weeks of income support through the Unemployment Insurance program. TAA also provides up to 52 weeks of additional income support.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Chairmen of the Senate Committee on Finance and the House Committee on Ways and Means asked us for comparative information about the TAA and EDWAA programs. As shown in figure 2, our objectives were to determine (1) whom these programs serve, (2) how services differ, (3) how workers fare, and (4) to what extent TAA and EDWAA coordinate services for TAA-eligible workers. This information is particularly important because the signing of the North American Free Trade Agreement has fueled concern about possible increased job loss and the federal role in helping workers make a smooth transition to new employment. In addition, the TAA program is subject to reauthorization in 1993 (see fig. 3).

To obtain the requested information, we examined statewide TAA and EDWAA programs in Michigan, New Jersey, and Texas and observed local program operations in three substate areas—Lansing, Michigan; Passaic, New Jersey; and Tyler, Texas (see fig. 4). We selected these states because they served high numbers of TAA and EDWAA participants, had automated program data, and are geographically dispersed. The three states accounted for about 31 percent of TAA participants and 24 percent of TAA expenditures during fiscal year 1990. They also represented about 14 percent of EDWAA participants and 19 percent of EDWRA expenditures during program year 1990.

Statewide TAA data in the three states in our analysis covered about 5,200 individuals from 120 petitions certified during calendar year 1990.[4] At the local level, we reviewed services provided to 160 TAA participants covered by three petitions.

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[3] Program year 1990 begins July 1, 1990, and ends June 30, 1991.

[4] A group of three or more workers may file a petition with the Department of Labor requesting to be certified as eligible for TAA. Labor then investigates whether increased imports contributed significantly to the job loss.

We selected the three petitions because they appeared typical of petitions certified in each of the three states. We reviewed a transportation-related industry petition in Michigan and apparel industry petitions in both New Jersey and Texas.[5]

Our analysis of statewide EDWAA data in the three states covered about 24,000 participants. At the local level, we reviewed services provided to about 1,600 EDWAA participants. The local EDWAA sites were in the same geographic areas as the local TAA sites.

We also analyzed nationwide TAA and EDWAA data collected by the Department of Labor and interviewed TAA and EDWAA officials at the national, state, and local levels.

Our work was performed in accordance with generally accepted government auditing standards between October 1991 and June 1992, except that we did not perform a reliability assessment of the data that the states or Labor provided to us.

The results of our work, summarized in figure 5, are detailed throughout the rest of this report.

TAA SERVED A HIGHER PROPORTION OF HARDER-TO-PLACE WORKERS

In each of the three states in our analysis, TAA served higher proportions of female workers, older workers (55 years of age or older), and workers with less than a high school education (see fig. 6). These workers have traditionally had the most difficulty finding new jobs at comparable wages. However, there are no guidelines for either program pertaining to which dislocated workers these programs should target.

As illustrated in figure 7, TAA's proportion of female workers in each state was higher than EDWAA's proportion. A composite analysis of the three states showed that TAA's proportion of females was 21 percentage points higher than EDWAA's. According to the 1990 Current Population Survey (CPS), female workers account for about 40 percent of all dislocated workers—the population from which EDWAA participants are drawn.[6] In each state we visited, both TAA and EDWAA generally served a higher proportion of female workers than were in the CPS population for all dislocated workers.

In each of the three states we visited, TAA also served a higher proportion of older workers—ages 55 and over—than EDWAA (see fig. 8). According to the 1990 CPS, 18 percent of all dislocated workers are ages 55 and over. A composite analysis of the three states showed that TAA's proportion of older workers matched the CPS percentage. EDWAA's composite for the three states was 10 percentage points lower than the percentage of older workers identified in the CPS data for all dislocated workers.

In each of the three states in our analysts, TAA served a substantially higher proportion of workers with less than a high school education than EDWAA (see fig. 9). TAA's proportion of less educated workers in each of the three states also exceeded the CPS proportion for workers with less than a high school education—18 percent.

In contrast, EDWAA's proportion of workers with more than a high school education was higher than the CPS percentage for all dislocated workers (38 percent) in two of the three states. In Texas, for example, about 59 percent of the EDWAA workers had more than a high school education.

Unlike the other participant characteristics, our analysis showed no consistent pattern in the proportion of minorities served in the three states we visited. As figure 10 shows, TAA served higher proportions of minorities in New Jersey and Texas, but EDWAA served a higher proportion in Michigan. Because the pattern was not consistent across all three states, we did not perform a composite analysis for the three states.

According to the 1990 CPS, about 13 percent of all dislocated workers are minorities. Our individual state analysis showed that both programs in New Jersey and Texas served proportions of minorities that were at least three times greater than the CPS percentage. In Michigan, EDWAA's proportion was 7 percentage points higher than the CPS percentage and 13 percentage points higher than TAA's. Michigan officials told us that TAA's relatively low proportion of minority participants in Michigan is the result of the geographic location of the plants covered by the petitions certified during 1990—many of these plants were located in rural and smaller

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[5] Although many mining, oil, and natural gas workers were certified for TAA in Texas during 1990, few of them received services from the program. Texas TAA officials attributed this to the mobile nature of workers in these industries.

[6] CPS data are based on information contained in the dislocated worker supplement to the CPS. The January 1990 CPS dislocated worker data are based on persons with tenure of 3 years or more who lost or left a job between January 1985 and January 1990 because of plant closings or layoffs.

urban areas. Fewer minorities live in these areas than in larger urban areas like Detroit.

The minority populations of the TAA and EDWAA programs differed within the three states. In New Jersey's TAA program, 86 percent of the minority participants were Hispanic. In contrast, the largest proportion (67 percent) of EDWAA's minorities were African American.' In Texas, over half of the minorities in both programs were Hispanic—73 percent of TAA's minority participants and 57 percent of EDWAA's were Hispanic. In Michigan, African Americans comprised the largest proportion of the minority participants in TAA and EDWAA—54 percent and 82 percent, respectively.

Differences between TAA and EDWAA participant characteristics are generally related to the differences in the characteristics of workers in industries affected by imports. As figure 11 shows, 38 percent of all dislocated workers were from the manufacturing sector, compared to 95 percent of workers certified for TAA during 1990. While only 3 percent of all dislocated workers were from the apparel industry, 38 percent of TAA-certified workers were from that industry.

In Texas and New Jersey, the majority of TAA participants had worked in the apparel industry. In these two states, the apparel industry primarily employed older females with low levels of education and therefore many TAA participants in our analysis had these characteristics.

BOTH PROGRAMS SLOW IN PROVIDING TRAINING TO WORKERS

Providing reemployment training early—before or at the time of layoff—improves workers' chances for prompt reemployment and enrolling in training programs. We and other researchers have found that far more workers seek assistance when help is available before or at the time of layoff. Further, these studies suggest that workers who receive assistance find jobs sooner and earn more than they would have without such help.[7] However, figure 12 shows that many TAA and EDWAA workers had been out of work for at least 15 weeks before receiving training.[8] Although there are no standards pertaining to the timeliness of TAA or EDWAA services, officials generally agree that early intervention is the key to successful service delivery. Delaying assistance after layoff can extend the period of unemployment for many workers and reduce options for enrolling in longer-term training. This is especially true for EDWAA eligible workers because EDWAA rarely provides any income support to help facilitate longer-term training.

The TAA certification process is one barrier to more timely TAA assistance. This process involves several steps. First, a group of three or more workers must file a petition with the Department of Labor to be certified as eligible for TAA. Labor then investigates whether increased imports contributed significantly to the job loss. Next, Labor informs state-level TAA officials of its determination. The state officials are then responsible for notifying certified workers that they are eligible for TAA assistance. There is potential for delay in each step of the process which can in turn delay TAA assistance—workers can delay filing for certification, Labor investigations can take up to 60 days, and states can take another 2 weeks to 2 months to notify workers that they are eligible for assistance.

We were unable to determine the reasons for delays in EDWAA assistance. EDWAA legislation requires that state rapid response teams contact the employer and employee representatives. But rapid response teams are generally not responsible for local assistance activities. Therefore, this contact does not guarantee that workers will receive timely assistance.

TAA SUPPORTS LONGER-TERM TRAINING OPTION

Although both programs provided training, our three-state analysis indicated that the duration of the training was quite different for TAA and EDWAA participants.

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[7] See U.S. General Accounting Office, *Plant Closings: Limited Advance Notice and Assistance Provided Dislocated Workers,* GAO/HRD-87-105, July 17, 1987; U.S. Congress, Office of Technology Assessment, *Plant Closings: Advance Notice and Rapid Response Special Report,* OTA-ITE-321, September 1986; and National Academy of science, National Academy of Engineering, Institute of Medicine, *Technology and Employment: Innovation and Growth in the U.S. Economy,* 1987.

[8] Timeliness of TM services is based on layoff date and the date TAA participants began training. Timeliness of EDWAA services is based on statewide program reports that indicate whether participants were unemployed 15 weeks or more at the time of enrollment. For both programs, these data indicate the starting date of rigorous, or intensive, services to individual workers. Participants may have received basic services, such as intake and job counseling, before enrolling in the program or entering training. However, TAA does not require data on when participants enroll in the program.

As shown in figure 13, in each of the three states analyzed, TAA workers, as compared to EDWAA workers, were more likely to enroll in training that lasted 26 weeks or more. The availability of TAA cash payments after workers exhausted their 26 weeks of unemployment insurance gave many TAA workers the option of entering longer-term training. EDWAA legislation also allows for such income support payments. However, EDWAA seldom provided participants with income support after they exhausted their unemployment insurance. As a result, fewer EDWAA participants entered longer-term training.

Similarly, the duration of the training was much longer for TAA participants than for EDWAA participants in the three local areas we visited (see fig. 14). For this analysis, we divided the length of training into 8 categories of 13 weeks each. About 70 percent of EDWAA training participants were enrolled in 1- to 13-week training programs, compared to 10 percent of the TM training participants. In contrast, 21 percent of the TAA training participants enrolled in programs lasting 92 to 104 weeks.

Despite TAA's emphasis on training, in the three local areas we visited, about 39 percent of workers receiving TRA cash payments did not enter training (see fig. 15). Training waivers allow workers to receive payments for up to 26 weeks when they cannot participate in training for legitimate reasons. Legitimate reasons include, but are not limited to, the following: (1) no suitable training is available, and (2) the worker's chosen training program does not begin within 30 days.

Monitoring the waivers helps to ensure that the reasons for the waivers remain for as long as the workers continue to receive TRA payments. Monitoring also appears to reduce the length of time workers receive income support. One state we visited closely monitored its waivers, issuing a maximum of three waivers, each valid for 30 days. In this state, workers who did not enter training only received payments for an average of 7 weeks. One of the other states we visited issued waivers on a monthly basis. In this state, workers who did not enter training received payments for an average of 14 weeks. The third state granted waivers with no periodic review for continued validity. In this state, workers who did not enter training received, on average, 25 weeks of payments—1 week short of the maximum number of weeks allowable without entering training.

BOTH PROGRAMS PROVIDE CLASSROOM TRAINING, BUT EDWAA PROVIDES MORE OJT

Basic skills and occupational training are essential parts of the service mix for dislocated workers under both the TAA and EDWAA programs. For some workers, basic skills training—such as remedial reading or math or English as a second language—is all they need to become reemployable. For others, basic skills training is a precursor to acquiring new occupational skills generally provided in a classroom setting through local community colleges or vocational schools.

In the three states we visited, 41 percent of the workers receiving TAA assistance were enrolled in occupational or basic skills training (see fig. 16). Similarly, 47 percent of the EDWAA workers received occupational or basic skills training.

In addition to classroom training, both TAA and EDWAA offer on-the-job training. However, our three-state analysis showed that significantly more EDWAA participants entered OJT training programs. As illustrated in figure 16, EDWAA provided OJT to 25 percent of its workers. In contrast, TAA provided OJT to less than 1 percent of its workers even though OJT is permitted under TAA regulations.

Workers who did not receive either classroom or on-the-job training—28 percent of EDWAA workers and 59 percent of TAA workers—received several other types of assistance, including direct placement assistance from EDWAA and income support and job search/relocation allowances from TAA.

Our analysis of classroom training occupations showed that both TAA and EDWAA participants in the three states entered training programs covering a wide variety of occupational skills. As shown in figure 17, secretarial/clerical training was chosen most frequently by participants in both programs. Other popular training categories included machinery repair, accounting/bookkeeping, and medical/health.

DATA ON PLACEMENT RESULTS ARE LIMITED

While EDWAA requires states to collect some information on how participants or groups of participants fared after completing the programs, TAA does not. States are required to collect overall placement rate and wage information for EDWAA. For program year 1990, the national placement rate was 70 percent, and the placement wage was $7.80 per hour (see fig. 18). The individual state placement rates ranged from 31 to 89 percent, and the placement wages ranged from $5.33 to $10.29 per

hour.[9] EDWAA also collects similar information at 90 days after program completion. For program year 1990, the 90-day follow-up placement rate was 71 percent, and the wage was $8.64 per hour. However, states are not required to provide placement data by demographic group or provide wage and job retention, beyond 90 days.

We were unable to obtain reliable information on how TAA participants fare because states are not required to collect information on TAA placements. Some states have started collecting this information on their own. For example, the state TAA director in Michigan mails surveys to training participants asking them (1) if they have completed their training, (2) if they have obtained a job, (3) if their job is related to their training, and (4) whether they thought the training was helpful in obtaining the job. TAA counselors in one local area we visited also sent letters to workers who had completed training programs to obtain follow-up information. Because this practice was not consistent, we were unable to collect reliable TAA placement statistics at the state or local level.

LIMITED COORDINATION BETWEEN TAA AND EDWAA

Legislation for both programs emphasizes the need for coordination between programs to improve the efficiency and effectiveness of service delivery. An important measure of the level of coordination between TAA and EDWAA is the extent to which TAA-eligible workers are receiving EDWAA services to supplement TAA services. However, data from the Department of Labor indicate that only 10 percent of all TAA participants received EDWAA services during fiscal year 1990 (see fig. 19). Data are unavailable to determine the number of EDWAA participants that were eligible for, but did not receive, TAA assistance.

The level of coordination also varied across local areas within the three states we visited. While state-level officials often worked together and Communicated with one another, they and local officials acknowledged that staff in many local areas did not. They cited several reasons for the lack of coordination. One reason is that the two programs are administered by different agencies—ES administers TAA while JTPA administers EDWAA. Another factor is the lack of communication between local program staff. Local staff seldom met to discuss service options and program resources. The officials cited complex TAA regulations, lack of TAA staff, and competition for clients as factors that hinder communication between local program staff.

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[9] See appendix I for a complete list of individual state placement rate and wage results.

Figure 1

GAO Background

TAA
- Helps workers affected by imports
- $150 million/38,500 workers
- Administered by ES

EDWAA
- Helps workers dislocated regardless of reason
- $390 million/288,000 workers
- Administered by JTPA

Figure 2

GAO Review Questions

Whom do the programs serve?

How do services differ?

How do workers fare?

Do TAA and EDWAA coordinate services for workers eligible for both programs?

Figure 3

GAO **Purpose**

To help policy makers in considering

- assistance for workers affected by tł e North American Free Trade Agreement
- 1993 TAA reauthorization

Figure 4

GAO **Scope of Work**

Examine statewide programs in Michigan, New Jersey, Texas

Observe local programs in Lansing, MI; Passaic, N I; and Tyler, TX

Analyze nationwide data

Figure 5

GAO Results in Brief

TAA served higher proportion of harder-to-place workers

Both programs slow

TAA supports longer-term training

EDWAA provides more OJT

Placement data limited

Limited TAA/EDWAA coordination

Figure 6

GAO TAA Served Higher Proportion of Harder-to-Place Workers

TAA served higher proportion of female, older, less educated workers

EDWAA served higher proportion of male, younger more educated workers

No clear pattern in proportion of minorities served by TAA and EDWAA

Figure 7

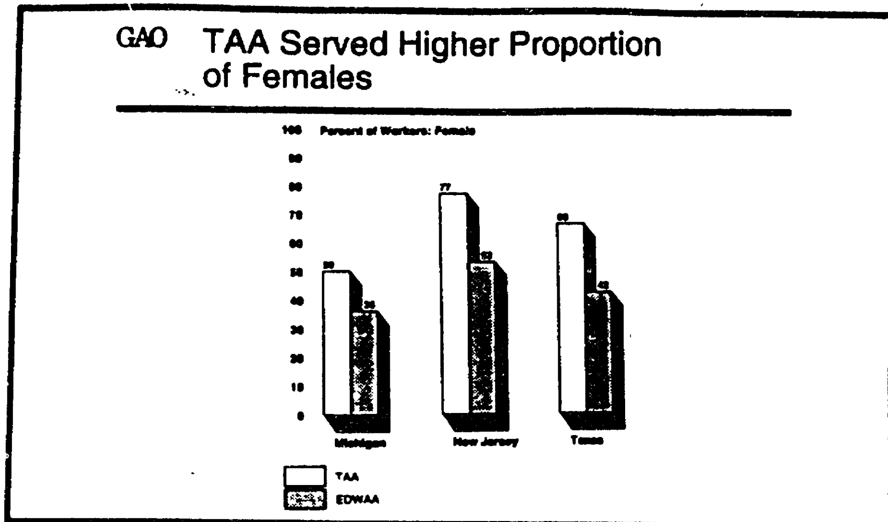


Figure 8

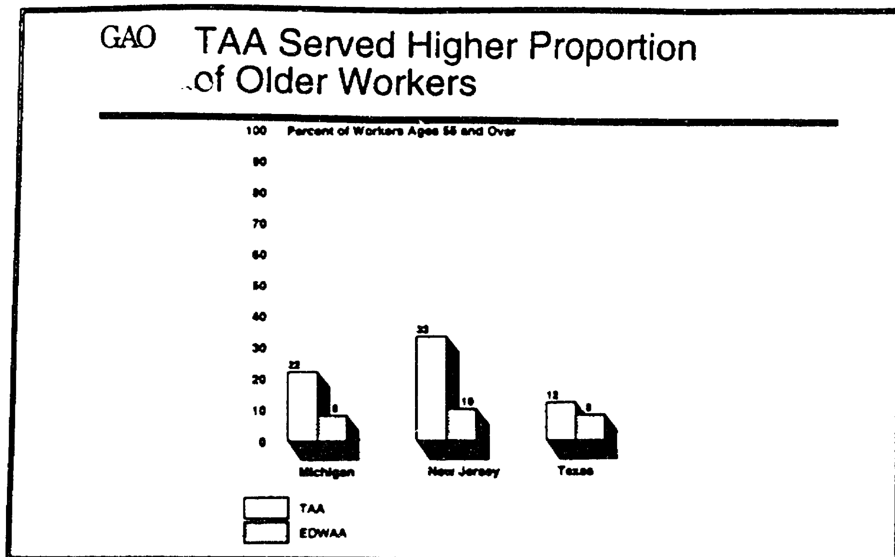


Figure 9

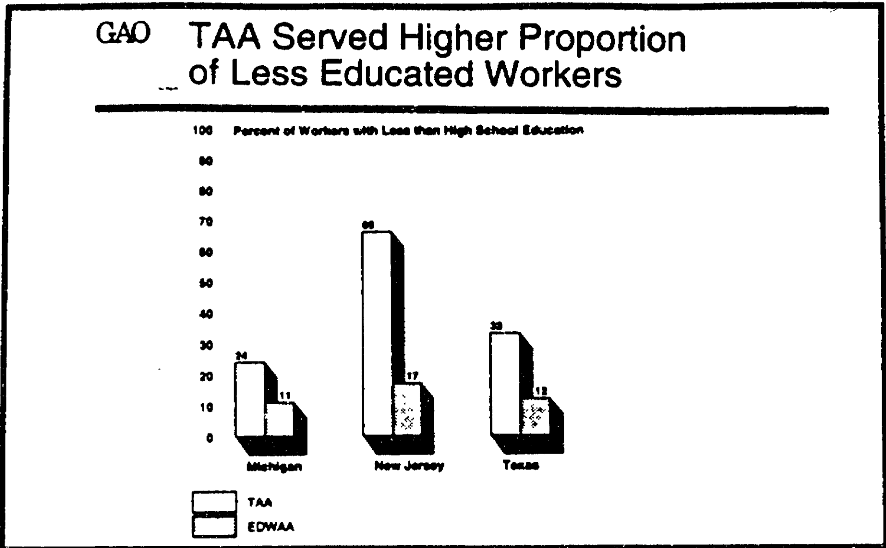


Figure 10

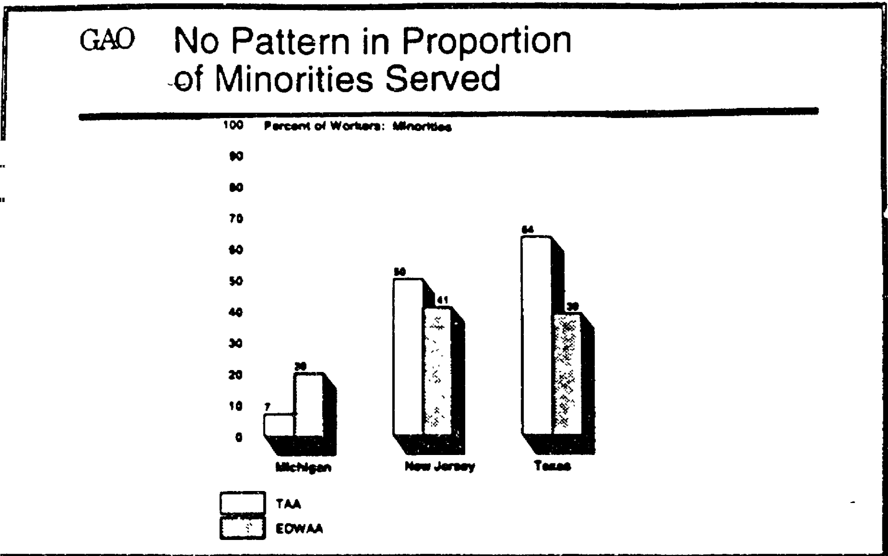


Figure 11

GAO **TAA Workers Concentrated in Manufacturing Industries**

Industry	All Dislocated Workers	TAA Workers
	Percent of Workers by Industry	
Manufacturing - Total	38	95
Durable Goods Manufacturing	24	47
Electrical Machinery	5	15
Transportation	5	15
Non-Durable Goods Manufacturing	14	48
Apparel	3	38
Mining	3	4
Source:	BLS	Labor

Note: Not all industries are shown in table; percentages do not sum to 100.

Figure 12

GAO **Both Programs Slow to Provide Training**

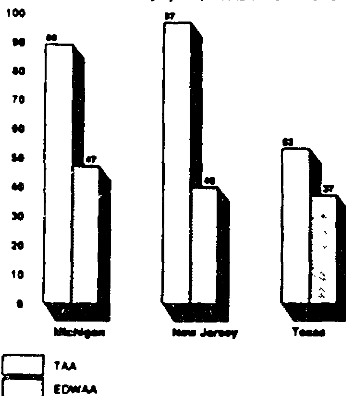


Figure 13

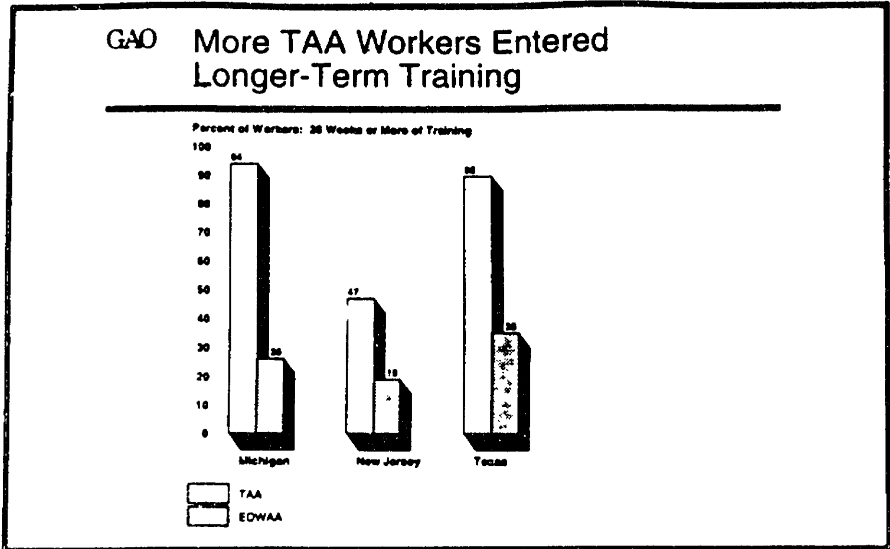
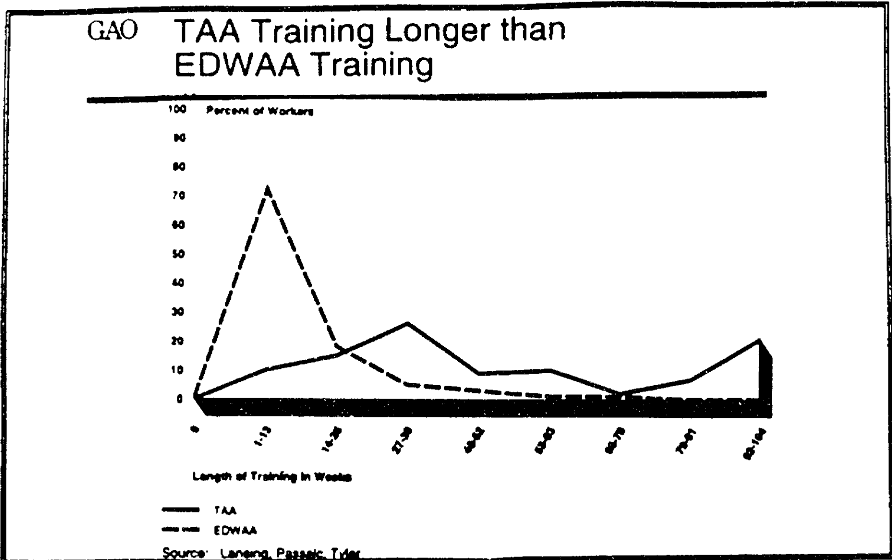
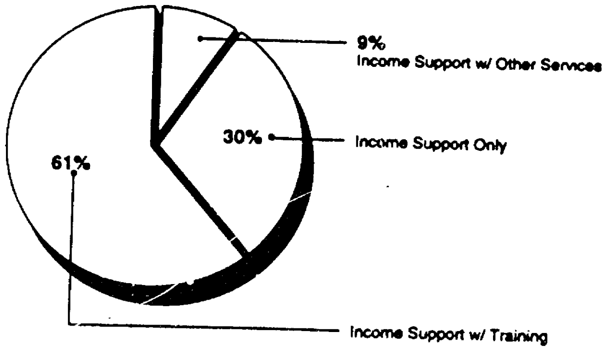


Figure 14



igure 15

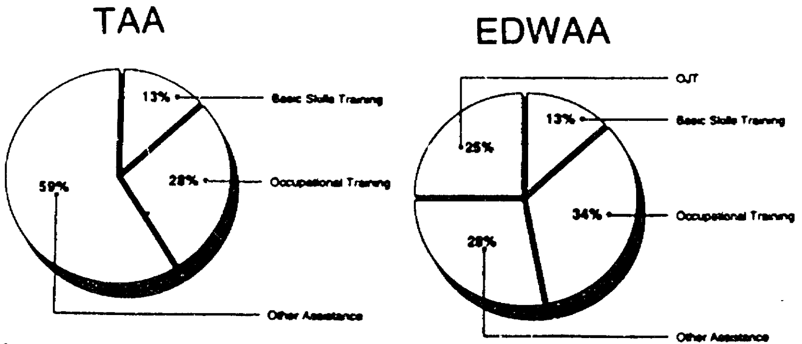
GAO Many TAA Workers Received Income Support Without Training



Source: Lansing, Passaic, Tyler

igure 16

GAO Both Programs Provide Classroom Training, but EDWAA Provides More OJT



Source: Michigan, New Jersey, Texas

Figure 17

GAO Major Training Categories

	Percent of Workers	
Training Categories	TAA	EDWAA
Secretarial/Clerical	26	14
Machinery Repair	10	7
Accounting/Bookkeeping	13	4
Medical/Health	11	3
Architecture/Engineering/Survey	8	5
Metal Machining & Fabricating	1	12
Motor Freight/Transportation	1	8
Source:	MI, NJ, TX	[illegible], Passaic, Tyler

Note: Not all occupations are shown in table; percentages do not sum to 100.

Figure 18

GAO Data on Placement Results Limited

	TAA	EDWAA
Placement Rate	? ? ?	70 %
Placement Wage	? ? ?	$ 7.80
Source:		US DOL

Figure 19

GAO Limited TAA/EDWAA Coordination

Nationally, 1 in 10 TAA workers received EDWAA assistance

Level of coordination varied within the three states

Limited communication and complex TAA regulations impede coordination

APPENDIX I

State	Placement Rate	Placement Wage
Missouri	69%	$ 8.09
Montana	83	9.39
Nebraska	70	6.12
Nevada	89	8.01
New Hampshire	66	7.50
New Jersey	31	8.82
New Mexico	59	8.14
New York	58	7.80
North Carolina	79	6.92
North Dakota	89	7.03
Ohio	62	8.20
Oklahoma	67	8.47
Oregon	75	8.15
Pennsylvania	73	7.67
Rhode Island	71	8.34
South Carolina	65	6.62
South Dakota	86	5.33
Tennessee	60	6.56
Texas	74	9.48
Utah	79	8.11
Vermont	82	7.70
Virginia	78	7.19
Washington	74	9.19
West Virginia	63	10.29
Wisconsin	77	7.69
Wyoming	68	7.30

APPENDIX I

EDWAA PLACEMENT RATE AND WAGE DATA FOR PROGRAM YEAR 1990 AS REPORTED BY INDIVIDUAL STATES

State	Placement rate	Placement wage
U.S. average	70%	$ 7.80
Alabama	62	6.00
Alaska	65	10.86
Arizona	89	8.82
Arkansas	39	6.41
California	68	.75
Colorado	77	8.34
Connecticut	75	10.05
Delaware	58	8.64
District of Columbia	45	8.21
Florida	74	6.35
Georgia	62	6.89
Hawaii	79	7.91
Idaho	74	6.99
Illinois	75	8.98
Indiana	76	7.67
Iowa	80	7.17
Kansas	77	7.53
Kentucky	65	6.77
Louisiana	76	6.41
Maine	85	6.56
Maryland	82	8.83
Massachusetts	61	10.07
Michigan	79	7.74
Minnesota	75	6.97
Mississippi	71	6.25

PREPARED STATEMENT OF T. BOONE PICKENS

Introduction

Chairman Bentsen and Members of the Senate Finance Committee, I appreciate the opportunity to testify about the North American Free Trade Agreement, or NAFTA.

My name is Boone Pickens, and I am Chairman and Chief Executive Office of MESA Inc. of Dallas, Texas. MESA is one of the largest independent oil and gas producers in the United States. I am a geologist and have spent my entire career in the oil and gas business. Through MESA I have done business in Canada, the United Kingdom, Africa and Australia. More recently through a private company, Boone Co. I have had a frustrating experience attempting to do business in Japan. Today, I am in the midst of initiating a promising venture in Mexico through MESA's recently formed subsidiary, MESA Environmental.

At the outset, I want to commend you for focusing on NAFTA. This treaty will lay the foundation for unprecedented economic growth in North America at a time when maintaining global competitiveness is our most pressing challenge. Chairman Bentsen, in particular, deserves immense credit for the time and energy he has devoted to examining the potential impact of NAFTA on the entire nation. Also, I am pleased that we finally have a working text to provide the basis for discussion of these critically important issues.

America's most promising economic potential lies not in Europe or the Far East, but right here in North America. NAFTA promises new economic opportunity and prosperity in Canada, Mexico and the United States. The closer ties and breaking down of barriers not only will bring greater prosperity throughout North America -- with the creation of an integrated market of $6 trillion and 360 million people -- these ties also will strengthen and stabilize political foundations to support the spread of democracy and free enterprise throughout the Americas. And yes, I'm convinced that, while expanding these opportunities, the Treaty will also protect American interests.

NAFTA: Sound Trade Policy

During the past few years, I have learned from my experience in Japan that free trade and open investment, while often sought, are seldom a reality. I have felt first hand the stifling arm of trade barriers and protectionist government policies. I am referring to the raw power exerted by the Japanese government and the Japanese corporate elite which has for so long denied Americans meaningful opportunities in Japan. For more than two years I beat my head against the wall in Japan before throwing in the towel in utter frustration and disappointment. While I am no longer an investor in Japan, I follow Japanese financial and economic developments intently. It is no secret that our trade deficit with Japan is still too high and significant barriers remain to investment in Japan.

These experiences are relevant to your consideration of NAFTA, because they dramatize the risk of failing to reach a mutually-beneficial agreement on trade policy with a major trading partner. Also, my experience in Japan provides a stark contrast to other international investment opportunities. Rather than look across the oceans, I am pursuing opportunities closer to home. As I mentioned earlier, I am exceedingly optimistic about investment opportunities in what in a trading sense is my own backyard -- Mexico and Canada.

Some observers have suggested that the best way for the United States to compete with the economic power of the European Community and the Pacific Rim is to increase our leverage by strengthening our ties with trading partners here in North America. I think that this strategy makes a lot of sense. I learned how little leverage we have when I was dealing with the Japanese. Stronger ties with Mexico and Canada should help our trading position throughout the world.

The agreement to liberalize trade throughout North America stands on a foundation of already rapidly growing trade and investment continent-wide. Currently, Canada is the United States' largest trading partner, and Mexico is our third largest and fastest growing trading partner. U.S. merchandise exports to Mexico more than doubled from 1986 to 1991, from $12.4 billion to $33.3 billion, and the strong increases have continued in 1992. Our exports to Mexico in services and agricultural products are growing strongly as well. U.S. services exports to Mexico rose from $3.5 billion in 1987 to $8.3 billion in 1991. Agricultural exports nearly tripled from $1.1 billion in 1986 to $2.98 billion in 1991.

Mexico not only is one of our largest trading partners, it provides a balanced trading partnership, a key ingredient missing from many of our trade relationships. Seventy percent of Mexico's imports come from the U.S., and last year the U.S. ran an $8.7 billion trade surplus with Mexico. These export opportunities should continue to grow if NAFTA is finalized.

There has been much discussion about the effect on the U.S. economy of American investment in Mexico. It is true that U.S. investment in Mexico has risen sharply in recent years: direct investment grew from $5 billion in 1986 to $9 billion in 1990. But this increase in U.S. investment in Mexico has been accompanied by a strong increase in U.S. exports to Mexico, proving the economist's adage that trade follows investment. In fact, for every dollar spent by U.S. subsidiaries in Mexico, 46 cents is spent on U.S. goods, the highest rate anywhere in the world.

NAFTA: Sound Economic Policy

While strong growth in trade and investment has taken place without NAFTA, the treaty provides the opportunity to significantly expand and reinforce these trends, all of which are clearly positive for the U.S. economy and U.S. jobs. For instance, there is little doubt that NAFTA will boost America's manufacturing sector. NAFTA tariff reductions will spur further U.S. exports to Mexico. Today, the average U.S. tariff on Mexican goods is 3.9 percent, while the average Mexican tariff on U.S. goods is 10 percent. Reducing these tariffs will especially benefit the U.S. because over 85 percent of U.S. exports to Mexico are manufactured products -- that means new high-wage jobs in the manufacturing sector.

NAFTA will bring real and positive benefits to other sectors as well:

- For the first time, U.S. banks and securities companies will have the chance to establish and compete in Mexico on terms equal with Mexican firms.

- Barriers in the already flourishing agricultural trade between the countries will be substantially reduced.

- NAFTA will open Mexico's $6 billion market for telecommunications equipment and services.

- Barriers to trade on $250 million (over 20 percent) of North American exports of textiles and apparel to Mexico will be eliminated immediately, with another $700 million freed from restrictions within six years. All North American trade restrictions will be eliminated within ten years.

- North American insurance firms will gain major new opportunities in the Mexican market.

- In the area of investment, Mexican "domestic content" rules will be eliminated, permitting additional sourcing of North American inputs and, for the first time, North American firms operating in Mexico will receive, in many sectors, the same treatment as Mexican-owned firms. Mexico has also agreed to drop export performance requirements, which presently force companies to export as a condition of being allowed to invest.

- NAFTA will provide a higher level of protection for intellectual property rights than any other bilateral or multilateral agreement.

- The agreement opens a significant portion of the government procurement market in each NAFTA country on a non-discriminatory basis to suppliers from the other NAFTA countries for goods and services. Most importantly in Mexico, this means greater U.S. access to purchases by Mexico's oil monopoly, PEMEX, and its power utility, CFE.

- NAFTA will permit North American trucking companies to carry international cargo to the Mexican states contiguous to the U.S. by 1995, and will give them cross-border access to all of Mexico by the end of 1999.

Finally, and of great importance, NAFTA's carefully-crafted rules of origin will ensure that companies will not benefit from the agreement unless North American manufacturers play a substantial part. In other words, NAFTA means many more increased trade and investment opportunities for U.S. firms but also more good manufacturing jobs for American workers.

The benefits of NAFTA will be spread throughout the U.S. In fact, nearly every state can expect increasing exports to Mexico as a result of this agreement.

NAFTA: Sound Energy Policy

NAFTA is important for the energy industry, particularly natural gas producers. I've been involved with the natural gas industry for nearly four decades. As a geologist, I am all too familiar with the ups and downs of the industry. Right now we are in the midst of the worst times that gas producers have ever faced. America's oil and gas industry has lost more than 450,000 jobs during the past 10 years. To provide you some perspective, that number is greater than the number of jobs lost in the automotive and the steel industries combined during the same time period.

At MESA, our future is tied to finding additional markets for natural gas. If we simply wait for Old Man Winter to increase the demand for natural gas, we will go bankrupt. Therefore, I have been searching for new markets for natural gas, and NAFTA will assist in my efforts.

NAFTA will give U.S. producers an unprecedented opportunity to market natural gas in Mexico by dealing directly with end users. As more and more U.S. companies open and operate production facilities in Mexico, the demand for natural gas will increase dramatically. Already in Mexico, demand for natural gas far exceeds deliverability. Recent trends reinforce the potential of this emerging market. From 1990 to 1991, U.S. natural gas exports to Mexico increased by 275 percent. During the fourth quarter of 1991, U.S. natural gas exports to Mexico increased to an average of 275 million cubic feet per day. That was an increase of 100 percent over the third quarter of 1991.

The energy provisions of NAFTA would significantly boost the economy of the United States. Under the terms of NAFTA, PEMEX, the government-owned oil and gas production, marketing and distribution company in Mexico, would open 50 percent of its procurement contracts for goods and services to international competition. These annual procurements amount to $4.7 billion per year. Within ten years, U.S. producers would be able to compete for 100 percent of the contracts. In the first year that NAFTA is in effect, this provision alone could create more than 20,000 U.S. jobs, most of them in the oil and gas industry.

In addition, NAFTA immediately eliminates about half of all tariffs on oil and gas field equipment. The remaining tariffs would be phased out within eight to ten years.

The development of an export market for natural gas will revitalize the economy here at home. Capital will remain in the United States for investment in our own businesses and to create jobs for Americans. Additionally, this new market for natural gas will spur economic activity in the energy producing states that have been hit so hard. The "boom or bust" cycle can extract a heavy toll on people who rely on the energy industry to support their families. The increased international demand for natural gas could counterbalance this cyclical trend, establishing a more stable, year-round demand.

Just in case you are concerned about the availability of domestic natural gas for export, I want to assure you that our domestic reserves are more than adequate to meet our needs as well as those of new markets in Mexico. According to the U.S. Department of Energy, 800 trillion cubic feet of known conventional gas reserves -- which are technically recoverable at today's prices -- are located in the lower 48 states. At today's consumption levels, that would meet our needs for 40 to 50 years. If we include unconventional sources of gas in the lower 48 and Alaska, there are an additional 1,188 tcf of natural gas.

At Mesa alone, we have reserves of nearly 2 trillion cubic feet. During 1989, we produced more than 130 billion cubic feet. To give you an idea of what these numbers mean, Mesa's 1989 production would have supplied the annual needs of Maine, New Hampshire, Vermont, Rhode Island, Delaware, and Washington, DC.

NAFTA: Sound Environmental Policy

Some NAFTA opponents have argued that the treaty will negatively effect the environment, particularly along the U.S.-Mexico border. This argument suggests that Mexico takes a more lenient approach to protecting the environment than does the U.S. Those who make this claim have not met the President of Mexico, Carlos Salinas de Gortari. I have had the pleasure, and I can assure you that he is anything but soft on environmental issues.

In 1988, Mexico passed a strong environmental law, and there is no doubt that these new requirements are now being enforced. If you think otherwise, I suggest that you contact the officials of some of the 134 U.S.-Mexico twin-plant operations shut down by Mexican inspectors for failing to meet environmental regulations. Or, talk to the residents of Mexico City who are not allowed to drive their vehicles one day each week because of the government's efforts to solve the city's critical pollution problems. Mexico, in short, is getting tougher and tougher on environmental issues.

Also, the government of Mexico City is moving to adopt an aggressive alternative fuels program that will include natural gas vehicles. One part of their plan calls for the conversion of 300,000 public and private fleet vehicles to run on natural gas or propane. Auto emissions contribute to some of the most severe air pollution problems throughout the U.S., and Mexico City has some of the same problems. If the full potential of natural gas as a transportation fuel were exploited, the environmental dividends would be tremendous.

Natural gas is the cleanest burning of all fossil fuels, producing significantly less pollution. For example, when used as a transportation fuel, natural gas produces only a fraction -- approximately one percent -- of the carbon monoxide produced by gasoline. Moreover, natural gas produces no sulfur dioxide or particulate, and only 15 percent of the reactive hydrocarbons emitted from gasoline engines. Finally, natural gas vehicles emit 10-30 percent less greenhouse gasses than gasoline vehicles.

Mexico represents a tremendous transportation market for this premium U.S. fuel and for companies that are aggressively promoting this new industry. Just as important, the new environmental laws in Mexico will create export opportunities for environmental technology and services. That is why I established MESA Environmental earlier this year. As we speak, MESA Environmental is pursuing opportunities in Mexico City. We recently acquired a company in Iowa that manufacturers clean-fuel equipment. I plan to export this equipment to Mexico. NAFTA will not only jump-start our efforts but will boost the entire domestic natural gas industry as well. In the near term the bulk of natural gas necessary to meet the growing transportation market in Mexico must be met by U.S. producers. That, in turn, will lead to increased drilling activity, which hit record lows earlier this year. And, know this: increased drilling means increased U.S. jobs.

Conclusion

My message is really very simple. We have vast quantities of a natural gas here in the United States, and we have the capacity to produce it. Mexico is a promising market for natural gas at a time when the industry is flat on its back. NAFTA would make it easier for U.S. companies to sell natural gas in Mexico. If American companies sell more exported natural gas, our trade deficit will decrease and the natural gas industry will create more jobs here in America. That sounds like a winning formula to me.

Thank you for your patience, and I will try to answer any questions that you may have.

PREPARED STATEMENT OF RAY PREWETT

I am Ray Prewett and I represent Texas Citrus Mutual and the Texas Vegetable Association. I am here to testify on the citrus and vegetable provisions of NAFTA. To begin with I will summarize the respective positions for citrus and vegetables and will then explain these positions to the extent time allows.

Citrus Position

After careful study of the citrus provisions in this agreement Texas Citrus Mutual has come to the conclusion that we have no choice but to oppose the proposed NAFTA agreement in its present form. Up until now we have not taken a hard line position against the agreement because we did not have access to the full agreement and were not able to analyze key provisions until last week.

Based on nonbearing grapefruit acreage coming into production Mexico's grapefruit supply is projected to increase to 176,300 metric tons by 1998 compared to 118,000 metric tons today. This is a 49% increase in production of grapefruit. Orange tonnage is expected to increase 77% by going from 2,402,000 metric tons to 4,244,000 metric tons in the same time period. These estimates do not take into account the very large new plantings that are presently underway in Mexico.

In spite of the tremendous size and growth of the Mexican citrus industry there is essentially no protection for the fresh fruit industry in the U.S. in the proposed NAFTA agreement. The tariff during our grapefruit harvest season is 2.2 cents per kilogram which equates to about one penny a pound. Our industry considers this to be a very low tariff which provides no protection for our industry so obviously a reduced tariff during the phase out period provides no protection.

[1] **The problem facing our industry in a nutshell is this: because it only costs about $1.60 per carton to grow citrus in Mexico compared to $3.60 in the U.S., Mexico will have a tremendous competitive advantage until Mexico's wage rate increases, which is likely to take a long time.**

Wage rates in Mexico are about $5.00 per day as compared to $5.00 per hour in the U.S. Our wage related costs continue to spiral upward including minimum wages, workers compensation, health insurance, unemployment compensation, social security taxes, and litigation and regulatory costs. Obviously, Mexico's wage rates will go up, but it will likely be a very long time before their wage and fringe benefit costs will be comparable to ours.

We are extremely disappointed that there is not some kind of protection for the fresh U.S. citrus industry in the proposed agreement. Our only practical protection is the Mexican Fruit Fly problem in Mexico which is currently limiting the amount of fresh grapefruit and oranges coming to the U.S. from Mexico. We simply do not understand why our negotiators obtained special safeguards for tomatoes, onions, eggplant, chili peppers, squash and watermelons but did not achieve any protection for fresh citrus entering the U.S.

It is very important to understand that because citrus is a tree crop it is a long term investment and growers do not have the flexibility of changing to a different crop every year. In Texas we are in the process of replanting and recovering from

disasterous freezes in 1983 and 1989. We cannot afford to push those trees out and plant another crop. It takes at least six years for trees to approach their maximum production and longer than that for growers to get a net return on their investment.

We are very concerned that the supply of orange and grapefruit juice is reaching the point where the utilization of the fruit will switch from juice to fresh. This is currently happening in Florida and we expect it to happen in Mexico as their new plantings come into production. The only thing preventing Mexico from making the switch immediately is their problem with the Mexican Fruit Fly which they are in the process of controlling in certain areas.

Although there is no significant protection for the fresh U.S. citrus industry, the Mexican citrus industry has been given a tremendous break in the agreement. Fresh Concentrate Orange Juice (FCOJ) is by far the most important citrus export product for Mexico. The proposed agreement grants Mexico a 50% immediate reduction in duty on the first 10 million gallons of FCOJ exported to the U.S. After consulting with economists and people in our industry, we have determined that the primary effect of this immediate tariff reduction will be to assure that the first 10 million gallons of FCOJ will come from Mexico and not from Brazil or some other area. While this provision is expected to have minimal impact on the price of juice to the U.S. it will allow Mexico to sell that 10 million gallons at a higher price, and will therefore be a major benefit to Mexico.

Texas primarily produces and ships fresh fruit as opposed to juice. We expect to ship over 80% of this year's grapefruit and oranges as fresh products while Florida, on the other hand, will ship approximately 90% of its orange crop as some kind of juice product. The present FCOJ tariff, which is a fixed amount, translates to about 26% of the present value of the juice product. For fresh grapefruit the tariff is one cent per pound. For our projected market prices, we expect this to be about 4.7% of the value for grapefruit ($.01 tariff per pound x 40 pound carton is $.40 at $8.5 per carton = 4.7%). Anyone can readily see that the current fresh grapefruit tariff is not a major deterrent to the movement of fresh grapefruit into Texas. The reason we have not seen considerably more shipments of grapefruit into the U.S. has very little to do with tariffs and mostly to do with a U.S. quarantine on the Mexican Fruit Fly. This is likely to change at some point in the future because Mexico appears to be getting a handle on their Mexican Fruit Fly problem.

Our position on citrus is as follows: Texas Citrus Mutual is opposed to the current citrus provision of NAFTA. For us to support the agreement would require either an increase in the tariff level (before the phase out) or some kind of snapback provision to protect against adverse price impact of Mexican grapefruit and oranges on our market.

Vegetable Position

The Texas Vegetable Association has two recommendations for fine tuning and adjustment to this agreement. First, the seasonal tariffs need further review for their regional impact. Second, if we are going to have a fair two-way trade, the border going into Mexico must become much more "transparent".

I realize it may be late in the game to change provisions in this agreement but I submit to you that it makes more sense to address the impact now than to simply try to ease the transition later. Every effort should be made to save existing jobs

instead of trying to create new jobs or provide training to workers so they can hopefully become employed in another sector of the economy.

For those of us with small trade asociations responsible for numerous crops it has been particularly difficult to have input into these negotiations as they have progressed. Our growers in South Texas had banked on an overall safeguard provision such as the snapback provisions in the Canadian agreement but unfortunately there is no such general provision in this agreement.

Before making our recommendations on vegetables I would like to briefly describe what is happening to vegetable production in our area.

According to official data from the Agricultural Statistics Service, the Lower Rio Grande Valley had 77,730 acres of melons and vegetables in 1986 which is the last year official statistics are available on a regional basis in Texas. The best available information indicates there are 10,600 seasonal farm workers employed in the Lower Rio Grande Valley. Nearly all of these workers are employed in the labor intensive fruit and vegetable industries in our area.

We have not had much time to analyze the impact of the proposed agreement on farm workers, but we will estimate that there will be a decline of 25% to 40% in vegetable acreage and therefore a similar decline in the number of farm worker jobs over the next three years. This would mean 3,533 farm workers may lose their jobs in the next three years. Already, many aspects of our economy are struggling and our unemployment rate is very high. The Cameron County unemployment rate as of August was 20.6%, while Hidalgo County was 15.4%, and Starr County's unemployment rate was 21.2%
We realize many vegetable jobs will be lost to Mexico and other areas with or without an agreement but we believe a significant number of these jobs can still be saved by making some common sense changes in the agreement.

A specific example of vegetable production moving from our area to Mexico is broccoli production for our freezer plants. Three years ago we had about 5,000 acres of broccoli being grown in our area for our freezer plants. Today most of that acreage has gone to Mexico except for perhaps 1,000 to 1,500 acres. We realize this happened before the NAFTA agreement but none the less it provides hard evidence of what can happen and indeed will likely be accelerated once an agreement goes into effect.

Our first recommendation is that the seasonal tariffs need further review for their regional impact. We believe a relatively small amount of fine tuning could make a big difference for our overall vegetable industry. We realize that those who drafted this agreement were looking at the national situation for each commodity but there are major differences in the competitive situation between regions for vegetable production and we do not believe these regional differences have been adequately addressed in the agreement.

In the last few days we have been carefully examining our particular needs for access to squash for freezer plants that have been operating successfully in South Texas for many years.

Growers in South Texas are not growing squash for the freezer plants any more. Squash is not a crop that can be planted and then the grower can decide after planting whether he

wants to sell it to a processor or to the fresh market. The two markets require different varieties. Before coming to this hearing I talked to a number of squash growers and I am confident they do not object to our proposal.

We propose that at least for the period of April 15 to May 15 that the U.S. tariff be sharply reduced or even eliminated for squash coming out of Mexico. Why would we make such a proposal? Simply because our freezer plants cannot obtain squash from U.S. sources at this time. Right now there is a large volume of okra coming across from Mexico to our freezer plants with no tariff. Why not help the freezer plants and save jobs in those plants if it can be done without hurting our growers? This proposal will also help Mexican growers who grow the squash for our freezer plants. Mexico does not have any freezer plants in this region of Mexico.

Our second recommendation for vegetables is that the border with Mexico must become much more transparent. Senator Bentsen has been very helpful in updating the equipment and personnel at the ports of entry to facilitate the crossing of people from Mexico into the U.S. We certainly appreciate your efforts, Senator Bentsen, because without your efforts, the lines would certainly be much longer than they are. Ordinarily it is up to each country to deal with personnel and procedures for the entry into their country but with this agreement we have an opportunity to create better coordination between the two countries.

Many of our growers are farming in Mexico and have been for a long time. In the past they could put up with the difficulties and inefficiencies of getting seed, transplants, fertilizer and other inputs across the border, however, in today's environment they cannot remain competitive unless the entry into Mexico is made easier by makiing the border more transparent. Eventually Mexico will be able to supply the production inputs I am talking about and U.S. farmers can buy them in Mexico but that is simply not the case today.

One specific proposal we would like to see Mexico consider is a new regional system for issuing permits. At the present time permits for seed, transplants and fertilizer have to come from Mexico City. I know of one grower who missed planting approximately 1,000 acres in Mexico this year because he could not get the seed into Mexico on a timely basis.

You may be surprised to hear a representative of a U.S. vegetable growers' organization propose making it easier to do business in Mexico but the fact is the only way most of our vegetable grower/shippers will be able to survive is if they can more easily get their goods and services into Mexico.

Recommendations for Citrus and Vegetables

There are four general recommendations for the agreement affecting both citrus and vegetables which we believe should be clarified, strengthened, or need special vigilance in their implementation. First, we are concerned about provision number one in Section I titled Agricultural Grading and Marketing Standards which states: "When either the United States or Mexico adopts or maintains a measure regarding the classification, grading or marketing of a domestic agricultural good, it shall, with respect to the like agricultural good imported from the territory of the other destined for processing, accord treatment no less favorable than the treatment it accords under the measure to the domestic agricultural good destined for processing. The importing Party may also adopt or maintain measures to ensure that such imported good is processed."

It would appear that this language could be used to allow products such as citrus and onions to come into the United States that do not meet our fresh grading standards. The provision states that the importing party can adopt measures to ensure that such imported good is processed but we respectfully request some clarification as to what measures would be permitted to ensure that such products are in fact processed. There are other potential problems with this provision that relate to existing phytosanitary restrictions. Would it allow oranges or grapefruit infested with the Mexican Fruit Fly larvae to cross into the U.S. without the same restrictions that are placed on fresh fruit?

Our second general recommendation has to do with the vague language in Article 705 on Domestic Support which says, ". . . Accordingly, to the extent a Party decides to support its agricultural producers, such Party should endeavor to move toward domestic support policies . . " We understand that the GATT negotiations are considered by many to be the primary forum for dealing with so called trade distorting policies. However, no one knows if or when there will be a successful conclusion to the GATT negotiations. Therefore we urge that some specific language be put into this agreement that would prevent either country from marked increases in domestic subsidies. We are concerned that Mexico could, under the vague language cited above, establish a major subsidy program to promote the development of large acreages of citrus and vegetables. This three party agreement may not be able to equalize or dismantle existing internal subsidy programs but we believe it can and should place limits on the expansion of such subsidy program within each country.

Our third area of concern for fruits and vegetables is the implementation of phytosanitary provisions. We applaud the negotiators for coming up with what appears to be appropriate language i.e. the commitment to base the procedures on scientific principles. However, the real challenge will be in the implementation of the procedures. Mexico has some insect and disease problems that we do not have and we are very concerned about. I have already mentioned the Mexican Fruit Fly.

The most dreaded citrus disease in the world is tristeza. There is a severe strain of this virus moving in our direction with the most recent findings in Puerto Rico, Dominican Republic and other Caribbean Islands. Scientists are very concerned about the real possibility that this virus will soon spread to Mexico.

Fourth, regulations on pesticides and food safety are a great concern to all United States citizens. U.S. citizens have been assured that our regulations will not be decreased in order to equal the Mexico standards. The concern of fruit and vegetable growers is the enforcement of these laws in Mexico. Unless pesticide use and regulations in both countries are equalized, U.S. growers will be left at an unfair disadvantage. At the present time, there are seventeen (17) pesticides which have tolerances in Mexico but not in the United States. There are also many pesticides which have tolerances in both countries for the same commodities, but the tolerances are set at different levels. These inequities in pesticide regulations in our two countries must be addressed.

I have one final request from the citrus and vegetable industries of the Rio Grande Valley. It would be very helpful and beneficial to us if one or more hearings could be held somewhere in the Rio Grande Valley to explain the details and implications of this proposed NAFTA agreement. We seem to have a greater need for a hearing than most agricultural areas of the country because of our numerous commodities and our proximity to

Mexico. Most of our growers, packers and processors have very little information concerning the agreement or how it will affect them. People deserve to have as much information as possible before they comment to their U.S. Representatives or Senators on their views in regard to this agreement. In addition to our numerous commodities, we also feel that being so near the border, NAFTA will have some unique impacts on our area.

I would like to thank you for this opportunity to testify. I hope that I have clearly explained our concerns pertaining to NAFTA and will be glad to answer any of your questions.

[1] Source -- Richard Kinney, Executive Vice President,, Florida Citrus Packers. The Agricultural Attache of the U.S. Embassy also reports that the combined costs of grove care and harvesting in Mexico were $1.67 per box in 1988-89 compared to U.S. costs of $3.91.

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

THE EFFECT OF GEORGE BUSH'S NAFTA ON AMERICAN WORKERS: LADDER UP OR LADDER DOWN?

[By Jeff Faux and Thea Lee]

INTRODUCTION

A decision to support or not to support the Bush-Salinas-Mulroney version of a North American Free Trade Agreement has little to do with the abstract arguments about "free trade" and "protection." It has everything to do with the living standards of the people of the United States. If members of Congress are certain that the agreement produced by the current trilateral negotiations will raise incomes and expand job opportunities in the United States, they should accept it. If they are not, if there is any serious doubt, they should reject it. America's working families are already suffering enough loss of income and job opportunity because of past policies based on unexamined economic theories that seemed persuasive at the time. Given that experience, putting their economic future further at risk—without a high degree of confidence that the outcomes will be favorable—would represent a betrayal of the public trust.

The issue before us now is not *whether* the United States should trade with Mexico and Canada or *whether* investment should be allowed to move freely within North America. Canada and Mexico are already among our most Important trading partners, and—as is evident in all three countries—investment is already quite mobile. The question is how *how* increasing trade and investment should take place.

How the North American countries choose to integrate their economies will in some measure define their course of economic development during the next several decades. Two strategies confront us. One is modeled on the European path to integration, which was slow and gradual, sensitive to the disparities of income and social institutions between countries, and committed to achieving integration without penalizing workers. The other is the model implicit in the agreement proposed by the Bush, Salinas, and Mulroney Administrations—to remove rapidly all remaining barriers to the flow of capital, goods, and services across North American borders, leaving the fate of U.S. incomes, working conditions, and environmental and social regulation to the economic and political forces that result.

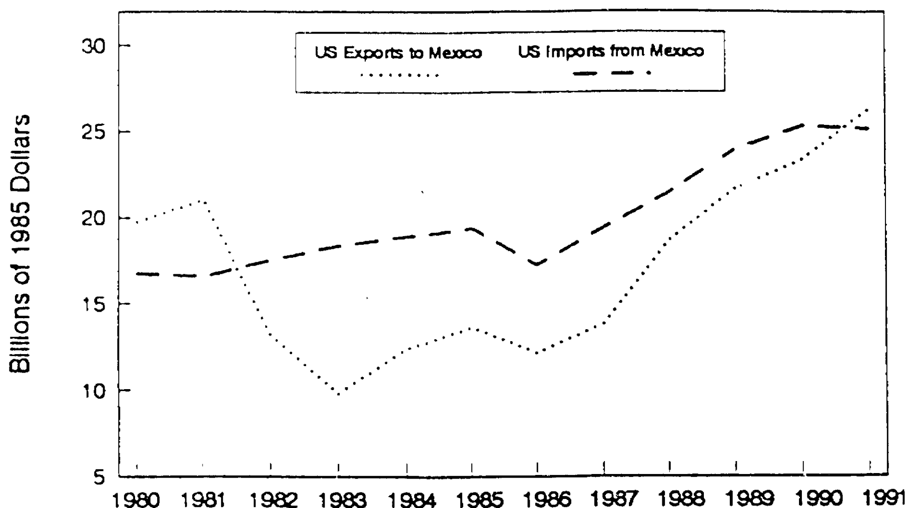
This paper will explore the probable outcomes for the U.S. labor force of the Bush-Salinas-Mulroney North American Free Trade Agreement (AFTA). Our conclusion is that as presently designed the proposed free trade agreement will harm the United States' long-term economic competitiveness and put in jeopardy the jobs of hundreds of thousands of American workers. It will also put downward pressure on the wages of millions more Americans working in sectors not directly affected by the agree-

ment. A substantial restructuring of the overall agreement will be necessary in order to avoid serious long term damage to the U.S. economy.

NAFTA'S IMPACT ON THE UNITED STATES

The economic case *for* NAFTA rests primarily on two arguments: first, that NAFTA will expand U.S. jobs because U.S. exports to Mexico will expand; second, that U.S. workers who lose their jobs to imports from Mexico will benefit from better and higher-paying jobs. U.S. Trade Representative Carla Hills, among others, has argued that the free trade agreement will greatly increase U.S. exports to Mexico, and that these increased exports will generate hundreds of thousands of new jobs for U.S. workers. To support this contention, the U.S. Commerce Department released a study in August of 1991 that detailed state-by-state increases in U.S. exports to Mexico (U.S. Dept. of Commerce, 1991). But the study, not untypical of the evidence offered by the Administration in this debate, ignored the other side of the coin: imports. Although U.S. exports to Mexico have risen rapidly since 1986, it is also the case that U.S. imports from Mexico have been rising almost as fast (see Figure 1). This occurs because the vast majority of U.S. exports to Mexico are capital goods and components, not consumer goods. These goods are used mainly to produce goods for export back to the United States, not for consumption by Mexican consumers. Total job growth is generated by increases in *net* exports (the excess of exports over imports), not by exports that turn around and come back as manufactured goods a few weeks or months later. It is inconsistent to argue, as Ambassador Hills does, that exports create jobs, without recognizing that they also create the capacity for expanding imports, which can cost jobs.

Figure 1
US Trade with Mexico
1980-1991



Source: International Monetary Fund, Direction of Trade Statistics, June 1992; U.S. and Mexico CPI and exchange rates from International Monetary Fund, International Financial Statistics, June 1992.

The argument that NAFTA will create upward mobility of U.S. workers is reflected in MIT professor Rudiger Dornbusch's (1991) claim that the free trade agreement with Mexico will focus trade policy on "creating *more* and *better* jobs." The bad (low-wage) jobs will move to Mexico, he argues, while U.S. workers will move up

the ladder to the high-paying, high-tech jobs that the agreement will create. No one could be against such a happy arrangement.

But Professor Dornbusch's optimism is belied by the data on our past experience which show that U.S. workers displaced by trade are more likely to move down the job ladder, to lower-paying jobs, to move *off* the ladder to permanent unemployment, not *up* the ladder to better jobs than they started with. In a series of studies on displaced workers, starting in 1979 and continuing through 1990, the Bureau of Labor Statistics found that even those workers who were reemployed took large pay cuts and were subjected to long periods of unemployment. During the late 1980s, when the unemployment rate was falling rapidly, the average loss in real weekly earnings was 10 percent for all displaced manufacturing workers who found other employment. (Podgursky, 1991, p. 4) But a large number of displaced workers did not find a new job by the survey date—some were without work for as much as five years after the date they were first laid off. About half of these dropped out of the labor force altogether. In the apparel industry, for example, 48 percent of the workers laid off between 1981 and 1986 had not found new jobs by January 1986. Of those who were not re-employed, 62 percent were no longer in the labor force.[1]

Nothing in the Bush Administration's NAFTA strategy suggests that workers dislocated as a result of this new trade agreement will fare any better than dislocated workers have fared in the past. Moreover, the consensus of long-range public and private forecasters is that growth in the U.S. economy will be considerably slower over the next decade than in the last, suggesting that the fortunes of trade-dislocated workers in the United States will suffer more.

PREDICTING NAFTA'S IMPACT ON EMPLOYMENT IN THE UNITED STATES

Proponents of NAFTA claim that their case is bolstered by the results of several studies, many of which are financed by proponents themselves, in which quantitative economic models have predicted gains in income and employment from NAFTA for all three countries. But economic models are only as good as their assumptions. Unfortunately, the assumptions used by these models to generate positive outcomes correspond neither to the reality of current conditions in the United States, Canada, and Mexico, nor to the actual content of the negotiated agreement.

Thus, one can literally choose a study by a technically competent economist to support *any* of the positions in the NAFTA debate—that the agreement will destroy jobs, create jobs, or have no appreciable impact on jobs. And indeed, the estimates range from net job losses in the United States of 900,000 to net job gains of 130,000.[2]

It is difficult for the non-specialist to understand how much systematic bias is built into the typical economic model. The daunting detail and complex methodologies of the models, as well as the academic credentials of the modelers, lend the results unearned credibility in policy debates. Indeed, members of Congress who would be appropriately skeptical about an economist's ability to forecast the interest rate six months ahead have been willing to cast a vote on another, no more qualified, economist's prediction of how the more complicated and unprecedented interaction between three different countries will play out for the unemployment rate in their district or state five years hence.

The most common economic model used to study the impact of trade policy is the computable general equilibrium (CGE) model. CGE models are constructed around the notion of smoothly functioning, textbook-perfect markets. This means that prices adjust so that supply exactly equals demand in every market all the time. Among other unrealistic assumptions, most CGE models assume that the economies of the trading nations under study enjoy full employment and smoothly adjusting labor markets regardless of how trade changes between them.[3] Any Impact on employment is limited to instantaneous shifts between industries; anyone losing a job in one industry is automatically and instantaneously re-employed in another. This obviously does not describe reality. Yet, in the debate in the spring of 1991 over whether to put NAFTA on "fast-track," these models—which are incapable of analyzing net job loss for the economy—were commonly cited as "proof" that NAFTA would have no impact on the U.S. unemployment rate. President Bush's May 1st statement to Congress, for example, stated that, "All three major economic analyses done to date corroborate that the U.S. will benefit from a North American Free Trade Agreement in exports, output and employment" (Response, 19911 p. 1).

Another assumption these models typically make is that NAFTA will result in a huge increase in productive investment by foreigners in Mexico, but none of this will be diverted from investment in the U.S.[4] Given that 63 percent of current foreign direct investment in Mexico comes from the United States, this assumption makes

little sense. The result is that the models, not surprisingly, predict that there will be no loss of jobs and income in the U.S. because of a shift of investment to Mexico.

The key objection to NAFTA, of course, is that if investment shifts from the U.S. to Mexico, jobs will be lost in the U.S. and the loss will be continuous and enduring —precisely the problem assumed away by these models. The models thereby make themselves irrelevant to the debate except as propaganda tools.

In February of 1992, the U.S. International Trade Commission sponsored a symposium on the primary economic models used to evaluate the impact of NAFTA on the three North American economies (USITC, 1992a and 1992b). The conference was held in response to professional criticism of studies used by the ITC and others to argue for "fast-track" approval for NAFTA in the spring of 1991. (See Faux and Rothstein, 19911 for example.) Not surprisingly, the ITC concluded that the "studies uniformly demonstrate that all three countries would benefit from a North American Free Trade Agreement, as shown by increases in welfare and real GDP" (USITC, 1992a, p. 6).

This conclusion was predetermined by the assumptions on which the models were constructed. While the ITC survey does represent significantly more breadth than the earlier generation of models, their basic—and objectionable—elements remain intact. "The apparent consensus of CGE models reflects more the current narrowness of the economics profession than any conclusiveness of empirical evidence," one critic testified at an ITC hearing about the CGE models.[5]

All of the models assume a mechanistic preference by consumers for products based on the country in which they are produced. Thus, according to the models' assumptions, American consumers will refuse to buy a cheaper color TV produced by Zenith in Matamoros, Mexico even though it is otherwise identical to a color TV produced by Zenith in Missouri. This assumption is, to say the least, unjustified in an era where international trade is dominated by intra-firm shipments by multinational corporations of products and components with common labels so that it is often impossible to tell where a product has been made. Yet, this assumption is largely responsible for many of the models' optimistic findings, especially with regard to income and employment gains in the United States and Canada. If one assumes that consumers prefer U.S.-made goods to Mexican-made goods, can identify them, and are willing to pay more for them, it follows that the incentive for corporations to move production to Mexico in order to take advantage of the low wages will be dampened.

It should be noted that the range of change in real gross domestic product (GDP) predicted for all three countries by the models reviewed by the ITC is extremely broad. And at least for the United States, the GDP figures are not particularly striking. At the low end, one model (Almon) actually shows Mexico's real GDP falling as a result of NAFTA, while others (Bachrach and Mizrahi; and Hinojosa and Robinson's second scenario) show U.S. real GDP essentially unchanged. The high-end predictions (for the increase in real GDP brought about by NAFTA) range up to about 11 percent for Mexico and Canada, and only about 2 percent for the United States, with the bulk of the U.S. estimates well under 1 percent.[6]

In fact, the array assembled by the ITC, far from demonstrating an impressive and convincing consensus, demonstrates the opposite. First, the wide and sometimes conflicting range of results between the models and between different scenarios by the same modeler indicates that the results are quite sensitive to small changes in assumptions Second, while the models appear to contain a tremendous level of detail about the individual economies, it should be remembered that they actually only incorporate the data from a single year. These data must often be adjusted arbitrarily in order to fit the models equations at the starting date. Finally, this class of models has not performed well in predicting the results of past instances of trade liberalization, such as the Canada-U.S. FTA.[7]

In its summary of the models, the ITC seems almost deliberately disingenuous on the question of capital flows. It declares—somewhat arbitrarily—that they are too small "to have much impact on the U.S. economy, given the relative sizes of the Mexican and U.S. capital markets" (ITC, 1992a, p. vi). But this confuses portfolio investment (in stocks and bonds), with direct investment (in building new factories, for example). While a reduction of one billion dollars in U.S. stock purchases, per se may have only a negligible impact on income or employment in the United States, that same billion dollars would have a significant impact if it represented a decision to close or not to expand production in Milwaukee in favor of producing in Mexico. Since the CGE models do not distinguish between these two types of capital, they cannot adequately capture the impact of changes the location of direct foreign investment within North America.

It should be clear from this discussion that the use of CGE modeling to gain insights into the crucial questions raised by NAFTA does not reflect objective aca-

demic scholarship. By and large, the models reflect the bias of the modelers, who begin the exercise with the firm conviction that trade is mutually beneficial. The models are constructed to prove the theory upon which they are based. Indeed, when the results disappoint, the parameters are altered and equations changed or dropped until the results appear more "appropriate."[8] No one should be under the impression that this is a scientific inquiry.

Another optimistic estimate of job gains due to NAFTA was recently produced in a book for the Institute for International Economics (IIE), a Washington-based think tank, that has long promoted unrestricted free trade. Authors Gary Hufbauer and Jeffrey Schott give a thoughtful, thorough, and—for the most part—balanced analysis of the background issues surrounding a potential North American Free Trade Agreement. The single element of the Hufbauer-Schott book that has received the most attention from the media, however, has been their prediction that NAFTA will lead to net job gains for both the United States and Mexico. Unfortunately, this figure is one of the book's more speculative creations and is based on a number of rather shaky premises.

Hufbauer and Schott predict that by 1995 the United States will gain 130,000 jobs and that Mexico will gain a little over 600,000 jobs as a result of trade liberalization via NAFTA and the entire package of economic reforms currently being implemented by President Salinas. Real wages in Mexico rise almost nine percent during the six-year time frame of the study and are unchanged in the United States. Hufbauer and Schott call their model (here referred to as the IIE model) an "historical" model, in contrast to the CGE and econometric models. They write that CGE models "contain a huge number of equations and entail many hidden assumptions about unknown parameters" (Hufbauer and Schott, 1992, p. 51).

The IIE report asserts that the combination of NAFTA and Mexico's other economic reforms will attract capital from abroad. This inflow of capital, in turn, will finance a large and growing trade deficit for Mexico. Mexico will import capital goods from the U.S., which will create new jobs in Mexico. The resulting demand for U.S. investment goods (capital equipment, computers, etc.) will create new jobs in the United States. This is a textbook description of the presumed benefits of free trade. But like the CGE models they criticize, Hufbauer and Scott design their own model to force the conclusion that both nations *have* to benefit from reduced trade barriers, i.e., the more Mexico exports the more it has to import from the United States—in a way that its imports rise even faster than its exports. As in the CGE models, the core assumption is that both nations benefit from increasing U.S. investment in Mexico. Not surprisingly, the models then conclude that there are benefits for both nations!

There are a number of flaws in Hufbauer and Schott's argument. First, the authors assert that the U.S. can indefinitely maintain a continuous (and growing!) trade surplus with Mexico by selling the Mexicans huge amounts of productive capital equipment without having to import the manufactured consumer goods that the capital goods will produce. Given Mexico's explicit strategy of expanding exports in order to pay down its foreign debt, it is unrealistic to posit that Mexico will go on buying machinery and inputs, while only exporting a fraction of that amount in consumer goods.[9]

Second, the scenario further assumes that Mexico will not develop the capacity to make its own capital goods. This is contradicted by Mexico's progress up the production ladder to higher value-added electronics and automobile production over the last ten years.

Third, the authors repeat—albeit indirectly—the unrealistic assumption of the CGE models that the net increase in foreign investment in Mexico does not come at the expense of investment in the United States. In order to come up with a net job gain for both the U.S. and Mexico, they focus exclusively on the trade balance. Importing capital goods creates jobs in the Mexican economy, in their model, since it is the shortage of capital goods in Mexico that limits the potential for job creation. Jobs are generated in the U.S. economy, on the other hand, by the *export* of capital goods. The loss of productive investment is not factored into the U.S. side of the equation. Thus, the fundamental objection to the NAFTA treaty is once again, simply "assumed away."

There is also the possibility that a large part of the new investment in Mexico might come from nations other than the U.S. One recent study (Cohen and Tonelson, 1991) postulates the effect of increases in non-North American investments in Mexico that would produce goods for the U.S. market. The result is a loss of up to 900,000 jobs by 1999. In this case the job loss in the U.S. would not be a result of investment diversion, but of an increase in consumer goods imports to the U.S. The study gives some indication of how dependent the IIE results are on

the assumption that Mexico will continue to import the bulk of its capital goods from the U.S.

Fourth, the IIE study assumes that the peso will continue to rise against the U.S. dollar. The appreciation of the peso since 1987, which has made U.S. goods sold in Mexico cheaper, has been a major reason for the improvement in the U.S. trade balance with Mexico. Given the higher rates of inflation in Mexico, the peso is now clearly overvalued. Its value is being maintained by capital flows into Mexico, two-thirds of which is "hot money"—short term investments with tenuous commitment to Mexico (Whalen, 1992, p A13). Should the speculative air leak out of the Mexican stock and bond markets, the peso will plummet and the currency advantage which is essential to the projections of U.S. job gains will vanish.

The use of simplifying assumptions is common, and legitimate, practice in the exercise of economic logic. When used carefully by people who understand their limitations, such models of the real world are useful in gaining insights into the interactions of the various forces involved. But the simplifying assumptions do not reflect the real world, and to that extent will give a distorted and misleading result when they are used to forecast the effect of changes on real people. Thus, the problem is not one of statistical accuracy. i.e., that the conclusion of a gain of 130,000 U.S. jobs is not precise. The problem is that using these models to predict the outcome of a North American Free Trade Agreement treaty locks one into a logical sequence that can only lead to one conclusion. It is like predicting clear weather for tomorrow with a statistical model whose program does not recognize the possibility of rain.

INVESTMENT DIVERSION

Proponents of NAFTA often claim that the purpose of the agreement is to permit U.S. companies to better serve the Mexican consumer market. This is disingenuous. Mexico's attraction for U.S. manufacturers has never been Mexico's small consumer economy. Mexico's Gross Domestic Product is less than 4 percent of U.S. GDP. Indeed, it is the absence of middle-class incomes in Mexico that is the big attraction—the labor force of more than 30 million people wiling to work for a tiny fraction of U.S. wages (See Table 1). Contrary to the assertions of free trade proponents, wage differentials are not typically compensated for by productivity differentials between the two countries. Harley Shaiken of the University of California at San Diego found that though a Mexican Ford engine plant was 80 percent as efficient as a U.S. plant, workers were paid only 6 percent of U.S. wages.[10] Similar wage-productivity gaps have been found in other industries, such as telecommunications.[11] Blomstrom and Wolff (1989) have shown as well that the productivity levels in multinational firms operating in Mexico approach U.S. levels.

Table 1.—COMPARISON OF NORTH AMERICAN WAGES [1] 1990

United States	Canada	Mexico
$14 83	$15.94	$1.85

[1] Hourly compensation costs in U S dollars for production workers in manufacturing

Source U S Department of Labor, Bureau of Labor Statistics "International comparisons of Hourly Compensation Costs for Production Workers in Manufacturing, 1990." Report 803, May 1991.

It is common sense that corporations seeking to maximize profits will tend to locate production where overall costs—including unit labor costs (wages per unit of output), corporate taxes, and the costs incurred in complying with environmental or workplace safety regulations—are lowest. Of course, firms base production decisions on many less easily quantifiable factors as well: worker skills and reliability, quality of physical infrastructure, communications networks, and political stability, among others. The likelihood of transplanting production depends also on the nature of the goods produced. Even so, the vast disparity between U.S. and Mexican wages and the inconsistent enforcement of labor standards and workplace regulations in Mexico will combine to provide a powerful pull for multinational corporations currently producing (or contemplating production) in the United States.

The fundamental economic purpose of NAFTA is to facilitate the shift in investment to Mexico. That this is at least in part a conscious strategy of the Bush administration can be seen from instances in which high U.S. government officials have encouraged U.S. producers to shift to Mexico in order to take advantage of low wages. Indeed, then U.S. Secretary of Commerce Mosbacher distributed materials at a meeting of business investors interested in Mexico encouraging them to move south of the border and forecast even more cheap labor in the future because of a

prospective increase in the "gap between the U.S. minimum wage and the Mexican direct wage." [12]

NAFTA will induce *increased* investment flows to Mexico in several ways. First, it will improve access to the U.S. and Canadian markets for companies producing anywhere in the continent. Even though most of the tariffs between the United States and Mexico have been removed or reduced since Mexico joined GATT in 1986, many nontariff barriers remain. NAFTA will eliminate or reduce most of these, including the Multi-Fiber Arrangement, which limits U.S. imports of textiles and apparel.[13]

Second, in the past, multinational corporations have been reluctant to make the massive long-term investment in plants and equipment needed to take full advantage of cheaper costs in Mexico because of concern over the political climate. Specifically, they fear a return of popular hostility to foreign investment and the threat of nationalization. NAFTA would put the rights of foreign investors into an international treaty that future Mexican governments would find it difficult or impossible to change. The International Trade Commission report notes that, "By codifying liberal trade and investment policies in an international agreement, . . . a United States-Mexico FTA would increase the confidence of investors in Mexico's economy" (ITC, 1991, p. viii).

Third, NAFTA will encourage investment by removing or weakening Mexico's remaining investment regulations. In particular, Mexico's negotiators have made critical concessions late in the talks to permit foreign investment in the politically sensitive areas of oil and agriculture.

Fourth, NAFTA will bring Mexico's intellectual property laws up to first-world standards. American firms had complained that Mexico's past failure to protect patents and copyrights had deterred investment there, especially by pharmaceutical and computer software companies who feared "knock-offs" and piracy by Mexican firms. After fast-track legislation passed in the United States in the spring of 1991, Mexican lawmakers did in fact enact more stringent patent and copyright laws. NAFTA will go still further.

The pressure from the U.S. business community on Mexico to further strengthen its intellectual property laws highlights the hypocrisy underlying the debate over NAFTA. Congressman Ron Wyden (D-Ore.) wrote to Kay Whitmore, of the Kodak Corporation and the Business Roundtable, a U.S. business organization that has lobbied in favor of the free trade agreement: "The contradiction I see that greatly concerns me is that, while the Roundtable believes that the United States should require Mexico to raise its standards on intellectual property and investment to our level, I have been told that it does not believe that Mexico and the United States should raise their standards on environmental and labor safety to the higher level in either country. I do not understand the rationale for that distinction:"

Unfortunately, the rationale is fairly simple: as it stands, the agreement's purpose is to facilitate the mobility of capital while deliberately preserving the relative immobility of labor. While aggressively imposing strict investment standards that will have the effect of preserving or even raising corporate profits, the negotiators have modestly shied away from encroaching on Mexico's sovereignty in the areas of environmental and labor standards.

The result of this agreement will be to throw U.S., Mexican, and Canadian workers into competition with each other to attract investment by offering the lowest wages and the least restrictive regulations. The threat of moving production abroad is already a weapon many businesses use to oppose wage demands, environmental restrictions, higher corporate taxes, or stricter health and safety regulations.

NAFTA proponents are fond of making the point that the dollars invested by the U.S. in Mexico will come back in the form of payments for more U.S. goods. This is not necessarily true. Mexico can use the dollars to pay back its international debts, to increase its currency reserves or to buy investment goods from other nations—tractors from Japan, machinery from Europe, etc. It can also send dollars back into the U.S. in the form of purchasing existing assets, which will provide little in the way of jobs.

Supporters may be correct that in the first few years a large portion of the dollars invested in Mexico will come back to the U.S. in the form of purchases for U.S. goods. But over time there is little doubt that the creation of substantial new productive capacity will allow goods and services created with the combination of cheap Mexican labor and up-to-date U.S. capital to come flooding back into the U.S. markets destroying U.S. jobs.

REAL WORLD EVIDENCE

Some indication of the effect of liberating investment to seek low-wage advantages is evidenced by past experience, both Canada's with the Canada-U.S. Free Trade Agreement implemented in 1989, and that of the United States with the Mexican maquiladora sector. In the case of Canada, a relatively small wage differential (about 1.17 to 1 as of early 1991)[14] was sufficient to induce hundreds of firms both American subsidiaries and Canadian companies—to relocate production from Canada to the United States. According to the *New York Times*,[15] 87 Canadian firms had moved to Buffalo, New York *alone* as of the summer of 1991. Lower wages, lower taxes, and cheaper real estate in the United States, combined with "practically unrestricted access" to the Canadian market, apparently offered many firms an irresistible temptation to relocate or expand south of the border.

According to Statistics Canada, 461,000 manufacturing jobs were lost between June 1989 and October 1991—almost a quarter of the manufacturing workforce.[16] The Mulroney Administration and other FTA proponents claim that the severe job loss can be attributed entirely to the over-valued Canadian dollar and the recession. While the recession and overall "restructuring" of the Canadian economy certainly contributed to the problem, the magnitude and nature of the Canadian job loss undermines the credibility of this line of argument. During the same period, the United States lost only about 6 percent of its manufacturing jobs, although its industrial sectors were also restructuring in a recession. In Ontario, the proportion of jobs lost due to plant closing (as opposed to temporary layoffs) was more than twice as high from 1990 to 1992 as it was during the 1982 recession.[17]

The exact number of Canadian jobs lost to the FTA is in dispute, but that a large number of jobs are involved is certain. As is the fact that the confident predictions of job gains for Canadian workers—argued with the same logic that NAFTA proponents are now using—have not been borne out.[18]

The Canada–U.S. Free Trade Agreement has also had a depressing effect on other aspects of Canada's economic life. Canada's well-developed social insurance, safety net, and public investment policies are already being eroded by its trade agreement with the United States. Professor Ricardo Grinspun of York University in Toronto writes, "A key problem of [the Canada-U.S. Free Trade Agreement] is that it restricts the ability to carry out policies that make significant contributions to productivity gains and other legitimate policy goals. These policies are in areas like education, regional development, job training, research and development, technology, social programs and health. The United States challenges many of these Canadian policies as 'unfair' trade practices" (Grinspun, 1991, p. 3).

U.S. experience with Mexico's maquiladora export zone also reinforces the idea that investment decisions are quite sensitive to changes in trade policy. The rapid expansion of maquiladora production—in which goods are assembled in Mexico from imported parts and reexported to the United States, paying tariff only on the value added in Mexico—has shifted hundreds of thousands of jobs from the United States to Mexico.[19] Currently, about 500,000 Mexican workers are employed in maquiladoras, at an average wage approximately half that prevailing in the rest of Mexico's manufacturing sector.[20]

A popular misconception about maquiladoras is that they produce only low-skill, labor-intensive goods. While this may have been true when the maquiladora zone was set up 20 years ago and the main activity was sewing garments, it is no longer the case. Today, apparel accounts for fewer than 10 percent of maquiladora workers; more than 40 percent work in electronics and 20 percent in transportation equipment (Schoepfle, 1990). One-third of non-oil U.S. imports from Mexico come from the maquiladora sector. Auto and electronics companies in particular have been increasingly willing to put sophisticated, state-of-the-art plants in Mexico, as skills, infrastructure, and corporate experience there have increased. In the future, we should expect Mexico's productive capabilities to continue to evolve and grow as they have done in the past.

NAFTA itself will also worsen the impact of the maquiladora program on the U.S. market. On the one hand, Mexico's strict rules governing foreign investment will be further loosened by NAFTA, expanding the opportunities for U.S. producers to take advantage of cheap labor more widely throughout Mexico.

On the other hand, some of the small compensations the U.S. economy currently receives from the maquiladora system will disappear with the adoption of NAFTA. The system now requires plants exporting to the U.S. to purchase U.S. components.[21] After a transitional period under NAFTA, the maquiladoras will no longer be required to buy components in the United States in order to obtain duty-free access to the U.S. market.

The real advantage of producing in the maquiladora sector does not lie in avoiding tariffs, however, but rather in taking advantage of ultra-cheap wages and lax environmental and labor standards. Wages in the maquiladora sector are approximately one-tenth to one-fourteenth of U.S. manufacturing wages, and the Mexican government has lacked both the resources and the will to enforce even basic worker-safety provisions or environmental regulations.

Although the Mexican government has proclaimed its commitment to strengthening environmental standards and worker protection, it seems unlikely that under current political circumstances changes will go deep enough to close the yawning chasm between the two countries in these arenas. Indeed, whatever progress has been made so far—such as the highly publicized closing of the port of Veracruz—is a result of personal pressure from Salinas. He is engaged in a transparent campaign to win ratification for the trade agreement from the U.S. Congress. There is no serious, independent political force in Mexico to maintain such pressure once the agreement is ratified. In fact, Mexican political scientist Adolfo Aguilar Zinser (in Cameron and Grinspun, 1992) has argued that NAFTA will exacerbate Mexico's tendency toward centralized political and economic power. Thus, it is likely that the factors attracting U.S. investment to the maquiladoras during the last ten or twenty years will continue to play a role—and perhaps an increasingly important one—in the post-NAFTA business climate.

MEASURING THE EFFECT OF INVESTMENT DIVERSION ON JOB LOSS

As discussed earlier, most of the conventional studies that have attempted to quantify NAFTA's impact on the U.S. economy have either ignored the shift of investment from the United States to Mexico or have examined only the Mexican side of the equation. Yet, the extent to which investment in Mexico replaces investment in U.S. plants clearly will determine NAFTA's overall impact on U.S. jobs.

Two recent studies have estimated the impact on the domestic labor market by a shift of investment from the United States to Mexico. Like the studies described above, they are models with their own sets of simplifying assumptions. But their results, employing different methodologies, provide estimates that expand the limits of the debate.

An Economic Policy Institute briefing paper (Faux and Spriggs, 1991) reported the dramatic results of modifying one standard computable general equilibrium model of U.S.-Mexico relations to allow for a modest shift of capital between the United States and Mexico. The analysis, by economists Raul Hinojosa-Ojeda and Robert McCleery, involved reducing the risk premium for U.S. firms investing in Mexico. Free trade was modelled as an elimination of tariffs between the two countries over 10 years beginning in 1992. The differential in returns to capital between the U.S. and Mexico was allowed to fall by two percent the first year of the agreement, and one percent each additional year until the year 2000, for a ten percent overall decline in the risk premium.

This scenario results in a movement of $44 billion in capital from the United States to Mexico over the decade. As a consequence, during the first ten years of the agreement 550,000 fewer high-wage jobs are created in the United States than would have been the case in the absence of the agreement, and the U.S. Gross Domestic Product falls by $36 billion relative to the no-FTA scenario. Because the model assumes full employment, these workers do get jobs, but they take a 50 percent wage cut. Some of this employment-shifting effect is due to the repercussions of reduced immigration from Mexico, since the model finds that real wages in Mexico rise as a result of the increased investment.

Economists Timothy Koechlin, Mehrene Larudee, Sam Bowles, and Gerald Epstein (1992) have also developed an estimate of job displacement. They find that NAFTA will result in the loss of 290,000 to 490,000 U.S. jobs over the next 10 years, as U.S. and foreign investors build new capacity in Mexico, rather than in the United States, attracted by improved access to the U.S. market and a more stable investment climate in Mexico. They base their estimate on historical examples of the increases in U.S. foreign direct investment that took place when Ireland and Spain joined the European Community (in 1974 and 1986, respectively). "There are parallels to be drawn between Ireland's joining the European Economic Community and Mexico joining the North American free trade area," says Koechlin, et al. "Both are relatively low wage areas and both joined markets many times their size. U.S. investment in Ireland increased almost fourfold as a result of its EEC membership. There is good reason to think that U.S. investment in Mexico will also take off as a result of its joining the much larger U.S. market."

Both of the above models assume that increased investment in Mexico directly reduces investment in the United States by an equivalent amount. Some UNKnown

amount of this new investment in Mexico may otherwise have gone to Asia, not to the United States. But there is no strong evidence to suppose that this would represent the bulk of capital flows. Mexican wages are even lower than wages in the Asian newly industrializing countries (NICs), yet productivity is comparable in many sectors. Moreover, some *foreign* investors who—in the absence of a free trade agreement—would have invested in the U.S. in order to sell in the U.S. market may now choose to invest in Mexico. The other NICs cannot offer equivalent access to the big U.S. and Canadian markets that Mexico can offer *now*. This further reduces investment in the United States beyond what these models have accounted for.

WAGES AND LIVING STANDARDS

The distributional consequences of NAFTA—that is, its impact on wages and income distribution—may be at least as important as aggregate job loss. Economist Edward Leamer (1992) has argued that NAFTA is likely to further polarize the U.S. earnings distribution. Leamer examines international trade and wage trends over the last two decades. He finds, that as trade and investment barriers have come down, it has become easier for capital to locate in low-wage countries where it earns a higher rate of return. This has increased the supply of labor-intensive goods, so that their price has fallen relatively. This, writes Leamer, "has put downward pressure on the wages of low-skilled workers in the developed countries" (Leamer, 1992, p. 11). He warns that NAFTA will significantly limit the ability of the U.S. to restrict its imports of labor-intensive goods in the future, and that "low-skilled" workers in the U.S. will suffer as a consequence.

"Indeed," he writes, "if the reason for the expansion of international commerce is increased access to low-wage unskilled foreign labor it is virtually certain that our low-skilled workers will have their earnings reduced. Earning reductions on the order of $1000 per year . . . seem very plausible" (Leamer, 1992, pp. 45–46). Leamer estimates that "professional" or high-skilled workers and owners of capital will experience increases in income as a result of NAFTA. Is this a tradeoff that the United States is ready to make? Before making any decisions, it is important to look more closely at Leamer's definition of "low-skilled" workers. It turns out that this category includes all workers who are not professional, technical, or managerial: this comes to over 70 percent of the workforce! It is interesting to note that this exactly parallels the predictions of the initial ITC report (USITC, 1991, p. viii), which also found that "real income for unskilled workers is likely to decline slightly." When pushed to define "unskilled" workers, the ITC reluctantly admitted that they included all workers with a high-school education or less—this also comes to about 70 percent of the workforce.

It is important to view this potential erosion of wages in the context of the other changes that have been occurring in the U.S. economy in the last decade or two. Real wages have been stagnant or falling for almost two decades. Workers without a college degree have seen the largest declines, and young workers have been especially hard hit. A recent EPI Briefing Paper (Mishel and Bernstein, 1992, p. 2) found that young male high school graduates earned 26 percent less in 1991 (in real terms) than equivalent workers did in 1979. The most startling finding in the paper, however, was that, since 1987, the real wages of college graduates have also begun to decline. This suggests that the blithe triage that NAFTA proponents envisage—of gains for skilled workers and losses for unskilled workers—may be overly optimistic. If we let our so-called low-skilled workers go down the ladder, we may find ourselves joining them a few years from now.

NAFTA AS A LOW-WAGE STRATEGY

Perhaps the greatest danger to the U.S. economy from adopting NAFTA is that it will encourage American firms to seek a low-wage solution to the challenge of global competition. The Commission on the Skills of the American Workforce, led by Ira Magaziner, William Brock, and Ray Marshall, recently concluded that we face an historic strategic choice in how we respond to the global marketplace. One strategy—the "high-skills, high-wage" path—competes by producing innovative high-quality goods efficiently so that they can be sold at high enough margins in the global marketplace to pay high wages and maintain U.S. living standards. This path requires the maintenance of correspondingly high levels of private and public investment to continually upgrade the quality of our capital and labor.

The alternative "low-wage" path means competing on the basis of cutting labor costs. This is the strategy of the agreement negotiated by the Bush, Salinas, and Mulroney Administrations. One of the conceptual problems in the North American Free Trade Agreement debate has been the assumption on the part of NAFTA proponents that the *benefits* of the agreement will be permanent, while the costs will

occur only once. This betrays a misunderstanding both of NAFTA itself and of its place in the long-term strategy of the United States. Whether we choose to see NAFTA as an event or a process will also influence the social and labor adjustment policies we think will be needed to accompany it.

President Bush has already indicated clearly that the free trade agreement with Mexico is only the first step in a long-term process toward developing similar agreements with other Latin American countries. Indeed, such discussions are already taking place under the rubric of the Enterprise for the Americas Initiative, which would promote trade and investment, eventually culminating in "a vast free trade and investment zone encompassing the entire Western Hemisphere by the year 2000" (Diebel, 1992). At a conference sponsored by the Americas Society and the Council of the Americas in Washington, D.C., in April, chairman David Rockefeller laid out the political strategy for such an initiative: "It's you, the business community of the Americas that is [sic]going to have to provide the leadership, both the practical and the moral leadership, to carry through this' process of reform. . . . It's you who will have to stay the course when the politicians, under an increasing barrage of complaints and inducements from various pressure groups, begin to waffle" (Diebel, 1992). For "various pressure groups," read: 70 percent of the U.S. workforce.

Thus, NAFTA represents a major long-term incentive for U.S. producers to respond to global market competition by following the low-wage option rather than the more difficult path of producing quality products more efficiently.

Clearly, it is the intention of the Bush-Salinas-Mulroney strategy that NAFTA will be a dynamic, ongoing process, not a one-time event. Mexico has already climbed several rungs up the production ladder since the start of the maquiladora program. If our economies are going to be tightly linked for the indefinite future, it makes more sense to consider what their industry, infrastructure, and workforce will look like in ten years, rather than to dismiss Mexico's productive potential on the basis of its current abilities.

Mexico's labor force is currently growing at a rate of one million per year, while only about 300,000 to 400,000 jobs per year are being created in the formal economy.[23] Even at an extremely high rate of future growth of 5 or 6 percent, the Mexican economy will not be able to generate enough jobs to reduce unemployment significantly from its current rate of about 20 percent.

Exporting manufactured goods to the United States in and of itself is unlikely to close the gap between available jobs and needed jobs in Mexico. The entire maquiladora sector accounts for only 500,000 jobs—not enough to absorb Mexico's surplus labor for a single year. For the foreseeable future, the U.S. consumer sector will be too weak to lift the U.S. economy onto a strong recovery path, let alone act as a consumption engine for both the U.S. and Mexico.

Given these prospects for continued high unemployment and Mexico's lack of meaningful democratic institutions and strong and independent labor unions, we cannot assume that wages will necessarily rise to reflect productivity gains there. Protections against environmental exploitation and labor abuse in America are not achieved simply by the laws enacted by government, but by the strength of independent institutions, such as environmental organizations, civil rights groups, and labor unions. Their ability to monitor, to expose, to sue in court and to defeat candidates who are indifferent to their concerns is the rock upon which such protections are founded. Mexico's one-party system, with its interconnections between business, labor, and political institutions, does not yet provide the culture to nurture the necessary independent advocacy, membership, and pressure groups.[24] Indeed, after taking power in a tainted election in 1988, Salinas has strengthened the one-parry monopoly power of the Institutional Revolutionary Party (known by its Spanish acronym, PRI). As *Business Week* commented in a July 1992 editorial: "Now, elections in Mexico are increasingly irrelevant. The only opposition candidates who win are de facto allies of Salinas, including the victor in the Chihuahua state elections, Francisco Barrio of the conservative National Action Party (PAN)."[25] Given this fundamental lack of democracy, it is irresponsible for U.S. leaders to sign an agreement that relies on domestic pressures within Mexico to enforce labor, health and environmental standards.

The risks of job and income loss from NAFTA cannot be avoided by the Administration's effort to "tack on" promises to increase funding for job training or to obtain promises from Mexico that present and future governments will be more sensitive to human rights and environmental regulation. The political and economic dangers inherent in such a strategy are enormous, and require a public debate that goes beyond the narrow, ideological wrangling and political horsetrading now going on to garner the votes necessary to pass NAFTA.

Yet far from rising to meet the challenge of global competition, federal spending on education and training has fallen in the last 15 years as a percentage of GNP.

In 1976, the federal government spent 0.8 percent of GNP on education and training, by 1990, this figure was only 0.5 percent. This decrease in spending has real consequences for workers whose skills need upgrading: the primary federally supported training program, the Jobs Training and Partnership Act, currently serves only 6 percent of a narrowly defined eligible population (Faux and Schafer, 1991). During a period when the U.S. trade deficit increased nearly fivefold (from the late 1970s to the late 1980s), the Trade Adjustment Assistance Program *reduced* the number of applicants it served from 199,000 to 37,000. It now serves only one out of four eligible workers (Friedman, 1991).

Despite the Bush Administration's assertions that they will somehow take care of workers who lose their jobs because of NAFTA, there is little cause for optimism. In its proposed budget for fiscal year 1993, the Administration *reduced* overall funding for worker training programs by 6.6 percent (in nominal terms). It eliminated the training component of the Trade Adjustment Assistance program entirely and cut TAA benefits in half.[26] There has been no serious planning effort on the part of the Administration in the last year to estimate potential dislocation or to develop adequate transitional programs. While no one expects adjustment assistance to be part of the trilateral negotiations, the adjustment assistance package should have the same weight of formality and commitment as the agreement itself. Otherwise, political pressure for reducing the deficit and holding the line on taxes will squeeze out funding for these programs. The recent spectacle of both Democrats and Republicans climbing onto the bandwagon of the balanced-budget amendment to the Constitution provides a foreshadowing of bitter budget battles to come.

Thus, one absolute requirement for a trade agreement should be a credible and comprehensive strategy for worker training and job creation—and a commitment to fully fund such a strategy. A free trade agreement should not be implemented until such a system is solidly in place.

The onus is on those who advocate a North American free trade agreement to develop a plan for providing American workers with a ladder of upward mobility. They need to convince the rest of us why the pattern we have seen so often and so clearly in the past—of workers displaced by trade bearing most of the burden of adjustment—will not repeat itself in the future. And in this case, there is reason to believe that more than those individuals who actually lose their jobs as a result of trade and investment will suffer: every worker whose wage is bid down by the threat of corporate mobility, every community whose environmental standards are weakened, and everyone whose community is disrupted by the large-scale loss of jobs will pay part of the price.

A SOCIAL DIMENSION IN TRADE

One way in which several of the European governments have attempted to guide their economies onto a high-wage, high-value-added growth path has been to shut off the low-wage option—by setting a relatively high minimum wage, regulating plant closing, and legislating livable welfare, pension, and unemployment compensation benefits. This has forced companies to seek productivity improvements via investments in modern equipment and new technology and more interactive labor-management relations. NAFTA takes us in exactly the opposite direction—opening the door wide for U.S. corporations to seek the low-wage solution and obviating the need for investment in the labor force of either Mexico or the United States. While this may add to corporate profits in the short run, in the long run it will undermine the productivity and thus the competitiveness of the entire continent.

The Europeans have attempted to build a Social Dimension into their process of economic integration. The Social Dimension has two aspects: (1) the Social Charter, which establishes the principle that trade should not be based on "social dumping," where poorer countries follow low-wage, low-regulation strategies in order to increase exports; and (2) the Structural Funds, which help redistribute resources within the European Community to poorer countries, regions, and disadvantaged groups. The Structural Funds in turn are made up of two components: the regional fund, which provides financing to help narrow the gap between the levels of infrastructure in the poorer and the more developed EC countries;[27] and the social fund, which is used to address problems of long-term or youth unemployment at the level of the individual firm or industry. Employee and employer organizations can apply for these funds when they need financing for a specific project.

German Trade Union Confederation Vice President warned that, "In the absence of 'social rules of the game,' the battle of [European] Community-wide competition would be fought on the backs of the workers." This principle has not yet been accepted in the United States.

The U.S. ideological commitment to free trade has translated into a presumption that free trade alone is sufficient to raise incomes and employment levels. Proponents argue that the best way to end child labor and environmental degradation in Mexico is to pass a free trade agreement. They reason that the higher incomes associated with freer trade will automatically allow stricter regulation and enforcement of environmental and labor standards. But this confuses correlation with causality. Higher incomes may be a necessary condition, but they are not a sufficient condition for keeping kids out of factories and caring about clean air. Democracy and citizen input into the government decision-making process are also crucial, and at the moment, these are lacking in Mexico.

The European attitude toward free trade, in contrast, is pragmatic. If ending child labor is the goal, the Europeans are not content with enacting a broad free trade agreement and then sitting back for a few decades waiting for it to work. They have written specific enforceable standards into EC-wide law in the areas of greatest concern.

Existing European law in the areas of health-care, child development, worker training, and adjustment assistance is much more extensive than comparable U.S. laws—even before the European Social Charter is fully implemented. In the area of unemployment insurance, for example, France provides benefits equal to 50 percent of lost earnings for up to two years. Germany is even more generous, paying 66 percent of normal wages for up to 18 months, and 58 percent for an unlimited time after that. In contrast, U.S. unemployment benefits average only one-third of lost pay, and in all but three states, benefits are exhausted after six months. U.S. government expenditures on worker retraining also lag behind those in France, Germany, and the United Kingdom. The U.S. spends only $1800 per participant on training, while Germany spends four times that amount, on average.[28] This higher European baseline" makes their task—of adapting the economy to the needs of increased economic integration—easier than ours.

To meet the challenge of increasing global economic integration—of which NAFTA is only one element—the United States must embark on a permanent and continuous upgrading of its labor force in conjunction with trade and industrial policies that provide support for high-wage job creation. Only if such policies become conscious national goals is there any realistic chance to build the ladder that will make the difference between displaced U.S. workers sliding downwards toward higher unemployment and lower-paying jobs or climbing up to the next rung.

Without a skilled, well-paid, and adaptable labor force, the United States will find it virtually impossible to compete in global markets for anything but standardized, mass-produced goods that generate lower and lower wages. The need to invest in the U.S. labor force goes way beyond aid to workers displaced by trade. The United States should be looking to the future, and toward a whole new labor-market process that starts in childhood and extends beyond retirement. To this end, we should fully fund child health and nutrition programs, including WIC (Women, Infants, and Children Supplemental Food Program); restore funding to Head Start, whose effectiveness has been shown time and again; and fund long-term *paid* training programs for displaced workers. (If these training programs do not include income support, then only workers with private income sources can afford to take advantage of them.) Any trade adjustment assistance should also include a continuation of medical benefits for displaced workers, as well as a bridge benefit for workers within four years of retirement age.

One example of the broader vision necessary for the United States to absorb the shock of the free trade agreement can be found in the proposals outlined in *America's Choice: High Skills or Wages,* the 1990 report of the Commission on the Skills of the American Workforce. The commission recommends giving all employers "incentives and assistance to invest in the further education and training of their workers and to pursue high productivity forms of work organization" (p. 7). In particular, employers would be required to spend at least one percent of their payroll on employee education and training programs, or to contribute the same amount to a state-administered general training fund. Public grants would be available to assist firms in moving to higher performance work organizations. The states would also be responsible, with federal assistance, for assuring that all students met a higher national standard of educational excellence by age 16. Local Employment and Training Boards would create and fund alternative learning environments for students who were unable to meet that higher standard in regular schools. In order to help Prepare non-college bound students for the workplace, the Commission recommends creating a system of Technical and Professional Certificates and associates' degrees to be earned through completion of two- or four-year courses of combined study and work, modelled on the formal apprenticeship programs in other countries.

Government, business, professional commissions, and other researchers have attempted to estimate how much money would be necessary in order to fully fund human resource investments, including education and training and some child health and nutrition programs. Their estimates range from $29 billion to $58 billion annually. The *total* investment gap—including physical capital and research and development in addition to human resources—ranges from $63 billion to $126 billion. Robert Heilbroner (1991), professor emeritus of economics at the New School for Social Research, has argued that the United States needs to quadruple its expenditures on public investment just to catch up with our principle competitors, Germany and Japan.

And finally, the government needs to take some responsibility for targeted job creation. Training and educating workers is essential, but it does not guarantee that the jobs will be there when needed. Sheldon Friedman of the AFL–CIO advocates using economic conversion proposals, including planning grants and subsidized loans, to bolster employment in affected regions or localities. The government could also create jobs related to commercial technologies that meet national needs, such as mass transit/high-speed rail or high-definition television, for example.[29]

The principle underlying the EC's "activist labor-market policy" is that good trade adjustment policies are neither optional, nor do they constitute "charity." By their nature, freer trade and investment flows cause disruption and dislocation, as economies adjust to new sources of production and attempt to find their niches. By easing the process of change, and by protecting workers from the worst effects of this disruption, adjustment policies *make change* possible (Collins, 1983, p. 3).

Over the long term, failure to invest in its workforce will disadvantage North American producers when competing with the Europeans and the Japanese in the production of customized, high-quality goods and services. At the same time, North American producers will be equally disadvantaged in competing with low-wage Asian producers in markets for standardized, price-competitive goods. The United States cannot win an international contest based on cutting wages—nor is it in its long-term interest to be a victor in such a contest.

MEXICO'S LADDER

Will a laissez-faire NAFTA help Mexico continue to grow and develop its economy? For Mexico, even more than for the United States and Canada, a free trade agreement can be one element of a development strategy, but it is far from sufficient. The most important single action the United States could take to spur development in Mexico would be to relieve it of its crushing debt burden. But any hopes that NAFTA would achieve this were dashed when the negotiators announced that debt relief for Mexico was "off the table" from the beginning of the talks.

Short of debt relief, strict standards written into NAFTA itself can help assure that the agreement does not simply exploit Mexico's relative poverty. A coalition of labor, environmental, and development groups (the Mobilization on Development, Trade, Labor and the Environnent—MODTLE) has formulated a set of criteria that provide a framework for a more enlightened approach to this critical question. Among others, the MODTLE criteria include:

—Fair labor practices enforcement mechanism. The agreement must incorporate a mechanism whereby trade unions or individuals can challenge any infraction of labor rights or workplace standards in export-producing industries, bringing such infractions to reasonably swift adjudication before an international body.
—Enforcement of the rights of free association and collective bargaining.
—Harmonization *up* of workplace health and safety standards. Regional standards must in no case be lower than those in any of the three countries.
—Social infrastructure investment. Companies that invest in each of the countries could contribute to a fund to support social infrastructure in the communities in which they operate, including medical care, community development, and education.
—Environmental assessment of NAFTA's impact prior to and during its planing. This procedure should be carried out by each of the three governments and should be open to citizen input at every stage.
—Preservation of strong environmental standards. Nothing in NAFTA should require or encourage state, local, or national governments to loosen restrictive environmental or consumer protection laws. The recent GATT ruling in Mexico's favor on the issue of dolphin-killing tuna fishing sets an ominous precedent for trade agreements to undermine progressive national legislation when that legislation restricts trade.
—Prevention of environmental dumping. In order to prevent corporations from locating production where environmental regulations are weakest, a countervail-

ing duty should be imposed on industries that do not meet pollution control standards in the countries to which they are exporting. The duty would be equivalent to the corporation's savings from non-compliance, thus eliminating the economic advantage of such behavior.

—Commitment to internationally recognized human rights, with strengthened redress procedures. NAFTA signatories should agree to adhere to the American Declaration of the Rights of Man, the Charter of the Organization of American States, and the American Convention on Human Rights, if they have not already done so. Parties should recognize the jurisdiction of the Inter-American Court of Human Rights, in cases where national judicial procedures are questioned.

Electoral, political, social, and cultural rights should also be acknowledged as crucial to the success of a free trade agreement. Even if not included in the body of NAFTA, these rights could be ratified in a parallel tri-national agreement.

It also seems important to explore the possibility of raising and enforcing the minimum wage in Mexico, perhaps as a condition of signing the agreement. The growing divergence in Mexico between productivity growth and real wage increases signals a market failure of some sort in that country, perhaps reflecting the political imbalance of power there or the downward pressure on wages from the large informal sector and the large numbers of under-employed workers. As Walter Russell Mead (1991, p. 37) has argued, "low wages in developing countries contribute to a weakness of global demand and . . . this weakness in turn undermines political support for the multilateral free trade system." A higher enforced minimum wage in Mexico—that better reflected productivity levels—would serve two purposes: it would give Mexican workers more purchasing power, so that Mexican growth would not have to rely solely on exports; and it would relieve some of the pressure on U.S. and Canadian workers to accept deep wage cuts.

NAFTA essentially amounts to a contract between the governments of the United States, Canada, and Mexico. But until democracy in Mexico is strong enough and functional enough to give its citizens an effective voice in this process, we cannot be sure exactly who we are signing this contract with, or whose interests it will serve. The EC waited until Spain and Portugal had established civilian democracies before allowing them to join the Common Market. We should give Mexico the same opportunity before rushing to link our economy—and by extension—our political system with theirs.

THE BOTTOM LINE

If the North American Free Trade Agreement cheerleaders are right, and incomes and employment levels rise in all three countries as a result of the agreement, then the stringent standards and adjustment programs we advocate here will be at worst an inconvenience. They also will not impede positive change. For example, if income growth in Mexico actually does lead firms to act more environmentally responsible, then they won't mind having to abide by stricter standards. And if few workers are displaced by the free trade agreement, then the training and adjustment programs won't cost very much to run. But if the cheerleaders are wrong, then their policy prescription—to barrel ahead with an "unencumbered" agreement and desultory adjustment assistance—could have disastrous short-term consequences for hundreds of thousands of U.S. working people and negative long-term effects on the living standards and competitiveness of the entire continent.

ENDNOTES

1. *Displaced Workers. 1981–85.* BLS Bulletin #2289, September 1987, p. 3. The sample includes only those workers who had worked at their jobs for three or more years before being laid off due to plant closing or moves, slack work, or the abolishment of their positions or shifts.

2. The job loss figure is from Cohen and Tonelson (1991), and the job gain figure is from Hufbauer and Schott (1992).

3. The only exception (the Roland-Holst et al. model) fixes the wage rate and allows employment to fluctuate, also an unrealistic characterization of the labor market. The Bachrach-Mizrahi model actually assumes full employment for the United States, but allows unemployment in Mexico. This has the effect of increasing the gains from trade for Mexico as unemployed people are put to work, while unemployment in the United States is blithely assumed to be zero. Stanford (1992, p. 28) notes this questionable selectivity, writing that "full employment is assumed for cases when unemployment might increase as a result of free trade, but not when it might decrease."

4. See especially the Bachrach-Mizrahi study and the Brown-Deardorff-Stern study, both of which make the assumption that foreign investment increases in Mexico without any corresponding reduction in domestic U.S. investment (USITC, 1992b).

5. Stanford (1992, p. 6). Stanford's testimony provides detailed and insightful critique of the CGE models reviewed by the ITC.

6. The models show Mexico and Canada experiencing larger gains from trade liberalization (at the high end of the range) than the United States because their economies are more dependent on trade with the United States than vice-versa.

7. See Grinspun (1992) for a critique of the CGE models used to predict the impact of the Canada-U.S. FTA. Grinspun compares the models' predictions to the actual performance of the Canadian economy in the two and a half years following the implementation of the agreement. He finds no correlation whatsoever between the predictions and the actual outcome.

8. This process is apparent at any public forum in which modelers meet to discuss their models. At the ITC symposium (February 24 and 25, 1992) where the models were presented, the authors frankly discussed their disappointment with the initial results of the CGE models, which uniformly showed very small gains from trade. Various features were then piled, on, one at a time, until the gains from trade were more in line with the prior expectations of the authors.

9. Hufbauer and Schott take as fixed the proportion of Mexico's trade with the United States, which is currently about 75 percent. They also take as fixed the percent of Mexico's imports from the United States that are made up of capital goods (currently about 85 percent).

10. As cited in Mead (1991, pp. 17–18).

11. See Moody and McGinn (1991, p. 12).

12. *A Partnership for Growth: Investing and Manufacturing in Mexico,* briefing book distributed by Commerce Dept. to U.S. business executives in Los Angeles, 10/26/90; see also Faux and Rothstein (1991, p. 13).

13. Note that even though the import quotas facing Mexico under the MFA are quite flexible, the formal lifting of quotas under NAFTA may attract additional investment by offering essentially unbounded access to the U.S. market.

14. "Free Trade Accord is Enticing Canadian Companies to U.S.," *New York Times,* August 9, 1991, p. 1.

15. *New York Times,* August 9, 1991.

16. See Campbell (1992) for a more thorough discussion of this point.

17. From a presentation by John O'Grady at a conference held at the Institute for International Economics in Washington, D.C., June 22, 1992.

18. Note that the CGE models do not include any monetary variables, and so cannot incorporate the results of changes in currency values.

19. Steve Beckman testimony before the Trade Policy Staff, 9/4/91.

20. The wage figure refers to 1989, while the number of maquiladora workers is for 1991. The source for the maquiladora wage is the Bureau of Labor Statistics, Office of Productivity and Technology, "International Comparisons of Hourly Compensation Costs for Production Workers—Mexico" (April 1990). There are some indications that the maquiladora wage has risen relative to the average manufacturing wage since 1989, but no official estimates are available at this time. Note also that the maquiladora wage is higher than that prevailing in Mexico's informal sector, where many maquiladora workers are drawn from.

21. U.S. tariff code item 807, now known as item 9802, grants items assembled abroad from U.S. components easier access to the U.S. market.

22. Alter a mild political brouhaha over this prediction, the ITC released a revised estimate (with an altered supply elasticity) that found that all workers did in fact benefit from NAFTA.

23. Mexico: Trade and Industry Report Office of Trade and Initiatives, Trade Analysis Division, November 1990, p. 9.

24. Faux and Rothstein, "Fast Track-Fast Shuffle."

25."Salinas" Grip on Mexico is so Strong He even Wins When He Loses," *Business Week* July 27, 1992, p. 45.

26. While the Administration has stated that it would like to merge TAA with the less costly (and non-entitlement) Economic Dislocation and Worker Adjustment Assistance program, the cuts in TAA exceed the increases in EDWAA funding.

27. New York Times, October 7, 1991.

28. "European Worker Benefits," *AFL–CIO Reviews the Issues,* Report No. 55, September 1991

29. See, for example, Cohen and Donow (1989) and Sanderson (1989).

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Mexican Government, Private Sector Join Forces to Woo US Investors

By JENNIFER DELSON
Journal of Commerce Staff

MONTERREY, Mexico — The government and the private sector have joined in a unique marriage to promote Mexico, using the proposed free trade agreement as non-paid advertising and the U.S. recession as a springboard.

Despite a lack of funds and the slow pace of negotiations for the North American free trade agreement, Mexicans are persistently working to capture attention from U.S. investors and business people.

"The free-trade agreement is one big ad for us," said Maria Luisa Diaz, a representative of Pro-Export, financed by the border state of Nuevo Leon and private business. "Even if the agreement doesn't go through, it won't matter. People have put Mexico on the map and we're attracting people here."

In the span of four years, the private sector has become increasingly involved in government promotion efforts. The federal government's Foreign Trade Bank of Mexico, which funds 49 offices abroad that link private companies to possible clients, spent $100 million in promotion of Mexico last year.

Analysts estimate total promotion of the country, including the bank's funds, exceeds $200 million.

Even so, those involved in promotion said there is not enough money to do the job better.

"We have to use a shotgun, not a pistol," said Gregorio Canales, Nuevo Leon's external affairs director. "We need to go directly to the point, because we don't have enough money."

While Hong Kong imposed a 1% tax on imports and exports and channeled the funds to promotion, the Mexican government is in no position to create such a fund, he said.

The Mexican Investment Board, funded with public and private funds, has carefully narrowed its scope, said Aliza Chelminsky, vice president.

"When you consider covering the United States with a blanket, you realize how expensive it is," she said. "Whatever we have done, it has been quite targeted."

Antonio Ortiz Cobos, director of the Foreign Trade Bank of Mexico, echoes the frustration.

"Mexico is a country with a lack of resources; we are trying to show that we've recuperated from an economic crisis," he said, referring to a recession that began in 1982. "But we can't do it in Time magazine. We'd rather spend the money promoting specific sectors."

Among those sectors are citrus fruit, packaging, automobile parts, shoes and Mexican rustic furniture.

Taking advantage of the ailing U.S. economy, public and private sectors boast of Mexico's cheap labor supply in an effort to lure investors.

The government in Nuevo Leon began this month a series of conferences with business people around the United States. Next week, Nuevo Leon officials will be in New York to meet a select group of bankers and investors brought together by the Mexican consulate.

Besides an army of U.S. public relations advisers and consultants hired by private and public firms, soldiers in the battle include Mexican publicists, creating reams of brochures and business people investing in the country's largest convention center.

In Monterrey, the capital of Nuevo Leon, leaders of Mexico's strongest companies built the country's largest convention center, which opened in April 1991. A paid staff solicits chambers of commerce and industries who may want to conduct expositions.

Before its first birthday, the exposition center had already hosted trade ambassadors from Canada, India, Belgium and other Latin American countries.

Meanwhile, in Mexico City, business people are working on a color catalog that would provide photographs of products for export, a publication resembling those produced in Hong Kong.

"We're making the export sector more dynamic, like the more developed countries of the planet, like Hong Kong," said Jorge Mendez Flores, president of the group producing "Mexico Trade."

Promotion efforts are strongest in Northern Mexico, "because they're better organized and their mentality has always been oriented to exports," said Ms. Chelminsky.

The Nuevo Leon government recently opened the first government exterior trade office in San Antonio to promote exports and investment and is planning another office for Ontario, Canada, by the end of the year.

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WASHINGTON UPDATE

Policy and Politics in Brief

for Record

IN MEXICO, LOBBYISTS STRIKE GOLD

BY PETER H. STONE

Mexico is a recent convert to the Washington lobbying and consulting game but to judge from its blitz for the proposed North American free-trade agreement it's a fast learner

Since early last year Mexico has assembled a top-drawer collection of Washington public relations specialists lobbyists lawyers and consultants, including some veteran officials from the upper echelons of the Office of the U S Trade Representative (USTR) All this firepower does not come cheap the Mexican government has reported spending more than $5 million annually on the effort and that tally doesn't include spending by private-sector interests

It's clear that the Mexicans are taking a page from the book of not only U S multinationals but also from the Japanese and the Europeans, said Jeff Faux, the president of the Economic Policy Institute, a liberal Washington think tank that has criticized the proposed pact

For Mexico the stakes are high The agreement that the United States, Mexico and Canada concluded last month will, if approved by Congress and the other two countries, phase out all tariffs among the three nations over 15 years Mexico is eager to lure U S industries across the border to tap its abundant supply of cheap labor Some economists predict that Mexico—now the third-largest U S trading partner—could soon move ahead of Japan into the No 2 position

And so, the Mexican government trying to touch all the political base

In Washington, it has hired leading Democratic and Republican lobbying firms to woo Congress, veterans of USTR to provide insight into the Bush Administration's inner workings, high-powered lawyers to deal with the complex details of negotiations and a public relations firm to handle the news media

The Mexicans have also hired three Hispanic-owned PR firms in California, Texas and Florida to do grass-roots campaigns focusing on the Hispanic communities in those states

Among the USTR alumni who have been working for the Mexicans are Bill Brock a former Labor Secretary and U S Trade Representative and now senior partner of the Brock Group, and Michael B Smith, a former deputy trade representative who now heads SJS Advanced Strategies Inc, a unit of the Washington law firm of Steptoe & Johnson Brock provides the Mexicans with political and policy counsel on trade and labor Smith, until earlier this summer, worked for a coalition of 500 Mexican companies, advising them on what proposals might fly in Washington

Mexico's congressional lobbying team is composed of two staunchly Republican firms, Gold and Liebengood and Charls E Walker Associates, and two Democratic ones, Public Strategies Washington Inc and TKC International Inc Public Strategies is headed by Joseph P O Neill, a former top aide to Senate Finance Committee chairman Lloyd Bentsen, D-Texas, a major player on the proposed agreement

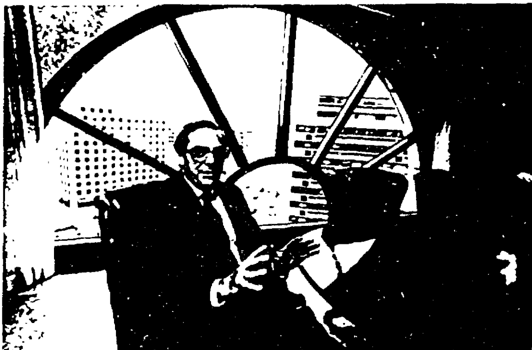
Another type of specialized lobbying clout is being provided by TKC, a unit of the Washington consulting firm Keefe Co TKC is headed by Gabriel Guerra-Mondragon a 15-year veteran of the foreign service who was a special assistant to the U S ambassador to Mexico from 1980-1983 In an interview, Guerra-Mondragon said that he is doing some work with Hispanic [groups] and labor unions to promote the proposed agreement

Working closely with the consultants and lobbyists is the PR giant Burson-Marsteller which since early 1991 has had a $323,000-per-month contract to handle communications for Mexico Burson-Marsteller, in turn pays Brock $30,000 a month and Gold and Liebengood $27,000 a month said Richard A Moore a senior vice president at Burson who is in charge of the account. 360,000

Part of Burson's mission is to counter critics who say that lax environmental regulation in Mexico would encourage polluting industries to move there from the United States The PR firm has produced fact sheets and brochures touting Mexico's environmental cleanup efforts and has set up meetings between Mexican officials and environmental groups in the United States

With so many players involved Mexico has tried to coordinate their activities by holding weekly meetings at the Mexican Embassy

The intensity of the free-trade campaign is a departure from Mexico's past practice Hermann von Bertrab, the director of the Mexican Embassy office overseeing the free-trade agreement said that historically, Mexico felt threatened by the



Former U.S. Trade Representative Bill Brock
He's one of several former U.S. trade officials now working for Mexico.

United States and didn't lobby at all. "We were self-centered. The Congress was nonexistent," he said.

Besides paying new attention to Congress, the Mexicans are trying to muster support in the Hispanic community. The three Hispanic PR firms hired by Mexico have been working with Hispanic media outlets and with local and regional Hispanic groups to build grass-root support for the pact.

The Mexicans have also retained the services of three well-connected Hispanic politicos: former New Mexico Gov. Toney Anaya, former Navy Secretary Edward Hidalgo, and Abelardo Valdez, a private attorney in Washington who has done stints at the U.S. Agency for International Development and in the Carter White House as chief of protocol.

To handle the nitty-gritty details of treaty negotiations, the Mexicans have turned to Washington lawyers with trade expertise such as Robert Herzstein of the Washington office of the New York City-based law firm of Shearman & Sterling. Herzstein, who was then at the Washington law firm of Arnold & Porter, worked for Canada on the Canadian free-trade pact in 1988 and is now Mexico's lead counsel. A few other law firms, including Los Angeles-based O'Melveny & Myers, have been tapped by the legal team.

Washington lobbyist Charls E. Walker
His firm is part of Mexico's bipartisan congressional lobbying team.

While Mexico has adapted quickly to Washington's ways, some critics voice misgivings about the revolving door between the U.S. government and Mexico's consulting and lobbying team in the capital.

"What's bothersome to a lot of people is when you hire all the alumni of the White House trade office," observed Charles Lewis, the director of the Center for Public Integrity, a nonpartisan group that has studied foreign influence in Washington. "Even if they say they're not lobbying, it's suborning silence. They've bought the best talent that money can buy."

Faux notes that critics of the pact have been roundly attacked as tools of special interests such as unions or environmental groups. "But meanwhile," Faux said, "the real special interests are the K Street lobbyists who have infested this negotiating process."

Mexico is clearly enthusiastic about its new use of Washington lobbyists, though. "We're really just discovering the U.S. as a social and political situation," von Bertrab said. ■

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Wall Street Journal 8/13/92 Aug. 13th

Quick Reaction

Trade Pact Is Likely To Step Up Business Even Before Approval

U.S. Exports Are Expected To Rise, and Companies To Expand Investments

But Opposition Lingers On

By KENNETH H. BACON
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – The North American Free Trade Agreement, which was concluded yesterday, is likely to spark a further sharp rise in trade and investment in Mexico even before it wins the anticipated legislative approvals.

As U.S. companies rush to share in the benefits of Mexico's economic revitalization, the pact will "unleash a surge of trading activity with Mexico, already our third-largest trading partner and fastest-growing export market," says Kay Whitmore, chairman of Eastman Kodak Co.

The agreement that the U.S., Canada and Mexico reached just hours before

Congressional Scrutiny

The free trade agreement is likely to get heavy use as a political issue. Meanwhile, mutual fund firms are looking for a way to profit from the agreement. Articles on A4 and C1.

President Bush announced the pact yesterday morning will, if approved by Congress and the two other legislatures, eliminate all tariffs among the three countries over 15 years and create a free-trade zone stretching from the Yukon to the Yucatan. But most of the new opportunities opened up by the accord are in Mexico, a fast-changing nation of 86 million people with a voracious appetite for U.S. products and investments. Canada, the largest U.S. trading partner, entered a free-trade agreement with the U.S. in 1988.

Although the pact won't begin to take effect for about a year and a half, it could quickly, albeit modestly, bolster the U.S. economy as businesses invest and otherwise get ready to take advantage of the falling trade barriers. Many companies, in fact, are likely to invest in Mexico simply to get in on the ground floor. Analysts cite the push for a single European market by the end of 1992, which sparked an investment boom in Europe in the late 1980s, long before its scheduled arrival. "I think the same thing is going to happen in the U.S.," says Vladi Catto, chief economist at Texas Instruments Inc.

Treasury Assistant Secretary Olin Wethington even holds out a hope that the pact will have a "short-term confidence-building effect" among U.S. businesses, many of which see little else now on the economic horizon to stir excitement.

Early Beneficiaries

The first industries to benefit are likely to be autos, textiles, capital goods, financial services, electronics, telecommunications and petrochemicals. Sales of companies in such industries have been rising for some time as a result of the stimulatory effect of Mexico's economic liberalization. Now, the prospect of the trade pact is further increasing confidence and business activity in Mexico, and that surge could benefit the entire U.S. economy.

Caterpillar Inc., the construction-equipment giant based in Peoria, Ill., expects that, as a result of the agreement, the U.S. industry's sales of construction equipment into Mexico may rise by $35 million to $40 million a year. The company, already dominant in the Mexican market, expects to capture "the lion's share" of such an increase. One reason: Tariffs wouldn't be reduced on competitors' machines made in Japan or Europe.

Surging U.S. Exports

In the past five years, U.S. exports to Mexico have nearly tripled to $33 billion in 1991, and they are expected to hit $44 billion this year. Some economists predict that Mexico will soon surpass Japan as America's second-largest trade partner.

Although most business groups praised the agreement yesterday, some industries aren't so happy. The U.S. oil industry is disappointed by its failure to win greater access to Mexico's state-owned energy business. And while many business groups won protective provisions shielding them from competition from the south, certain fruit and vegetable growers fret that Mexican farmers and food processors would claim a share of their markets.

In addition, the trade pact faces substantial opposition from unions. They fear that manufacturers may move jobs to Mexico, where wages are a tenth of U.S. levels. The pact also has been attacked by environmentalists, who say it won't do enough to prevent and clean up pollution in Mexico. Bill Clinton, the Democratic presidential nominee, and several Democrats in Congress say they will push for firmer worker and environmental protections as the price for approving the pact.

Assuming the various objections don't derail the accord, it will take effect on Jan. 1, 1994, after approval by all three countries. Tariffs on about 50% of the items traded across the Rio Grande would then immediately disappear. The pact also would remove a web of Mexican licensing requirements, quotas and tariffs that currently limit transactions in U.S. goods and services. For instance, the pact would allow U.S. and Canadian financial services companies to establish wholly owned units in Mexico for the first time in 50 years.

Current laws have prevented banks

Please Turn to Page A4, Column 1

Quick Reaction: Trade Pact May Spur Business Quickly

Continued From First Page

from expanding into Mexico even as Mexican banks have moved into Southern California. "We have a rep office there, but we've been hampered by an inability to trade foreign currencies or to lend or borrow in pesos," says Peter McPherson, a BankAmerica Corp. executive vice president. Although saying the bank hasn't decided to move into Mexico, he notes that BofA has banks in all states on the Mexican border and that "the markets are beginning to get integrated" as trade expands.

For dozens of companies, completion of trade-pact negotiations flashes a green light to proceed with projects south of the border. U.S. securities firms, already active in financing Mexico's mushrooming economy, say they now expect to funnel even more capital there. The agreement allows U.S. brokerage firms to form wholly owned Mexican subsidiaries, with limits on their share of the Mexican securities industry gradually being lifted until they end in the year 2000.

"The U.S. securities industry can play a role in channeling that investment not only from the U.S., but also from Asia and Europe," says Robert Hormats, vice chairman of Goldman Sachs International. His firm pushed in a year ago, leading the $2 billion stock sale of Telefonos de Mexico S.A.

The Next Steps

1. Further legal drafting and review are required to implement the understandings reached by the U.S., Canadian and Mexican negotiators.
2. Once the treaty is finished, the President must notify the Congress of his intent to enter into the agreement at least 90 days before he signs it.
3. After the agreement is signed, legislation must be drafted to implement it, including any changes in U.S. law. The Congress must then approve this implementing legislation on an up-or-down vote within 90 "session" days of Congress.

For mining companies, the agreement should accelerate the current stampede south of the border, executives predict. Over the past couple of years, hundreds of U.S. mining companies have started exploring for minerals and metals – especially zinc, copper and gold – in Mexico as the government cut taxes and streamlined the process for getting concessions.

Natural gas industry officials seem ebullient about the prospects opened by the trade deal. "The agreement also ought to mean more U.S. investment in electric power plants in Mexico, and many of them will burn gas," says James Cordes, executive vice president at Coastal Corp., a Houston based pipeline company. More broadly, he adds, "If this improves the Mexican economy and means more factories and plants in the north, then it should mean more demand for U.S. gas and more jobs in this country."

Steel companies should gain early on. Walter Williams, chairman of Bethlehem Steel Corp., says that although his company has some concerns about certain details in the pact, its completion should be a boost for the economy. "The sooner an economic stimulus is achieved, the better it will be for all concerned, and this could help domestic companies," he contends.

Robert A. Garvey, president of the North Star Steel unit of Cargill Inc., also sees U.S. steelmakers as winners – for a while. "Certainly in the next five to 10 years, there's going to be a benefit for the U.S. steel industry," he says. "Beyond that, it's hard to predict." He and others expect that, down the road, Mexico's steel industry could become tough competition.

The opening of Mexico represents a radical departure from the past. For decades, Mexico had hid behind a protectionist curtain that screened out imports and foreign investment. Then, in 1985, the country began an ambitious modernization program. Hobbled by too much debt and an inefficient economy, Mexico began reducing tariffs and other trade and investment barriers to make Mex[illegible]an companies more competitive w[illegible]ld[illegible]le.

"Protectionism just fa[illegible]d [illegible]r them. Their incomes went down," says Ruth Kurtz, who heads the Washington office of the Mexican Business Coordinating Council for the Free Trade Agreement. "They paid the price of international isolation. For them the task became, 'How are we going to open our economy, what do you need to do to compete?' Free trade isn't a theoretical debate in Mexico."

Both American and Mexican analysts see the trade accord as a way to safeguard and expand the tariff reductions and other market reforms that Mexican President Carlos Salinas de Gortari has introduced. "Free trade means that these market-oriented changes will last beyond the term of this president," says Jorge Vazquez Costilla, chief economist of Femsa, a giant beer and soft-drink maker. "Now, you can plan for the future."

Despite the theoretical commitment to free trade and more open North American markets, trade ministers from the U.S., Canada and the U.S. spent the past 10 days in intense negotiations to craft a series of compromises to protect individual industries ranging from brooms to sneakers. Basically, the thrust of these compromises would be to shield them from having to face the full force of competition too quickly.

"What we have is a thrust of policy that is free trade, tempered by a lot of devils in the detail that are protectionist," says Robert Lawrence, a Harvard economist.

A look at the details of the pact shows how the negotiators balanced these competing concerns.

Tariffs

Tariffs on trade by the U.S. and Canada with Mexico are to be phased out over 15 years. The tariff abolition schedu[illegible] contained in the 1988 U.S.-Canada Free [illegible]rade Agreement would remain in place. U.S. tariffs on imports from Mexico average less than 4%, while Mexican tariffs on shipments from the U.S. average 10%.

Levies on 50% of the 9,000 items covered would end the day the agreement takes effect. Tariffs on another 15% of the items would end in five years, and the rest would be phased out in the sixth through 15th years. One difficult question was which industries and products to protect from competition with long tariff phase-outs. Among products protected by a 15-year phase-out are sneakers, ceramic tile, household glassware and some agricultural items, including orange juice concentrate, peanuts, broccoli, asparagus and melons.

Of course, tariffs would remain in force on imports from countries outside the new trade bloc, giving North American products advantages. The slice of U.S. industrial exports covered by Mexican tariffs would fall to zero from 81%

Agriculture

Mexico, which imposes tariffs of 10% to 20% on farm products, would abolish tariffs on half of its crop imports from the U.S. when the agreement took effect. Most of the rest would end in 10 years. Tariffs on sensitive products, including corn and dry beans for Mexico and orange juice and sugar for the U.S., would be phased out over 15 years.

Sugar trade between the countries would be liberalized, although the U.S. sugar industry would continue to be protected by a world-wide quota. Thus, any increases in Mexican sugar exports to the U.S. would come at the expense of other producers, such as Caribbean countries.

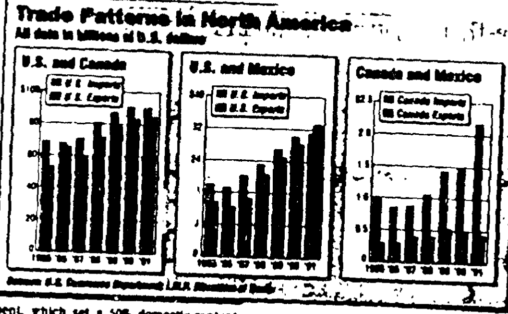
Mexico also would end licensing requirements for wheat, corn, poultry, eggs, cheeses and nonfat dry milk.

The three countries agreed to strive for domestic price-support policies that don't distort trade.

The U.S. peanut industry is worried. The Peanut Advisory Board, an Atlanta-based trade group, says that the accord would allow Mexican firms to process peanuts from U.S. competitors, such as Argentina, India and China, and then re-export them to the U.S. The peanut farmers have already seen Canadian food processors get more active; the U.S.-Canada trade pact sparked a fivefold increase in peanut butter imports from Canada.

Autos

To qualify for duty-free trade within North America, cars must be predominantly made inside the trade bloc. The agreement would phase in a North American content standard of 62.5% of the net cost of a car. This is a significant increase from the U.S.-Canada Free Trade Agreement, which set a 50% domestic-content standard, but it's less than the 70% the U.S. auto industry wanted to fence out Japanese and other imported parts. The industry would have four years to move up to 57% North American content and another four years to reach 62.5%. Both Canada and Mexico fought for lower content requirements to protect or encourage Japanese investment. Other vehicles and automotive parts must be 60% North-American-made to qualify for duty-free treatment within the trading bloc.



Yesterday, the Japanese Automobile Manufacturers Association called the local-content requirement "a giant step in the wrong direction" that would end up raising prices for car buyers.

When the pact takes effect, the U.S. would immediately eliminate its 2.5% tariff on auto imports from Mexico and cut its 25% tariff on light trucks to 10%. The truck tariff would be phased out in five years.

Mexico would immediately halve its 20% tariff on autos imported from the U.S. and Canada and phase out the remaining tariff in 10 years. The 20% tariff on light trucks would fall to 10% on Jan. 1, 1994, and be eliminated in five years. In addition, Mexico has agreed to phase out two requirements, a trade balancing rule that requires it to export more vehicles than it imports and a requirement that all vehicles made in Mexico contain a certain percentage of Mexican parts.

Auto makers say these changes, plus liberalized investment standards, would enable them to build large, efficient assembly plants in Mexico from which they could supply Mexican, Canadian and American markets, and to ship large volumes of vehicles to Mexico from other plants in North America.

Auto industry leaders defend the trade accord against the charge that it would wipe out jobs. "We don't expect to see any American workers displaced by Mexican workers," says Robert Stempel, General Motors Corp.'s chairman. "The trade agreement will encourage jobs in the long run. It opens a huge Mexican market to even more trade."

Computers, Electronics

Mexico would phase down its high tariffs on computers and parts to the current U.S. and Canadian levels. During the transition period, a domestic-content [...] to participate in Mexico's ambitious telephone modernization program.

William Fasig, manager of international trade at Apple, notes that tariffs on computers now stand at 20%, so a reduction and expected elimination would lead to a price cut for Mexican consumers and should boost sales. Mexico is Apple's fastest-growing Latin American market.

Digital Equipment Corp., the nation's second-largest computer maker, welcomes the pact. "We're especially looking forward to the Mexican market opening up," says Robert E. Jones, strategic planner in Digital's manufacturing unit. Digital sees the need to develop Mexico's infrastructure, probably leading to increased spending on information technology.

Digital has had manufacturing plants in Canada and Mexico for some time. Mr. Jones says he doesn't expect the pact "to lead to significant changes in our sourcing strategy in those countries."

Energy and Petrochemicals

This is one area where the U.S. and Canada got far less than they wanted, in part because the Mexican constitution bars foreign ownership of Mexican oil. Initially, U.S. and Canadian companies will be able to bid on as much as 50% of the service and other contracts offered by the Mexican government's oil and electricity monopolies. That bidding window will open to 70% over eight years, and the restriction will disappear in the 10th year.

In the oil fields, however, U.S. and Canadian companies may compete only for "performance" contracts, which give them a bonus for superior service, and not for "risk" contracts, which give them a share of the oil.

Mexico would immediately end trade and investment limits on 14 of 19 currently restricted basic petrochemicals.

The agreement isn't an incentive for Dow Chemical Co. to expand its Mexican operations, says William Cornelius, director of trade policy. "The chemical industry isn't labor intensive; we're capital and technology intensive," he says. He notes that Dow's two Mexican plants, making agricultural chemicals and pharmaceutical packaging, employ only 200 people. Dow employs 62,000 world wide.

Dow and other chemical companies also dispute environmentalist claims that they might expand in Mexico to take

provision would apply. Computers' main circuitry, the motherboard, must be made in North America, and computer parts imported from abroad must be incorporated into other parts to qualify for duty-free trade among the three countries. The provisions benefit companies such as Apple Computer Inc. that make most parts of their computers in the U.S.

Most Mexican tariffs on electronics and communications equipment would end immediately. U.S. and Canadian companies would be able to provide voice-mail, switching and other communications services in Mexico, which would lift investment restrictions on telecommunications services by July 1995. The changes would make it easier for U.S. and Canadian companies

advantage of lax health and safety standards. The companies say that since a Union Carbide herbicide plant blew up in India in 1984, killing more than 3,800 peo le, the industry has been forced to ad. . "world class" standards in plants.

espite their large operations in the U.S. Southwest, oil-service companies don t expect any quick boom from the trade agreement. "We have done business with the Mexican national oil company for years," says Isaac Kerridge, a vice president of Baker Hughes Inc., of Houston, a major oilfield service company. "Our conclusion is that it s not a major factor in the outlook for the market."

Mr. Kerridge adds that increased drilling in Mexico could have a greater impact and expects an eventual upturn once Mexico s oil company is restructured.

Financial Services

Mexico would allow U.S. and Canadian banks, brokerage firms, finance companies and insurers free access after a six year transition period during which market share would be limited. Each country has agreed to grant national treatment to North American financial companies, they would be subject to the same rules as indigenous institutions.

Stephen Cunningham, co-manager in charge of emerging markets for Bear, Stearns & Co., expects the pact to boost Wall Street firms business. "Clearly it s good for general business, which helps trade flows and investment flows of capital, which is very good for the securities industry," he says. Like Goldman Sachs, Bear Stearns already has been active in Mexican and Latin American investments. The firm made a commitment to focus on the area in 1983 as the debt crisis there erupted, he says. "Getting Nafta to this stage only provides greater certainty," he says, "which is very good for commerce and the movement of capital."

Mr Cunningham expects U.S. brokerage firms to boost their underwritings of Mexican securities offerings, as well as their ~~ss border merger and acquisition activi' This summer s lull in the Mexican market also should end, now that concerns about free trade are lifted, he adds. He also expects the pact to increase the presence of Mexican issuers in the bond markets as well as multinational companies with operations in Mexico.

With Mexico s focus on developing its infrastructure, the agreement should accelerate development of Mexico s capital markets, especially its fledgling markets for derivatives such as stock options and indexes, Mr Cunningham says. With the ability to establish a local presence in Mexico, he adds, U.S. firms should be able to help Mexican brokerage firms develop markets there.

Citicorp, the only non Mexican bank that holds a Mexican bank charter, faces tougher competition as others move in. But it praises the accord, saying "Competition is good for all of us."

At Bankers Trust New York Corp., Neil Allen, managing director for Latin America merchant banking, says the New York bank wants to build its Mexican securities business to play a role in the local capital markets such as bond and stock trading and sales. Bankers Trust, which has shifted from traditional lending to securities activities, also wants to bring derivative products such as swaps and options to the Mexican market.

Other banks say the increased trade flows should result in more trade finance business. Richard Huber, vice-chairman of Chicago's Continental Bank Corp., expects the bank's export/import finance business between Mexico and the U.S. to double in the next couple of years from $1 billion annually. Many Continental clients in America's heartland have seen exports surge in recent years.

"Financing Mexican trade is big business," says Mr. Huber, who expects a surge in such trade. "Anything that encourages trade provides an opportunity for banks."

Textiles and Apparel

This is likely to emerge as one of the more politically and economically sensitive portions of the agreement because the provisions protect producers by fencing them off from world-wide competition that could help hold down consumer prices.

Mexico would remove immediately barriers to trade on some $250 million of U.S. textile exports, including denim, underwear, thread and some household furnishings. Most other barriers would be trimmed away over the next six years.

But the pact would establish a stiff rule-of-origin standard that generally says that garments must be manufactured in North America from the yarn-spinning stage forward to trade duty-free. "This is mainly going to hurt fourth-country exporters of textiles and apparel," says Gary Hufbauer of the Institute for International Economics.

Most of the U.S. textile industry expects big benefits from the pact. "It represents a renaissance for the textile industry," says Charles Hayes, chief executive of Guilford Mills Inc. in Greensboro, N.C.

He envisions U.S. textile firms raising their sales to apparel manufacturers that seek to take advantage of low-wage labor markets in Mexico. As a result of the agreement, the labor intensive segment of the textile industry, involving such tasks as cutting and sewing fabric, is expected to shift to Mexico from the Far East. Clothing manufacturers that set up shop in Mexico are likely to turn to U.S. textile suppliers, which, because of their proximity, can provide quicker service at lower transportation costs.

"We ll be able to ship garments within two days, but now it takes two to three months to get it from the Far East," Mr. Hayes says. Guilford expects the pact to lift its business 50%, or $200 million to $300 million, within five years.

The industry also expects the agreement to expand markets in Mexico. "We re looking at this as opening consumer markets for goods made in the U.S.," says Robert Thompson, vice president of public affairs for Springs Industries Inc., which makes home furnishings. And textiles with U.S. fashion appeal would find a bigger market, says Josie Esquivel, an analyst at Lehman Brothers.

However, one of the largest U.S. textile manufacturers is worried. "This is a devastating thing for the apparel industry," says Roger Milliken, chairman of Milliken & Co. in Spartanburg, S.C. He expects Mexican apparel manufacturers to purchase textiles and apparel made in the Far East rather than in the U.S., partly because the Chinese and other low-cost exporters would price and market their products aggressively. The U.S. would lose even more of its apparel manufacturing – and more jobs – to Mexico because of its lower wages, he says.

Transportation

American truckers would be able to carry international cargo into Mexican border states by the end of 1995 and throughout Mexico by the end of 1999. Mexican haulers would get reciprocal treatment in the U.S. on the same timetable. Current laws prevent U.S. and Mexican truckers from carrying cargo across the border, even though 90% of U.S.-Mexican trade moves by land.

The pact also would phase c (ba iers to bus service and cross-border ve. ment in transportation companies . d would expand opportunities for U.S. railroads in Mexico.

Other sections of the agreement deal with patents, copyrights, the resolution of trade disputes, the enforcement of health and safety standards and environmental protections. "This is the first time a trade agreement has included stringent provisions to benefit the environment," President Bush said. But, despite the agreement's references to maintaining high health and environmental standards, environmentalists and many congressional Democrats complain that the administration hasn't made a firm-enough commitment.

Mr. Lawrence, the Harvard economist, says a major challenge negotiators faced was crafting an agreement that integrates a developing country with two of the world s most sophisticated economies. "The benefits to Mexico come as much from being able to import a modern regime of rules and institutions as from the trade provisions," he notes.

Bush administration officials insist that the accord wouldn t dilute U.S. trade ties elsewhere in the world. U.S. negotiators will keep plugging away at the chronically logjammed Uruguay Round negotiations under the General Agreement on Tariffs and Trade.

GATT rules prohibit parties to a regional pact from increasing barriers to outsiders. However, the pact, by definition, would give an advantage to companies operating in the U.S., Canada and Mexico, since barriers for others remain at current levels while those within the bloc come down. "It s preferential market access for U.S. exporters into Mexico," says Mr Lane at Caterpillar.

Aug. 13th

Free Trade Treaty Is Key Issue In U.S. Presidential Election

By JEFFREY H. BIRNBAUM
And DAVID ROGERS
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – The North American Free Trade Agreement announced yesterday won't be taken up by Congress until next spring at the earliest. But in the meantime, it is likely to get heavy use as a political issue.

President Bush's political advisers say they hope the agreement will win them support in the crucial electoral states of Texas and California, where Mexican Americans loom large in the electorate. But they acknowledge the pact could hurt them in the heavy industrial states of the Midwest, where the fear of losing jobs is the greatest. "I don't think we'll have a Nafta event in Detroit," one Bush aide said.

Meanwhile, Gov. Bill Clinton is likely to continue to play both sides of the trade divide, supporting free trade with Mexico in general, but also calling for conditions that assure adequate retraining for U.S. workers who lose their jobs and adequate protection for the environment along the border.

Few doubt that the agreement will ultimately be approved, in some form, by Congress. But Congress's action next year could be importantly affected by how the issue plays out in the presidential campaign. Democrats are already pressing for more spending to save U.S. jobs and for other assurances on the environment before they commit to vote for the pact. A Clinton presidential victory would undoubtedly strengthen their position.

In Mexico, President Carlos Salinas de Gortari said he would submit the agreement to the Mexican Senate for approval once it is signed by the three national leaders. There is overwhelming support for the free trade pact in the Senate, which is dominated by Mr. Salinas's ruling party.

The pact is less popular in Canada. Only 29% of Canadians favor such an agreement, and labor unions and opposition political parties are heavily attacking it. Nevertheless, the government, with its parliamentary majority, is expected to have little difficulty in getting the accord approved. Nelson Riis, House of Commons leader of the opposition New Democratic Party, predicted that the government will try to get the unpopular issue behind it as soon as possible in ... effort to focus public attention on ...er matters before the next general election, which must be held within the next 18 months.

The strongest supporters of the pact are in the areas that border Mexico, especially in Texas and southern California. Gov. Clinton has enjoyed a decisive lead in the polls in California, and even with this possible boost that state remains an uphill climb for the president. But Bush aides hope the agreement will help Mr. Bush return to the lead in his home state of Texas, a must win state for the president.

"I believe the president will receive some political benefit," says Clayton Yeutter, the president's senior domestic policy adviser, "particularly from the Hispanic community."

The agreement also is likely to be welcomed by big business leaders, who more often support Republicans. "That means dollars, fund raising," says GOP pollster Vince Breglio, "and in that sense it probably ends up benefiting Bush." Moreover, the pact will help Mr. Bush in arguing that his foreign policy skill can reap benefits for the economy.

(*)

Overall, however, the impact o... agreement on President Bush's re-elec... prospects is a matter of disagreem... among Republican strategists. One se... White House official predicted only "marginal" impact because, "Very f... Americans think this is going to me... more than five extra dollars [for them] o... way or the other."

Mr. Clinton will be focusing a lot of h... attention on Michigan and other Midwe... states, which are critical battlegrounds ... the presidential election. But while pol... show many workers in those states oppo... the whole idea of a free trade agreeme... with Mexico, Mr. Clinton has made it cle... that he doesn't. Instead, he'll likely try t... appeal to those workers by demandin... retraining for those who lose their jobs an... pushing for stronger environmental pro... tection. Gov. Clinton didn't comment on the pact yesterday, and a spokesman said he would study the new plan before commenting on the details.

Republicans anticipated this delay by Gov. Clinton and hope to use it to thei... advantage. Mr. Bush plans to attack Mr Clinton for waffling on the issue, and wi... try to paint his reluctance to take a fir... stand as part of a pattern they will ter... "slick."

In Congress, Republicans see trade ... an issue that they can use aggressively f... their advantage. And U.S. Trade Repr... sentative Carla Hills, who has alread... been active in consultations with Con... gress, will speak at the GOP conventio... next week. By the same token, Democrat... will seek to avoid the protectionist labe... and define the fight as a question o... whether provisions are made to protect th... environment and workers displaced by th... pact.

House Ways and Means Committee Chairman Dan Rostenkowski, who was telephoned by Mr. Clinton yesterday, said he advised the nominee to be "cautiously optimistic" about the pact but leave room for changes. In tougher tones, Majority Leader Richard Gephardt, went so far as to say that if Mr. Clinton is elected, the new administration will take the pact back for renegotiations with Mexico.

"It boils down to how this should be done," said Mr. Gephardt, who criticized the White House for "puffery" and said major obstacles remain to the agreement's approval by Congress because of President Bush's failure to identify the resources needed to carry out commitments to retrain workers and protect to the environment.

Under the so-called "fast track" procedures governing the treaty's consideration, another month is expected to be needed before the legal text is completed and formal notice is given to Congress. Mr Bush must wait at least 90 calendar days before signing the agreement, and in this period, adjustments can be made in response to pressure from lawmakers.

The actual implementing legislation won't be introduced until the new Congress, and a maximum of 90 legislative days – which could stretch into four to five months – is allowed for consideration. Given the current political climate, at least a quarter of the House at that time will be made up of freshmen members, and the Senate establishment may well be shaken by a wave of women candidates who have emphasized environmental issues in their campaigns.

–John Harwood contributed to this article

CAMPAIGN '92

Poll: Clinton's economic focus is on target

By Richard Benedetto
USA TODAY

Bill Clinton's strategy to keep his campaign focused on the economy seems to be paying dividends.

In a year when most agree the economy is the major issue, Clinton's economic positions score higher with voters than those of President Bush, according to a new USA TODAY/CNN/Gallup Poll.

Clinton also leads on a number of other economy-related issues such as taxes, trade, health care and welfare.

Candidates' names were not attached to their proposals when voters were polled.

Bush scores best on foreign affairs, but in the absence of an overseas crisis, he can't gain political ground.

Clinton, with little foreign policy experience, has chosen to downplay foreign issues and focus instead on worries over jobs. Analysts say he's right.

"Voters are making rational judgments based on economic conditions and the likelihood of their changing or staying the same," says Georgetown University political scientist Stephen Wayne.

Clinton only narrowly edges Bush on handling taxes, but a majority prefers Clinton's economic plan: Spend $200 billion for public works programs and pay for them with deeper military cuts and higher taxes on business and the wealthy.

Only one in three likes Bush's offer to cut taxes across the board and offset them with lower federal spending in most areas except Social Security.

"Clinton is being a little more realistic about it," says Todd Glanton, 24, of Kalamazoo, Mich., a moderate Republican who works for UPS.

While Bush has bashed Clinton's economic approach as "the same old tax and spend" Democratic policies, Clinton has effectively countered by raising worries among the poor and elderly that Bush cuts in spending could reduce Medicare and Medicaid benefits.

More than half of the poll respondents said they're more worried about a president who would cut "important" domestic spending than a president who would raise taxes.

But 51% favor Clinton's proposal to cut military spending by 5% more than Bush; 43% oppose it.

Clinton's caution in backing a free-trade pact with Mexico and talk about getting tough with unfair traders also is hitting home with voters.

▶ 5?% oppose free trade with Mexico, saying it will cost U.S. jobs.

▶ 62% worry about a president who would hurt U.S. workers and businesses by not protecting them from foreign competition.

Bush favors free trade and wants to extend it to South America and eastern Europe, saying it will raise U.S. exports and create jobs.

Rex Lundy, 31, a Spencer, Okla., farmer who voted for Bush in 1988 but now is undecided, likes free trade. "Most of the time, we export things I grow — peanuts, wheat, corn. That's real important."

On health care, Bush's case that Clinton's approach gives the government too much control seems to be failing:

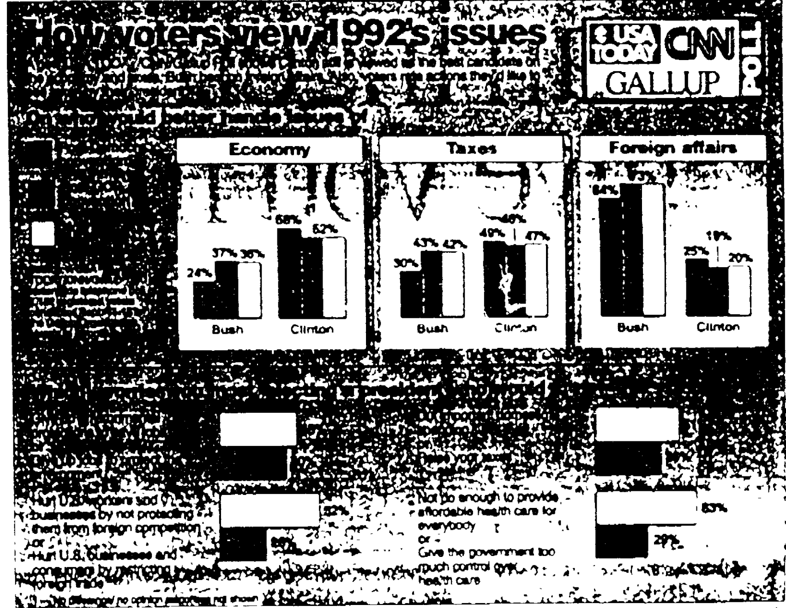
▶ 63% say they care more about making sure everyone has affordable health care than they are about government control.

▶ 50% say they prefer Clinton's plan to require employers who don't offer health insurance to pay into a fund; 40% like Bush's offer of tax breaks to help buy health insurance.

Bush's approach to "balance" environmental protection with jobs also is lagging.

More voters worry about a president who would give up environmental protection to save jobs than a president who would sacrifice jobs for the environment, 45% to 40%.

▶ Clinton's issues, 1A



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336

U.S. News + World Report. (May 1991)

■ U.S. NEWS

Poisoning the border

Many American-owned factories in Mexico are fouling the environment, and their workers aren't prospering

W[illegible] manicured lawns and high-tech ambience, the FINSA industrial park in Matamoros, across the Mexican border from Brownsville, Texas, gleams with ultramodern, American-owned manufacturing and assembly plants that turn out a variety of consumer and industrial products. Eager to cut costs, U.S. companies from *Fortune* 500 giants to small entrepreneurs began relocating to northern Mexico 25 years ago under a program called *maquiladora* – from an ancient custom of trading raw for finished goods. They have transformed once somnolent border towns like Matamoros into sprawling urban centers that annually attract thousands of job-hungry workers.

Close to 2,000 plants employing

Hazardous habitat. *A canal, befouled by industrial poisons and strewn with trash, flows through a Matamoros neighborhood. Invariably laced with highly toxic heavy metals and sewage, these canals are a smelly eyesore and a dangerous health threat. Despite poor living conditions, the prospect of work draws a steady stream of workers to the region from other parts of Mexico. Tiny shacks of scrap lumber, cardboard and tin are home for new arrivals. At left, uniformed employees head for work from a more established* colonia.

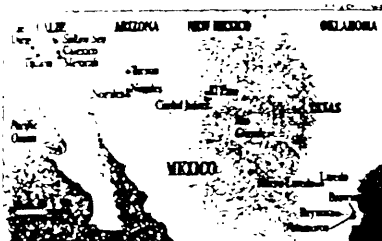
about half a million people are now strung along the 2,000 miles of border from Matamoros in the East to Tijuana in the West. Here the industrial dynamism of the First World and the poverty of the Third dovetail in what is widely [illegible]

And while Mexico enacted tough new cleanup laws in 1988, scant resources have been made available to enforce them.

As the Bush administration presses forward with plans for a free trade pact with Mexico, critics in Congress and organized labor cite present environmental and social conditions as a reason to block the treaty. They point to a report last June by the American Medical Association, which described the region as "a virtual cesspool and breeding ground for infectious disease." The AMA concluded: "Uncontrolled air and water pollution is rapidly deteriorating and seriously affecting the health and future economic vitality on both sides of the border." Treaty opponents argue that conditions will worsen if the border is fully opened. And these growing concerns about pollution have prompted several federal agencies to consider whether U.S. Trade Representative Carla Hills should order an environmental impact statement, which could delay the pact for years.

Advocates of a free trade agreement argue that economic development, while inevitably creating some pollution, frequently spurs prospering nations to significantly improve their environmental enforcement and to enact more stringent workplace rules. In addition, President Carlos Salinas de Gortari is more determined than any predecessor to clean up pollution, suggesting a brighter future for workers and the environment. But a *U.S. News* survey of current conditions reveals:

- Indiscriminate dumping or long-term storage of industrial garbage and hazardous wastes is trashing the landscape and poisoning the water and soil.
- A slumgullion of chemical-laced industrial waste water and raw sewage pumped into canals and rivers is causing widespread gastrointestinal illness, hepatitis and other long-



Generations. *A worn and weathered man takes respite from scavenging in a huge open waste dump in Reynosa for items to sell. In Nuevo Laredo, a child drinks nonpotable water.*

term health problems, including a suspected increase in mortality from [illegible] cancers.

■ Massive discharges of toxic fumes [illegible] chemical plants and other factories. In the Matamoros [illegible]

● [illegible] employees [illegible] women [illegible]

[illegible]

week. The average weekly salary is about $47 in a border economy where food and other necessities often are as expensive as in the United States. The case of Yolanda Carrillo, who lives and works in the FINSA park, is typical. The 16-year-old began working at the Mallory [illegible] plant at the age of 14 and earns the peso equivalent of about $30 a week wiring electrical coils. Home is a wooden shack with a dirt floor, cardboard covering the window holes and wind whistling through cracks in the walls. A *colonia* canal flows nearby, its milky water badly polluted by industrial wastes. "Even the goats won't drink it," says the young woman.

Little money. She shares the tumble-down structure with her blind, bedridden father, an older sister who also works in a maquila, four other female relatives and three sickly infants. There is no electricity, and water must be carried in plastic buckets from a standpipe three blocks away. Meals are cooked on an open fire or on a small propane burner. Despite two maquila salaries, Yolanda and her family live at little better than subsistence level. "The money," she shrugs, "isn't enough to make ends meet."

Questions about worker exploitation in a nation where unemployment is endemic draw ready rejoinders from maquila officials. "We're in a foreign country and it's a big mistake to impose U.S. values," says John Riley, vice president of Vertek, a Tijuana-based electronics company. Adds trade-association chief Alfred Rich: "Are these people better off with me or without me? The small wage gives them the ability to enjoy a decent lifestyle. They may not be living in the lap of luxury, but they aren't starving."

Some, though, are getting sick. Interviews with dozens of employees in border communities turned up complaints of headaches, vision and respiratory problems and skin diseases caused by soldering fumes, solvents and other chemicals – particularly in the electronics-assembly industry. Some plants supply protective gloves, but few women wear them because they hamper dexterity and prevent the workers from maintaining the fast-paced production schedules. "They take advantage of us because women are more docile," says Reynosa worker Apolonia Resendiz, 39. "The men complain, so they don't get hired."

Catalina Denman, a professor at El Colegio de Sonora in Hermosillo, has studied health conditions among maquila women in Nogales since 1985. Among other problems, she finds that workers in the American-owned plants are three times as likely to give birth to

■ U.S. NEWS

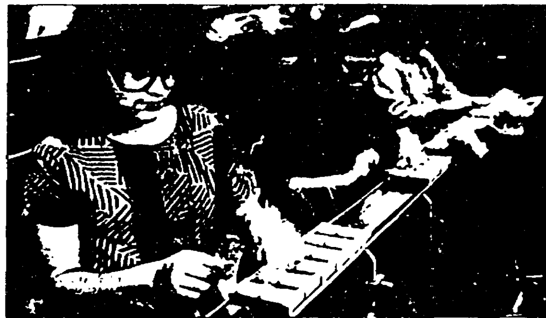
infants of low weight as are other local women, half of these underweight babies are born prematurely. "We suspect toxics," Denman says. "We need to study just what the long-term effects are from being exposed to all these chemicals and fumes."

The Mallory children. Dr. Isabel de la O Alonso knows all too well. Over the past eight years, she has pieced together evidence strongly suggesting an environmental tragedy that has gone largely unnoticed. In 1982, while operating the Matamoros school for special education, she began seeing retarded children with unusual physical characteristics that fell outside well-documented conditions such as Down's syndrome. The children, with degrees of retardation ranging from mild to profound, had broad noses, bushy eyebrows, thin lips, webbed and deformed hands and feet and other distinctive birth defects. A clinical history of their families revealed a single common thread. Each of their mothers worked during her pregnancy at a now defunct electrical components maquila then called Mallory Capacitors.

Dr. de la O has located 25 living Mallory children, has documented another half dozen who died shortly after birth and suspects there are several others. The mothers all told her their jobs involved washing capacitors—small devices that hold electrical charges—in a chemical mixture they knew only as *electrolito*. As they worked with the liquid, it would cover their hands and arms and splash onto their faces.

Now in charge of special education for the state of Tamaulipas, Dr. de la O suspects that the women were exposed to polychlorinated biphenyls, or PCBs, widely used in the electrical components industry before they were banned by the United States in 1979. Today, the Mallory children have passed the age of puberty, and the insidious genetic defects continue. Most of the girls have not begun menstruation, and many of the boys have undescended testicles.

In the absence of tort laws or strictly enforced EPA- and OSHA-style regulations, U.S. companies in Mexico are under little more than a moral obligation to protect either their workers or the environment. Some corporations—Union Carbide, for example—are lauded by activists for treating workers and the environment well. Others can't claim the same honors. And maquila owners say attempts to operate their plants up to EPA standards are sometimes stymied by the slovenly practices of workers. "There's a lot of ignorance



American dream? *On the assembly line at the MagneTek plant in Matamoros, 16-year-old Yolanda Carrillo is typical of the predominantly young and female maquila work force. She earns less than $1 an hour for a 49-hour workweek, roughly the industrywide average. High living costs in the border region keep maquila workers and families mired in poverty. Yolanda's home is a ramshackle, dirt-floor shack where she cares for her father, Enrique, who is bedridden and blind.*

on the shop floor and old habits die hard," says David Flewers, head of Pulse Engineering in Tijuana.

SEDUE is the acronym for the Mexican federal agency charged with enforcing the nation's environmental laws. Rene Altamirano, its director of pollution prevention, vows: "The border will never become a pollution haven for the United States." But despite the best of intentions, Altamirano concedes, his agency is under severe handicaps. SEDUE has multiple responsibilities nationwide, including housing and parks, but its entire annual budget is just $10 million. While the United States will spend $24.40 per capita this year on environmental protection, Mexico can afford to spend only 48 cents—a major increase from the 8 cents it spent in 1989. Altamirano's financially strapped agency, for example, has only two inspectors in each of the six border states to investigate and ferret out environmental scofflaws.

This inadequate supervision invites problems. Under a binational agreement, maquilas are required to ship their hazardous wastes back to the United States for disposal and to notify the EPA. But transportation and EPA-approved disposal of a single 55-gallon drum of hazardous waste can cost anything from $150 to $1,000. As a result, most maquila wastes are stockpiled, buried, dumped, flushed, burned or "donated" to charities for "recycling"—an environmental charade permissible under a loophole in Mexican law. In 1989, reports the EPA's Kathleen Shimmin, the agency received just 12 notifications of hazardous-waste shipments being returned to the United States across the California and Arizona borders. Last year, the total rose to 85. "That's a small drop in the bucket," Shimmin says. "Besides jawboning, we have no legal means to force these companies to comply."

Those who monitor the maquila industry believe that big corporations with their modern plants and their keen

eye on public image are more likely than small factories to voluntarily follow EPA and SEDUE standards. Yet controversy has even tainted some of America's giants. General Motors, for example, operates 34 border plants employing 11,500 people. Spokesman John Mueller says the auto maker has factories in 35 nations and "complies with local environmental standards and cultural norms." At the FINSA industrial park in Matamoros, some 1,200 workers at GM's $80 million RIMIR plant manufacture 6,000 automobile bumpers daily. RIMIR officials say their hazardous wastes are recycled locally or repatriated to the United States, and the plant appears to be a model of industrial efficiency and environmental rectitude. "We play by the EPA and SEDUE rules; we have to keep our nose clean and we are the environmental leader of the other maquilas," says Chuck Almquist, RIMIR's managing director.

Battle over numbers. Now, however, there is a dispute over the company's practices. Environmentalists claim their tests of discharges from the RIMIR plant showed much higher readings than GM's own tests. Last year, the Boston-based National Toxics Campaign Fund collected some 100 separate samples from discharge pipes at 22 U.S. plants in Mexico. Chemist Marco Kaltofen says NTCF's federally approved laboratory found that the RIMIR sample contained xylenes—common solvents that can cause lung, liver, kidney and brain damage—in a concentration of 2,800 parts per million (ppm). Kaltofen also says he measured discharges of ethyl benzene at 430 ppm, acetone at 56 ppm, methylene chloride at 41 ppm and toluene at 5.7 ppm. The EPA's cumulative permissible limit for all toxic organic chemicals discharged from industrial plants like RIMIR is 2.13 ppm, and some state standards are even lower. SEDUE's standards closely parallel the EPA's.

RIMIR officials say they are mystified by the high readings and are anxious to correct any deficiencies. Their routine tests conducted by an independent laboratory at roughly the same time as Kaltofen's last year showed xylene discharges of 0.56 ppm. Their tests for the other chemicals all showed readings of less than 1 ppm.

Pollution problems are evident elsewhere along the border. NTCF's tests at other plants found concentrations of hazardous materials in some samples that were too high to measure accurately. Water samples at 16 of the 22 sites, says the NTCF, violated Mexican and U.S. water quality standards; some in Matamoros contained pH levels so severe they would cause acidic or caustic burns to skin.

Beyond the discharges, other practices by some U.S. firms also degrade the environment. Adjacent to the Reynosa industrial park that is home to several major corporations is a massive open dump that contains acre after acre of industrial detritus—plastic, metal, rubber, resins, paint sludge. Foul-smelling slime leaks from drums marked "Zenith Plant No. 12." Zenith Electronics Corp. spokesman John Taylor acknowledges that the company, which employs as many as 10,000 workers at its Reynosa facility, dumps its bathroom, kitchen, office and nonhazardous industrial trash here but says toxic wastes are returned to the United States. "This [site] is a SEDUE licensed disposal facility and anything we do is in accordance with the law," Taylor says. "We are a good corporate citizen in Mexico." Both SEDUE and Reynosa municipal officials, however, say they have not authorized the area to be used as a dump.

The public-health threat from the kinds of solid wastes found at the Reynosa dump is generally confined to the local area. But polluted industrial effluent and untreated sewage from the exploding populations of the cities and *colonias* are migrating into the United States and creating serious water-borne health problems north of the border. In Tijuana, toxic effluent from the industrial park at Otay Mesa mixes with 12 million gallons of raw sewage discharged daily into the Tijuana River. The river then flows north before emptying into the Pacific Ocean at Imperial Beach, Calif., south of San Diego. Some 2.4

Toxic legacy. *Did exposure of pregnant workers to deadly PCBs create a generation of mentally and physically handicapped victims? Dr. Isabel de la O Alonso (left) believes it did. Maria Rodriguez (below), with son Juan, 17, recalls workers fainting and babies born with birth defects. "Nobody made the connection," she laments.*

miles of shoreline are quarantined, and local officials estimate the closed beach and the area's befouled reputation cost more than $100 million a year in lost tourism and recreation opportunities.

California officials describe the New River – some 120 miles east of San Diego – as the filthiest waterway in the state, if not the entire United States. It flows north out of Mexicali, a booming maquila city, and into the Salton Sea, a large lake southeast of Palm Springs. Tests show the New River contains some 100 different industrial chemicals and 15 viruses capable of causing outbreaks of polio, dysentery, cholera, typhoid, meningitis and hepatitis.

Continuing east, the pattern is repeated. Up to 30 million gallons of untreated sewage flow out of Nogales each day and into Arizona's Santa Cruz River. An underground plume of carcinogenic solvents – including trichloroethylene – along with chromium, lead, manganese, cadmium, arsenic and mercury has badly polluted an aquifer that provides drinking water for thousands of *colonia* residents. The plume has migrated 10 miles beneath the border, forcing the closing of at least 12 wells on the U.S. side. In Texas, more than 100 million gallons of raw sewage laced with solvents, heavy metals and pesticides empty each day into the Rio Grande from Ciudad Juárez, Nuevo Laredo, Reynosa and other cities. Tissues of fish caught in the river show high levels of copper, selenium and mercury, and untreated human wastes turn the Rio Grande – literally – into the nation's longest open sewer.

"This is a public health disaster waiting to happen," says Dr. Reynaldo Godines, president of the Tri-County Medical Society in Laredo, Texas. The incidence of hepatitis between Brownsville and El Paso, he points out, is already six times the national average. In the El Paso *colonia* of San Elizario, 35 percent of children 8 years old and under are infected with hepatitis A, and 90 percent of adults contract the disease by the age of 35. At the University of Texas Health Science Center at Houston, epidemiological studies by Dr. Irina Cech reveal significantly elevated liver and gall bladder cancer mortality rates in the 33 counties along the Rio Grande that get their drinking water from the river. Dr. Cech suspects a combination of factors is responsible, including poor living conditions, high levels of fecal pollution in the water and toxic chemicals from the maquilas.

Heading south. One fear of free-trade opponents – industries fleeing south to avoid U.S. environmental laws and the skyrocketing costs of waste disposal – has already been validated. Between 40 and 50 furniture manufacturers, unable to meet Southern California's air quality standards, have relocated in Mexico. Joseph Haring, director of the Pasadena Research Institute, monitors the trend and says furniture-industry employment in Southern California has shrunk from 85,000 workers in 1987 to 55,000 today. Over the next five years, he predicts, half of the region's 125,000 metal-finishing jobs will be lost to Mexico. "These industries can operate down there with fewer precautions and, in fact, create pollution," Haring says. "Almost to a man, that's what happens." Analysts say other industries that generate large amounts of toxic garbage – metal plating, chemicals, plastics, fiberglass and electronics – are also migrating south.

What are the prospects for change? Observers like Roberto Sánchez of El Colegio de la Frontera Norte believe the Mexican government, eager to foster industrialization, will never lean hard on the plants unless forced to by massive environmental tragedy. There is some possibility, though, that the Bush administration will promise a more serious and comprehensive crackdown on polluters. Trade Representative Hills will unveil a proposal this week, designed to win the backing of Democrats for her trade talks with Mexico, that is expected to seek stronger bilateral enforcement of pollution standards and suggest that U.S. assistance might be available for environmental programs in Mexico.

The Bush administration is also being pressured by critics like the Coalition for Justice in the Maquiladoras – an umbrella lobbying group – to find ways to improve wages and conditions for the Mexican workers. And American companies are coming under increasing fire from liberal lobbying groups. For industry and the Bush administration, the challenge from opponents is clear: Find ways to clean up the *maquiladora* mess, or the prospects for a free-trade agreement will get worse. ■

BY MICHAEL SATCHELL
PHOTOS BY CHARLIE ARCHAMBAULT

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SEP 1 1992
p. 3A

Hyundai Chairman Sees Nafta As Positive for South Korea

By TIM SHORROCK
Journal of Commerce Staff

WASHINGTON — South Korean companies are likely to invest more in North America as a result of the new free-trade region encompassing the United States, Mexico and Canada, a leading Korean industrialist and presidential candidate said Monday.

Chung Ju-Yung, chairman of the giant Hyundai Group, said he reached that conclusion after meeting last week with Mexican President Carlos Salinas de Gortari. "I have a long-term positive view on the North American free-trade agreement," he said. "As a result of its formation, Korean business people will be motivated to participate in investments in America, Mexico and Canada."

But Mr. Chung said his initial reaction to the agreement was negative. "I had some concerns about shrinking the potential economic trade with the North American region," he said.

Korean companies like Hyundai will "continue to focus" on the North American market because trade with China is growing only gradually and earlier expectations of huge dividends from trade with Eastern Europe and the former Soviet Union have not been met, Mr. Chung said.

Mr. Chung said the key to unification with North Korea was the establishment of a "strong economic base" in the south "so we have a cush... to absorb" the costs. But while he expects "some small bubbles and problems" associated with uniting the two countries, the costs will be "far less" than German unification, Mr. Chung predicted.

The Hyundai Group, valued at $50 billion, is one of the largest conglomerates in South Korea. It made its name — and its fortune — in the 1960s and 1970s with huge construction projects in the Middle East.

Over the last 20 years, Hyundai Heavy Industries has grown into the largest shipbuilding company in the world. Hyundai has also branched into shipping, automobiles and electronics.

During its rise, Hyundai was backed by generous loans and subsidies from the South Korean government. Earlier this year, Mr. Chung shocked Korean voters when he admitted donating over $12 million to the current president, Roh Tae-woo, and funneling millions more to former military dictator Park Chung Hee.

Last spring, Mr. Chung announced he would run for president as the nominee of the United People's Party. In the election, scheduled for December, he will face Kim Young Sam, a former opponent of President Roh, who joined the ruling party in 1990, and Kim Dae Jung, South Korea's best-known dissident. Mr. Chung's party captured 18% of the vote in parliamentary elections last March.

In his speech Monday, Mr. Chung said he hoped to "rejuvenate" the Korean economy by moving from a system that is "strictly regulated and led by the government to the one that is left to the free hands of market play."

Asked how that policy squares with Hyundai's past ties with the government, Mr. Chung replied that he has "always attacked and accused those who have tried to use the government as a means to expand their business."

Mr. Chung's deregulation stance "is extremely ironic because Hyundai continues to benefit" from government aid, said Daryl Plunk, a business consultant with Richard Allen Associates in Washington and an Asia specialist with the conservative Heritage Foundation. According to Mr. Plunk, Hyundai's debt to the Korean government is over $9 billion, close to one-fifth of the country's total external debt of $50 billion.

Mr. Chung's platform endorses minimizing government intervention in the economy, opposes the government's "abuse of taxation power" and calls for the expansion of harbor facilities and roads.

In addition, the platform calls for the renovation of South Korea's "product distribution channels" to help Korean transport companies compete against "international rival counterparts." Mr. Chung also promises to put off large-scale projects, such as high-speed railways, mobile phone systems and airports, until the economy can absorb their cost.

The pain from Mexico's import splurge throbs throughout the country. Each month, more petrochemical plants on Mexico's Gulf Coast shut down, unable to compete with cheap imports. Along the crowded sidewalks in Mexico City's colonial downtown, eager customers sift through piles of cheap Asian garments dumped into Mexico through the U.S. But in nearby Puebla, textile plants are shuttered. State companies, too, are cutting back. Thousands of workers laid off from state oil monopoly Pemex recently marched to protest but to no avail.

'SUSPICION.' While companies scrounge for capital, they also confront an increasingly restive work force. This is especially so in Mexico's booming auto industry. There, strikes recently shut down two export operations: GM's prize-winning plant in Ramos Arizpe and Volkswagen's complex in Puebla. Mexican officials suspect that U.S. unions are quietly helping Mexican unions. Their motive, the officials say, is to raise the cost of building cars in Mexico, where companies save an average $700 per vehicle, and thus to slow the industry's march southward. "We don't have direct evidence of this," says President Salinas. "But there are grounds for suspicion." A spokesman for the United Auto Workers in Detroit says his union has provided financial aid to unions in Mexico but has not organized any strikes there.

Still, Mexicans have plenty of reasons to feel confident. The federal budget, a disaster just a few years ago, now boasts a surplus, thanks to debt restructuring and sharp cuts in subsidies. The President's political footing, which seemed shaky when he took power in 1988, is now rock-solid. Massive infrastructure projects, including an ambitious network of private toll roads, link Mexico to the U.S. market—and spell big contracts for local cement and steel companies.

Salinas thinks NAFTA will become law, no matter who wins the U.S. Presidential election in November. "It is inevitable," he says. And most Mexicans agree that NAFTA gives the country a once-in-a-lifetime chance to join the industrialized world. But for now, they're grumbling. After last year's party, all they can see for the year ahead is a long, hard climb.

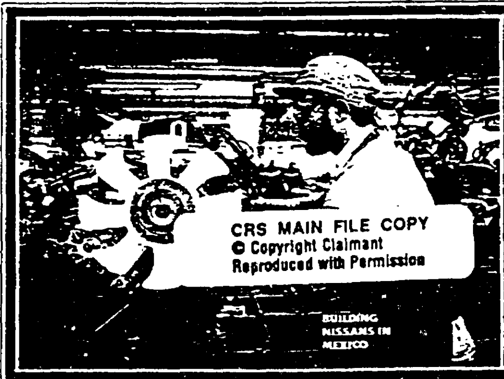
By Stephen Baker in Mexico City

TRADE

WHY SOME ASIAN COMPANIES ARE GUNG HO ABOUT NAFTA

The savvy ones see new investment opportunities in North America

The agreement by the U.S., Canada, and Mexico to establish a North American free-trade zone touched off predictable protests throughout the world, notably in Asia. Japanese auto makers, whose North American assembly plants face higher domestic content standards, were especially noisy. "We're concerned, definitely," says an official at Toyota Motor Corp. "It will have an adverse effect for Japanese carmakers in North America." Other Asian government and industry leaders professed concern that industrial investment could shift from their countries to Mexico.



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But a lot of the complaints ring hollow. As long as it doesn't turn protectionist, the North American Free Trade Agreement offers at least as many opportunities as headaches. Already, companies throughout Asia are mapping plans to take advantage of the vast new market by boosting investments there.

South Korean officials, for example, are urging their companies to start investing in Mexico. "Companies should study carefully how they can benefit from combining the strengths of Korea, Mexico, and the U.S.," says Yu Deuk-Hwan, the assistant minister for trade. Korea may adopt such incentives as tax concessions and elimination of barriers to raising money overseas. President Yoon Young-Suk of Daewoo Corp. sees good reason to put electronics assembly plants in the new North America. "The U.S. is getting more protectionist," he says. "Our exports there are falling."

Japanese giants are on the move as well. Hitachi Ltd. is shifting production of VCRs from Anaheim, Calif., to lower-cost Mexico and Malaysia—although it says the decision is not related to NAFTA. With the elimination of duties on goods from Mexico, Nissan Motor Co. sees fresh opportunities for efficiencies in the new integrated market. It expects to eliminate duplication between its Tennessee and Mexico plants. Giant trade Sumitomo Corp. is considering an "integrated approach" to North America. One possibility, says a spokesman, is to consolidate U.S., Canadian, and Mexican subsidiaries under one executive.

DISTANT THREAT. Hong Kong companies are also ready to cash in on NAFTA. Officials there say the adjustment will be easy because their strong suits—textiles, consumer electronics, and toy factories—are relatively cheap to set up. "We have gone offshore in Thailand and offshore in China, so why not go offshore in Mexico?" says a Hong Kong trade official.

For a few Asian countries, NAFTA is, at worst, a distant threat. Taiwan, for instance, isn't worried that Mexico can lure away its high-tech and services business for many years. Nor can Mexico compete with such countries as Indonesia and China when it comes to low labor costs.

There will be adjustments. Toyota may have to build another engine plant in the U.S. to meet the new 62.5% local-content rule. That could cost $560 million, say industry insiders. Most large Asian companies have seen the new market coming and have been restructuring strategies accordingly. "In a sense, NAFTA is designed to stabilize something that already exists," says Stephen Blank, director of Canadian affairs at the Americas Society in New York. Few companies could complain about that.

By Robert Neff in Tokyo, with bureau reports

NO. 3281

PREPARED STATEMENT OF JAMES D. ROBINSON III

Mr. Chairman and members of the Committee, I am pleased to be here to discuss the North American Free Trade Agreement. I am appearing in two capacities today—as Chairman of the Advisory Committee for Trade Policy and Negotiations (ACTPN) and as Chairman of The Business Roundtable International Trade and Investment Task Force.

As you know, last week the ACTPN submitted to the President and Congress a comprehensive report analyzing the NAFTA. The Committee, whose 44 members include representatives from a cross-section of industries, agriculture, labor and an environmental interest group strongly endorsed the NAFTA, and called on the President to sign the agreement and the Congress to implement it. Of the Committee members, the two labor representatives dissented from the recommendation.

Today, The Business Roundtable, representing over 200 U.S. companies, released a statement in strong support of the agreement as well. Copies of the statement have been made available to you.

The NAFTA is an extraordinary achievement that fundamentally changes for the better our relationship with our third largest and fastest growing trading partner, Mexico, and it furthers in some areas our relationship with Canada. These are neighbors with which we share thousands of miles of border. In that context, I must admit it is distressing to see the way in which the NAFTA agreement has been received in some quarters and the degree to which it has been over politicized.

I think it is worth taking a minute to stop and reflect on why we started these negotiations. The objective was clear: it was to increase business opportunities for American manufacturers, service providers and agricultural interests. The NAFTA achieves this in spades. Yet what I hear are complaints about the inadequacy of the environment and worker related issues. In no way do I want to minimize these issues, and I will address them in my testimony. But I think it's important to bring the focus back to our primary objective.

It was just a few short years ago that I participated in a hearing before this Committee called " Mastering the World Economy." At that time Mr. Chairman, we were asked some fundamental questions:

- How can the United States continue to maintain its standard of living at a time when other countries are demanding a greater share of the world pie?
- How can the United States remain competitive when it is no longer the dominant world producer of many goods and services?
- How can we expand the size of the world pie and avoid resorting to beggar-the-neighbor policies?

At that time we laid out a three prong strategy for enhancing U.S. international competitiveness and promoting U.S. economic interests: (1) through multilateral negotiations, specifically the successful negotiation of the Uruguay Round, (2) through bilateral negotiations, which at that time focused on the Canada Free Trade Agreement, and (3) when necessary, unilaterally, by the strengthening and aggressive use of U.S. trade law. It was general business support for this third point that eventually helped lead to the enactment of the 1988 Omnibus Trade and Competitiveness Act. During 1987–88 the business community worked in partnership with this Committee and others in Congress to develop that legislation, and in particular, to strengthen Section 301 of the 1974 Trade Act to enable the U.S. negotiators to break down barriers when multilateral and bilateral negotiations failed.

The NAFTA agreement that has been recently sent to the Congress for review is an important component of that three pronged strategy. The NAFTA provides a strategic opportunity to break down barriers to trade in Mexico and Canada without confrontation. It accomplishes in one action what we—the business community, Congress and the Administration—collectively have set out to accomplish: namely to increase exports and enhance the competitiveness of our firms by gaining greater market access, breaking down barriers and locking in foreign economic reforms.

America's future depends on further integration in the world economy and increased access to important and growing markets. Surely Mexico meets the bill. It is an exciting country that is clearly on the move. After a decade of crisis, it has macro-economic stability, and it has liberalized, modernized and deregulated at a breathtaking pace. In many ways Mexico is a model for every country, from Argentina to Russia and Eastern Europe, that is seeking the right formula to put capitalism and economic stability firmly in place.

If we reject the agreement or insist on reopening it in ways that unravel the agreement or do injustice to Mexico's sovereignty and its national pride, we will not only have missed a great opportunity to expand markets for U.S. firms to the benefit of American workers, but we will do much more. We will risk a return to eco-

nomic instability and increased poverty in a country that is of strategic interest to America. And we will send a signal to the rest of Latin America and other parts of the world that the United States is no longer interested in increased trade, opportunity and mutual advantage.

I realize that this is a highly political time—and I deeply regret that the NAFTA is caught in politics—but I urge you to examine the agreement on its merits and consider the broad ramifications of rejecting this agreement or opening it to demand further concessions by Mexico before you commit to such a path.

I would now like to turn to the agreement itself and discuss the broader economic reasons for why it should be implemented.

GREAT EXPECTATIONS AND GREAT RESULTS

When Presidents Bush and Salinas and Prime Minister Mulroney announced their intention to negotiate a North American Free Trade Agreement, the U.S. private sector immediately and enthusiastically backed the initiative. We made clear, however, that our support for the final package would be contingent on the attainment of specific trade and investment objectives and that no agreement would better than an inadequate one. Although many barriers to trade and investment between Canada and the United States were eliminated through the U.S. Canada Free Trade Agreement, others remained. More importantly, Mexico, despite the substantial liberalization it undertook to join the GATT, remained in many ways a closed economy. Tariffs were high, and in fact, only bound under the GATT at fifty percent. In addition, Mexico maintained significant non-tariff barriers as well as restrictions on trade in services and investment.

A year ago, the ACTPN and The Business Roundtable separately identified specific objectives which the agreement should accomplish for it to merit support in the United States. The objectives set out by both the ACTPN and The Roundtable were both comprehensive in scope and extremely ambitious in terms of international economic negotiations. The objectives for both groups are essentially the same, with the ACTPN including recommendations in agriculture and a separate section on financial services.

The results of the negotiation are very impressive. To be sure, we did not get everything we wanted. And in some cases, such as the Canadian's insistence on the cultural exemption for intellectual property, the shortcomings are extremely disappointing. Both the ACTPN and Roundtable have urged the Administration to continue to press the Canadians on this issue after the agreement is implemented. But on balance, the agreement meets or exceeds our expectations. With few exceptions this is a world class agreement and it would be a grave mistake to reject it. I have attached a two page summary comparing The Roundtable's objectives against the results. This summary provides in a glance the breadth of accomplishments obtained under the NAFTA. We found it quite a useful scorecard as we analyzed the NAFTA details.

- What does the NAFTA accomplish on the economic front? Here are a number of major items:
- Removal of all tariffs on trade between the United States, Canada and Mexico. 50% percent are removed the first day with most of the remaining tariffs eliminated within five and ten years.
- Elimination of non-tariff barriers including import and export restrictions, customs user fees, duty drawback programs and waivers of customs duties.
- Strict rules of origin to preserve the benefits of the agreement for the three signatories and to prevent other countries from using Mexico as a platform to flood the U.S. market.
- Phase out periods for import sensitive goods.
- Emergency safeguards to help import sensitive industries adjust to increased competition.
- Preservation of U.S. antidumping and countervailing duty laws.
- Total market access for U.S. agricultural products within 15 years, which is a critical issue as Mexico is our fastest growing agricultural export market.
- Unprecedented protection for patents, copyrights, trademarks and trade secrets.
- Elimination of most barriers to investment and a commitment from all NAFTA countries to provide national treatment or most favored nation status to investors of the three countries.
- Access for U.S. financial service providers to what has been a virtually closed Mexican market.
- Elimination of virtually all barriers to trade in other services, including telecommunications.

I want to add that on these last two points, which are obviously of interest to American Express, these gains are historic. This is the first trade agreement ever to achieve significant market access for U.S. service providers.

In short, there are real benefits. Let me tell you what it means in everyday terms for U.S. companies and their workers:

- Eastman Kodak, in Rochester, New York, which exported $126 million to Mexico in 1990, expects to double its exports to Mexico and expand domestic employment as well.
- Caterpillar Inc., the construction equipment giant based in Peoria, Illinois expects that as a result of the agreement, the U.S. industry's sales of construction equipment into Mexico may rise by $35 to $40 million a year. The company, already dominant in the Mexican market, expects to capture a big portion of this increase.
- My own company American Express, which has operated in Mexico in some form for over 100 years will now be able to grow more into the type of company we have in the United States, offering a broad array of services to our customers. Under the NAFTA our subsidiaries, Shearson Lehman and IDS, will be able to offer their financial services in Mexico for the first time.
- The Big Three automobile manufacturers expect automotive exports to Mexico of up to $1 billion in the first year of the NAFTA.

I also want to mention that the U.S. Council of the Mexico-U.S. Business Committee has completed a series of studies that provide a detailed analysis of the potential effect of the NAFTA on thirteen states. The Committee plans to issue another 17 studies shortly. They document quite clearly the benefits of the agreement for each state in a meaningful way. I am providing a copy of the N.Y. study to the Committee.

As noted earlier, there are some areas in which the NAFTA does not meet the ACTPN or The Business Roundtable's negotiating objectives. For example, both groups would have preferred faster elimination of tariff and non-tariff barriers in certain sectors, increased liberalization of the Mexican energy sector, elimination of the Canadian cultural exemption, and elimination of investment screening requirements. Both The Roundtable and the ACTPN encourage U.S. negotiators to seek further liberalization on these issues and have made clear that these deficiencies should not serve as a precedent for any other agreements. We believe, however, that these shortcomings do not warrant opposition to the agreement. We are convinced the NAFTA will lead to stronger growth for the United States.

What have we accomplished on the environmental and labor fronts? The NAFTA represents the first environmentally sensitive trade agreement. The agreement affirms the intent of all three nations to promote sustainable development and strengthen the development and enforcement of environmental laws and regulations. Specifically, the agreement maintains existing U.S. health, safety and environmental standards by permitting us to prohibit entry of goods that do not meet those standards. Moreover, the NAFTA allows each country to impose standards that are stricter than those mandated by international law. The agreement also expressly prohibits the parties from lowering environmental standards in order to attract investment. As such, the NAFTA contains innovative provisions not only to protect but actually *to improve* the environment. NAFTA is the world's first and only pro-environment trade agreement.

On the issue of the environment, I hasten to odd several parallel initiatives. In February 1992, Presidents Bush and Salinas announced a comprehensive plan to improve the environment along the border while sustaining economic development. U.S. and Mexico are also formulating work plans covering the areas of air, water, hazardous waste, pesticide enforcement, emergency response, pollution prevention, data exchange and environmental impact assessment. And just last week the environmental chiefs of the United States, Canada and Mexico announced the formation of a trilateral commission to oversee the environmental aspects of the NAFTA. There is no doubt that NAFTA has created the political climate for environmental cooperation and has furthered Mexico's steps to become an environmental ally. As we examine the environmental aspects of this initiative, let us ask:

- Where would border clean up be in the absence of the NAFTA?
- Where would Mexico's commitment not to lower its environmental standards in order to attract foreign investment be In the absence of the NAFTA?
- Similarly, where would Mexico's express commitment to devote resources to clean up the environment (and prevent future pollution) be without the NAFTA?

President Bush's FY 1993 budget proposal includes $241 million for border environmental programs, more than double the amount allocated in FY 1992. Mexico has also announced a three year $460 million program for border clean up. If we reject the NAFTA, we run the risk of halting and possibly reversing this positive trend. Without the economic growth and prosperity generated by the NAFTA, Mexico will be deprived of the resources it needs to step up its environmental protection and enforcement.

On the issue of labor adjustment1 The Roundtable and ACTPN believe that the transition periods for sensitive actors and the strong rules of origin in the agreement will help smooth the transition to free trade and minimize the need for worker displacement as a result of the NAFTA. In addition, we support the development of adequate and effective adjustment assistance for U.S. workers to be included in the implementing legislation for the NAFTA. We stand ready to work with the Administration and Congress on this effort. The Administration's proposed comprehensive $10 billion worker adjustment initiative provides a useful basis for beginning this debate.

In addition, we support the Memorandum of Understanding signed by the United States and Mexico to promote increased standards of living and better health and occupational standards for both countries.

In evaluating the environmental and labor-related issues, I would like to add that in our view, the NAFTA meets, and in fact exceeds, the Congress's as well as the Administration's objectives that were set forth in House Resolution 146 (introduced by Congressman Gephardt) and the May 1, 1992 Presidential action plan respectively.

As I mentioned, the gains from the NAFTA are significant. But there are also strategic reasons why we should support this agreement.

First, the NAFTA will create jobs and hence jump-start the faltering U.S. economy. Reducing trade barriers will increase manufacturing jobs. Mexico is America's fastest growing export market. Over 85 percent of U.S. exports to Mexico (nearly $28.4 billion in 1991) are manufactured goods. Workers in these export-related jobs earn 17 percent more than the average U.S. worker.

Second, NAFTA will enhance the international competitiveness of U.S. companies. Cross border production sharing is already a reality for much of U.S. manufacturing. With a NAFTA that allows companies to plan long term investments based on economic efficiencies rather than government imposed barriers, costs can be reduced and economies of scale achieved, allowing NAFTA products to compete more effectively against products made elsewhere in the world. Cross border production sharing is especially important because our major competitors are already pursing identical strategies in Europe and Asia. The United States cannot afford to lag behind in these efforts.

Third, in many respects the NAFTA serves as a model for our trade relations with other countries. In the areas such as services, intellectual property and investment, the NAFTA has gone far beyond both the Canada Free Trade Agreement and what is currently included in the Dunkel text of the Uruguay Round agreement. What we achieved with Mexico, a developing country, is historic in its scope and sets new standards on what is possible to achieve with our trading partners. In that regard, we are pleased that the NAFTA includes a provision that would allow other countries to negotiate accession to the agreement if the other signatories agree. Clearly before any such accession were to occur, however, a full evaluation of the effects and requirements for integrating the acceding countries in the free trade agreement would be necessary. And, as I said earlier, the areas where we fell short in NAFTA are not to be precedents for other agreements.

One last point. When the ACTPN and The Roundtable issued their objectives statements a year ago, we made clear that we expected the Administration to consult with us on an on-going and open fashion throughout the negotiations. We believe the Administration took to heart our insistence on being fully consulted and that the process worked very well. The U.S. Trade Representative, her staff and others in the Administration met with private sector representatives—both official advisors as well as private sector trade associations—close to 1000 times over the course of the negotiations. We had regular input into the process. The Administration, and in particular, Carla Hills, should be commended in this regard.

CONCLUSION

In reviewing the NAFTA it is clear that our great expectations and highest ambitions have led to great results and unprecedented achievements. The NAFTA substantially meets and often exceeds the trade and investment objectives of the ACTPN and The Business Roundtable. Moreover, the agreement provides a careful

balance of economic growth, labor and industry benefits, and environmental sensitivity. This balance reflects the unprecedented level of involvement of the Congress and the private sector in shaping the agreement. The business community commends the Administration for fulfilling its promise to consult closely and on a regular basis with the private sector. Failure by Congress to approve the NAFTA will deprive the U.S. economy of a much-needed engine for economic growth, one that will generate thousand of jobs and enhance our international competitiveness.

Attachments.

THE BUSINESS ROUNDTABLE—STATEMENT ON THE NORTH AMERICAN FREE TRADE AGREEMENT

[September 1992]

The Business Roundtable has studied the notification text of the North American Free Trade Agreement ("NAFTA") and concluded that it is a milestone agreement that will further the interests of the United States.

The NAFTA will accelerate positive momentum in North American trade. Canada is our largest trading partner and Mexico is our third largest trading partner. U S. exports to Canada have grown from $72 billion in 1988 when the U.S.-Canada Free Trade Agreement ("CFTA") was signed to a projected $90 billion this year, and our trade deficit with Canada has steadily shrunk from $9.8 billion in 1988 to $6 billion in 1991.

Growth in exports from the United States to Mexico has been even more dramatic. Merchandise exports have increased by 254 percent from $12.4 billion in 1986 to a projected $44 billion this year, and service exports have more than doubled from $3.5 billion in 1987 to $8.3 billion in 1991. This U.S. export growth has been broad-based: 45 of the 50 states have reported increased exports to Mexico. The result is that the U.S. trade balance with Mexico has improved by $13.2 billion, from a deficit of $4.9 billion in 1986 to a projected surplus of $8.3 billion in 1992.

A NAFTA is needed to lock in opportunities for export growth. The export growth to date has been achieved in spite of significant barriers to trade in Mexico that are far more substantial than those facing Mexican products entering the United States. Whereas current Mexican tariffs average 10 percent, the average U.S. tariff on Mexican goods is only 3.9 percent. In addition, Mexico maintains many nontariff barriers to U.S. exports of goods and services and restrictions on U.S. investment.

The Business Roundtable set forth ambitious negotiating objectives to remove these barriers to trade and investment in June 1991. The objectives covered ten key areas: trade in goods, government procurement, services, investment, state-owned monopolies, protection of intellectual property, temporary entry for business persons, subsidies and unfair trade laws, institutional provisions, and related issues of environmental protection and labor standards. The Roundtable stated that an agreement that met these objectives would:

> promote further U.S. economic growth through increased exports of U.S. manufactured goods and services, increased protection of intellectual property, and increased protection of U.S. companies, workers and farmers against unfair trade practices.

The NAFTA achieves a great majority of The Business Roundtable's negotiating objectives. For example:

- Tariff barriers and quotas will be either eliminated immediately or phased out over time.
- U.S. companies will in general be guaranteed national treatment or most favored nation status, whichever is better, in investment, provision of services, government procurement, and other issues.
- Protection of intellectual property will be dramatically increased.
- The integrity of the U.S. unfair trade laws will remain intact, and special emergency provisions will ease the transition to free trade for import sensitive sectors.
- Substantial improvements will be made to the U.S.-Canada Free Trade Agreement, including increased protection of intellectual property, a stronger rule of origin for automobiles, and improved market access for U.S. service providers.

These and other provisions in the NAFTA will enable U.S. companies to match the international competitiveness of our European and Japanese trading partners, who are already pursuing strategic regional alliances.

Of course, there are some issues on which the NAFTA does not meet The Business Roundtable's negotiating objectives. For example, The Business Roundtable

would prefer faster elimination of tariffs and nontariff barriers, more thorough liberalization of the Mexican energy sector, elimination of the Canadian cultural exemption, and elimination of investment screening requirements. The Business Roundtable encourages the U.S. negotiators to seek further liberalization on these issues. Those areas in which the NAFTA falls short of our ambitious objectives, however, do not warrant opposition to the agreement. On the whole, The Business Roundtable believes that the NAFTA will lead to stronger economic growth for the United States.

The NAFTA will create jobs for the U.S. economy. The overwhelming majority of studies on the effect of the NAFTA have projected that the United States will gain increased employment at higher wages. For example, a recent study by the non-partisan Institute for International Economics found that the U.S. economy would gain 130,000 net jobs by 1995. In addition, free trade agreements, including agreements with low-wage countries such as the Caribbean Basin Initiative, have always increased net U.S. employment. Since the average export-related job pays 17 percent more than the average U.S. wage, these new jobs will be the kind of high paying jobs that U.S. policy should seek to create.

As the U.S. economy increases its competitiveness through the NAFTA, The Business Roundtable vigorously supports adequate and effective adjustment assistance and retraining for any worker impacted by the NAFTA so that they can take advantage of new opportunities. Member companies already spend approximately $30 to $50 billion per year in training and retraining American workers. Appropriate government aid and retraining will only increase U.S. competitiveness, as well as assure that the NAFTA will benefit everyone.

The NAFTA is the first "green" trade agreement. The NAFTA will improve environmental protection in three major ways. First, the text of the agreement itself contains novel environmental provisions that:

- commit the signatories to pursue policies of sustainable development,
- permit each country to impose nondiscriminatory health, safety, and environmental standards that are higher than those mandated by international law,
- bar the nonenforcement or waiver of environmental regulations as an incentive for investment,
- assure that specified environmental agreements will take precedence over the NAFTA, and
- place the burden on the complainant in dispute settlement procedures to prove that an environment standard is a disguised barrier to trade.

Second, the NAFTA has prompted increased cooperation between the United States and Mexico on environmental issues, such as the development of a comprehensive plan to protect the environment in the border area. Third, the NAFTA will help Mexico achieve economic development to enable it to enhance environment protection. The Business Roundtable supports all these commitments and recognizes that without the NAFTA, Mexico might lack the necessary resources for these measures. Implementation of the NAFTA will assure that these environmental commitments and plans come to fruition.

In conclusion, the NAFTA will spur stronger U.S. exports, create U.S. jobs, and facilitate the international competitiveness of U.S. companies in world markets. For these reasons, The Business Roundtable endorses the NAFTA as an historic opportunity which the United States must seize.

September 16, 1992

Summary Assessment of the NAFTA and Detailed Side-by-Side Comparison of the NAFTA with Business Roundtable Negotiating Objectives

A. SUMMARY ASSESSMENT OF THE NAFTA

Issue	BRT Assessment
Trade in Goods	BRT objectives substantially achieved.
Rules of origin	BRT objectives substantially achieved.
Border measures	BRT objectives substantially achieved.
Technical standards	Most BRT objectives achieved.
Energy	Meaningful progress, but BRT objectives not achieved.
Safeguards	BRT objectives achieved.
Government Procurement	Most BRT objectives achieved.
Scope	Many BRT objectives achieved, although not the elimination of threshold limitations.
Procedural obligations	BRT objectives substantially achieved.
Services/Financial Services	Most BRT objectives achieved.
Scope	BRT objectives substantially achieved, except for certain reservations.
Rights & obligations	BRT objectives substantially achieved.
Licensing & certification	BRT objectives substantially achieved.
Reservations	Many BRT objectives achieved, but BRT regrets the number of reservations, particularly the Canadian cultural exemption.

Issue	BRT Assessment
Investment	BRT objectives substantially achieved.
Scope	BRT objectives substantially achieved, except for certain reservations.
National treatment	BRT objectives achieved.
Performance requirements	Most BRT objectives achieved.
Expropriation	BRT objectives achieved.
Transfers	BRT objectives substantially achieved.
Commercial practices, OPIC & taxation	Many BRT objective achieved; taxation objectives achieved in new tax treaty.
Wage & price controls	BRT objective not achieved.
Reservations	Many BRT objectives achieved, although the BRT regrets some reservations such as the Canadian cultural exemption.
Adjustment	BRT objectives substantially achieved.
Monopolies & Competition	BRT objectives achieved.
Intellectual Property	BRT objectives substantially achieved, but BRT regrets the Canadian cultural exemption.
Temporary Entry	BRT objectives achieved.
Unfair Trade Laws	BRT objectives achieved.
Dispute Resolution	BRT objectives achieved.
Environmental Protection	BRT objectives achieved.
Labor Standards	BRT objectives achieved.

THE IMPACT OF THE NORTH AMERICAN FREE TRADE AGREEMENT ON NEW YORK

Prepared for the
U.S. Council of the Mexico-U.S. Business Committee

by

The Trade Partnership
Washington, D.C.

September, 1992

THE IMPACT OF THE NORTH AMERICAN FREE TRADE AGREEMENT ON NEW YORK

I. Executive Summary

The people and economy of New York have benefitted from the U.S.-Canada Free Trade Agreement (CFTA), and will benefit even more from greater trade and investment liberalization made possible by the North American Free Trade Agreement (NAFTA).

- New York's exports to Canada have grown rapidly under the CFTA.
- New York has already benefitted significantly from efforts to liberalize the Mexican economy. New York's exports to Mexico — and manufacturing and services jobs related to them — have grown substantially since 1987.
- The NAFTA with Mexico will accelerate and strengthen the benefits of New York's trade with Mexico. Job gains would offset any job losses by almost seven-to-one!
- These benefits will be spread throughout the New York economy. Manufacturing will gain from improved market access and competitiveness. Equally significant will be expanded market opportunities for New York financial services and insurance companies, transportation firms, construction and engineering companies, and telecommunications services firms.

II. New York Has Already Benefitted Significantly from Trade Liberalization under the CFTA and in Mexico

Since the CFTA was implemented, New York's exports to Canada have increased, from $4.1 billion in 1987 to $6.7 billion in 1991.

New York's exports to Mexico have also grown since Mexico began to liberalize its economy in 1985.

- Since 1987, New York's exports to Mexico have been growing at an average annual rate of 17 percent.
- Mexico has accounted for about 3 percent of New York's total exports to the world since 1987.
- Most sectors of the New York economy have experienced dramatic increases in their exports to Mexico. The exports of 16 have more than doubled since 1987, including: agriculture crops; non-metallic minerals; food products; textile mill products; apparel; lumber and wood products; furniture and

fixtures; printing and publishing; leather products; stone, clay and glass products; and scientific and measuring instruments.

Today, trade with Canada and Mexico generates considerable income and employment for New York companies and residents.

- New York's exports to Mexico totaled $887 million in 1991, and to Canada, more than $6.7 billion.

- Canada and Mexico are New York's first- and ninth-largest export markets.

- Six manufactured goods sectors — scientific and measuring instruments; transportation equipment; industrial machinery and computers; chemicals; food products; and electric and electronic equipment — accounted for 67 percent of New York's total merchandise exports to Mexico in 1991. These sectors, plus textile mill products, furniture and fixtures, and fabricated metal products were also important exporters to Canada, accounting for 71 percent of New York's total exports to Canada in 1991.

- Thousands of New York jobs are linked to the production of goods in Mexico using U.S. parts and components. 18,420 jobs in New York were associated with production-sharing in Mexico. The Border Trade Alliance predicts that the NAFTA will expand this employment in New York to 28,755 jobs.[1]

- In 1991, New York's exports of manufactured goods to Mexico generated over 16,400 jobs in the state; exports to Canada generated another 116,700 jobs in New York, for a total of 133,100.[2] New York employment related to trade with Mexico has almost doubled since 1987.[3]

- An estimated 348,000 new jobs have been created by growth in New York's manufactured exports to Mexico and Canada since 1987.[4]

- These export-related jobs are among the highest paying jobs in New York. The average hourly wages in 1991 for New York production workers in scientific and measuring instruments was $13.89; in transportation equipment, $16.28; in industrial machinery and computers, $11.79; and in chemicals, $12.73.[5]

III. But the Best is Yet to Come: The NAFTA Will Provide New York Companies and Their Employees with Greater Export and Investment Opportunities

Exports from New York will grow even faster in response to NAFTA-generated liberalization of Mexican trade and investment barriers and accelerated development of the Mexican economy.

- An analysis conducted for the U.S. Council of the Mexico-U.S. Business Committee by KPMG Peat Marwick — a study characterized by the International Trade Commission as conservative, understating the NAFTA's benefits — notes that an FTA with Mexico will send about $25 billion in additional investment to Mexico over the course of a ten-year phase-in period. The U.S. Council estimates that over 10 years this investment could return at least $14 billion to the U.S. in the form of demand for U.S. exports, and stimulate $373 million in business for New York exporters (an average of $3 7 million a year).[6]

- Numerous New York employers that manufacture consumer products will benefit significantly from the increase in consumer income that will result from accelerated development of the Mexican economy. The Peat Marwick analysis estimates that the NAFTA will raise real income in Mexico by 4.6 percent annually. Currently, for every $1 of economic growth in Mexico, approximately 15 cents is spent on American products and services; a faster-growing Mexican economy will demand even more. New York employers that stand to gain include: **American Home Products Corp., Bausch & Lomb Inc., Revlon Inc., Avon Products Inc., Elias Fragrances Inc., Elizabeth Arden Inc., Estee Lauder, Arrow Co., Borden Inc., Cluett Peabody, General Foods Corp., Oneida LTD Silversmiths, Colgate-Palmolive Co., Fisher Price Toys, Gulf & Western, Seven-Up, Weight Watchers International Inc.,** and numerous others.

  - Eastman Kodak Co. (Rochester) exported $126 million in products to Mexico in 1990, and expects the NAFTA will at least double its exports to Mexico and expand domestic employment correspondingly.

  - Pepsico (Purchase), which expects to have revenues of $2 billion in Mexico by 1995, is investing heavily in Mexico to meet rising local demand for its products.[7]

  - Bruce Klatsky, President, said that the NAFTA allows **Phillips-Van Heusen Corp.** (New York) "to further our prime corporate objective of expanding U.S. employment by exporting products to Mexico."[8]

  - Bud Konheim, President, **Nicole Miller** (New York), also praised the NAFTA: "We're already selling $1 million worth of clothing at

wholesale to Mexico, including department store accounts, and I can see that figure jumping to $5 million the following year...By using U.S. factories, we think we can get tighter control, quicker delivery and better quality."[9] Mr. Konheim called the NAFTA "the greatest positive thing that's ever happened to American business." He also added, "We're busy selling Mexico now, so we're busy hiring more sewers here...We've run out of hungry customers here, and they have hungry customers for quality merchandise in Mexico."[10]

- Companies that service consumer products companies will also benefit from increased Mexican consumer incomes. The Vice President of Marketing for Genpak Corporation (Glen Falls), which manufactures disposable food-service products, reports that "[o]ur Mexican sales have allowed us to increase the size and efficiency of our U.S. plants because we have needed to purchase more, newer, and better equipment to satisfy the burgeoning Mexican demand for our products." The company has increased its purchases of U.S.-produced plastic resin, which it converts into food packaging products, as a result of its sales to Mexico. Genpack has also purchased U.S. machinery and equipment to increase the production capacity of its manufacturing plant to satisfy growing Mexican demand for its products.

- Homemaker Industries, Inc. (New York), a textile products manufacturer, expects the NAFTA will increase its business in Canada: "We expect Canada to account for 10 to 15 percent of our company's sales long term... I'm very pro-NAFTA. The Free Trade Agreement will benefit the entire North American Business Community," said Jeffrey S. Cohen, Vice President of Sales.

- The New York agricultural sector also expects to benefit. New York apple farmers are eager to increase their exports to Mexico, which currently face a 20 percent tariff, and support the NAFTA. An increase is also expected in New York dairy exports to Mexico (more than half of farm income in New York comes from dairy products, and Mexico accounts for 20-50 percent of all U.S. dairy exports).[11]

- And as the Mexican infrastructure develops, Mexican demand for the goods and services of New York industrial employers will grow. They include: Pfizer Corp., American Standard Inc., Wyeth-Ayerst Labs, Carrier International Corp., DHJ Industries, Fairchild Republic Co., Garlock Inc., Goulds Pumps Inc., W. R. Grace and Co., Grumman Aerospace Corp., ITT Corp., Mixing Equipment Co., Phelps Dodge, and Sybron Corp.

- IBM (Armonk), which makes personal and mid-range computers in Mexico primarily for the Latin American market, also exports from Mexico into the Japanese market. IBM's U.S. plants supply components to the Mexican plant. The company anticipates a doubling of its $460 million in revenues from growth in the Mexican market over the next several years.[12]

- Petroleos Mexicanos (PEMEX) recently awarded MOSCOM Corporation (Pittsford) a telecommunications equipment and software contract valued at $2.8 million. "MOSCOM views Mexico as one of the world's best growth markets for telecommunications equipment. With PEMEX as a reference, we believe Mexico provides MOSCOM significant new opportunities for many of the international products MOSCOM offers. We will continue to aggressively pursue business with this near-to-home friendly trading partner," reported James W. Karr, Vice President of International Sales.

- Elaine Ullrich, Vice President of Multiplier Industries (Mt. Kisco), a producer of battery packs for cellular telephones and two-way hand-held radios, reports "[t]here is a wealth of opportunity in Mexico for our type of industry. We are only hitting the tip of the iceberg in regard to exploring what's out there."

- Finally, Mexican demand for pollution control equipment and services, funded by substantial commitments from the Mexican Government, will fuel demand for equipment and services of several New York employers, including: Diversitron Corp., Cox & Company Inc., Partlow Corp., General Electric Co. Industrial & Power Systems, Ecology and Environment Inc., and Barnes-Williams Environmental Consultants.

- The NAFTA will open PEMEX- and Comision Federal de Electricidad (CFE)-sponsored government procurement contracts to 50 percent foreign participation immediately, to 70 percent by year 8, and remove all curbs at the end of year 10. Although Mexico will maintain its constitutional curbs on foreign investment in oil and natural gas exploration, restrictions in almost all petrochemical sectors will be removed. New York petroleum and related companies, like Witco Corp. and Texaco Inc., will benefit.

Employment in New York related to trade and investment with Mexico will increase as a result of the NAFTA.

- The overwhelming consensus of nearly two dozen economic analyses of the potential effects of the NAFTA is that it will result in more jobs in both the

U.S. and Mexico.[13] For example, an Institute for International Economics study projects net U.S. jobs gained from NAFTA will total 175,000 (total job increases of 325,000, less total job losses of 150,000).[14]

- While the national job impact as a share of total employment is expected to be small, the positive impact on New York will be significant. The $373 million increase in New York exports generated from increased investment in Mexico is expected to expand employment in New York by more than 7,160 new jobs over 10 years (716 a year).[15] After the NAFTA is fully implemented (i.e., after at least 10 years), net employment rolls will be over 6,800 jobs greater than they would be in the absence of the NAFTA.[16]

- At the end of the 10-year transition period, Peat Marwick projects that the following manufacturing sectors of the New York economy will register NAFTA-related employment increases: crude petroleum and natural gas, lumber and wood, paper and allied products, printing and publishing, chemicals and related products, petroleum and coal, rubber, leather and leather products, fabricated metal products, nonelectric machinery, transportation equipment, and miscellaneous manufacturing equipment.

- These are high-paying jobs. For example, in 1991, the average hourly wage in New York for production workers in printing and publishing was $12.51; in chemicals and related products, $12.73; in transportation equipment, $16.28; and in fabricated metal products, $11.54.[17]

By increasing U.S.-Mexico manufactured goods trade and stimulating growth in Mexico's underdeveloped services markets, the NAFTA will also improve market opportunities for New York banks and securities firms, insurance companies, telecommunications services companies, and construction and engineering companies. The NAFTA will improve access to Canada's $285 billion and Mexico's $146 billion services markets.

- Mexico agreed to loosen gradually investment restrictions on banking and securities firms, allowing for open competition in financial services by the year 2000. U.S. and Canadian banks can establish or own up to 8 percent of the Mexican banking market in the first year, increasing to 15 percent in the sixth year. The securities market will open from 10 percent to 20 percent between the first and sixth years.

    - Neil Allen, Managing Director for Latin America Merchant Banking at Bankers Trust New York Corp., hopes to build the bank's Mexican securities business to play a role in the local capital markets (e.g. bond and stock trading and sales), and to bring swaps and options to the Mexican market as well.[18]

- Stephen Cunningham, Co-Manager for Emerging Markets at Bear, Stearns, & Co., expects the NAFTA to increase business for New York's securities firms: "Clearly, it's good for general business, which helps trade flows and investment flows of capital, which is very good for the securities industry."[19]

- Mexican restrictions on insurance would be phased out over six years, opening up completely what is now a $3.5 billion market. U.S. companies can enter the Mexican insurance market via joint ventures with Mexican companies, with the U.S. ownership share increasing from 30 percent to 100 percent after six years.

  - No sooner was the NAFTA announced than Metropolitan Life Insurance Co. (New York) announced a new joint venture with Banco Santander (Spain) and Mexican investors to form an insurance company in Mexico, Seguros Genesis. The new Mexican company is selling both life insurance and pension products. "Mexico's vigorous program of generating economic opportunity for its 85 million people offers great potential for life insurance and retirement income business which have been largely undeveloped in Mexico," said William G. Poortvliet, MetLife Executive Vice President, International.[20]

  - The NAFTA will permit American International Group (New York), which already owns 49 percent (the maximum now allowed) of a Mexican full-line commercial property/casualty company, to increase that share to full ownership by 1996. NAFTA will give AIG "a lot more freedom in the future to grow in that business" in Mexico, said John T. Wooster, AIG Vice President, Communications. Adds M. R. Greenberg, Chairman of AIG: "AIG has long had a significant presence in the Mexican insurance market, and we will now be permitted to move to majority ownership within a few years. We look forward to bringing our resources to serve the needs of this rapidly growing market on our own doorstep."[21]

- NAFTA opens Mexico's $6 billion market for telecommunications services. It gives U.S. providers of voice mail or packet-switched services nondiscriminatory access to the Mexican public telephone network and eliminates all investment restrictions in one and a half years. New York companies including ITT and MCI International Inc. will be key beneficiaries of these changes.

- As the Mexican economy develops further under the stimulus of the NAFTA, demand will grow for the types of construction and engineering services provided by New York firms, including Turner Construction Co. and

Crouse-Hinds Co. The need for infrastructure improvements along the border (roads, bridges, water, sewage, waste management facilities and other infrastructure) and new housing offers an immediate opportunity for these companies and their employees.

The NAFTA will eliminate current Mexican operating and investment restrictions on international cargo trucking that have virtually shut U.S. trucking companies out of the $55 billion market in U.S.-Mexico cross-border trade carried by land. New York trucking companies for the first time will have the right to use their own drivers and equipment for shipments into Mexico. At the same time, the NAFTA provides that Mexican and Canadian motor carriers that wish to operate in the United States must use drivers that meet U.S. qualifications and vehicles that meet U.S. safety standards.

- The American Trucking Association estimates that two-way annual truck traffic between the U.S. and Mexico will more than triple by the year 2001. New York trucking firms are well-positioned to take advantage of this boom, as they are among the most efficient in the world.

- "Through our business dealings in Mexico, we have experienced major growth. Mexico is our biggest customer," says The Celadon Group (New York) President, Len Bennett. The Celadon Group is the largest U.S. total transportation group operating in Mexico. It provides trucking, international air and ocean freight forwarding, logistics management, and corporate travel services between the United States and Mexico. Since its founding in 1985, the company has seen its employment grow from 3 to 1,400 workers and sales expand from $5 million to $65 million, with much of this growth attributed to Mexican business, which accounted for more than half of Celadon's total sales last year.

- The NAFTA's land transportation provisions allow for charter and tour buses from Mexico to service U.S. destinations, and vice versa, which will permit the expansion of an entirely new market for travel agencies and land-based tour operators in the New York.

The NAFTA also provides for intellectual property rights protection that will enable New York employers that depend on such protection to expand their presence in the Mexican market. The NAFTA will provide a higher level of protection for intellectual property rights than any other bilateral or multilateral agreement. In addition to honoring U.S. patents, trademarks, copyrights, and trade secrets, Mexico has agreed to 20-year patent protection and compliance with the Berne Convention. Canada has also agreed to scrap compulsory licensing requirements.

- In particular, numerous New York computer software firms, including IBM, will benefit from NAFTA provisions protecting computer programs as literary

works and databases as compilations, and providing rental rights for computer programs.

- New York pharmaceutical employers, including CIBA-GEIGY Corp., Colgate-Palmolive Co., Pfizer Corp., Bristol-Myers Squibb Co., Bausch & Lomb Inc. and Sydney Ross Co., will also benefit from NAFTA provisions protecting pharmaceutical and agricultural chemical patents, and providing patent owners the opportunity to obtain product patent protection for all pharmaceutical and agricultural chemical inventions.

The NAFTA will further liberalize Mexico's investment restrictions. Mexico has agreed to increase gradually its foreign investment screening rules from a $25 million threshold to $150 million after 10 years. Mexican "domestic content" rules will be eliminated, permitting additional sourcing of U.S. inputs. For the first time, U.S. companies operating in Mexico will receive the same treatment as Mexican-owned firms. Mexico has also agreed to drop its export performance requirements, which presently force firms to export as a condition of being allowed to invest. Expanded U.S. investment in Mexico will generate sales of U.S. goods: **for every $1 spent by U.S. subsidiaries in Mexico, 46 cents is spent on U.S. goods.**

- The NAFTA will make the investment climate more secure for New York investors interested in developing manufacturing facilities in Mexico. As the experience of **Eastman Kodak Co.** has already shown, these facilities will enhance their competitiveness and enable them to continue to employ Americans in higher-wage production, distribution, and sales positions. According to Kay R. Whitmore, Chairman, President and CEO of Kodak: "By establishing a photographic manufacturing operation in Mexico, not only did we create jobs in Mexico, but also for Kodak in Rochester, which exports raw materials and finished goods to this plant and the Mexican market. I have watched this relationship grow over the years to the mutual benefit of both."[22]

- It is clear from our experience that the NAFTA will not result in a stampede of companies relocating plants from the United States to Mexico. In fact, the ability to invest in Mexico coupled with the high skills and productivity of U.S. workers will enable many U.S. plants to remain internationally competitive from their U.S. locations. **Trico Products Inc.** (Buffalo) is frequently cited as an example of the how the NAFTA will shift U.S. jobs to Mexico; **in fact, however, it is an example of how the NAFTA will keep jobs in the United States.** Trico's choice was not between moving to Mexico or staying in Buffalo: it was between moving to Mexico with support from U.S. operations, or moving to Asia and shutting down altogether in the United States. By moving to Mexico, Trico kept 1,250 jobs the United States (750 high-paying and skilled engineering, research, design and manufacturing jobs

in Buffalo, and 500 in Texas) that otherwise would have moved to Southeast Asia. In addition, Trico's decision had positive impacts on other U.S. manufacturers: plants in Mexico are equipped largely with U.S.-made machines and most of the steel, rubber and other materials used to manufacture its windshields comes from U.S. suppliers (had Trico gone to Asia, all of these items would have been sourced from Asian suppliers).[23]

- An analysis by The Stern Group of the likely impact of the NAFTA on foreign direct investment (FDI) in Mexico, Canada and the United States concluded that "low labor costs are exaggerated as a reason for U.S. investment in Mexico, and for FDI generally. ... [M]ost FDI is to develop new markets, not to take advantage of lower wages in developing countries. **Seventy percent of U.S. FDI in Mexico is aimed at producing products for the rapidly growing Mexican market. Only about 25 percent of the production of U.S. majority-owned firms in Mexico is exported to the United States."**[24]

- The Stern Group study also concluded that a significant portion of U.S. investment in Mexico under the NAFTA will replace new investment in other developing countries rather than new investment in the United States. Investment in other developing countries is already being brought back to North America in anticipation of a NAFTA.[25]

Both the Mexican and U.S. governments recognize that serious attention and funding must be dedicated to the border environment.

- Mexico has committed to spend $460 million over the next three years on border cleanup. Already, the number of Mexican border inspectors has increased from 50 to 203. The Mexican government committed to spend $160 million in 1992 on an array of environmental infrastructure projects in the border region, including wastewater treatment, solid waste management, and transportation infrastructure.

- The United States spent $138 million in 1992 on border pollution cleanup, and has sought authorization from Congress for another $241 million in 1993. Projects underway include construction of the Tijuana River and the Laredo sewage treatment facilities, joint U.S.-Mexican training of enforcement personnel for hazardous waste disposal, and EPA air monitoring.

The NAFTA will allow considerable time for adjustment for New York industries and workers that may be affected by imports from Canada or Mexico.

- The NAFTA provides for long transition periods of up to 15 years for the phase-out of tariffs on import-sensitive products in New York. Moreover, the rules of origin relating to textiles and apparel imported from both Canada and

Mexico are so restrictive that they virtually eliminate the incentive to source greatly increased quantities of apparel from Mexico.

- In addition to strict rules of origin, safeguards, and long transition periods in the NAFTA, we are confident that the Administration and the Congress, working closely with the private sector, will develop a worker adjustment assistance plan that will limit any negative effects of the NAFTA on U.S. workers.

IV. Conclusion

An FTA with Mexico will accelerate Mexico's development, increase Mexican consumer incomes, open new investment opportunities in Mexico, and expand markets for U.S. goods and services.

New York companies will be prime beneficiaries of these new trade and investment opportunities.

New York workers in virtually every sector will benefit.

Prepared by The Trade Partnership, Washington, D.C. for the U.S. Council of the Mexico-U.S. Business Committee.

Endnotes

1. "Production sharing" includes maquiladora production as well as other production in which U.S. parts and components are used to manufacture goods in Mexico. Border Trade Alliance, "Maquiladoras: Impact of Free Trade Survey", 1991.

2. Office of the U.S. Trade Representative.

3. Estimated by The Trade Partnership from Census and USTR data.

4. Office of the U.S. Trade Representative.

5. U.S. Department of Labor, Bureau of Labor Statistics, "Current Employment Statistics; Average Hourly Earnings" (unpublished data) and Employment and Earnings, May 1992.

6. Estimated by the Trade Partnership.

7. Claire Poole, "Pepsi's Newest Generation," Forbes, February 18, 1991.

8. Jim Ostroff, "NAFTA Draws Mixed Reviews", Daily News Record, August 13, 1992, p.4.

9. Ibid., p.4.

10. "Thumbs Up for NAFTA", Women's Wear Daily, August 19, 1992.

11. New York State Department of Agriculture and Markets, and The New York Farm Bureau.

12. Ann Reilly Dowd, "Viva Free Trade with Mexico!", Fortune, June 17, 1991, p. 100.

13. NAFTA critics predict the Agreement will cost 550,000 U.S. jobs. The "job losses" in the study upon which this projection is based, however, in fact reflect a reduction in immigration of Mexican workers to the United States. The authors of the study believe that a better-performing Mexican economy will keep Mexican labor in Mexico, thereby "shrinking" U.S. jobs.

14. Gary Clyde Hufbauer and Jeffrey J. Schott, North American Free Trade Agreement: An Update (Washington, DC: Institute for International Economics, July 27, 1992).

15. Estimated by The Trade Partnership from USTR and Census data.

16. Estimated by The Trade Partnership from data provided by NPA Data Services Inc. (Regional Economic Projection Series; Regional Economic Growth in the United States: Projections for 1990-2010) and Peat Marwick.

17. U.S. Department of Labor, op. cit.

18. Kenneth H. Bacon, "Free Trade Is Likely to Step Up Business Even Before Approval", The Wall Street Journal, Aug. 13, 1992, p.A4.

19. Ibid.

20. Margo D. Beller, "MetLife Announces Joint Venture in Mexico", The Journal of Commerce, August 17, 1992.

21. Ibid.

22. Kay R. Whitmore, Chairman of the Business Roundtable Working Group on U.S.-Mexico Trade and Investment and Chairman, President and CEO of Eastman Kodak Co., Statement to the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, Hearings on "Proposed Negotiation of a Free Trade Agreement with Mexico", February 20, 21 and 28, 1991.

23. Stuart Auerbach and Edward Cody, "Trico Products: A Firm's Move Means Some Shattered Lives", The Washington Post, May 17, 1992.

24. The Stern Group, op. cit., p. 4 (emphasis added).

25. Ibid., p. 6.

Selected New York Companies that Will Benefit from the NAFTA

Albany International Corp. (Paper machine clothing, engineered fabrics, plastic products, and filtration media)
American Home Products Corp. (Drugs, food, household products)
American International Group
American Standard Inc. (Heating and sanitary equipment)
Argus Chemical Corp. (Vinyl resin stabilizers, plasticizers)
Arrow Co. (Men's apparel)
Associated Press (News gathering agency)
Avon Products Inc. (Cosmetics, perfumes)
AVX Corp (Multilayer ceramic capacitors)
Bankers Trust Co. (Banking)
Barnes-Williams Environmental Consultants (Environmental consulting services)
Bausch & Lomb Inc. (Healthcare and optics products)
Booz Allen & Hamilton (Management consultants)
Borden Inc. (Milk processing, dairy foods, specialty foods, chemicals, plastics)
Boyden Associates Inc. (Management consultants, executive search)
Bristol-Meyers Squibb Co. (Pharmaceuticals)
Buck Consultants Inc. (Employee benefit, actuarial & compensation consulting service)
Buffalo Forge Co. (Fans, air-handling units)
Burson-Marsteller (Public relations/public affairs consultants)
Carl Byoir & Associates Inc. (Public relations consultants)
Carrier International Corp. (A/C, heating, refrigeration & power equipment)
Central National-Gottesman Inc. (Pulp and paper products)
The Celadon Group (Transportation services)
Charles of the Ritz Group Ltd. (Fine fragrances & cosmetics)
Chase Manhattan Bank N A (International banking)
Chicago Pneumatic Tool Co. (Air tools and equipment)
Ciba Geigy Corp. (Pharmaceuticals)
Citibank N A (International banking)
Cluett Peabody & Co Inc. (Wearing apparel)
Colgate-Palmolive Co (Pharmaceuticals, cosmetics, toiletries, detergents)
Columbia Pictures Industries Inc. (Producer & distributor of motion pictures)
Compton International (Advertising)
Corning Corp. (Manufacture glass, ceramic materials)
Cox & Company Inc. (Environmental control equipment)
Crocker Bank International (International banking services)
Crouse-Hinds Co. (Manufacture electrical construction materials)
D'Arcy Masius Benton & Bowles Inc. (Advertising and communications)
Dancer Fitzgerald Sample International (Advertising agency)
DDB Needham Worldwide Inc. (Advertising)
DHJ Industries Inc. (Knit fabrics, interlinings plastic ships, and denim)
Diversitron Corp. (Environmental control equipment)

Eastman Kodak Co. (Photographical and chemical products, information management/video/copier systems, fibers/plastics for various industries)
Ecology and Environment Inc. (Environmental consulting services)
Elias Fragrances Inc. (Cosmetic products, fragrances, perfumes, oils)
Elizabeth Arden Inc. (Cosmetics, fragrances, toiletries)
Endo Laboratories Inc. (Ethical pharmaceuticals)
Estee Lauder (Cosmetic products, fragrances, perfumes)
Fairchild Republic Co. (Aircraft)
Faberge Inc. (Perfumes, toiletries, apparel)
Felton International Inc. (Essential oils & extracts, perfumes and flavor material, and aromatic chemicals)
Fisher Price Toys (Toys and games)
Florasynth Inc. (Aromatic chemicals, fragrances & flavors)
Garlock Inc. (Mechanical packings)
General Foods Corp. (Processor, distributor, & manufacturer of foods)
General Instrument Corp. (Electronic components & systems)
General Railway Signal Co. Inc. (Railway signals)
Genpak Corp. (Disposable food-service products)
Goulds Pumps Inc. (Industrial & water systems pumps)
W R Grace & Co. (Specialty chemicals, natural resources, consumer service)
Graphic Controls Corp.(Plotter supplies, industrial/medical recording charts, fax papers, disposable medical products and pens)
Grumman Aerospace Corp. (Aircraft, parts)
Grumman Data Systems Corp. (Computer services)
Gulf & Western Industries Inc. (Diversified multi-industry company in consumer goods)
Frank B. Hall & Co. Inc. (Insurance)
Harper & Row Publishers Inc. (Book publishers)
Homemaker Industries Inc. (Textile products)
Horwath & Horwath International (Public accountants & auditors)
Inspiration Resources Corp. (Agricultural & mining products and services)
International Business Machines (Information-handling systems, equipment, and services)
International Flavors & Fragrances Inc. (Flavors, fragrances, and aromatic chemicals)
Irvin Industries Inc. (Parachutes, cargo handling equipment, life-saving devices)
ITT Corp. (Diversified manufacturer, technology & services)
Knoll International (Furniture & fabrics)
Korn/Ferry International (Executive search)
Lintas:Worldwide (Advertising agency)
Manufacturers Hanover Trust Co. (Banking)
J B Martin Co. (Velvet fabrics)
Mergenthaler Linotype Co. (Photocomposition machines, systems, and equipment)
Metal-Cladding Inc. (FRP tanks & custom construction, scrubbers, odor control equipment)
Mixing Equipment Co. Inc. (Industrial mixing machines, aerators)
Mobil Corp. (Petroleum exploration products)
McCann-Erickson Worldwide (Advertising)

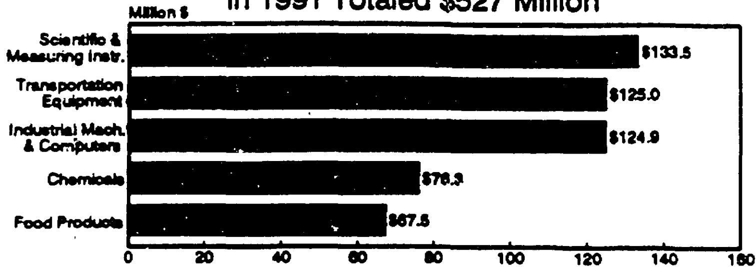
McGraw-Hill Inc. (Books, magazines, information systems, financial services, and broadcast operations)
McKinsey & Co. Inc. (Management consultants)
Multiplier Industries (Battery Packs)
Nitec Paper Corp. (Coated paper)
Ogilvy & Mather Inc. (Advertising agency)
Oneida LTD Silversmiths (Cutlery, holloware, china, crystal)
Ontel Corp. (Electronic components)
Osmose International Inc. (Maintenance & inspection utility poles, railroad track, and marine piling)
Paramount International Films Inc. (Film production & distribution)
Partlow Corp. (Environmental control equipment)
Pepsico Inc. (Beverages, food products & services, sporting goods)
Pfaudler Co. (Glass lined reactor vessels)
Pfizer Inc. (Pharmaceuticals, hospital products, chemicals, consumer and animal health products)
Phelps Dodge
Polychrome Corp. (Metal offset plates, coating specialties, graphic arts films)
Precision Valve Corp. (Aerosōl valves)
Quigley Co. Inc. (Refractory specs, application equipment)
Reichhold Chemicals Inc. (Synthetic resins & specialty chemicals)
Revlon Inc. (Cosmetics, health care products)
R A Rodriguez Inc. (Export management: bearings & power transportation equipment)
Sydney Ross Co. (Pharmaceuticals, toiletries & cosmetics)
Schenectady Chemicals Inc.(Electronic insulating varnishe, enamels, resins, alkylated phenol)
Seven-Up (Soft drinks)
SGS Control Services Inc. (Quality & quantity control checks and related technical services)
Simmons International (Bedding products)
Simon & Schuster Inc. (Publisher)
Taylor Instrument Co. (Instruments for process control industry)
Ted Bates Worldwide Inc. (Advertising agency)
Texaco Inc. (Crude oil & its products, petro-chemicals)
Time Warner Inc. (Magazine & book publishing, communications)
Tork Inc. (Time & photoelectric controls)
Towers Perrin Forster & Crosby Inc. (Management consulting)
Trans World Airlines Inc. (Air transportation, hotel, food services, real estate)
Trico Products Inc.
Turner Construction Co. (Construction and engineering services)
United Press International (Collection and distributor of news, newspictures, and financial data)
Van Heusen Co. (Wearing apparel)
Volkart Borthers Inc. (Sale of coffee, cocoa, cotton)
Warner Communications Inc. (Entertainment & communications)
Weight Watchers International Inc. (Weight reduction programs, food products)

Witco Corp. (Chemical & petroleum products)
Woolworth Corp. (Retail stores)
World Courier Inc. (International courier service)
Young & Rubicam International Inc. (Advertising agency)

Source: Directory of American Firms Operating in Foreign Countries, World Trade Academy Press, 12th Edition, 1991, Vol.3, and The Trade Partnership.

NEW YORK: EXPORTS TO MEXICO, 1987-91

New York's Top Five Exports to Mexico in 1991 Totaled $527 Million



NEW YORK'S EXPORTS TO MEXICO, BY INDUSTRY SECTOR
(Thousands of Dollars)

	1987	1988	1989	1990	1991
AGRICULTURE, FORESTRY & FISHING	2,710	5,509	3,496	2,426	4,183
Agriculture – crops	756	3,805	1,854	1,149	2,308
Agriculture – livestock	188	178	111	688	420
Forestry	1,766	1,525	1,504	579	1,404
Fishing & Hunting	0	0	27	10	50
MINING	4,108	2,944	4,293	3,212	3,528
Metal Mining	3,395	2,098	1,896	1,194	664
Coal Mining	0	0	0	0	5
Oil & Gas	0	0	166	234	10
Non–Metallic Minerals	713	846	2,231	1,783	2,849
MANUFACTURING	493,616	802,633	810,460	774,924	854,246
Food Products	12,495	36,510	34,821	49,683	67,508
Tobacco Products	0	0	0	107	167
Textile Mill Products	4,118	8,107	15,271	19,369	22,712
Apparel	1,531	6,183	15,552	18,440	13,764
Lumber & Wood Products	288	632	911	150	777
Furniture & Fixtures	281	358	631	1,965	2,400
Paper Products	44,770	64,819	69,696	51,280	60,315
Printing & Publishing	2,161	2,082	4,535	4,230	5,378
Chemical Products	65,154	92,674	97,822	87,151	76,296
Refined Petroleum Products	1,766	985	4,378	4,075	4,201
Rubber & Plastic Products	18,064	25,272	27,918	31,300	33,236
Leather Products	599	3,540	3,310	3,649	6,014
Stone, Clay & Glass Products	7,734	11,995	7,573	13,274	15,525
Primary Metal Industries	34,770	27,700	104,743	75,506	58,779
Fabricated Metal Products	49,840	76,883	14,498	13,435	21,176
Industrial Machinery & Computers	68,240	99,334	108,893	117,426	124,881
Electric & Electronic Equipment	44,880	71,106	65,190	70,521	67,222
Transportation Equipment	78,821	173,558	48,749	35,995	124,978
Scientific & Measuring Instruments	54,870	93,570	152,267	144,574	133,467
Miscellaneous Manufactures	3,194	7,335	41,709	32,775	15,450
OTHER	11,935	16,845	16,834	20,738	24,878
Scrap & Waste	6,558	12,135	11,585	12,236	10,369
Second Hand Goods	211	1,172	38	1,564	9,762
Military & Other Miscellaneous Items	5,166	3,539	4,412	6,937	4,747
NY'S EXPORTS TO MEXICO	512,348	827,931	834,284	801,299	886,835
NY'S EXPORTS TO THE WORLD	19,873,716	26,961,339	26,789,952	31,376,190	30,980,926
MEXICO'S SHARE OF NY'S EXPORTS	2.6%	3.1%	3.1%	2.6%	2.9%

SOURCE: U.S. Department of Commerce, International Trade Administration
U.S. Exports to Mexico: A State-By-State Overview, 1987-91, July 1992

PREPARED STATEMENT OF SENATOR STEVE SYMMS

[September 10, 1992]

Secretary Martin, last Monday you appeared on the McNeil/Lehrer Newshour. In the midst of your conversation you made a very interesting comment:

"We are not in the 1950s anymore. "

Your comment is very relevant to today's hearing. To most, the NAFTA is a question over "good American jobs." Anyone who believes jobs is what the NAFTA is about is 100% right.

The prophets of doom and the less creative will tell you the NAFTA will "export" "good American jobs." This is poor logic. Stating a "good American job" will be transferred to the Third World assumes a "good American job" is nothing more than an overpaid Third World job. And once allowed, businesses will take advantage of its ability to pay third world wages to do third world work, displacing almost 900,000 people.

I disagree. I believe the skills required in the American workforce are skills that allow us to compete with the First World. More and more jobs in the U.S. require much technical knowledge. Mexico offers cheap labor, but very few people with such skills. Wages are one factor that may influence an industry to move overseas but it is only one factor.

Yes, some jobs will be relocated to Mexico. But this does not mean an end to U.S. manufacturing jobs. Despite moving lower-end production sites overseas, Japan and Germany still have many manufacturing jobs. But unlike the worker in their subsidiaries in Malaysia or Greece, Japanese and German workers have a higher level of education and overall greater productivity. Higher-skilled jobs will stay where their is a highly-skilled labor force.

The President's proposed program Advancing Skills through Education and Training Services (ASETS) should focus on ensuring that the retrained American work force possesses technical skills necessary for the 21st Century. Its predecessors, the Trade Adjustment Assistance (TAA) and Economic and Dislocation and Worker Adjustment Assistance (EDWAA), were not so successful.

But ASETS appears to be an improvement. particularly like its emphasis on the private-sector to provide worker training programs supported with public funds. But I still have questions over ASETS before I decide to support it.

PREPARED STATEMENT OF SENATOR STEVE SYMMS

[September 30, 1992]

Thank you Madame Secretary for appearing before this committee. Discussing free trade as it relates to agriculture often leads to a heated argument.

Every Senator on the Finance Committee and in the Senate in general has a political soft-spot. The unfortunate reality of the North American Free Trade Agreement has been to force every Senator to choose between the "good of the nation" and his political soft-spot.

It is a grave tragedy that the "good of the nation" is not easy to define and communicate to the American public. If it were, the NAFTA would easily pass. The benefits which come through expanded free trade are plentiful. Unfortunately they are not always dramatically obvious.

While the gains are spread out and hard to visualize, the losses, which are our political soft-spots, are more obvious. It is much easier to notice the closing of a business in one's state or district than, for instance, an increase in the overall economic health of the nation.

We all have our political soft-spots. Mine is sugar. Sugar beet farming is the third largest industry in the state of Idaho. 20% of Idaho's farm land is used for sugar beet farming and it produces 16% of this nation's sugar.

Idaho's sugar beet farmers are honest, hard-working, and proud. Their sweat, toil, and dedication to providing the highest possible quality sugar to the American public deserve nothing but the highest respect.

Unfortunately, the NAFTA could threaten their livelihood. Everyone understands a free trade agreement means the elimination of barriers to trade. I know the Administration did its best to write a free trade agreement that took into account the interests of import sensitive industries. But there are a few concerns I have over the NAFTA's treatment of sugar and I will ask you about them during my question period. I also have concerns about other commodities and I would like to submit those questions for the record.

The dilemma I face is no different than that faced by many of colleagues. The question is how to vote for the good of the nation, while not hurting key constitu-

encies in our states. But then I suppose this is what good government is really about: making tough choices.

PREPARED STATEMENT OF CHARLES THIBAUT

Mr. Chairman and members of the Committee, my name is Charles Thibaut. I am a Louisiana sugarcane farmer and am also employed by a Louisiana cooperative processor of sugarcane into raw sugar. I appear here today in my capacity as Chairman of the Legislative Committee of the American Sugar Cane League. My testimony is presented on behalf of the entire United States sugar industry, including sugarcane and sugarbeet farmers and processors and cane sugar refiners. The domestic United States sugar industry is united in its opposition to NAFTA in its present form.

Gentlemen, we sugarcane and sugarbeet farmers are a hardy lot. Over the years we have on many occasions suffered the ravages of inclement weather, infestation of our crops by insects and diseases and adverse economic conditions. Recently a large segment of the Louisiana sugarcane industry was devastated by Hurricane Andrew and the Hawaiian sugarcane industry by Hurricane Iniki. Nevertheless, as we have done on so many occasions in the past, we will survive this most recent natural disaster. In late September or early October of this year, we Louisianians will commence our 197th consecutive annual sugarcane harvest. Hopefully, there will be many more to come.

Although we have consistently overcome natural and economic adversity in the past, we frankly believe we cannot overcome the effects of the proposed North American Free Trade Agreement (NAFTA). The sugar section of NAFTA is a losing proposition for the domestic sugar industry and all its employees. The U.S. sugar industry has no alternative but to vigorously oppose the adoption of the agreement as written. It effectively eliminates a viable, successful U.S. industry and transports that industry, together with its hundreds of thousands of jobs, to Mexico. The present Administration, together with its immediate predecessor, has been trying to legislatively destroy our industry for years. Because of the wisdom of Congress, its efforts have been unsuccessful. Under the proposed NAFTA, the Administration is attempting to do administratively through a secretly-negotiated trade agreement that which it was prevented from doing legislatively.

To require the United States sugar industry to face unfettered competition from producers in a nation whose standard of living, wage rates, employee protection laws and environmental standards are far lower than our own is to negotiate and legislate us out of business. If enacted in its present form, this is exactly what NAFTA will do.

Despite cost increases imposed on United States producers by government regulations concerning wages, worker's compensation and unemployment insurance, and other occupational and environmental concerns, international sugar experts generally regard Mexican sugar producers to be higher cost, less efficient producers than those from the United States. Our superior technology, equipment and knowhow more than compensate for Mexico's low wage rates, lax environmental standards and other low operating costs. However, if Mexican producers can combine U.S. equipment and technology with their own low wage rates and lax environmental and workers' protection standards, they will produce sugar far more cheaply than any U.S. producers. Considering the huge profits that will result to Mexican producers from a combination of U.S. technology, Mexican operating costs and assured access to the U.S. market under NAFTA, it is naive to believe that such technology will not be made available by foreign capital from both United States' investors and those from other nations. When that occurs, our domestic sugar industry will cease to exist as a significant contributor to our nation's economy.

The domestic sugar industry employs, directly or indirectly, approximately 117,000 people with an annual payroll well in excess of a billion dollars to taxpaying American citizens. Sugar production is highly concentrated and grown in relatively remote areas. This industry is the economy in these regions. If the sugar industry is crippled or destroyed, everyone suffers. Secretary of Labor Lynn Martin stated before this Committee that there could be 150,000 jobs lost as a result of the NAFTA. We know where 78% of those jobs will be lost—forever. Either Secretary Martin's figures are incorrect or certainly the domestic sugar industry is taking a disproportionate share of these job losses. Most of our field workers and many of our processor employees are persons of limited skills who will find it virtually impossible to find other employment. Even if substitute employment is available to those people, it is likely they will move down the pay scale and not up the scale

to better jobs. What comfort can an unemployed sugar mill worker in Jeanerette, Louisiana, find in knowing there was a job created on Wall Street?

As you gentlemen are aware, Mexico is currently a net importer of sugar. Its current quota into the United States is 7,259 metric tons. Under the agreement as presently proposed, if in any of the first six years Mexico is projected to be a surplus producer of sugar, it will be permitted to export up to 25,000 tons of exportable surplus into the U.S., duty free. Beginning in year seven of the agreement, Mexico will be permitted to export up to 150,000 tons of exportable surplus into the U.S., duty free, which tonnage will escalate by 10 percent per year over the remainder of the 15-year period. However, if Mexico reaches net export status for two consecutive years, including years one through six, it may ship the total amount of its surplus production of sugar into the U.S., duty free. At the end of the 15-year transition period, all import restrictions will be removed.

It is very likely that under the proposed agreement Mexico will become a surplus producer and exporter of sugar well before the 15th year of the transition period. Mexico currently utilizes approximately 1.5 million tons of sugar annually as beverage sweetener, particularly in soft drinks. By substituting high fructose corn syrup for sugar in their soft drink industry, it is anticipated that Mexico will become a surplus producer in less than five years. Mexican private sector representatives publicly project production increases from 3.7 million tons to 6 million tons within 10 years. U.S Government experts have been quoted as saying Mexico could become an exporter of as much as 800,000 tons by 1996.

The United States and Canada have already made very expensive transitions from a sugar-dominated market to a sweetener market equally shared by sugar and corn sweeteners. This transition took 15 years. During that period, fifty-three processing facilities (10 refineries, 19 beet sugar factories, and 24 cane mills) closed, costing thousands of jobs. Capacity was moved to more efficient facilities or completely lost forever (as was the case for U.S. cane refiners). It is abundantly clear that U.S. farmers and factory workers paid their price for this transition.

Under the proposed NAFTA, the U.S. sugar industry will have to pay that price once again. Mexico's sugar-dominated market has not yet begun the transition to a mix of sugar and corn sweeteners, but will certainly do so with the incentive provided by the proposed agreement. As was done in the U.S., Mexican producers and factory workers *must* bear the burden of their own transition. But the proposed NAFTA allows their displaced sugar to be dumped and pushed onto the U.S. market at the expense of U.S. producers, traditional foreign suppliers, and MORE U.S. jobs. *This is unfair. Mexico should not and cannot be allowed to export sugar to the U.S. that has been displaced in Mexico by HFCS.*

Under the sugar section of the Food, Agriculture, Conservation and Trade Act of 1990, commonly known as the "Farm Bill," the U.S. domestic sugar industry is supported by production loans of 18 cents per pound, which is less than the 19.7 cents per pound direct payment program which Mexico provides for its producers. Moreover, our Farm Bill mandates the operation of the sugar loan program at no cost to the federal government. The no-cost feature of the Farm Bill has been successfully achieved since 1985 by preventing the dumping of excess production from foreign nations onto the U.S. market, while still providing import quotas to 40 foreign nations (including Mexico) at attractive prices. The influx into the U.S. of unlimited amounts of displaced Mexican sugar will render the no-cost mandate of the Farm Bill impossible to achieve and thus defeat the intent of Congress. Additionally, it could completely displace a large quantity of sugar from the other 39 nations which have traditionally imported sugar into the U.S. (many of which are Caribbean nations with serious economic problems of their own) and which will suffer severe losses as a result of NAFTA. The President of the CBI Sugar Group, in a letter to former Secretary of State Baker, stated, "This, in our opinion, would be totally unfair to the traditional suppliers of the U.S. market and a violation of the spirit and perhaps the letter of existing GATT agreements." Spokesmen for other sugar-producing nations have expressed similar dismay over the unfair and GATT-incompatible aspects of the sugar section of NAFTA. We believe their concerns are well-founded.

In its present form, the sugar provisions of NAFTA will result in the further weakening of the economy of numerous Caribbean and other developing nations and will cause a drastic shrinkage or, perhaps, even the demise of the U.S. sugar industry and the consequent loss of untold thousands of U.S. jobs. Although additional low-paying jobs will undoubtedly be created in Mexico, the real winners will be the Mexican investors who will reap untold profits from United States producers and the traditional suppliers to the U.S. market. The loss to the United States and its other traditional trading partners will be catastrophic.

To ease the burden to the U.S. sugar industry, the agreement must be modified in several respects. First, as previously stated, Mexico will be given increased access to the U.S. market any year it is projected to achieve "surplus producer" status. The determination of "surplus producer" status must be modified to include in the consumption calculations not only sugar but also other caloric sweeteners, particularly corn sweeteners. Otherwise, Mexico will have tremendous incentive to achieve surplus status merely by replacing the 1.5 million tons of sugar presently consumed by its beverage industry with corn sweeteners and shipping its surplus sugar to the U.S. Secondly, the "surplus producer" calculations must be made on the basis of verifiable history and not just on vague projections as presently provided.

Thirdly, there must be an access limitation incorporated into the agreement. Under the current proposal, Mexico's access would be expanded to 150,000 tons in year seven and be increased by 10 percent per year during years eight through 15. By year 15, this would amount to imports of 322,000 tons, 44 times Mexico's current access. At the end of the 15th year, or at any earlier time that Mexico achieves surplus producer status for two consecutive years, Mexico would be permitted to send its entire net surplus production to U.S. markets. This provision must be stricken. At no time should Mexico have virtually unlimited access to U.S. markets, particularly after a mere six years.

Moreover, when domestic marketing allocations are imposed under the U.S. sugar program, imports from Mexico, or any other country, above the 1.25 million short ton minimum, must be subject to the common external tariff. To prevent substitution of sugar during or after the transition period, Mexico must apply the common external tariff to all non-NAFTA sugar imports after it achieves net surplus producer status.

Fourth, under the agreement as presently drafted, U.S. Section 22 protection for refined sugar and sugar-containing products will be phased out over 10 years. This transition period should be increased to 15 years, consistent with the transition period for raw sugar.

These necessary changes will mitigate several potential damaging effects that are currently in the proposed agreement. First of all, they will reduce the false incentive for Mexico to increase production of a surplus commodity. In addition, Mexico will not be allowed to dump its displaced sugar into our market. The U.S. industry will be ensured a true 15-year transition period instead of allowing Mexico virtually unlimited access after a mere six years. There will be a 15-year transition period for refined sugar and our most sensitive sugar-containing products. Finally, our— changes will guarantee the integrity of the Sugar Program and access to our domestic market for our traditional foreign suppliers. Even these changes do not address the troubling problem of the precedent set by providing Mexico, a net importer of sugar, with generous additional access to the U.S. market. What concessions will we grant sugar *exporting* countries that are eventually added to the NAFTA?

The fast track procedure provides for this 90-day review and consultation period for Congress and the industry to identify and correct flaws in the Agreement. We formally and respectfully request that Congress direct the Administration to resolve these problems in the text of the Agreement in the manner which we have prescribed in order to prevent serious damage to the U.S. sugar industry.

We look forward to working with this Committee, other Committees and the Administration to successfully resolve these problems. We appreciate the opportunity of testifying today and will attempt to answer any questions you may have.

NAFTA: U.S. SUGAR INDUSTRY RECOMMENDATIONS

1. *Sugar Recommendations.* The following changes must be made:

a. *Net Exporter Determination.* Mexico will be given increased access to the U.S. market any year it is projected to achieve sugar "surplus producer" status. *This "surplus producer" determination must be changed in two ways:*

(1) *It must be calculated not just on the basis of sugar, but expanded to include corn sweeteners.* Otherwise, Mexico will have tremendous incentive to achieve sugar surplus status simply by replacing the 1.5 million tons of sugar consumed by its beverage industry with corn sweeteners, and shipping its surplus sugar to the United States.

If this change is *not* made, the pain of adjustment for the Mexican sugar industry would be shifted to the U.S. sugar industry. Our industry has already borne the pain of the transition from sugar to corn sweeteners in beverages, at an enormous cost—53 closings of cane sugar mills, beet sugar factories, and cane refineries, plus the loss of thousands of U.S. jobs.

(2) *It must be calculated on the basis of verifiable his tory and not just on uncertain projections, as currently provided. In addition, sound verification methods must be established and enforced.*

b. *Access Limitation.* Mexico's access to the U.S. market would be expanded to 150,000 tons in year 7, and increased 10% per year during years 8–15 of the agreement. By year 15, this would amount to imports of 322,000 tons, 44 times Mexico's current access.

But if Mexico achieves surplus producer status any two consecutive years, including years 1–6, it is permitted to send its entire exportable surplus to the United States. *This provision must be struck—Mexico should not have virtually unlimited access to the U.S. market, particularly after a mere 6 years.*

When U.S. domestic marketing allocations are in place, imports from Mexico, or any other country, above the 1.25-million-short-ton minimum, must be subject to the common external tariff. To prevent substitution during or after the transition period, Mexico must apply the common external tariff to all non-NAFTA sugar imports after it achieves net exporter status.

2. *Sugar-Containing Product Recommendation.* U.S. Section-22 protections for refined sugar and sugar-containing products will be phased out over 10 years. *This transition period should be 15 years, not 10 years, consistent with the transition period for raw sugar.*

PREPARED STATEMENT OF ANN M. VENEMAN

Mr. Chairman and members of the Committee: I appreciate this opportunity to discuss the provisions of the North American Free Trade Agreement (NAFTA) as they relate to agriculture. Speaking for Secretary Madigan and the Department, I want to begin by conveying our gratitude for the support we received from Congress in conducting these negotiations.

While any negotiation requires give and take, I am pleased to report that, on the whole, the agreement text closely reflects the advice and guidance provided to us in frequent consultations with the Congress, congressional staff, private sector U.S agricultural groups, and other interested groups.

The NAFTA provisions meet our objectives for a market access agreement that will create new, long-term growth opportunities for U.S. agricultural exports within our own hemisphere—an agreement that, in the case of agricultural trade between Mexico and the United States, will eliminate all tariff and nontariff barriers in 15 years.

The NAFTA also includes provisions addressing the many concerns expressed to us about the need for long transition periods or special safeguards for our most import-sensitive production sectors, as well as strong protections for U.S consumers and the environment.

The agreement we are proposing meets the ambitious goals set back in June 1990, when Presidents Bush and Salinas issued a joint statement that our two countries would begin consultations on a comprehensive free trade agreement. Canada joined in the formal negotiations, which began on June 12, 1991, and agreement was reached on August 12, 1992.

The NAFTA, which would incorporate the 1989 U.S.-Canada Free Trade Agreement, holds before us the promise to link the three great nations of our continent in a historic partnership for economic cooperation and growth in an increasingly competitive world economy. To quote Secretary Madigan, this agreement is truly "pro-agriculture, pro-jobs, and pro-trade."

Mr. Chairman, in my statement today, I will discuss the NAFTA provisions relevant to agriculture and what the proposed agreement means for U.S. agriculture. In the process, I will describe the bilateral market access provisions on agriculture between the United States and Mexico, trilateral provisions on agriculture that apply to all three countries, and other sections of the agreement that have important implications for agriculture. I will also outline the anticipated benefits for U.S. agriculture, including projected trade impacts for major U.S. commodity sectors.

OVERVIEW OF THE AGREEMENT

To set a context for this discussion, I would first like to list in very broad terms a few of the agreement's major accomplishments involving trade and investment liberalization for agriculture:

—If ratified, the NAFTA will result in the ultimate elimination of all tariffs, quotas, and licenses that act as barriers to agricultural trade between the United States and Mexico.

—It will give the United States, and with some exceptions Canada, preferential access to the Mexican market.
—It will establish strong rules of origin to ensure that North American producers reap the primary benefits from NAFTA trade preferences.
—It will provide stronger protections for agricultural inventions, patents, trademarks, and technologies.
—It will give U.S. firms the right to establish agricultural enterprises or acquire existing businesses in Mexico and Canada; essentially the same rights as Canadian and Mexican firms already enjoy in the United States.
—It will create a fair, quick, and effective process for resolving disputes on NAFTA violations among member governments; it also calls for a system to resolve private commercial disputes on agricultural transactions among the three countries.

It is also important to understand what the agreement does not require; for example:

—It does not affect U.S. quotas imposed under Section 22 of the Agricultural Adjustment Act of 1933 for any country except Mexico, nor does it affect U.S. tariffs or other import protections for non-NAFTA countries; similarly, it does not lift Mexico's import licensing requirements, tariffs, and other import barriers for non-NAFTA countries.
—It does not require any changes in stringent U.S. standards for food safety, animal or plant health, or environmental protection, nor does it prevent the adoption of even tougher science-based standards.
—It does not exempt our NAFTA partners from meeting U.S. quality and grade standards for fruits, vegetables, and other products.

The NAFTA includes very general provisions related to export subsidies and domestic support. The three countries agree to work toward the elimination of export subsidies in North America, to provide notice of intent to introduce a subsidy on exports going to another NAFTA country, and to consult about ways to avoid subsidies. These provisions would not prevent the United States from subsidizing exports to Mexico to counter export subsidies from the European Community or Canada. (The prohibition on export subsidies in U.S.-Canadian trade would continue.)

The language on internal supports entails a commitment by each party to work toward domestic farm policies that do not distort trade, but it requires no changes in domestic farm programs nor does it prevent any changes, as long as they are consistent with GATT obligations.

AGRICULTURAL MARKET ACCESS

Mr. Chairman, as you know, the NAFTA provisions addressing agricultural market access involve two separate bilateral agreements; one between Mexico and the United States, and the other between Mexico and Canada. The appropriate provisions of the 1989 U.S.-Canada Free Trade Agreement will be incorporated unchanged into the NAFTA and will continue to govern trade between the United States and Canada.

In my statement, I will not discuss the separate Mexico-Canada bilateral agreement on market access in any detail, but I will be happy to answer your questions later. Basically, it is similar to the U.S.-Mexico agreement, except that it maintains current protections for dairy products, poultry, and eggs. Canada insisted on exempting these products from market liberalization, so the exemptions apply to both parties in their bilateral trade.

There are no exempted commodities in the U.S.-Mexico agreement, although there are special provisions for specific commodities during the transition period. Our goal was an open border with free access to the Mexican market for the U.S. agriculture and food industries.

With its growing economy and its young, rapidly expanding, and increasingly urbanized population of 90 million, Mexico represents one of the world's fastest growing agricultural markets. It already ranks as the third largest export market for U.S. agriculture. U.S. agricultural exports to Mexico have tripled since the mid-1980's and are expected to reach nearly $4 billion this year. It is precisely the kind of diversified growth market needed to ensure future export opportunities for U.S. bulk and high-value products.

The NAFTA will help bolster Mexico's economic development, providing the additional investment, jobs, and income that will stimulate demand for a wide variety of U.S. agricultural products. At the same time, the agreement will substantially improve current U.S. market access and prevent Mexico's return to past policies that severely limited trade and economic growth.

Under the agreement, all nontariff measures affecting agricultural trade between the United States and Mexico will be eliminated immediately. They will be converted either to tariff equivalents using tariff-rate quotas or to ordinary tariffs. This includes Mexico's import licensing system, the greatest single barrier to U.S. agricultural sales in that market.

All agricultural tariffs—both the newly converted tariffs and those that currently exist—will be eliminated either immediately or over transition periods of 5, 10, or 15 years (the one exception is Mexico's tariff on U.S. beer, which will be phased out over 8 years). There will be no tariffs on U.S.-Mexican agricultural trade after the 15-year transition period. We will have free trade.

Immediate tariff eliminations will apply to a broad range of agricultural products. In fact, when the agreement goes into effect, more than half the value of agricultural trade between the two countries will be completely duty free, compared with about 25 percent of agricultural trade at present. It is also worth noting here that negotiators were able to achieve an overall balance in the agreement, so that in each tariff phase out period the market liberalization of both countries is roughly equal based on recent trade value.

Some of the remaining tariffs on bilateral agricultural trade will be phased out over 5 years, such as Mexican tariffs on U.S. mushrooms, frozen sweet corn, and soups. Both countries protected their import-sensitive sectors with longer transition periods, tariff-rate quotas, and—for certain products—special safeguard provisions. The longest tariff phase outs of 15 years will apply to a small number of selected products.

For the most part, current nontariff barriers. such as Mexican import licenses and U.S. Section 22 quotas, will be converted to tariff-rate quotas. These tariff-rate quotas allow a certain quantity of product to enter duty free; that quantity is based on past trade levels to assure no reduction in current access. Any amount over the duty-free quota is subject to an over-quota tariff, which is basically the tariff equivalent of the current nontariff barrier.

In most cases, the duty-free quota grows at a 3-percent compounded annual rate, while the over-quota tariff is simultaneously reduced. At the end of the 10- or 15-year transition period, all trade is duty free.

In place of its nontariff barriers, Mexico will have tariff-rate quotas on U.S. corn, dry beans, milk powder, poultry, barley and barley malt, animal fats, potatoes, and eggs. The United States will have tariff-rate quotas on imports from Mexico of products that are currently subject to Section 22 quotas—dairy products, cotton, sugar-containing products, and peanuts.

In addition, special safeguard provisions in the form of tariff-rate quotas will apply on a seasonal basis to protect the U.S. market from sudden import surges of Mexican tomatoes, fresh onions, eggplants, chili peppers, squash, and watermelons. These products accounted for about $340 million in U.S. imports from Mexico in 1991, with tomatoes representing more than half the total. Mexico will have special safeguard provisions for live swine, most pork products, fresh apples, processed potato products, and coffee extract—products valued at about $100 million in imports from the United States.

Under the safeguard provisions, the tariff-rate quotas will allow a specified amount of product to enter at the NAFTA preferential tariff rates. For any additional amounts, the tariff reverts back to the base MFN rate, typically the rate in effect at the beginning of the agreement. In general, the amount qualifying for the preferential tariff will initially be set according to the highest import volume reached in any year during 1989–91 and will grow at a 3-percent compounded annual rate. All tariffs and quantity-based measures on the safeguard items will be phased out in 10 years.

Several other import-sensitive products are included in the longest phase out category to give producers additional time to adjust to free trade. The 15-year tariff phase out will apply to U.S. imports of Mexican orange juice, dried onions and garlic, asparagus, cantaloupes and certain other melons, cucumbers, broccoli, peanuts, and sugar. On the Mexican side, the 15-year transition to free entry for U.S. exports will apply to corn, dry beans, powdered milk, sugar, and orange juice.

In addition, Mexican orange juice and peanuts will also face tariff-rate quotas designed to limit growth in U.S. imports, particularly during the first 6 years of the agreement. For example, the U.S. tariff-rate quota on frozen concentrated orange juice will give Mexico annual access for 40 million gallons at one-half the MFN tariff rate, and there will be no growth in the quota volume over the transition period. The over-quota tariff at the current MFN rate will decline slightly (15 percent) during the first 6 years and remain constant for the next 4. All duties will be phased out over the last 5 years.

Sugar is a special case entirely, and I'll explain those provisions a bit later.

A BOOST FOR AGRICULTURAL TRADE

Mr. Chairman, in leading the agriculture negotiations, USDA's goal was to reach an agreement that would open Mexico's market to U.S. farmers and create new opportunities for U.S. agricultural and food exports far into the next century. We believe strongly that the negotiations were successful.

In analyzing the impact of the agreement, USDA economists have concluded that the NAFTA will expand trade gains for both Mexico and the United States. And, because the U.S. economy is 20 times the size of the Mexican economy, the positive impact on economic growth will be more dramatic for Mexico. More economic growth in Mexico is good news for U.S. agriculture. A growing Mexican economy means increased food and fiber consumption and more imports from the United States. It also means greater demand within Mexico for its own agricultural production and, therefore, a smaller potential for exports to the United States.

Our projections indicate that, by the end of the 15-year transition, the NAFTA will increase annual U.S. agricultural exports by $1.5 to $2 billion over what would be expected in the absence of an agreement. U.S. grains and meats would account for more than half the expanded trade value, although many U.S. products would benefit. The increased import demand from Mexico will have a positive impact on U.S. prices and cash receipts, boosting U.S. farm cash receipts a projected 2 to 3 percent.

These expected benefits for U.S. agriculture would expand over time under a free trade environment as the Mexican standard of living improves, while the NAFTA would prevent any erosion in U.S. market access that could easily occur without an agreement.

At the same time, the larger exports will translate into more than 50,000 additional jobs from the expansion in agriculture, the food industries, and the rest of the economy. The gains in agriculture will spread and multiply throughout rural America.

We believe that increased trade within our own hemisphere will position U.S. farmers as even stronger competitors in the international arena by capitalizing on U.S. advantages in farm productivity and permitting fuller and more efficient use of our productive capacity.

IMPACT FOR MAJOR U.S. COMMODITY SECTORS

The benefits of the NAFTA for U.S. agricultural exports become clearer as we look at how the free trade provisions will affect some of the major commodity sectors.

Grains and oil seeds

For U.S. corn, Mexico's discretionary import licensing requirements will be eliminated immediately, and U.S. access will be determined by a transparent tariff-rate quota. Initially, 2.5 million metric tons of U.S. corn will be allowed to enter Mexico duty free, and this duty-free quota will grow 3 percent a year. (Mexico imported 1.3 million tons of U.S. corn in 1991, although imports were much higher in the two previous years.) Mexican imports in excess of the quota amount will initially face a high tariff, which will drop to zero over 15 years.

Under the agreement, U.S. corn exports to Mexico are expected to increase steadily over time, with a positive impact on U.S. prices and production. The U.S. tariff on corn imports from Mexico will be eliminated immediately, but U.S. imports are very small and no significant imports are expected given U.S. advantages in production efficiency.

The agreement will immediately eliminate existing tariffs on sorghum trade between the United States and Mexico. As a result, U.S. sorghum exports to Mexico, at nearly 3.4 million tons in 1991, will increase. The United States has not imported sorghum from Mexico in recent years, and no significant imports are expected.

Import licensing requirements for U.S. wheat will end immediately, and a 15-percent Mexican tariff on U.S. wheat will be phased out over 10 years. By the end of this period, U.S. wheat exports to Mexico are expected to reach 1 to 1.5 million tons a year, compared with an average of about 355,000 tons a year over the last 3 years. The low U.S. tariff on imports from Mexico will be phased out over 10 years for durum wheat and 5 years for nondurum wheat. No significant wheat imports from Mexico are expected, and U.S. phytosanitary restrictions on karnel bunt will not be relaxed.

For U.S. soybeans, Mexico will immediately reduce its 15-percent seasonal duty and will also shorten the season during which duties are applied. The seasonal tariff will be cut to 10 percent and will be phased out over 10 years. The United States supplies about three-fourths of Mexico's imports of soybeans and meal, and demand is expected to increase as Mexico expands its livestock and poultry sectors. Pref-

erential access should give U.S. producers an even larger share of this growing market. The United States currently has no duties on Mexican soybeans, and imports are close to zero. Both countries will also phase out tariffs on bilateral trade in oils and meals over periods not exceeding 10 years.

When the NAFTA is fully implemented, the combined gains in U.S. exports of corn, sorghum, wheat, and oilseeds are expected to approach 4 million tons a year.

Livestock and meat

Mexico is one of the fastest growing export markets for U.S. meat, both fresh and processed products. Beef trade is expected to continue to increase under the NAFTA, which will lock in the current zero duty for U.S. exports of beef to Mexico. Under the agreement, the United States will waive its U.S. meat import quota restrictions for Mexico, as we did for Canada in the U.S.-Canada Free Trade Agreement. However, Mexico is expected to remain a net importer of meat from the United States.

U.S. pork exports to Mexico are likely to increase, possibly doubling by the end of the transition period when Mexico's 20-percent tariff on U.S. pork will be completely phased out. The NAFTA will eliminate all tariffs on exports of other red meat products, such as variety meats and sausages over periods ranging from 5 to 10 years.

The NAFTA will increase live cattle trade in both directions between the United States and Mexico. As constraints such as tariffs and export taxes are removed, more young cattle from Mexico probably will be fed in the United States, and slightly more U.S. slaughter cattle may be shipped to Mexico. However, Mexican imports and exports will remain small relative to the total U.S. market, so NAFTA will have little effect on overall U.S. cattle production and prices.

U.S. poultry exports have increased rapidly in recent years, and Mexican demand is expected to continue to grow with the removal of Mexico's import licensing requirement and economic growth in that country.

Dairy products

The NAFTA will allow the United States to obtain a larger share of the Mexican dairy import market. Mexico is the world's largest market for milk powder and represents the most important outlet for U.S. nonfat dry milk exports. While the NAFTA will increase Mexican income growth and the demand for dairy products, lower feed costs will encourage Mexico's dairy industry to expand. However, Mexico has no cost advantage relative to the U.S. dairy industry, so the U.S. industry will remain competitive. Strong rules of origin will ensure that the removal of Section 22 import restrictions for Mexico does not lead to a circumvention of U.S. import quotas from non-NAFTA countries.

Cotton

The NAFTA will provide an increased export market for the U.S. cotton industry. Although Mexico was a net exporter in the past, it has been a net importer in recent years and has not filled its quota for imports into the United States since 1984/85. We do not expect an increase in cotton imports from Mexico under the NAFTA. Liberalization will likely increase U.S.-Mexican trade in textiles and apparel, increasing Mexican demand for U.S. cotton either in raw form or as textiles manufactured in U.S. mills.

Horticultural products

Horticulture is one area that presents both opportunities for U.S. exports and concerns about import competition from Mexico. Income growth in Mexico will increase that country's consumption of fruits and vegetables, thus limiting Mexico's export potential to the United States and expanding the market for U.S. produce in Mexico.

With increased market access under the NAFTA, significant growth is expected for U.S. exports of fresh apples, pears, and peaches. U.S. tree nut exports to Mexico, which have already doubled since 1987, will continue to expand as the NAFTA eliminates Mexican tariffs. U.S. exports of many fresh vegetables will also increase, particularly during Mexico's off-season, as a growing middle-class of consumers there develop a taste for high-quality, year-round produce.

U.S. imports of horticultural products from Mexico are seasonal, generally entering during the winter months. To give producers of our most import-sensitive products time to adjust, longer tariff phase outs will be applied during the specific seasons when Mexican imports compete with U.S. production. As I have already noted, the agreement also includes quantity-based transitional safeguards to protect U.S. producers of certain fruits and vegetables from import surges.

In addition, the United States will maintain stringent sanitary and phytosanitary requirements on horticultural imports and will take all measures necessary to ensure that imports are safe from pesticide residues. Similarly, U.S. minimum import

requirements for grade, size, and quality will remain in force and will continue to apply to Mexican fruits and vegetables, except those products intended for processing.

Sugar

As I noted earlier, sugar is a special case, so I want to explain the NAFTA provisions in some detail. The agreement on sugar provides for the maximum transition period of 15 years and contains several provisions expressly designed to prevent the displacement of world-priced sugar through Mexico—a major concern of many in the industry.

During the first 6 years of the agreement, Mexico's sugar exports to the United States will be limited to its current allocation of 7,258 metric tons. Only if Mexico achieves a net production surplus during the initial 6-year period would it be allowed to export that surplus to the United States, up to a maximum of 25,000 tons. These exports would enter duty-free.

Beginning in the seventh year, Mexico will be allowed to ship a net production surplus up to a maximum 150,000 tons duty free. This ceiling will grow 10 percent per year over the remainder of the 15-year transition. If Mexico reaches net surplus producer status for two consecutive years at any time during the transition period, beginning in year seven or the second year of net surplus producer status (whichever is later), exports during the remaining transition period will be limited to its net production surplus.

These provisions ensure that any additional duty-free access during the 15-year transition period would depend on Mexico becoming a net exporter of sugar—a prospect that USDA analysts consider unlikely for the foreseeable future.

Regarding the tariff-rate schedule, the U.S. over-quota duty will be reduced 15 percent over the first 6 years and will then be phased out in a linear fashion over the remaining 9 years. Mexico will align its tariff regime with that of the United States by the end of the sixth year after the agreement comes into force, implementing a tariff quota with rates equal to those of the United States. This permanent arrangement will protect U.S. producers from any threat of future displacement. During years 7–15, tariffs on bilateral sugar trade between the United States and Mexico will be reduced linearly to zero.

The U.S. sugar re-export program will remain in place for exports to Mexico. Both the United States and Mexico will allow duty-free access in the case where one imports raw sugar from the other, refines it, and then re-exports it back to the producing country. However, it is important to note here that refining does not confer origin. For example, if a Mexican company imports raw sugar from outside NAFTA and refines it, the refined sugar may not be exported to the United States at NAFTA's preferential tariff rates.

Some segments of the U.S. industry wanted to include high fructose corn syrup (HFCS) in the sugar provisions. In the negotiations, Mexico rejected this suggestion, and it became clear that we would have to offer concessions in other areas to change Mexico's position. We are satisfied that the agreement that was reached on sugar represents a balanced package, even though it does not include HFCS.

Tobacco

The United States currently ships almost no tobacco to Mexico because of restrictive import tariffs and licenses. Under the NAFTA, Mexico will eliminate the licenses immediately and apply a 50-percent tariff that will be phased out over 10 years. As trade barriers decline, U.S. exports of leaf tobacco, cigarettes, and other tobacco products will increase. By the end of the transition period, annual U.S. tobacco exports to Mexico are projected to reach $100–$125 million, ten times the expected level in the absence of an agreement. Existing U.S. tariffs on tobacco from Mexico will be removed over a 10-year transition, but the NAFTA is not expected to significantly affect U.S. imports.

Wood products

Although wood products are not included in the projections of U.S. agricultural export expansion under the NAFTA, this sector will experience significant export growth. Mexico is the third largest export market for U.S. wood products, despite duties generally ranging from 10 to 20 percent on various products. Under the NAFTA, these duties will be phased out over 10 years, making U.S. wood products more competitive. The huge need for additional housing in Mexico's urban areas, as well as the growth in vacation homes and resort construction in tourist areas, should mean substantial opportunities for U.S. wood product exports in the years ahead.

OTHER BENEFITS OF NAFTA

Mr. Chairman, over 14 months of intensive negotiations, our negotiators worked to craft an agreement that offers a broad range of benefits and protections for U.S. commodity sectors. I have already discussed how U.S. grains, meats, and other products will benefit from increased market access and growth in Mexican demand.

I have pointed to the longer adjustment periods and tariff protections that the NAFTA provides for import-sensitive U.S. sectors. For commodities subject to Section 22 quotas, for example, Mexico will be granted a small initial duty-free quota and any additional amounts will be charged a high tariff based on 1989–91 levels of protection.

I have also discussed the special agricultural safeguard on seven U.S. tariff categories that, together, accounted for about $340 million in imports from Mexico in 1991. The safeguard would not restrict trade under normal circumstances but would be available during the transition period to limit the impact of sudden import surges.

I want to make it very clear once again that when we talk about the elimination of nontariff barriers and the phase out of agricultural tariffs between the United States and Mexico, this does not in any way change U.S. tariffs, Section 22 quotas, or other import protections that apply to non-NAFTA countries. All U.S. protections would remain in place for other suppliers. Similarly, Mexico's licensing requirements, tariffs, and other barriers that currently restrict imports from other suppliers would continue in force.

However, this agreement is broader than these market access provisions, and I would like to highlight some of the other major protections and benefits it offers for U.S. agriculture.

The NAFTA includes strong country-of-origin rules so that the incentives for trade within North America do not open the floodgate to free access for the products of countries outside this continent. Commodities originating outside the NAFTA must be transformed or processed significantly in Mexico before they can receive preferential treatment for shipment to the United States. Customs auditors will be able to visit production facilities in other NAFTA countries to ensure that tariff preferences go only to qualifying goods.

In general, the NAFTA rules of origin for the U.S.-Mexico agreement are much stronger than those in the U.S.-Canada Free Trade Agreement. For example, in the 1989 U.S.-Canadian accord, Canadian peanut butter made from imported peanuts is eligible for preferential access into the U.S. market. Under the NAFTA, only Mexican peanut butter made from North American peanuts would receive preferential tariffs. To qualify for NAFTA access preferences, no milk or milk products from outside NAFTA may be used to make milk, cream, cheese, yogurt, ice cream, or milk drinks. All single-strength citrus juices must be made from 100-percent NAFTA fresh citrus fruit.

In addition, the NAFTA specifically recognizes the right of each country to establish its own levels of protection for human, animal, and plant health, as long as its measures are based on science. The NAFTA also allows states and local governments to enact their own tough standards without restriction, so long as these standards are scientifically defensible. Imports that do not meet U.S. health and safety standards will be prohibited. USDA and the Food and Drug Administration will continue to enforce legal limits on pesticide residues and refuse entry to any products that do not meet these limits.

In other words, the United States will maintain its high standards for public health and food safety. There will be no compromise in these areas.

Similar rights and conditions apply to U.S. protections for animal and plant health. Each country sets its own level of desired protection, conforming to scientific principles. If Mexico declares one of its agricultural areas to be free of a disease or pest that would threaten U.S. agriculture, it must provide evidence supporting the claim and allow U.S. officials access for inspection and testing.

As I noted earlier, the NAFTA also allows each country to continue to develop grade standards to meet the marketing rules of its agricultural industry and ensure that consumers receive a product of acceptable quality.

Provisions in the NAFTA's Intellectual Property Rights text provide stronger protections for agricultural inventions and patents, and expand coverage to a wider range of technologies. This is particularly important for the United States, a world leader in innovation and new technology, including the emerging biotechnologies. U.S. companies spend millions of dollars every year to develop new plant varieties and processes that increase the efficiency and productivity of U.S. farmers, food processors, and input industries. The NAFTA requires all three countries to enforce rights against infringement and piracy, both internally and at the border.

U.S. firms in Mexico will no longer be required to buy only Mexican products. By eliminating Mexico's local-content requirements for manufacturers, the NAFTA will increase the demand for products from the United States, such as ingredients for processed food products.

U.S. companies involved in agricultural transportation will also benefit from the NAFTA. Mexico's market for international truck and rail transport, now restricted to Mexican firms, will be opened to U.S. companies. International cargo represents 40 percent of all cargo transported in Mexico and is the fastest growing segment of its trucking and rail markets.

Although I have emphasized agricultural and food industry opportunities and protections, I do not want to ignore the concern we all share about protecting the environment. The NAFTA is the most environmentally sensitive trade agreement in history. It establishes the principle that economic development within North America must take full account of the environment. It permits countries to establish strict environmental requirements for investment, commits the United States and Mexico to a border cleanup plan, and calls for cooperative programs for improved control and prevention of pollution and other threats to a safe, clean, healthy environment.

SECURING FUTURE MARKETS

Mr. Chairman, while this agreement may not give us everything we wanted in every area, the proposed text represents a comprehensive, fair, and balanced agreement that meets our agricultural objectives and addresses our primary concerns. It provides strong protections for our import-sensitive agricultural sectors, consumers, and the environment, while ultimately achieving the free market access we sought.

The greatest challenge we face in the world today is one of economic competition and growth. To expand and prosper, U.S. agriculture needs growing export markets. The NAFTA will put U.S. farmers in the middle of the world's largest and richest free trade area, with more people, more income, and more potential for future growth in food demand than the 12-nation European Community. It will secure future growth opportunities for U.S. agriculture within our own hemisphere.

The latest USDA forecasts indicate that our two closest neighbors together will purchase a record $8.5 billion in U.S. farm and food products this fiscal year. That is fully 20 percent of our total agricultural exports—more than either Japan or the EC is expected to buy. North America, for the first time in history, has become our largest agricultural export market, and the NAFTA will lay the foundation for continued growth far into the next century.

Mexico, in particular, represents an agricultural market of great growth potential. Income growth and the emerging demand for better, more diverse diets already present substantial opportunities not present in the relatively mature U.S. and Canadian markets, and Mexico's population is growing at a much faster rate. In fact, over the next 20 years, Mexico is expected to add more people to North America's total population than the United States and Canada combined.

The NAFTA will protect and expand U.S. access to this market, while bolstering Mexican economic growth and the demand that results from higher incomes. The ratification of this agreement will demonstrate to the world what can be achieved when nations recognize the benefits of free trade and are committed to realizing those benefits for their farmers and ranchers, their citizens, and their economies.

RESPONSES OF ANN VENEMAN TO QUESTIONS SUBMITTED BY SENATOR SYMMS

Question No. 1. What are the safeguards to prevent Mexico from buying cheap foreign sugar and then selling it on the U.S. market for a profit?

Answer. Mexico agreed not to do this and will permit U.S. Customs agents to inspect Mexican sugar facilities.

Question No. 2. a. Why is the phase-out of tariffs on refined sugar and sugar-containing products coming from Mexico 10 years, while the phase-out for raw sugar is 15 years?

b. Could the phase-out for refined sugar and sugar-containing products be equalized with that of raw sugar?

Answer. As described in the NAFTA sugar provision (Annex 703.2), the tariff phase-out period for refined and raw sugar is 15 years.

The tariff phase-out period, for both the United States and Mexico, for sugar-containing products is 10 years.

The 10-year phase-out period for sugar-containing products is appropriate since the United States has a growing trade surplus with Mexico in sugar-containing products. In 1991, the United States exported more than $20 million of sugar-containing products, covered by U.S. Section 22 provisions, to Mexico, while importing about one million dollars of similar products from Mexico. We definitely believe it

is in our advantage to have a 10-year phase-out of Mexican tariffs on sugar-containing products. Moreover, Mexican exports, if any, of sugar-containing products will be limited during the 10-year transition period by the U.S. tariff-rate quota on those products.

While it is legally possible to re-negotiate the tariff phase-out period for sugar-containing products, we do not feel such an action is in our best interests. First, the existing NAFTA agreement represents a delicately balanced exchange of concessions. Any attempt to change tariff offers would disturb that balance and would risk unraveling the entire package. Second, as noted above, we do not feel that a longer tariff phase-out period for sugar-containing products is in our best interests.

Question No. 3. The NAFTA gives Mexican sugar near-unlimited access to the U.S. market after 6 years if it achieves a surplus after 2 consecutive years. Does this not conflict with the 10 to 15 year phase-out period for sugar?

Answer. We are not providing Mexico unlimited access to the U.S. sugar market after 6 years. As provided for in the NAFTA sugar provisions, there will be a 15-year transition period as Mexico and the United States adjust to free trade in sugar.

Mexico is a less efficient, higher cost producer of sugar, and will only be able to export if it becomes more efficient which will require substantial investment and time.

We do not expect Mexico to achieve net surplus producer status in the foreseeable future. At present, the Mexican population is growing by 2.3 percent annually, and sugar consumption is expected to grow, at least, by the same pace. In order for Mexico to become a net surplus producer either Mexico would have to produce much more sugar than it now does, or it will have to consume less sugar than it produces. Neither development is considered likely.

Mexico's potential to increase sugar production is limited by the high relative cost and inefficiency of its producers. In fact, Mexican sugar production has dropped from 4 million metric tons in crop year 1986/87 to 3.5 million tons in 1991/92. Mexico's total and per capita consumption of sugar, encouraged through direct and indirect public sector support, is increasing. Any substitution of non-sugar sweeteners, such as corn sweeteners, for sugar is not likely since neither economic nor dietary incentives for switching exist in the Mexican market. With production declining and consumption increasing, Mexico is moving away from, not toward, being a net surplus producer.

In short, Mexico is not likely to become a net surplus producer in the foreseeable future. Moreover, the quantity of sugar, if any, that Mexico could export to the United States under the NAFTA sugar provision would continue to be limited by Mexico's net surplus production. Sugar is the only product in the NAFTA subject to such a restriction.

Question No. 4. Will HFCS capture up to 50 percent of the Mexican sweetener market?

Answer: Not likely:

- Only about one third of Mexican sugar consumption of about 4.5 million tons is used in soft drinks and other liquid uses.
- The incentive to switch to HFCS is lower in Mexico. The Mexican government enforces a refined sugar price ceiling at about 23 cents a pound, whereas the U.S. price (currently about 25 cents) is based upon a price support system in which there is a price floor, but no ceiling. There is no floor to the sugar price in Mexico, and especially during the sugar harvest the sugar price can sink to much lower levels.
- NAFTA will not encourage the building of HFCS capacity in Mexico so much as it will stimulate Mexico's importation of U.S. HFCS.
- The NAFTA guarantees the U.S. duty-free corn shipments of 2.5 million tons a year to Mexico, which is to grow 3 percent a year, and the over-quota tariff will decline over 15 years. This is not enough corn to justify building HFCS plants in Mexico. The price of corn in Mexico will likely be higher than in the United States until the very end of the 15-year transition period, and the value of by-products lower.
- The United States could export more HFCS to Mexico. The duty is 15 percent, which declines by 1.5 percent a year to zero after 10 years.
- As the Mexican sugar industry goes through a process of downsizing, it is likely that sugar production will cease in some northern areas while it expands in the central and southern areas. The northern areas are deficit areas in sugar, to which it is expensive to ship sugar from the more southern parts of Mexico. U.S. HFCS would be most competitive in northern Mexico, and less competitive in southern Mexico. The best estimate is that about half of the liquid market,

say between 500,000–750,000 tons, could be gradually taken over by HFCS, whether produced in Mexico Or the United States.

Question No. 5. Could Mexico become a net exporter of sugar, in the near term?

Answer. Not likely:

- Mexico produces about 3.5 million tons of sugar and consumes about 4.5 million tons, for a structural deficit of about 1 million tons.

PRODUCTION

- Mexican sugar producers will not be able to expand production significantly, even if they could obtain the U.S. price. The Mexican raw sugar support price is about 18.7 cents a pound, fob factory, which is not much lower than the U.S. price support level. At this support level, some Mexican factories have closed and others are on the verge of closing. Without further government support, more downsizing of the Mexican sugar industry will occur.
- It will be 6 years before any significant access to the U.S. market is possible. Investments will simply not be made for returns which will only come after 6 years, and are not likely even then.

CONSUMPTION

- Mexico's population and income growth will tend to boost caloric sweetener demand.
- Mexico may allow the sugar price to rise. But this will be an internal policy decision, and is not part of NAFTA. More likely, Mexico will continue to keep a ceiling on the price of sugar as an anti-inflationary tool, and as a consumer subsidy. If Mexico does allow the sugar price to rise, it is reported considering a "sugar voucher" system for the poor which would effectively keep the sugar price low for the majority of the population. Any sugar price increase would not result in an absolute decline in total caloric sweetener demand, but might slow the increase.
- Sugar prices in the U.S. and Mexico would not converge until the second-tier tariff declines to zero in Year 15: convergence before then would be a policy choice.

HFCS

- HFCS, likely imported from the United States, is not likely to take more than about 500,000–750,000 tons of the Mexican caloric sweetener market. (See Question 4.)

SUMMARY

- For Mexico to become net exporter of sugar would require a sharp decline in sugar demand and a sharp increase in sugar production. Neither is likely, and the simultaneous occurrence of both is even more unlikely.

PREPARED STATEMENT OF PETE WENSTRAND

Mr. Chairman and members of the committee, thank you for the opportunity to present the views of the National Corn Growers Association (NCGA). I am Pete Wenstrand, a corn farmer from Essex, Iowa, and I will be taking over as First Vice President of NCGA tomorrow.

The National Corn Growers Association has endorsed the North American Free Trade Agreement (NAFTA) for several reasons which I will discuss in detail later. First, I would like to commend the Finance Committee for your attention to this agreement and your dedication to see that NAFTA is good for America. When I testified on behalf of fast-track negotiating authority many months ago, I recognized that Congress has the final say on the destiny of NAFTA. If your examination concludes that this agreement is not good for U.S. agriculture or our nation in general, it is your obligation to inform the President and us of your findings so we can attempt to address your concerns. If you determine it is a good agreement, please act as swiftly as possible to move the process along.

From the perspective of the U.S. corn grower, Mexico had been a steady market until recently. In the 1989–1991 period, Mexico averaged buying 2.6 million metric tons (mmt) of corn per year. The 1985–1992 average would be around 2.4 mmt. In the 1989–90 marketing year, Mexico had a bad crop and they imported 4.6 mmt. Mexico subsequently increased its corn subsidies, resulting in more production and beginning a downward trend in corn imports. In the 1990–91 marketing year, Mex-

ico imported 1.8 mmt and this year its foreign purchases dropped to under 1 mmt, reflecting what apparently is now the norm rather than an exception. As a result, Mexico, which was once among our top 2 or 3 export customers, fell to number 10. Given the current uncertainties of our export market, the U.S. needs a positive turnaround with our historic customer.

Mexico has an export licensing program that can choke off corn imports at any time. The removal of this barrier was the number one criterion for us to judge a NAFTA agreement to be successful. The pact before us today would eliminate the export licensing program and replace it with a tariff-rate quota. The initial level of duty-free imports would be 2.5 mmt with a compounded growth of 3% per year for 15 years. At the end of that period, all trade in corn would be unhindered. While one would always hope for immediate free trade when it is of benefit, or for a higher tariff-rate quota, the level negotiated is certainly a substantial improvement over the recent trend. The 2.5 mmt level would place Mexico back among the top five export customers for U.S. corn farmers.

This agreement would also improve sales of value-added U.S. agricultural products to Mexico. As all of you know, NCGA has always supported a more aggressive value-added policy. All indications suggest pork, beef and poultry sales to Mexico will increase as a result of this agreement. Few question that the agreement on the whole will create new industries and jobs in Mexico, creating new wealth. With this increased affluence, an improved diet will be demanded by Mexican citizens. This further expands the potential for sales of not only meat and livestock—which certainly will cause more corn disappearance—but also the other food items which the Mexicans will demand. U.S. corn producers stand to benefit from the increased exports of our bulk commodity and the processed products that magnify the value of our grain.

NAFTA would link the U.S., Mexico and Canada in the largest and richest free trade zone in the world, with 390 million people and a $6 trillion economy. This trade union promises to be a valuable hedge against the many unfair trade practices around the world. Most specifically, this pact should send a tremor through the bureaucrats in Brussels who dream of a walled-up European Community that nevertheless exports freely to the rest of the world. NAFTA should signal the U.S. will not sit idly by while the EC continues to rob our farmers of their markets. While NCGA would be hesitant to advocate a trade war, we certainly should be in a position to win if provoked. Even with this said, I must point out that our trading partners who deal with the U.S. fairly should have nothing to fear from NAFTA. In fact, it should improve all three countries' economies, setting the stage for increased buying power and enhanced trade around the globe.

The overall policy of the United States has been lacking as it pertains to Mexico and this agreement is the first step in recognizing the importance of our southern neighbor. Population growth in Mexico is among the fastest in the world, starting with over 90 million consumers. It is a young population with which trade must be developed. It is in the best interest of the United States to help create in Mexico an atmosphere of growth, optimism and security. As I mentioned before, this agreement will create wealth that will lessen the incentive for Mexican citizens to leave their nation. As it is now, hundreds of thousands of some of the best workers in the world are forced to leave their homes to look for a way to provide for their families. While many of these hard-working men and women have been successful in the U. S., all too many never find the jobs they were searching for. This agreement will help provide jobs for Mexicans at home who do not want to leave and help those that do want to come to this Country have more opportunities. It will also provide opportunities for Americans to move to Mexico and be part of this historic time.

Most of the discussion of NAFTA has been focused on Mexico, but Canada is a major partner in this three-country union. Despite its relatively low population of 27 million people, Canada is a major power in world trade as the seventh largest free-world economy. Canada is the number one customer for U.S. high-value exports and is the destination of almost 10% of all our agricultural exports. NCGA opposed the U.S.-Canada Free Trade Agreement because it institutionalized the countervailing duty on U.S. corn. A few years later, GATT ruled in our favor and Canada adhered to the finding and the NCGA position was justified. I mention this to illustrate the fact that we do not take these agreements lightly and will fight to assure U.S. interests are protected. We did welcome Canada's entrance into these talks and are excited about our neighbor to the north helping create the North American Free Trade Agreement.

Finally, let me touch on concerns that this agreement will cost jobs in the U.S. We must accept the challenge to discover the job opportunities that NAFTA represents. Iowa produces about one-fourth of the hogs raised in this country. If NAFTA accelerates demand for pork, there will be new jobs in livestock breeding,

feed milling, veterinary services, meat packing, etc. This is only one example of how a trade agreement can represent opportunities.

We must create jobs and increase farm prices in this country and I firmly believe NAFTA will by adding value to our products, by improving the economies of our closest neighbors and by creating more trade.

RESPONSES OF MR. WENSTRAND TO QUESTIONS SUBMITTED BY SENATOR DURENBERGER

At the hearing last September you submitted two questions with regard to ethanol production and the free trade agreement with Mexico: (1) Do the National Corn Growers plan to expand ethanol production and sales into Mexico?; or (2) do the National Corn Growers see Mexico as a primary competitor in the ethanol market?

The National Corn Growers Association does not anticipate any direct impact on ethanol supply or demand as a result of the North American Free Trade Agreement (NAFTA).

Demand for ethanol in Mexico will be limited by the price of petroleum unless the Mexican people decide to encourage the use of ethanol and other alternative fuels to improve air quality. If Mexico decides to discourage the use of petroleum, ethanol should be able to capture a portion of that alternative fuel market. However, this would be a matter of domestic policy rather than a result of the trade agreement.

The NCGA does not expect Mexico to compete for the U.S. ethanol market. Corn is still the preferred feedstock for ethanol production, and Mexico is not competitive in corn production. As new technologies become available, it is possible that Mexico could improve its competitive position with respect to ethanol production. However, it is unlikely that this will happen since Mexico's comparative advantage will continue to be in production that is labor intensive, and the new technologies will have to be low labor, low cost, if ethanol is to compete with petroleum.

One problem that could arise with NAFTA would be the transshipment of ethanol produced from subsidized European Community wine. This has been a difficult issue with the

Carribean Basin Initiative, but the rules of origin in the Agreement should prevent similar problems from arising with NAFTA.

I hope this answers your questions. If the National Corn Growers Association can assist you with any further information, please do not hesitate to contact our Washington office.

COMMUNICATIONS

STATEMENT OF THE AMERICAN SHEEP INDUSTRY ASSOCIATION

The American Sheep Industry Association (ASI) is the national voice of the country's 110,000 sheep producers. ASI is a federation of 49 state member associations and 23 industry affiliated organizations, dedicated to the economic, educational and social interests of the sheep industry. Sheep producers established the nation's first livestock commodity organization in 1865 and the nation's first self-help commodity promotion program in 1954.

The North American Free Trade Agreement (NAFTA) with Mexico holds promise of increased export opportunity for American sheep and lamb yet presents serious concerns for American wool production.

The American Sheep Industry Association's (ASI) view of the NAFTA in general is positive, however the two very different products of meat and wool must be addressed separately. There are positives for live animal and meat trade under an agreement that lowers tariffs, eliminates non-tariff trade barriers, and ensures continued protection of animal herd health. Conversely, there are potential negatives in the manner that wool and woolen textiles are treated under the agreement.

LIVE SHEEP AND LAMB TRADE

Mexico is the largest export market for American sheep and lamb with a value of trade in 1991 of $44.1 million. Mexico's purchases of live sheep have increased from 454,509 head in 1990 to 812,516 last year. This dramatic increase in demand is continuing in 1992 with 586,000 head exported by the U.S. to date. Our exports to Mexico are a full 20% ahead of last year's record setting pace.

Mexico has traditionally been the strongest market for mutton sheep and on average has purchased over 60% of our older market ewes. Demand for lamb in Mexico has risen dramatically in recent years and these sales have been a bright spot in an otherwise dismal domestic lamb market. In fact, lamb exports to Mexico have increased to the point that the Department of Agriculture agreed with the industry and this year began reporting lambs separate from mutton sheep in order to gauge the impact on the American lamb market.

Mexico currently imposes an Ad Valorem tariff of 10% on American live sheep and lambs as well as on meat imports. The vast majority of our exports to Mexico are live animals which are then processed in Mexico. NAFTA calls for Mexico to reduce their tariffs incrementally to zero over a ten year period, which we view as positive to enhancing trade. However, we believe a phase out of tariffs in a period shorter than ten years would be much more beneficial for both Mexico and the United States. New Zealand and Australia have significantly increased their sales of frozen mutton and lamb product to Mexico in the last year and a half and with the larger market share they are creating, can replace the demand for live animals from the U.S. Replacement of live animal trade with frozen product would adversely impact Mexico's sheep slaughter industry.

Therefore, we believe it is of mutual interest to both Mexico and the United States to continue our trade which is predominantly live animals and to encourage this trade as much as possible. It will be difficult for American producers and importers in Mexico to maintain and enhance this market without a faster acceleration of the tariff reductions.

Under NAFTA, the U.S. tariffs on Mexican lamb and sheep meat will be phased out immediately. The U.S. does not impose tariffs on live sheep from Mexico however very limited numbers are imported and the meat imports were less than 30,000 pounds last year.

A final NAFTA must provide for fair trade, eliminate non-tariff trade barriers, and protect the health of our sheep. Health concerns and regulations have played a large role in past trade with Mexico. The sheep industry has a number of concerns

that need to be addressed in NAFTA to facilitate fair trade and protect herd health. The NAFTA if properly implemented and enforced in the sanitary and phytosanitary sections, can benefit trade nearly to the same degree as lowering tariffs.

Import licensing, sanitary and phytosanitary standards and border inspection issues must be dealt with for NAFTA to be successful. This is particularly true since the majority of our trade is live animal, both market and breeding stock. The agreement while addressing these concerns leaves much to the eventual implementation and enforcement procedures to determine if NAFTA will truly meet the needs of the livestock industries of both countries. The agreement language as it is today, is well intended but still very much dependent upon the actual implementation of its measures.

The sheep industry strongly supports the right for the United States to take sanitary and phytosanitary measures necessary for the protection of human, animal or plant life or health in its territory, including a measure more stringent than an international standard, guideline or recommendation. Additionally, the industry supports standards based on science and risk assessments, control procedures, and notification procedures as important pieces of addressing our health concerns. Uniform standards for inspection stations and uniform enforcement of regulations on the movement of sheep at the border, as well as expanded use of private facilities must be included. According to the NAFTA text, it appears that the oversight and responsibility in these areas is split between the proposed Committee on Sanitary and Phytosanitary Measures and the various government agencies, however the specific delegation of authority is lacking yet in many respects.

The American Sheep Industry Association supports strong Country of Origin rules and strict enforcement to ensure that the benefits of NAFTA accrue only to NAFTA signatories. Effective Country of Origin rules are necessary for both animal health concerns in the instances where animals are from countries outside of NAFTA, and to ensure that only NAFTA signatories receive preferential tariff treatment. Large sheep producing countries ship live sheep into Mexico as indicated by the reported 60,000 to 80,000 head delivered to date in 1992. Our industry is concerned that transshipment of these animals and their products into the U.S. will occur without strong enforcement of rules of origin. It is possible that wool and meat from these animals will receive preferential tariff treatment as Mexican product for export to the U.S. under NAFTA. Diligent enforcement of certificates of origin must be in place to prevent transshipment including vigorous inspection and verification procedures. Particularly in the cases of live animals imported to one country and then exported to a third, it is all too often that officials lose track of the animals identity and origins, therefore allowing shipment without proper health considerations.

WOOL AND WOOLEN TEXTILES TRADE

Nearly all the Chapter 51 (U.S. Harmonized Import Tariff Code) categories of wool are slated for immediate phase out of tariffs into the U.S. Several categories such as carbonized wool will be phased out over five years. The Mexico tariffs of 10% Ad Valorem on most American wool categories will be phased out over a ten year period. All wool textile products that meet the "yarn-forward" requirement will receive preferential tariff treatment. An additional amount of wool product will benefit under the Tariff Rate Quotas to be implemented. The 10% Ad Valorem tariffs Mexico currently imposes on raw lamb and sheep skins will phased out immediately.

ASI supports strong country of origin rules for wool and woolen textiles. ASI actively sought a "fiber-forward" rule during the draft negotiations which would better serve domestic wool producers industry than the "yarn-forward" position presently included in the NAFTA. The yarn forward rule will allow wool produced in countries other than NAFTA signatories to receive preferential tariff treatment in export to the U.S. after one or more transformations in a NAFTA country. This position could be damaging to the domestic wool production, given the potential for expanded apparel processing in Mexico. (attachments 1, 2, 3)

Fully adequate monitoring and enforcement procedures must be implemented to ensure universal compliance with the terms of NAFTA as well as safeguards against transshipment or other means of circumventing established market access.

The American Sheep Industry Association appreciates this opportunity to present our views on NAFTA to the Committee and stands ready to work with Congress to address the concerns of our industry on the agreement.

Attachments.

[Attachment 1]

AMERICAN SHEEP INDUSTRY ASSOCIATION,
Englewood, CO, June 11, 1992.

Ambassador CARLA HILLS,
U.S. Trade Representative,
600 17th Street, N.W.,
Winder Building,
Washington, DC

Dear Madam Ambassador: The American Sheep Industry Association believes it is imperative that strong rules of origin for textiles and textile products must be included in the North American Free Trade Agreement (NAFTA) to avoid damaging market disruption for the United States wool producers.

The American Sheep Industry Association (ASI) strongly supports a "fiber-forward" rule of origin for textile and textile products.

Any rule less than "fiber-forward" would benefit non-signatory countries of NAFTA. The goal of an agreement should properly be to the benefit of the signatory countries of the United States, Canada and Mexico. We understand that the current position of the NAFTA negotiators is a yarn-forward rule for textiles which would allow wool fiber into the three countries with preferential treatment on tariffs for all other wool products. This position affords some market protection to apparel and processing sectors but could be devastating to the market for American wool producers. This is particularly true given the potential for a sharply expanded apparel processing industry in Mexico.

The American wool producers are a small industry, and very sensitive to imports and global market pressures. Australia, alone, has a record stockpile of over 1.6 billion pounds of wool. This is approximately 13 times the annual US wool consumption. In 1990, this stockpile was the major contributor of a collapse of the United States wool market, which has not recovered ye] today. Unless a fiber-forward rule is established, Mexico and Canada will become conduits for foreign-produced wool to enter the U.S. after one or more transformation steps in Mexico or Canada. The world wool industry has experienced record wool stockpiles for the last 3 years and obviously these countries are interested in increasing their market share in the United States.

Realizing there is some hesitation to "fiber-forward," at minimum the rule should be "fiber-forward" for wool yarn, which would require that yarn must be spun from NAFTA wool in order to qualify for NAFTA preferences. This would benefit the domestic wool production in Mexico, Canada and the United States with at least some level of protection from market disruption due to the major exporting countries, namely Australia and New Zealand. Furthermore, U.S. producers would have continued sufficient funding through tariffs for the National Wool Act which helps stabilize domestic production and buffers the devastating impacts of overproduction in foreign countries.

Further, fully adequate monitoring and enforcement procedures must be in place to ensure universal compliance with the terms of agreements as well as safeguards against transshipment, transformation and other means of circumventing established market access. This is particularly important given the new sheep revitalization project of Australian and Mexican companies in which Australia is exporting large numbers of breeding and slaughter sheep in Mexico. Due to the huge overproduction in Australia, the sheep are delivered for half the selling price of American sheep into Mexico.

NAFTA must contain strong rules of origin to retain any level of a viable textile industry in the United States. ASI believes this includes the producers of wool as well as the processing and apparel industries.

NAFTA can provide benefit to American producers or replace us with Australian imports depending on the rules of origin and enforcement provisions of the agreement.

We ask that the interests of American wool producers be supported in the North American Free Trade Agreement.

Sincerely,

JIM MAGAGNA, *President, American Sheep Industry Association.*

[Attachment 2]

DEPARTMENT OF AGRICULTURE, OFFICE OF THE SECRETARY,
Washington, DC, July 13, 1992.

Mr. JIM MAGAGNA, *President,*
American Sheep Industry Association,
6911 South Yosemite Street,
Englewood, CO

Dear Mr. Magagna: Thank you for your letter to Secretary Madigan requesting strong rules of origin for textiles and textile products in the proposed North America Free Trade Agreement (NAFTA).

The Department of Agriculture (USDA) notes your arguments in support of a "fiber-forward" rule of origin for textiles and textile products, or at a minimum a fiber-forward rule for wool yarn, which would require that yarn must be spun from NAFTA wool in order to qualify for NAFTA preferences.

USDA is aware of the potential for Mexico's substituting foreign wool for re-export to the United States. In this context, we are determined to prevent third countries from using Mexico as a transshipment point to gain preferential access to the U.S. market. Customs rules of origin for textiles and textile products specifically negotiated in the NAFTA and harmonization of documentation will help in this respect. We are also developing procedures for better customs enforcement, especially audit procedures, that will penalize firms which illegally claim NAFTA duty preference.

We appreciate the points you raised on behalf of the American Sheep Industry, and our negotiators will take them into account as the discussions progress.

Sincerely,

RICHARD T. CROWDER, *Under Secretary for International Affairs and Commodity Programs.*

[Attachment 3]

OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE,
Washington, DC, August 3, 1992.

Mr. JIM MAGAGNA, *President,*
American Sheep Industry Association,
8911 South Yosemite Street,
Englewood, CO

Dear Jim: Ambassador Hills has asked me to thank you for your letter of June 11, and Mr. Peter Orwick's letter of July 24 concerning textile rules of origin in a North American Free Trade Agreement (NAFTA). She has asked me to respond on her behalf. I apologize for the delay in my response.

We did consider a "fiber-forward" rule of origin for wool yarn, but determined that such a requirement would not be feasible. A major reason is that U.S. mills use much more wool than is produced in the United States. For example, in 1990 production of raw wool was 47 million pounds, while total mill consumption was almost 133 million pounds. American mills rely on imports for virtually all of their coarse wool, and for half of their apparel wool yarns. We understand that American mills buy the entire annual domestic clip and still must import fiber. In addition, Mexico and Canada have virtually no domestic production of wool. For these reasons, U.S. textile manufacturers have consistently opposed a fiber forward rule for wool products.

While we are negotiating tough rules of origin for textiles and apparel, they also must be fair. NAFTA will provide tremendous export opportunities for our textile and apparel industries. A fiber forward rule of origin would, in general, deny American wool yarn spinners the benefits of NAFTA.

Thank you for your interest in these negotiations. Please call me if you would like to discuss this matter further.

Sincerely,

RONALD J. SORINI, *Ambassador, Chief Textile Negotiator.*

STATEMENT OF CENTRAL AND SOUTH WEST CORP.

Mr. Chairman, Central and South West Corporation (CSW) is honored to submit to this distinguished committee testimony in support of the North American Free

Trade Agreement (NAFTA). Your outstanding leadership on U.S.-Mexico trade matters is largely responsible for bringing this trading relationship to where it is today. Thank you for your wisdom and diligence.

Based on our 76 years of doing business in Mexico, we are confident that the NAFTA will benefit U.S. utility companies, U.S. workers, and the Texas and U.S. economies. We believe that CSW's success in Mexico can be duplicated by other companies wishing to expand sales with our neighbor to the south.

DESCRIPTION OF CENTRAL AND SOUTH WEST CORPORATION (CSW)

CSW is a public utility holding company that owns all of the common stock of four electric operating subsidiaries: Central Power and Light Company, Public Service Company of Oklahoma, Southwestern Electric Power Company, and West Texas Utilities Company. These companies provide electric service to more than five million people in a widely diversified area covering 152,000 square miles. This area is the second largest serviced by any electric utility system in the United States. CSW employs approximately 8500 people and in 1991 had revenues of $3 billion.

HISTORY: CSW AND MEXICO

CSW has done business in Mexico for most of this century, starting in 1916 when Central Power and Light (CPL) was established by Morrison and McCall. In the early years, CPL sold power to Mexican border towns such as Matamoros and Nuevo Laredo, which were far from any major sources of electricity, via low voltage lines. By 1926, CPL had a steam generating station at Matamoros.

In 1937 the Mexican Government created the CFE (Comision Federal de Electricidad or Federal Electricity Commission) to provide generation, transmission and distribution of electric energy in those areas not served by existing Mexican private utility companies. Beginning in 1960, CFE purchased the shares of those main private utility companies and now has total control of all electrical generation, transmission, and distribution facilities in Mexico.

Power exchanges between CFE and CPL began in the 1960s, with the exchanges motivated primarily by the diversity in peak loads on the two systems, with CFE's peak occurring about 4 hours later than CPL's peak. In 1980 and 1981, CFE purchased a large amount of emergency power from CPL through the Laredo and Eagle Pass ties. The success of the emergency operation led to serious discussions of interconnecting CFE and CPL systems on a permanent basis.

On August 11, 1989 a new emergency agreement between CPL and CFE went into effect, which provides for emergency service whenever a system is in need and if the other system has the capability to provide it. Since July 1993, CPL has furnished CFE about 20 MW through the Eagle Pass tie under the emergency agreement.

In addition, CPL helped pay for construction of the Falcon (1954) and Amistad (1989) Dams. As part of the contract, CPL receives 20 percent of the potential hydroelectric power from the units on the U.S. side. The company pays a monthly charge—to help retire the debt and for incidental expenses, which vary monthly.

The creation of two organizations—the Western Systems Coordinating Council (WSCC) in 1967 and the Electric Reliability Council of Texas (ERCOT) in 1970—has facilitated the regional coordination of electric energy exchanges between CFE and electric utilities in the U.S. CSWs CPL and West Texas Utilities (WTU) are the only utilities within ERCOT that have interconnections with CFE.

OPPORTUNITIES FOR EXPANSION OF ELECTRICITY TRADE UNDER NAFTA

CSW's long history of successful business dealings in Mexico puts it in an advantageous position to judge the merits of the NAFTA. Though U.S. electricity firms already can sell electric energy in Mexico, NAFTA would encourage even more intense cross-border business activity. According to the U.S. Trade Representative, under NAFTA U.S. firms will be able to "negotiate directly with Mexican buyers of natural gas and electricity and to conclude contracts with the buyers together with PEMEX or CFE." CSW also understands that NAFTA will allow U.S. firms to build own or operate power plants in Mexico.

The elimination of certain trade barriers is certainly an important result of NAFTA. More important, however, is the shift in mindset that NAFTA would help forge. By creating a climate more favorable to U.S.-Mexico trade, NAFTA will spur a more positive, forward-looking attitude in the electric energy industry. This attitudinal shift will lead to more trade, more investment, and thus more export revenues and jobs in both the U.S. and Mexico.

CSW is already gearing up for increased two-way trade with Mexico. As part of an overall strategy to sell more power to other utilities, CSW expects that future

bulk sales could come from long-term contracts with Mexico, using generating capacity from CSW's two electric companies that serve the Texas-Mexico border. CSW's purchases of Mexican power are also likely to increase in the more open business climate spurred by NAFTA.

BENEFITS OF INCREASED ELECTRICITY TRADE UNDER NAFTA

Increased electric power trade will benefit Texas and the United States as a whole. If Mexican demand for Texas electricity expands, demand for Texas natural gas will also grow, boosting employment in the energy industry. A growing preference in Mexico for natural gas is also good for the environment, since natural gas is cleaner than other fuel alternatives in Mexico, such as coal. Mexican demand for U.S. electric power also creates the need for additional power plants, meaning supplier and construction contracts for U.S. companies and new jobs.

Both U.S. and Mexican energy departments agree that boosted electricity trade would be positive for their respective economies. A recent study conducted jointly by the Energy Department and the Mexican Energy Secretariat concluded that:

> Expansion of electricity interchanges could offer substantial economic benefits to both countries, both directly and indirectly. Direct benefits include cost savings through firm and non-firm energy transactions, increased reliability of electric service, cost savings through diversity of peak demand patterns, and locational benefits associated with the siting of new generation sources. Indirect benefits include improved economic and employment opportunities, especially in the border areas of both countries.

NAFTA: BENEFITS TO THE TEXAS ECONOMY

Because of the geographical proximity of Texas to Mexico, Mexico already is the leading destination of Texas exports. In 1990 alone, Texas exported more than $13 billion in goods and services to Mexico, accounting for roughly one-third of all exports. Numerous studies show that NAFTA would mean more of the same for Texas, adding at least $28 billion to the state economy and generating up to 113,000 jobs by the turn of the century.

According to a recent study by the Texas Comptroller of Public Accounts, NAFTA will boost Texas-Mexico trade up to $29.2 billion by the year 2000. In Texas industries that export to Mexico, 113,000 new jobs will be created. "The payoff to Texas starts with a healthy increase in cross-border trade as restrictions are removed and new plants are constructed in Mexico. The net increase in Texas exports should be substantial, even though much of the effect of lowered trade barriers already has been felt since Mexico joined GATT, the report states.

By the year 2000, the report continues, direct and indirect Texas employment related to trade with Mexico could be more than 626,000 jobs, an increase of 262,000 jobs since 1990. The share of all Texas jobs related to Mexican trade is estimated to grow from 4.6 percent in 1990 to about 6.4 percent by 2000.

NAFTA BENEFITS TO THE UNITED STATES

Though benefits to Texas will be significant, the entire nation will gain as well as NAFTA stimulates additional commerce between Mexico and the United States. Mexico is currently the United States' third-largest trading partner (after Canada and Japan), with two-way trade exceeding $60 billion. American exports to Mexico are expected to reach nearly $44 billion by the end of 1992, more than three times the 1986 level of $12.4 billion. Mexico has surpassed Japan as our second-largest market for manufactured exports and is currently our fastest-growing export market.

Increased exports means more jobs. According to the Institute for International Economics, approximately 600,000 American jobs are supported by U.S. exports to Mexico, and under a NAFTA that figure is expected to rise to over 1 million jobs by 1995. For those workers in industries especially sensitive to imports, the NAFTA provides a longer transition, strict rules of origin, and safeguards allowing the temporary reinstatement of higher, pre-NAFTA tariff rates in the event of economic injury. Another necessary ingredient, the details of which have yet to be worked out, is an effective program to provide adjustment assistance to workers affected negatively by the NAFTA. We urge Congress and the administration to resolve their differences over such a program.

Besides stimulating U.S. exports and job growth, NAFTA will also boost investor confidence in the Mexican economy. President Salinas has implemented a broad array of dramatic trade reforms on his own; NAFTA will deepen these reforms and make them permanent. Given these positive developments, foreign investment in

Mexico undoubtedly will increase, and Mexico will have greater access to badly needed capital. The Mexican economy as a whole will gain, improving the lot of Mexican workers, who will then be better able to purchase U.S. products. Not incidentally, pressure to migrate to the U.S. will also dissipate.

CONCLUSION

CSW's experience in Mexico has been extremely positive. In Mexico, CSW has found a spirit of cooperation and good will which we believe other companies new to Mexico will also find. CSW wholeheartedly supports NAFTA, because it will encourage new bilateral trade and investment. Texas, the United States, and Mexico will be the better for it.

SOURCES

Central and South West Corporation, **1991 Annual Report: Vision and Change.**

Texas Comptroller of Public Accounts, **The U.S.-Mexico Free-Trade Pact: Payoffs and Tradeoffs,** November 1991.

U.S. Department of Energy and Secretaria de Energia, Minas e Industria Paraestatal, **United States/Mexico Electricity Trade Study,** March 1991.

U.S. International Trade Commission, **The Likely Impact on the United States of a Free Trade Agreement with Mexico,** February 1991.

STATEMENT OF THE CIGAR ASSOCIATION OF AMERICA, INC.

Last week, the President notified the Congress of his intent to enter into the North American Free Trade Agreement (NAFTA), a far-reaching set of rules and principles governing economic relations among the countries of North America. From the standpoint of the U.S. cigar industry, the prospect of a significantly enlarged market, especially where Mexico is concerned, is clearly desirable. For that reason, the Cigar Association of America (CAA) supports the objectives of the NAFTA and, generally, the provisions themselves.

1. REMEDY NEEDED FOR LOSS OF TRADEMARK RIGHTS DUE TO MEXICAN IMPORT BARS

As a matter of fundamental principle, we believe that the NAFTA should not accept or perpetuate an unfair trade practice that is detrimental to U.S. industry. We refer, specifically, to the combined effect of Mexico's import license practices and its trademark laws on U.S. manufacturers of trademarked cigars. Whereas Mexico's trademark law permits annual registration of trademarks in order to preserve the intellectual property rights of the trademark owner, it has also prevented exploitation of the trademark in Mexico by denying import licenses for cigars for many years. Under such circumstances, it has heretofore been a useless act for U.S. trademark owners to register with the Mexican authorities, inasmuch as they could not sell their trademarked cigars in Mexico. The result has been that a number of such trademarks have been expropriated by cigar manufacturers in Mexico.

Clearly, the NAFTA should not operate to reward this pernicious system at the expense of U.S. producers whose trademark rights have been effectively taken. They should be able to sell their trademarked products anywhere in North America and should be recognized as the rightful owners of the intellectual property rights in the trademark where it can be shown that they were precluded from selling such products in Mexico because of the system previously described.

It should be left to the Government of Mexico to determine how to compensate Mexican cigar makers using such previously established North American trademarks.

2. CIGAR TARIFFS SHOULD BE PHASED OUT OVER FIVE YEARS

In connection with the NAFTA, Mexico is increasing its tariff rate on cigars from 20% to 50% ad valorem. Mexico has agreed to a 10-year phaseout of that tariff beginning January 1, 1994. Because cigars are price-sensitive products, we believe that a 45% tariff, reflecting the first stage of a 10-year elimination schedule, has the practical effect of excluding U.S. cigars in any significant volume. The CAA urges the Senate Finance Committee to make it clear to the U.S. trade negotiators that a 10-year phaseout is not justifiable and should be telescoped to five years.

NOTE: The CAA is a national, non-profit trade association, whose members comprise the producers of the majority of large cigars manufactured in the United States. The annual sales of the U.S. cigar industry are $360 million. There are

19 companies manufuacturing cigars in 22 establishments in the United States with a work force of some 2,500. Cigar production is concentrated in Pennsylvania, Florida, Alabama, Georgia, and Puerto Rico.

STATEMENT OF THE COMMITTEE ON PIPE AND TUBE IMPORTS

This statement is provided for the hearing record before the United States Senate Committee on Finance on October 6, 1992 on the proposed North American Free Trade Agreement which was recently concluded on August 12, 1992. These comments have been provided in conjunction with the Committee's ongoing hearings on NAFTA, most recently held on September 30, 1992. These comments are submitted on behalf of the Committee on Pipe and Tube Imports (CPTI). The CPTI is a not-for-profit trade association consisting of United States producers of steel pipe and tube products.

The CPTI has carefully monitored the progress of the NAFTA negotiations during the past year. In our comments submitted to the Committee in February 1991, we stated that as a whole, we supported the overall objectives of a free trade agreement between the United States and Mexico. Foremost of our concerns were areas in the agreement that would address market access, the reform of Mexican procurement and the administration of trade laws. In general the CPTI believes that in its entirety the agreement will benefit the economies of all three countries, thus increasing demand for pipe and tube products. With the conclusion of the trade negotiations the agreement results from a consensus that addresses the concerns of the three countries that are parties to the agreement. The Congress has held numerous hearings to solicit comments from the private sector. The CPTI is pleased to participate in the process and offer our comments in support of the NAFTA agreement. We have provided our views on three critical components of the agreement.

Tariffs

First, we remain firmly committed to see greater access for our pipe and tube products across the border in Mexico. The proposals of the NAFTA provide for a gradual tariff elimination in our product area. The agreement provides for a phase out over ten years on these products. The CPTI originally requested an immediate elimination of these tariffs in order to expedite the shipment of these products. However, the final agreement contains a phase out schedule. It is our understanding that the NAFTA contains an article in the tariff schedule that would allow for accelerated elimination of tariffs. The CPTI will work to move our products under this tariff authority. The issue remains that while the U.S. tariff on pipe and tube averages 2%, which is reasonably low, the Mexican tariff is 15%, a number which continues to be prohibitive for many producers to enter the market. We will continue to advocate this view to the Administration and to the Congress on the implementation of the agreement. The acceleration of these tariff eliminations will encourage greater economic opportunities for producers, especially U.S. companies who are attempting to expand exports to this market. It will also benefit the Mexican economy and Mexican consumers, who are currently forced to pay high prices for this important input product for the construction, manufacturing and energy sectors.

Procurement

Second, with regard to market access, the CPTI strongly believes that the procurement reform obtained in the agreement provides the initial foundation for greater opportunities for U.S. producers to sell to Mexican companies. In our 1991 testimony, we outlined the situation our producers faced in this regard. We were able to express our views to U.S. negotiators during the talks and believe that the U.S. obtained the best agreement they could negotiate which would meet Mexican and Canadian objectives. As currently outlined in the NAFTA, access to to the Mexican energy market would be opened on a gradual basis over the ten year period. The first year of the agreement provides for a 50% entry into this market. We believe that this provides us with an important entry into a historically closed market. This part of the agreement will create a great opportunity for our members who supply product to this sector. In all, we believe that the agreement ensures that the restrictive Mexican government procurement laws and practices will be eliminated. In order to insure that U.S. goods and services are provided equal access to all Mexican markets, including state-owned companies, the U.S. government agencies responsible for enforcing the agreement must provide strict oversight of the implementation of the agreement.

Administration of Trade Laws

The third area of concern for the CPTI addressed the administration of due process and the trade laws. We are aware that the Mexican legal system has only instituted trade laws over the past three years. Today, these laws are still being framed and there are many uncertainties with regard to the administration of these laws. During the negotiations, we expressed our view that no changes should be made to current U.S. trade laws in any NAFTA agreement. The NAFTA does not alter U.S. laws, but allows the use of a dispute settlement mechanism to decide on challenged trade cases. There is not a clear record with the Mexican government on this issue. We are aware that the current system in the U.S./Canada Free Trade Agreement is achieving its results. However, we want to insure that the goals of the legal text in the NAFTA are maintained and not changed during the implementation of the agreement. The agreement insures that there would be no preferential treatment to Mexico under the U.S. antidumping and countervailing duty laws.

In conclusion, the CPTI believes the enactment of this historic trade agreement between our country and Mexico and Canada will provide economic growth and provides for greater access to a previously closed market for this competitive segment of the U.S. steel industry. For this reason the CPTI supports the agreement. The CPTI and its members look forward to working with the Committee on Ways and Means on the important implementing legislation that will accompany the agreement.

STATEMENT OF THE CUSTOMS AND INTERNATIONAL TRADE BAR ASSOCIATION

The Customs and International Trade Bar Association consists of more than 450 members whose practice is largely or exclusively in the international trade and customs areas. Within antidumping and countervailing duty cases, our members represent petitioners, foreign respondents and importers.

Our association has been and continues to be concerned about the wisdom and constitutionality of the panel process for reviewing administrative determinations that was adopted in the U.S.-Canada FTA and that is now a part of the draft NAFTA agreement (Chapter 19)["Text prepared September 6, 1992"]. Indeed, we are undertaking a comprehensive review of the prior experience with the U.S.-Canada FTA and intend to submit a report to the Senate Finance Committee in due course.

We write at this time not to review our prior position on the U.S.-Canada FTA or the specifics of the recently released NAFTA text but to request that the United States review with Mexico and Canada the desirability of including in the agreement a provision requiring a periodic review of the need for continued use of Chapter 19 (e.g., each 36, 48 or 60 months after the implementation date). Time limits are not uncommon in such an agreement and would permit Congress and the Administration to obtain input from the private sector on the actual working of the panel process and continuing need for a separate process for dealing with challenges to antidumping and countervailing duty proceedings. With changes in the U.S. court review process, concerns of delay expressed with regard to the U.S. system may be eliminated in the near future. Other concerns may also be reduced or eliminated rendering the justification for special treatment of NAFTA antidumping and countervailing duty cases no longer valid.

The Bar Association strongly urges the Congress and the Administration to pursue this minor change to Chapter 19 so that the practical problems with the panel process can be monitored over time within the NAFTA structure itself. While the NAFTA draft includes a general authorization to make amendments [Article 2202], CITBA believes that Chapter 19 should contain a mandatory periodic review of the continued need for the chapter or at least for the panel review of administrative determinations.

September 17, 1992

The Honorable Lloyd Bentson
United States Senator

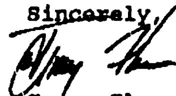
Re: Free Trade Treaty

Honorable Senator Bentson:

As a small investor investing in Mexico, I feel that I should be allowed to testify before the Senate hearings on the above-mentioned act.

It is the fact that I was a small investor that I feel that my dealings with the Mexican government is of great importance and I request permission to appear before this committee.

Sincerely,



James Flores
(213) 221-4759

September 17, 1992

The Honorable Lloyd Bentsen
United States Senator

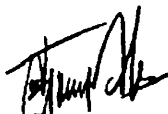
Honorable Senator Bentson:

With this letter allow me to introduce myself and briefly explain my encounters with the Mexican governnment. My name is James Flores and my company is Pirate Parasail, S.A. de C.V.

On May 16, 1989 the Mexican government enacted laws that allowed a foreigner to own and operate 100% of a tourist business in Mexico. With that in mind I did some checking with the Mexican Trade Commission, the Mexican Government Tourist Office, the Counsel General of Mexico in Los Angeles and all agreed that this law was in effect and would allow me to own 100% of a tourist business in Mexico. Armed with this information I incorporated Pirate Parasail, S.A. de C.V. in January of 1991, meeting <u>all</u> the requirements, standards and laws of Mexico.

The objective of Pirate Parasail S.A. de C.V. was to do parasailing from Baja's Rosarito Beach along with other tourist activities. After allowing myself and a few small investors to incorporate, the Mexican government said that a foreigner could <u>not</u> own 100% of a tourist business in Mexico and that parasailing had been banned altogther throughout Mexico. However, they were willing to let me operate provided that a Mexican partner was allowed to own 51% of the business. The government also reclassified parasailing as "coastal transportation" after allowing incorporation.

The Mexican government is on record as saying a foreigner can own 100% of a tourist business then allows "bait and switch" tactics. I wonder aloud about the <u>Free Trade Agreement</u>. What other tactics is the Mexican government capable of?



STATEMENT OF THE FLORIDA CITRUS MUTUAL

This statement is submitted in response to the Committee's invitation for comments concerning the potential impact on the U.S. economy and selected industries of the proposed North America Free Trade Agreement. Florida Citrus Mutual has examined the proposed Agreement as reported by the President to the Congress, and hereby reiterate our long-standing position that if citrus products continue to be covered by the Agreement—particularly in light of the treatment accorded citrus--the U.S. citrus industry will suffer severe adverse economic consequences.

Members of Florida Citrus Mutual (FCM), a voluntary cooperative association, account for 80 to 90 percent of the United States growers of citrus fruit for processing into citrus juices. The views and position of FCM in respect of this agreement, as set forth below, are supported by a majority of the citrus growers, packers and processors of the United States. In addition, FCM has submitted the information herein to the U.S. International Trade Commission, and is supported in these submissions by several other major farm and processor organizations, including California Citrus Mutual, Citrus Grower Associates, Florida Citrus Packers, Florida Citrus Processors Association, the Florida Department of Agriculture and Consumer Services, the Florida Department of Citrus, the Florida Farm Bureau Federation, the Gulf Citrus Growers Association, and the Indian River Citrus League.

We hereby re-affirm our position with respect to the proposed NAFTA and our proposals for improvement of the Agreement before it is signed and ratified:

(1) Fresh and processed citrus products should be excluded from the NAFTA;

(2) If there is no possibility of exclusion from the Agreement for citrus, we strongly recommend at least a twenty year phase-in period of no tariff reductions, with a "drop-dead" tariff elimination at the end of that period;

(3) If citrus products are not excluded from the Agreement, there should be some form of tariff safeguard mechanism for the types of import surges in naturally-occurring "off crop" years, such as the safeguard which is now built into the citrus juice tariff through application of specific rather than ad valorem rates of duty;

(4) We strongly recommend that the United States government enforce all phytosanitary standards to ensure that only wholesome citrus products enter the United States;

(5) We strongly recommend that an accurate, timely statistics-gathering mechanism be implemented by the U.S. Customs Service and the U.S. Department of Agriculture, Foreign Agricultural Service for the purpose of tracking Mexican production, processing, and packing of citrus; shipments of fresh and processed citrus to the United States; and imports of fresh and processed citrus into Mexico from the United States and all third countries. This is critical in preventing transshipment of non-Mexican citrus through Mexico to take advantage of the NAFTA treatment, and creating a conduit for citrus products into the United States market;

(6) We urge that all Mexican labor and environmental standards applicable to citrus production be harmonized to U.S. standards.

These modest proposals for improvement will not, however, ease the potentially devastating impact of the Agreement on our industry. As we have pointed out to the Committee in the past, we believe that the proposals for the inclusion of citrus and citrus products in the agreement will in the long term result in the virtual elimination of citrus and citrus industries of Florida.

In all, there are about 14,000 citrus growers in Florida alone, and about 22,000 growers nationwide. Total capital investment in citrus groves in Florida alone is estimated at approximately $7 billion. In addition to thousands of growers, a large United States work force will also be adversely impacted if citrus is included in the proposed arrangement. Approximately a quarter of a million people are *directly* employed in the citrus industry in the United States; many more are indirectly employed in activities related to that activity.

In Florida, 70,000 persons are directly employed in production. About 75,000 persons are indirectly employed so that the livelihood of some 145,000 persons in Florida alone is critically at risk. (This estimate does not include employment beyond the FOB plant level, which may add about 40,000 more affected workers.) For many of these, there are few, if any employment alternatives.

Under the proposed Agreement, the citrus industry as we know it will be dismantled. The International Trade Commission's report to the U.S. Trade Representative on the "Likely Impact on the United States of a Free Trade Agreement with Mexico" (Inv. No. 332-297, Feb. 1991), indicated that for many fresh and processed fruits and vegetables—particularly citrus crops and winter vegetables—

> "The elimination of tariffs . . . would generate a *significant* increase in U.S. imports from Mexico. . . . Mexican producers are able to supply the

U.S. market with many of the same products grown or processed in the United States *at much lower costs.* This is particularly true for citrus crops and winter vegetables that are manually harvested. U.S. growers of these products are expected to experience losses in production, particularly growers in Florida, California, and other warm-climate states who compete directly with products during the same growing seasons in Mexico. *U.S. processors of these crops* are also expected to experience production losses." [Emphasis added]

For these reasons, and for the reasons set forth below, the economic impact of the agreement will assure the virtual elimination of the citrus industries of Florida, and will severely and adversely impact the citrus industries of other states as well.

I. THE PROPOSALS FOR PHASED DUTY-ELIMINATIONS ON CITRUS AND CITRUS PRODUCTS ARE COMPLEX AND PROVIDE LITTLE RELIEF TO AN INDUSTRY ALREADY IN DIFFICULTY

The mechanism for the duty-elimination proposed in the Agreement is exceptionally complex. For some products, the duties will be eliminated the first year that the agreement is in force. For other products, the duty elimination will be phased in under a variety of different schedules.

The phasing schedule for citrus provides for a number of subcategories in the staging codes. The phasing periods range from one to ten years, depending on the product. For the five year cuts, the reductions will be 20 percent per year; for others, the duty elimination is at ten percent per year. Other variations also apply.

For fresh fruit, such as oranges and grapefruit, for example, the schedule of reductions varies according to the season. In the case of grapefruit, the full duty is removed the first year for fruit entered in August–September; for entries the rest of the year, the cuts are phased over a 10 year period. In the case of fresh oranges, duties are subject to elimination in five stages for December–May entries. Entries during June–November are scheduled for first year elimination.

In addition to these separate categories for fresh fruit, that essentially are without commercial significance or advantage to tic domestic producers, the provisions for orange juice provide different duty cuts for within-quota and over-quota entries. Again, the duty cuts and the quota limits vary according to whether the product is concentrated or not.

For juice, the confusion is compounded by the fact that the duty reductions on the under- and over-quota entries are to intersect after a few years so that the amount of the duty cut varies by product and duty-status. After the intersection, the rates for the under- and over-quota entries are held constant for a specified period and then reduced linearly to zero.

The incongruity of the proposed elimination schedule may cause even greater adjustment difficulties than originally anticipated. For fresh oranges and grapefruit, some product can be held for the beginning of the periods (seasons) in which the duty-free provisions apply (from the first year). The quota for concentrated orange juice from Mexico provides for a first-year, 50 percent duty reduction on the bulk of the Mexican imports (the in-quota entries) until the in-quota rate intersects with the over-quota rate, which is then scheduled for a reduction of 15 percent per year over a 6 year period.

Under these provisions it is very difficult, if not virtually impossible, for a producer to gauge the extent of duty offset that can be anticipated from the lower-cost imports from Mexico. Further, the proposed code has the effect, immediately, of removing, or significantly reducing, one of the most important features of citrus imports duties insofar as they relate to the operations of a domestic producer—the incidence of specific rates of duty.

The existing duties are specific rates rather than *ad valorem* rates. A critically important characteristic of this form of duty is that they afford producers protection during periods of large foreign supplies and low prices. When the prices tend to be high because of short crops, the incidence of the specific duty falls—and reduces their impact on the volume of the imports and on domestic prices. During periods of high yields and excess foreign supplies abroad, the reverse is true and this becomes the crucial element in the viability of the domestic industry. The phasing schedules affect this feature of the import duties immediately.

The importance of the invasion of this feature of the existing duty structure is seen from the fact that citrus crops, whether produced at home or abroad, are singularly subject to yield variations from year to year because of weather, normal "off crop years," disease, or other factors. The proposed multi-phase schedule in the agreement for citrus makes no provision for the import increases that periodically occur as the result of production surges which result in the "off-load" of this excess product in the United States, periodically causing severe price depression and price

suppression. The increases in imports of this nature are quite different than the "surges" that sometimes appear in the case of storable (i.e., non-perishable) manufactured products.

Under the proposed schedule, the automatic counter-effects of the specific duties in the wake of natural phenomena will either be eliminated immediately, or will be significantly reduced progressively and then eliminated, to the very real disadvantage of U.S. producers. At the very least, the Agreement should provide for some form of safeguard which accounts for these natural variations, and which compensates for the progressive elimination of the corrective counter-balancing effect that the specific rate of duty now permits.

If the proposed schedule is adopted, domestic prices and revenues from citrus will progressively suffer from a rising volume of imports from Mexico—absolute, and relative to the market. At the same time, producers lose the automatic counter-effects of a specific duty well-designed to cope with the production and trade shifts endemic to citrus.

As indicated below, the elasticity of supplies in Mexico, both short term and long term, is very high. At the same time, the elasticity of the mature demand for citrus and citrus products in the United States tends to be low, so that increases in supplies readily affect market prices. Removing these duties, or modifying them in a fashion that is commercially unreasonable, will undoubtedly cause severe distress.

In the recent past, the Florida citrus industry has invested huge amounts of money in new groves and trees in connection with a historic migration to freeze-free areas in the southern parts of the state. Over $3 billion was newly invested in these new citrus asset, which do not produce any income for at least four years after planting. This transition was made in the expectation that the existing duty structure would be maintained at least during the life of the amortization period.

It was anticipated that the cost of this migration would be recouped under the existing duty structure during the average 20 to 25 year tree life of the new groves. Because of the time required for a tree to reach maturity (3 to 7 years) much of the cost of the operations during the early years was out of pocket. Now it is proposed to change the rules of the game, to the detriment of not only the citrus growing investors, but also the financial institutions which participated in this long-term effort to improve the industry's productivity and competitiveness. Neither the growers nor their bankers can simply shift resources if their investments suddenly become non-competitive.

Maintenance of the existing duties for a minimum period sufficiently long for growers and producers to amortize that investment is a reasonable position for the industry and the government to take. Therefore, even if the United States determines that citrus products cannot be excluded entirely from coverage of the Agreement, we urge that the tariff structure and level be maintained for at least twenty years, with a "drop dead" tariff elimination at the end of that time.

This approach would provide time for the industry to cover at least some of the cost of this migration and other investment, and realize some return. By and large, the processing industries and the groves dependent upon these processing industries would have been essentially eliminated at the end of the period by the growing volume of imports or have "dropped dead" in the knowledge that at the end, the market would have been surrendered to offshore production. In our view, any other schedule for citrus would be catastrophic for the industry and for the financial institutions. II. An Overview of Developments In Citrus In Mexico

A. Mexico's Citrus Facilities and Output Have Been Expanding Enormously the Past Few Years

Mexico has become a major foreign producer of citrus and citrus products. All indications are that its output will continue to increase sharply in the future. Since the mid-1980s when its imports were negligible, shipments form Mexico to the United States have nearly doubled. That country now accounts for about 13 percent of total United States imports. Given the huge nature of Mexico's orange-growing operations and its large excess processing capacity, it is obvious that the inclusion of citrus in the proposed agreement will greatly accelerate the already rapidly-growing volume of imports, and decimate the U.S. orange growing and processing industries.

Growing Operations: Whether measured by the acreage planted, number of trees, output or the trend in Mexico's processing capability, it is obvious that Mexico's citrus industries are increasing dramatically—both in absolute amounts and *relative to Mexico's home market demand.* These developments clearly indicate a significant increase in Mexico's ability to export products both in the near and long term.

Highlights of the orange operations of Mexico are shown in the tabulation below. Preliminary crop forecasts for 1990 of the U.S. Department of Agriculture indicated that the planted orange acreage in Mexico increased by 33 percent from 1988

through that year. In 1990, the total harvested orange crop in that country (363,000 acres) approximated, for the first time, the total number of bearing acres for oranges in Florida (389,000).

ORANGE HIGHLIGHTS FOR MEXICO

	1988	1989	1990[1]	Percent change
Acreage				
Total Acres	481,800	558,400	642,200	33
Harvested	276,800	313,800	363,100	31
Number of Trees				
Total Trees	48,790	52,800	64,000	31
Non-bearing	23,240	22,800	30,000	29
Percent of total	48%	43%	47	
Juice (Metric Tons)				
Production	33,712	46,992	48,000	42
Exports	32,740	45,492	45,800	40

[1] Data for 1990 are preliminary.

Source: U.S. Department of Agriculture

The tabulation also shows that the orange acreage actually harvested in Mexico has also increased sharply since 1988 (about 31 percent). It is noteworthy that in terms of both the planted and harvested orange acreage, Mexico now approximates the acreage of the United States—although Mexico's population and demand for these products is far lower that in this country. Mexico is building a tremendous capacity for the exportation of these products.

About half the trees there still are young and non-bearing. Once they begin to produce fruit—in three to four years—they can be expected to have a useful life of some twenty to twenty-five years, so that for nearly a quarter of a century, the United States industry—with or without duty reduction will continue to be confronted by the effects of past industry subsidies that in effect continue to provide an artificial stimulus to Mexico's production and exports and to disadvantage the U.S. industries concerned.

These data indicate that the amount of fruit from the non-bearing trees could virtually double Mexico's fruit output within the next few years. Based solely on the foregoing information on the number of non-bearing trees, substantial increased imports from that country are inevitable, because of Mexico's proximity to the United States and because foreign market outlets for Mexican juice have largely been preempted by Brazil.

Such a conclusion, however, understates the significance of probable increases or Mexico's potential. While there are large numbers of small growers of citrus, many of whom operate on state-owned land, essentially rent-free, land reform could result in significant new plantings involving larger acreages. Reports from the trade indicate that the trend in Mexico clearly is toward larger, more efficient and privately-owned commercial operations. Reportedly it is common to pool ownership rights to form larger parcels. There are also reports of growing interest on the part of foreign investors in Mexican citrus. The official policy of the Mexican government is that relaxation of foreign investment barriers is essential for the growth and development of its economy.

Compared to the United States, Mexico enjoys relatively low cost factors. Labor is abundant and by U.S. standards, relatively cheap (reportedly about $5 per day for unskilled workers). In the 1989/90 season farm costs of producing citrus in Mexico for a typical grove was estimated at $1.93 per box, compared with about $3.91 in the United States for a typical grove— a two-fold advantage.

The existing specific rate of duty for orange juice, the incidence of which varies with prices, is an important element in counteracting this cost advantage for Mexican juice. During the 1990/91 season, the average FOB price of Florida concentrate, explant, was about $1.32 per pound of solid. For Mexico, the FOB price (ex freight) was about 86¢ per pound solid. The duty obviously was a critical factor to the viability of U.S. producers.

Mexico enjoys excellent soil and climatic conditions for the production of citrus in many different areas. Many farm operators are reportedly shifting to citrus from lower-yield coffee operations and from grains, oilseeds and other low revenue crops to higher valued and export-oriented fruits and vegetables. Understandably of course, this trend could be accelerated by the anticipated increase in U.S. exports

to Mexico of grains and other crops that make Mexican production of them less profitable.

Recent reports of the U.S. Department of Agriculture indicate that Mexico has about 6 million hectares (15 million acres) of irrigated farmland. Currently, growers are said to pay only 30 percent of the real water cost for their irrigated land. In the view of the Department of Agriculture there is a potential for the irrigation of another 22 million acres. Some of this could be devoted to citrus crops as a result of the production incentive to Mexico this agreement would provide.

Still other factors are important to an evaluation of the effects of the agreement. Growers reportedly have had access to credit facilities on favorable terms, and the National Institute of Agriculture Research has developed programs for yield and quality improvement. *CONAFRUT*, the public organization dealing with production and marketing of major fruits, also furnishes technical assistance for the improvement of cultivation.

Many producers reportedly are concentrating on improving the productivity of existing groves through irrigation and cultural practices. Increasing tree densities on existing acreage also provides a potential for boosting yields and production in the long run. All signs are that Mexico's long-term production of citrus fruit will be up sharply.

B. The Increases in Production of Oranges in Mexico Has Been Accompanied By Even More Dramatic Increases in Juice Production

The bulk of the output of Mexican oranges has been for the fresh market but a growing share of the fresh oranges harvested is being devoted to fruit for processing and subsequently for export. The foregoing tabulation shows that the amount of fruit processed grew by almost 45 percent from 1988 to 1990—virtually all for export to the United States. Just since 1988, juice production and juice exports have risen 42% and 40%, respectively. They have tended to establish new records each successive year since 1985.

Capacity for the production of juice has been increased greatly—significantly in anticipation of the growth in fruit production and in the market for processed products (particularly exports). Some old plants have been rehabilitated.

Processors have made large investments in new state-of-the-art juice plants during the past few years so that as fruit output grows, "larger amounts of oranges will be devoted to juice production." There are reportedly now 22 major juice factories in Mexico with a total evaporating capacity of about 598,000 pounds of water per hour—an increase of about 74 percent from the level in 1988/89.

These 22 plants are reportedly modern and efficient establishments that are prepared to handle a growing volume of trade for exportation. In addition, there are 7 additional plants of lesser size, which probably could be expanded in the longer term as exports grow and if conditions warrant.

During the 1990/91 season, Mexico's processing plants were operating at about 27 percent capacity, in part because of a short crop years, but also because of expansions in anticipation of future production. It is clearly evident that there is sufficient capacity for a significant increase in the production of citrus Juice in Mexico.

C. Mexico's Exports Have Been Increasing Sharply And Will Accelerate If the Proposed Duty Cuts Are Implemented

There is no question that Mexico will exploit its export potential in the United States to the fullest extent if citrus is included in the arrangement. With but a limited home market demand for juice, Mexico's increasing output of processed products is obviously geared to export.

Mexico's total export shipments of orange juice increased sharply and almost without interruption by 80 percent from 1985–86 through 1989–90—or from 35.6 millions gallons to 64.0 million gallons. Export supplies for 1990–91 were down sharply because of a poor crop year, but that temporary set-back will obviously be reversed in the near term as productivity increases, as new trees come on stream and as the temporary effects of the weather are reversed.

The great bulk of Mexico's exports of orange juice have been destined for the United States and U.S. imports from that country have escalated astronomically (by 95 percent) since 1986. The trade data in question are shown in Appendix table 1.

Most of the past imports have consisted of frozen concentrate destined to the United States for conversion here into ready-to-drink juice. It is clear, however, that the trend in the importation of ready-to-drink juice is increasing sharply and that a growing share of that trade is comprised of ready-to-serve products to be sold in direct competition to similar products in the United States. The activities of U.S. processors will be further curtailed as a direct result of these increased imports.

As table 1 also shows, U.S. exports to Mexico are negligible, both in absolute amounts and relative to the total imports of citrus products from Mexico. Indeed, our trade deficit in citrus with Mexico has tripled since 1986. Currently, the imports from Mexico exceed the value of our exports to that country by a ratio of 45 to 1. That trade deficit can only worsen if the agreement includes citrus in the form that is now proposed.

For the reasons outlined above, there is no likelihood of an increase in citrus products from-the United States to Mexico. The trade deficit will continue to worsen if the scheduled duty cuts and eliminations under the Agreement go into effect.

As we have seen in the past, Mexico and Brazil have been able to respond rapidly to market access requirements and price movements. Past experience with respect to Brazil is highly pertinent in examining the high elasticity of supply of fresh citrus and juice from Mexico. Increases in the supplies of Brazilian juice and changes in its export price have a direct impact on the US and world market price. The elimination of duty on Mexican juice will enhance this effect. As Mexican producers reduce their prices to gain market share, Brazilian producers will make competitive price reductions to retain markets. To the extent, if any, that this also causes a shift in the emphasis of Brazilian producers to other markets, there will be an indirect effect on U.S. producers, as prices are reduced to meet the competitive impact of Brazilian and Mexican juices in foreign outlets.

D. All Relevant Data Support the Judgment That the Agreement Will Devastate the United States Industry

As noted, the level of imports in a given year can change markedly in the short term as a result of changes in the weather, freezes, the impact of disease and other factors. Thus, from year to year, the relationship between the imports and domestic production can change dramatically and greatly destabilize the market and market prices.

Because of these phenomena, the immediate, short-term impact of the elimination of the duty on individual products is difficult to quantify. But from the data presented above on the Mexican operations, it is beyond question that absent such temporary variances, both the short- and long-term elasticities of supply for Mexico are very high indeed.

In the United States, the market for orange juice is essentially mature. Per capita consumption of orange juice in this country has averaged about 4.4 gallons per year, with very little variation during the past several years. Under these conditions, the price of orange juice shifts disproportionately with a shift, or increase, in the supply relative to demand.

Mexican juice is of high quality and good color. Particularly at the wholesale level, the cross-price elasticity of demand for domestic and imported orange juice is very high. Increased imports at reduced prices will cause further price depression in the U.S. market. The Department of Citrus estimates that the citrus industry of Florida will suffer an adverse impact of $2 billion during the first twenty years of a NAFTA, with losses continuing to accrue thereafter.

Brazil is by far the world's largest producer of orange juice. Like Mexico, it exports the great bulk of its production. Changes in the supply of Brazilian and Mexican juice have a direct impact upon the world and U.S. market prices.

As a result of growing supplies in those two countries and increases in production in the United States flowing from improved yields and frost-free output, the United States on-tree price for processed oranges declined steadily by 46 percent from the 1987–88 season (Table 2 and Chart 1). Even more importantly, the price per pound of orange solids presently being offered to Florida growers on the cash market is 65 cents, which is at or below the break-even point for most Florida growers. The futures market price for FCO3, an important indicator of price trends, has been dropping over the past month to the lowest level seen in five years. In the same period, Brazil's production of orange juice increased 66 percent. From early in the 1989/90 season through the fall of 1992, Brazil's export price decreased 44%. The impact of the growing supplies in Mexico was similar.

No other industry and probably no other agricultural crop, is subject to such a high degree of price instability—largely because of these foreign-driven forces. That phenomenon will only be amplified sharply if the proposed duty reductions are placed in effect.

III. CONCLUSION

In addition to increased shipments to the United States from Mexican production if the duties for those suppliers are eliminated, *there is a high probability* of a diversion of exports from other countries *through Mexico* if citrus is included in the arrangement. The country of origin of orange juice is difficult to establish. Cross-coun-

try transshipments are common and growing. The Department of Commerce has indicated that "scarcely a day goes by" without questions rising respecting certificates of origin.

The establishment of duty-free treatment for Mexico would encourage such shipments and inevitably aggregate the certain increase in the imports from that country—and would worsen the price effect in the United States—both directly and indirectly.

Such trade would only be attracted by the lower prices that the arrangement would inevitably induce. The increased imports of Juice alone would significantly limit the demand for U.S. fruit from domestic processing and depress fresh market prices in turn.

The citrus industries of Florida, and indeed of most of the citrus growing areas of the United States, are not in a position to sustain a profitable operation if our products were Go be included in this agreement. While grove care expenses and other operating costs have escalated sharply in Florida the past 5 years, estimates indicate that net returns from grove operations have declined in the same period—some 25 to 40 percent based on studies for two representative groves.

Many of our growers are at a break-even point or operating at a loss because of depressed prices. Because of depressed prices and of cost escalation, many relatively large grove operations have already placed several hundred grove care workers on layoffs. This of course has significant long-term implications, as grove care is critical to a continuance of high productivity.

Tight credit conditions imposed by banks and the difficulties of obtaining business loans because of price depression as well as low profit expectations in the industry make it exceedingly difficult for many of the operations to continue. Obviously, increased import pressures would worsen the employment situation and lead to a decrease in needed grove care and productivity and yields.

For all of the reasons outlined above, this Agreement could not have come at a worse time. If citrus must be included and the US: industry thus eliminated, it is reasonable to hold U.S. import duties at their current levels for the 20-year period of time suggested in our "drop dead" position in order to provide the industry an opportunity to amortize investments and to provide an opportunity for grove and processing operators and their many thousand of workers to make at least a partial transition to other economic activities. The livelihood of many of the country's communities depends on an alternative to the duty eliminations that have been proposed.

Table 1.—U.S. IMPORTS OF ORANGE JUICE FROM MEXICO

[Millions of gallons (single strength equivalent)]

Year	Frozen concentrate	Single strength juice	Other	Total	Index
1986	32.3	.1	.1	32.5	100
1987	39.7	1.3	0.0	41.0	126
1988	48.3	4.1	0.0	52.4	161
1989	36.1	7.5	1.6	45.2	139
1990	44.8	14.2	4.3	63.3	195

Source: Foreign Agricultural Service, USDA

U.S. TRADE BALANCE WITH MEXICO IN CITRUS PRODUCTS

[Million dollars]

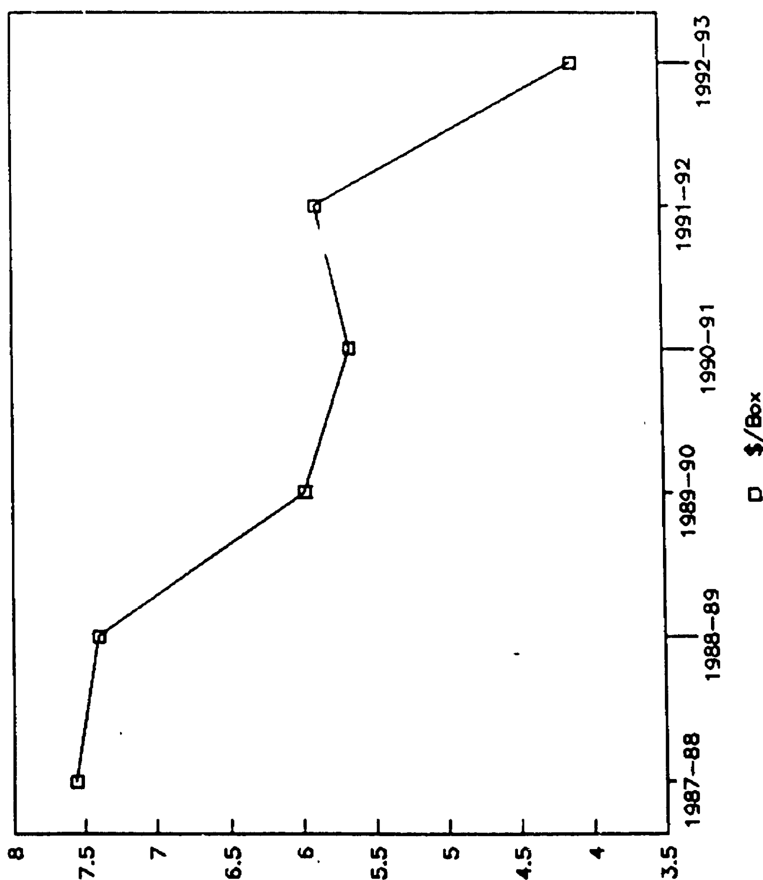
Year	Imports	Exports	Trade deficit
1986	31.2	.2	31.0
1987	49.0	.5	48.5
1988	80.9	1.2	79.7
1989	66.5	1.5	65.0
1990	98.9	2.2	96.7

Source: U.S. Department of Commerce.

Table 2.—ON-TREE PRICE AND VALUE OF FLORIDA PROCESSED ORANGES

Season	On-tree price (Dollars/box)	On-tree value (Millions of dollars)
1987–88	7.56	971.0
1988–89	7.40	1022.0
1989–90	5.98	623.2
1990–91	5.68	787.6
1991–92	5.89	755.3
1992–93	4.11	713.9
	Index	
1987–88	100	100
1988–89	98	105
1989–90	79	64
1990–91	75	81
1991–92	78	78
1992–93	54	74

CHART 1



STATEMENT OF THE INTERNATIONAL TRADE COUNCIL

Mr. Chairman and Members of the Committee, we thank You for this opportunity to submit testimony before the U.S. Senate Committee on Finance. We wish to address the issue of the North American Free Trade Agreement (NAFTA). We strongly support the Trade Agreement for reasons stated below.

ECONOMIC GROWTH

The United States economy has for the last two years been in a state of recession which seems to be hard to shake. With the nation's huge federal budget deficit and low national savings rate, the only option readily available to spur economic growth is exports. While our exports to our traditional trading partners, Japan and Europe, are suffering from these countries' slowed-down economies, NAFTA will break new ground and create fresh growth incentives in North America.

The existing Free Trade Agreement between the United States and Canada indicates the benefits of the NAFTA. U.S. trade with Canada has increased 19 percent since 1988, and now, more than 1.5 million U.S. jobs are supported by exports to Canada, according to the U.S. Department of Commerce. We believe that there is even more to gain from an agreement with Mexico. While USA and Canada have very similar economies, structural differences between the U.S. and Mexico result in significant comparative advantages. The United States has superior technology and a productivity level twice that of Mexico's, while the labor cost in Mexico is far lower than the United States'.

We have already seen an explosion in trade between the two countries. In 1986, U.S. exports to Mexico totalled $12 billion. Exports have increased to an estimated $44 billion for 1992, in the process turning a trade deficit of $6 billion in 1987 into an estimated surplus of $7 billion in 1992. The Institute of International Economics estimate that while 150,000 American jobs will be lost because of NAFTA, the agreement will create 325,000 new jobs. Already, some 620,000 jobs are based on exports to Mexico, and with NAFTA, this figure will undoubtedly increase greatly.

Losing one's job creates severe problems for the people involved. However, we want to emphasize that the total impact on the economy will be positive. In some labor-intensive industries, part of the production will move to Mexico. But new jobs will be created in export industries, and the overall effect will be a net gain of jobs. For many displaced workers, the transition period will be difficult, and they must be helped to new jobs by retraining and education programs.

The primary reason for the export explosion is the trade liberalization policy of Mexico's President Carlos Salinas de Gortari. According to Roberto Salinas-Leon, the tariffs have been cut from an average of 80 percent to 10 percent. At the same time, non-tariff barriers has been removed for 90 percent of Mexico's imports. Still, Mexico's tariffs on imports from the U.S. are 250 percent higher than U.S. tariffs on Mexican imports. NAFTA will remove trade barriers and greatly improve the market opportunities for U.S. companies in Mexico. Mexican products already enter the United States either duty-free or at low tariff rates, so American companies stand to gain the most from the elimination of tariffs.

The trend of a widening U.S. trade surplus with Mexico is likely to continue under NAFTA. U.S. exports to Mexico will continue to grow more than imports from Mexico, lead by capital-intensive and high-tech industries. Financial service industries such as banking and insurance will get access to the Mexican market. In transportation, American airlines and trucking companies will be able to compete in Mexico. To compensate for the trade deficit, we expect Mexico to receive increasing amounts of capital from the United States. The capital will be invested in production plants, infrastructure, and communications, gradually improving Mexican production technology, productivity, wage and income levels, and environmental standards.

Mexico's market potential is enhanced by the fact that it has a young, fast-growing population. The income level is low, but the economy, already growing at a rate twice the population growth rate, is expected to expand at 6 percent annually under NAFTA. Currently, 70 percent of Mexico's imports come from the United States, so U.S. exporters will be the main beneficiary of the growth in Mexicans' purchasing power. We believe that with a Free Trade Agreement, exports to Mexico will be the single most important growth factor for the U.S. economy in the next 10-20 years.

LABOR

Questions have been raised about the Free Trade Agreement's impact on wage levels and environmental standards in the two countries. Some fear that the economic realities of free trade will force these down to "the lowest common denominator". We see this argument less as a concern for Mexican workers' well-being and more as an attempt to retain American wages and labor rights.

The only thing that can improve Mexicans' standard of living is economic growth. NAFTA is Mexico's ticket to the industrialized world. Imports from the U.S., of which 90 percent is capital goods, help Mexico modernize and improve the productivity of their industries. This will in turn increase wages, resulting in higher purchasing power for the Mexican consumer.

U.S. companies with production facilities in Mexico, accused of exploiting cheap labor, are in general paying their workers more than local companies do. The presence of American companies directly pulls the wage level upwards. It also creates spin-off business and services locally, and pumps money into the economy. History indicates that this is an upward spiral; increasing wage levels is one of the characteristics of economic growth.

In the U.S., it is likely that many labor-intensive jobs will be lost and moved to Mexico. However, there are many incentives for companies to stay: Production technology, the skill level of the labor force, the quality of infrastructure and communications. These are all factors where the United States are superior, and it will take decades before Mexico will get close to U.S. standards.

In fact, with the elimination of the trade balance requirements for foreign companies, an important incentive to establish production in Mexico is removed. American companies can now freely export goods to Mexico without having to import at the same time.

ENVIRONMENT

Environmental st ndards are in theory as high in Mexico as in the United States. In reality, this is not the case, since regulations has not been enforcd. The enforcement of environmental standards, for instance water quality, sanitation, air pollution and waste disposal, is a question of economic resources. As is often pointed out, environmental regulations are costly. The government pays for control and enforcement. Businesses, and ultimately the consumers, must take the cost of cleaner production methods. This is a problematic issue even in a country as rich as the United States. In Mexico, a country with a per capita income of approximately 12 percent of the U.S., the cost of implementing full environmental standards now would be overwhelming.

The only way to improve the environment is gradually, supported by economic growth. As pointed out earlier, the best way to achieve that is through the Free Trade Agreement. When Mexico's economic situation improves, there will be a greater opportunity to raise environmental standards. At the same time, domestic public and political pressure will build, and enforcement of environmental regulations will become higher prioritized.

CONCLUSION

We believe that the North American Free Trade Agreement will be of great benefit to all three countries involved. The lowering of tariffs and trade barriers will lead to an explosion in trade between the countries, and in particular between the United States and Mexico. Since trade barriers are higher on U.S. exports to Mexico than the other way, American exporters stand to gain the most immediately. In the short term, the current U.S. trade surplus with Mexico will widen. In exchange, Mexico will receive an inflow of investment capital from the U.S., a process that ultimately will bring the country up to a higher level economically.

The benefit of NAFTA is not only to the exporters. Consumers in both countries will benefit from the increased competition, which will result in higher productivity and lower prices. NAFTA will, in the long run, expand the American consumer market with another 90 million people, and provides businesses with new opportunities.

The Free Trade Agreement is the "shot in the arm" the U.S. economy needs to come out of its recessionary state. Exports can, with NAFTA, become the motor of economic growth in this country in the decades to come.

STATEMENT OF THE MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION

The Motor & Equipment Manufacturers Association (MEMA) welcomes the opportunity to share its views with the Senate Finance Committee regarding the recently concluded North American Free Trade Area (NAFTA) agreement. On balance, we believe it has the potential to significantly advance the economic interests of each of the segments of the motor vehicle products industry which MEMA represents: U.S. manufacturer-suppliers of original equipment and replacement automotive and heavy duty vehicle parts, service and repair equipment, and chemicals.

U.S. suppliers of all types of automot[illegible] .elated products can expect to gain improved access as exporters to the growing Mexican market, while gaining more flexibility to structure their overall North American manufacturing operations to maximize quality

and international cost competitiveness. We therefore expect that this important agreement will facilitate ongoing efforts of U.S. motor vehicle product suppliers to strengthen their international competitive position.

In our initial statement on the NAFTA, we cautioned the U.S. Government on the need to ensure that its August 12 framework understanding with Mexico and Canada be faithfully translated into a binding agreement in consultation with U.S. industry advisors. We have yet to see the complete final legal text, but believe our key questions and concerns related to initial drafts will be addressed satisfactorily in the final version.

MEMA also urged that the U.S. Government be prepared to devote adequate attention and resources to key implementation issues, such as Customs administration of stricter rules of origin. We hope this Subcommittee and the full Congress will address these matters once the final agreement is submitted for review.

MEMA has worked closely with U.S. negotiators since the outset of the negotiations, and during the preparation of legal texts over the past month. The process has been challenging for all parties, but in our view has produced a good portion of the desired results.

MEMA Objectives in the NAFTA

Since the outset, we have pushed for a NAFTA agreement structured to accomplish the following general objectives:

1) Expand U.S. motor vehicle product industry export opportunities in Mexico and Canada;

2) Prevent Mexico or Canada from serving as an export platform to the United States for vehicles or components assembled using high concentrations of non-North American content;

3) Promote progressive elimination of Mexican trade and investment restrictions, while ensuring that existing U.S. investments in Mexico are not disadvantaged relative to new market entrants during the liberalization process; and

4) Provide safeguard and transitional measures to facilitate anticipated economic adjustments and prevent potential import injury to U.S. producers and workers.

Accomplishments of NAFTA Agreement

The NAFTA agreement, as outlined to date, would likely accomplish each of these basic MEMA objectives through:

-- Progressive elimination of Mexican automotive local content and trade balancing requirements;

-- Removal of all Mexican tariffs on U.S. products achieving high levels of North American content;

-- Adoption of stronger North American value-content rules as a future requirement for duty-free U.S.-Canada automotive products trade;

-- Strict limitations on Mexico's future ability to use duty-drawback to unfairly attract new export-oriented investment and productive capacity;

- Elimination of Mexican investment and other regulatory restrictions which discourage appropriate integration of U.S. producers' overall North American manufacturing operations; and

- Establishment of transition periods and safeguards against import injury to facilitate necessary economic adjustments and minimize the potential for future import injury to U.S. producers and workers.

MEMA believes additional U.S. Government measures may be appropriate to provide an even greater margin of economic certainty for American workers.

The most significant accomplishment of the NAFTA with respect to our industry is its removal of all Mexican tariff and non-tariff barriers within a ten-year period. In addition, the NAFTA will make the liberalization steps undertaken in the U.S.-Canada FTA (CFTA) more secure, and provide a viable framework for a broader free trade and investment zone throughout North America.

The balance of this testimony describes in greater detail specific MEMA negotiating goals and related NAFTA results. Throughout the negotiations, we urged the U.S. Government to view these goals as an integrated package, rather than as a set of individual, unrelated issues. Our evaluation of the NAFTA agreement is therefore based on the overall package of provisions affecting our industry, as outlined below

Tariffs

In the tariff arena, MEMA called for the immediate reduction and subsequent elimination of all tariffs on motor vehicle products traded between the United States and Mexico. Under the CFTA, most original equipment parts and motor vehicle trade between the United States and Canada is now duty-free. Most bilateral aftermarket parts trade will become duty-free on January 1, 1993, with the small remaining portion becoming duty-free by January 1998.

Currently, Mexico allows only a very limited number of foreign-made cars and trucks to enter the country. When imports are permitted, they enter at a 20% rate. While under current Mexican laws higher levels of vehicle imports are theoretically possible in the future (up to 15-20% of each producer's local sales), local content and trade balancing regulations make realization of substantially higher vehicle import levels highly unlikely. Mexican automotive parts tariffs range from 10-20%, with most parts entering at 10-15%. Continuation of these tariffs, even in the absence of most other current import restrictions, would seriously impede the development of an expanded export market for U.S. vehicles and parts.

Under the NAFTA agreement, all tariffs on U.S. exports to Mexico of products manufactured by MEMA members will be eliminated immediately or in stages over a five or ten-year transition period. In no case is the transition period more than ten years. Given comparatively higher Mexican automotive tariffs, perfect reciprocity in U.S. and Mexican duty cuts was not achieved in the NAFTA. However, Mexico agreed to eliminate tariffs on 75% of its trade within 5 years. Tariff staging arrangements are adequate in light of other NAFTA provisions calling for the phase-in of higher North American rules of origin on parts and vehicles over an eight-year period.

Rules of Origin and Duty Drawback

The CFTA established special rules of origin and a unique standard of preference for the motor vehicle products industry. MEMA recommended that the NAFTA simplify and strengthen these rules and apply them to the broader North American region including Mexico.

Initially, MEMA recommended a value-content rule of origin cf 75%, given the addition of Mexico to the calculation base and our view that the 50% rule in the CFTA did little to encourage use of North American components in regional vehicle assembly operations. Subsequently, with the three governments' decision to broadly "trace" non-North American content through successive stages of production in our industry, we agreed that a 65% requirement would be adequate.

In addition, MEMA called for elimination of duty-drawback on all intra-North American trade to discourage excessive investment in export-oriented facilities ("export platforms") in Mexico, the highest tariff country in North America.

The proposed NAFTA rule of origin and duty drawback provisions fall somewhat short of our recommendations, but should provide a modest competitive boost for U.S. automotive producers and their workers.

The proposed agreement has special rules of origin for cars, trucks, major power/drivetrain assemblies and other motor vehicle parts. Under the NAFTA agreement, the North American rule of origin will be set at 62.5% for cars, light trucks, and related engines and transmissions/transaxles, and at 60% for medium and heavy trucks, buses, special purpose motor vehicles, and motor vehicle parts. These higher origin rules will be phased in two equal stages in 1998 and 2002.

The value of non-NAFTA materials is "traced" under the agreement by requiring producers of automotive goods (both vehicle builders and their suppliers) to report their non-North American imports of a broad range of specified motor vehicle parts to manufacturers at the next stage of component or vehicle production. These accumulated import values (direct and indirect) ultimately are subtracted by the vehicle assembler when it calculates the regional content of its products to determine eligibility for NAFTA tariff preferences. This ensures more accurate reporting of North American content in all motor vehicle products, a key MEMA objective.

The NAFTA agreement will extend the CFTA's expiration date from January 1994 to January 1996 for duty drawback on non-North American inputs incorporated into dutiable goods crossing the U.S.-Canada border. It also will establish an expiration date of seven years (January 2001) for duty drawback related to U.S.-Mexican and Canadian-Mexican trade. Duty drawback will be retained on goods produced in North America and exported outside of the region. It will be limited on all trade within North America to the extent of actual duties paid upon export into another NAFTA Party.

In addition, North American-originating goods will continue to receive full drawback as they cross intra-regional borders for successive stages of production until NAFTA tariffs are fully phased out. Foreign-trade zones, maquilas, and other in-bond operations will be charged duty for non-North American origin components used in goods they sell to other NAFTA parties just as if the goods were sold into their domestic markets.

The definition of originating content in the proposed Agreement is somewhat tighter than in the U.S.-Canada FTA rule. Comparable rules apply regarding transformation in North America to a new tariff classification, but they are now combined with tracing the value of imported motor vehicle parts.

Mexican Non-Tariff Trade Barriers

A central objective of MEMA in the NAFTA negotiations was the elimination of Mexico's complex auto decree, which establishes local content and trade balancing requirements, as well as investment restrictions on the car and light truck assembly and automotive parts industries. MEMA also sought elimination of Mexico's auto-transportation decree, which sets local content and import quota regulations for the truck and bus sectors.

The proposed NAFTA agreement would phase out the Mexican Auto Decree over a ten-year period and remove import restrictions in Mexico's Autotransportation Decree over five years.

With respect to the Mexican Auto Decree (light vehicles), the NAFTA agreement calls for the following significant liberalization steps:

1) Mexican local content requirements, from an industry-wide perspective, will be lowered in percentage terms over a ten-year period and then terminated along with the decree. The calculation of vehicle assemblers' local content will be broadened to facilitate greater sale of products made in "maquiladoras" in the Mexican market

2) Mexican trade balancing requirements (presently 1:1 for parts and 2:1 for vehicle exports/imports) will be reduced immediately to .8:1 and phased down to .55:1 by the end of the same 10-year transition period. In addition, Mexican vehicle producers will gain major new assurances that they can make immediate use of past years' trade surpluses to import more vehicles .

Under the NAFTA, Mexico's Autotransportation Decree will be terminated in 1994, with imports of trucks and buses liberalized over a five-year period.

MEMA believes Mexico's agreement to progressively liberalize its trade balancing requirements under the Auto Decree is the single most significant accomplishment of the NAFTA automotive negotiations as they relate to the light vehicle and components industry. This step, together with provisions improving vehicle assemblers' access to prior trade surpluses, will substantially improve prospects for continued growth in U.S. exports of vehicles and direct and indirect exports of parts to Mexico during the transition period.

NAFTA provisions dealing with removal of Mexican local content provisions are less far reaching than the trade balancing reforms during the transition period. However, immediate liberalization of local content requirements (from 36% to 34% in tandem with allowing the counting of purchases from certain independent "maquiladoras") will reduce current pressures on vehicle assemblers in Mexico to boost their local content above currently achieved levels.

MEMA remains concerned, however, that Mexico could seek to fully implement its 1989 decree requirements between now and January 1994, when the NAFTA enters into force. Such action would clearly be inconsistent with the spirit of the NAFTA and would likely prove detrimental to the medium and longer-term interests of both U.S. and Mexican suppliers. At a minimum, we believe the U.S. Government must monitor this situation and seek resolution of any problems which develop before January 1994.

Investment

Mexico's long-standing restrictions on foreign investment in its auto parts industry has been of major concern to MEMA. We therefore urged the U.S. Government to seek the complete elimination of these restrictions, along with quantitative limitations on the sale of products assembled in "maquiladoras" into the Mexican domestic market.

Our intent was to ensure non-discriminatory treatment between distinct forms of investment in the auto parts sector in Mexico by facilitating more integrated use of existing productive capacity throughout North America, including Mexico. These forms of investment include the "maquiladora" (in-bond plants whose sales into Mexico are limited) and "national suppliers" sectors, in which majority foreign equity investments are permitted, and the "auto parts industry" sector, in which they are not.

We believe the NAFTA automotive and investment texts clarify the legal standing of existing and potential future U.S. investments in the auto parts sector, broadly defined. Both texts clarify and liberalize the standards for both "national supplier" and "auto parts industry" firms, reducing the Mexican local content requirement from 30 to 20 percent and permitting "maquiladora" facilities meeting this local content standard to qualify for "national supplier" status. This allows "maquiladora" sales to vehicle producers in Mexico to qualify for the first time as local content in terms of the vehicle assembly industry's requirement. The agreement also will allow U.S. investors to acquire majority ownership of Mexican "auto parts industry" firms in most cases.

These new Mexican obligations should help promote market-driven restructuring of the Mexican auto parts sector beginning in the early years of the NAFTA. Differential treatment of different classes of foreign investors in the Mexican auto parts manufacturing sector should be essentially removed. This is a major achievement of the NAFTA negotiations affecting automotive products.

STATEMENT OF THE NATIONAL ASSOCIATION OF HOSIERY MANUFACTURERS

The National Association of Hosiery Manufacturers (NAHM) is the trade association representing the interests of those companies in the United States that produce all types of men's, women's, and children's hosiery. Our members manufacture and market approximately 85% of all the hosiery sold in the United States.

The NAHM Board of Directors voted to support the creation of a North American Free-Trade Agreement (NAFTA) predicated upon stringent safeguards for U.S. industry. NAHM wishes to reaffirm its support and submit comments on the following provisions of the NAFTA and its impact on the U.S. economy: rules of origin; safeguards; dispute settlement; and, subsidies and dumping.

While NAHM supports strong rules of origin, wo would have preferred that the "yarn forward" rule include partially oriented yarn (POY) in order to provide the hosiery industry with broader sourcing flexibility. This position should not be construed as necessarily widening the exceptions list to include products that are available in North America, but as an economic option in response to market conditions (e.g., production shortages).

NAHM supports strong provisions covering "snap back" and quota applications against disruptive imports. NAHM support of NAFTA is predicated upon "stringent safeguards for U.S. industry." These provisions are critical to the balanced operation of the NAFTA and no limitation should be placed upon them which would render them ineffective.

The dispute settlement mechanism appears, on balance, to represent a fair and equitable format to resolve complaints. However, we support the concept that any dispute procedure maintain the respective sovereignty of each country, and unilateral action against unfair trade practices should be subject to "judicial review." NAHM supports the maintenance of existing laws and regulations related to antidumping, countervailing duties, and other unfair trade practices by all three NAFTA countries.

Large unified economic trading blocs efficiently using all their assets in international trade are clearly what the future holds. In this new world environment, the united economies of North America will be significantly greater than any one of the three countries operating alone.

A NAFTA will help stimulate faster economic growth in Mexico. This will increase the Mexican demand for U.S. products. Expanding U.S. exports translate into increased jobs in the United States. It is estimated that each one billion dollars in U.S. exports creates over 22,000 U.S. jobs. That means more domestic consumers here in this country. The $12,000,000 increase in hosiery exports to Canada in the last four years has created over 260 new jobs in the U.S. hosiery industry. The U.S. currently enjoys a significant surplus in its balance of trade with Canada directly as a result of the free-trade agreement.

Overall, 254,000 new jobs have been created in the United States as a result of increased exports to Canada. These benefits will continue to grow as that agreement is fully implemented during the 90's. Similar opportunities exist with Mexico.

Mexico has made a commitment to free trade and joined the General Agreement on Tariffs and Trade (GATT) in 1986. In 1987, the U.S. and Mexico embarked on a framework of trade agreements to resolve a number of trade problems and open markets. Since then, U.S. exports to Mexico have grown dramatically.

Although concern has been voiced regarding the disparity in both wages and environmental laws in Mexico compared to the U.S., the situation in Mexico is changing rapidly. General manufacturing hourly wages in Mexico have gone up 257% (in pesos) in the last four years. In addition, Mexico passed a comprehensive environmental law in 1988. The standards set by this legislation are based, in large part, on U.S. law and experience. The U.S. Environmental Protection Agency (EPA) helped its Mexico counterpart agency during the drafting and implementing of this law, and the two agencies continue to work together.

Concerns have also been voiced regarding the potential relocation of U.S. companies to Mexico. However, there are other costs involved with manufacturing in Mexico that should be taken into consideration su: i as distance from the market, availability and transportation of raw materials, utilities, labor skills, and more. Producer prices in Mexico jumped 29% in 1990, 15% in 1989, and 37% in 1988. This is after 102 % and 166% increases in 1986 and 1987. The annualized increase through the first five months of 1991 is 24%. This far exceeds the 3-6% increases experience in the United States during these years. Although a few operations may move to Mexico for a variety of reasons, in all likelihood these firms would have moved to Mexico or other parts of the world regardless of an FTA.

The NAHM appreciates the opportunity to submit comments in support of the proposed NAFTA. If I may be of any further assistance, please feel free to contact me.

Very truly yours,

Chuck Brooks
Vice President and Secretary

STATEMENT OF THE NATIONAL CUSTOMS BROKERS AND FORWARDERS ASSOCIATION OF AMERICA

The National Customs Brokers and Forwarders Association of America (NCBFAA) is pleased to appear before the Subcommittee on Trade during your hearings on the North American Free Trade Agreement (NAFTA). NCBFAA represents licensed customs brokers and freight forwarders located throughout the U.S. I am Frank McCarthy, Vice President of J.M. Rodgers Co. in Sparta, New Jersey, and chairman of NCBFAA's Duty Drawback Committee.

Our association has long-supported the negotiations to reach a North American Free Trade Agreement. From the beginning, we have been enthusiastic about the prospects for this undertaking, recognizing the significance to all parties of a North American free trade area.

It is from this perspective—as a proponent of NAFTA—that we appear before you today to convey our grave concerns about one specific aspect of the agreement: the provision on duty drawback—a provision which, in its present form, will only serve to undermine the positive benefits to be derived for U.S. producers under the NAFTA. This provision calls for the elimination of duty drawback over time.

This is an issue which we discussed at length with U.S. negotiators for almost two years. Joining with us in an informal coalition were over 120 companies and associations, including major automotive manufacturers, the agricultural and con-

struction equipment manufacturers, chemical and plastic manufacturers and the American Association of Exporters and Importers and the International Trade Facilitation Council. Yet, our entreaties to U.S. negotiators fell on deaf ears, as they clung to abstract theories which ignore the real world impact of eliminating duty drawback.

It is important to understand the fundamental role which duty drawback plays for U.S. industries. It enhances U.S. competitiveness and stimulates jobs at a time when many of these industries are experiencing severe pressures on their already battered bottom-line.

What is duty drawback? Simply put, it is a 99% refund of certain customs duties paid on imported materials used to manufacture products that are later exported. For example, a U.S. manufacturer pays $10 in duty on an imported compressor that is used to manufacture a refrigerator. If the U.S. made refrigerator is then exported, $9.90 of the duty paid on the compressor is refunded to the manufacturer.

Drawback has strong historical roots in our country, with drawback first established by an act of Congress in 1789. Since that time, its purpose has been clear: it is designed to stimulate exports. With drawback, an exporter does not have to include in his price the duty paid on imported raw materials and components. By reducing U.S. producers' costs, duty drawback helps strengthen the competitive position of U.S. industry in international markets and, at the same time, improve the country's trade balance and increase domestic employment and investment. Drawback promotes exports and exports means jobs. In fact, according to the U.S. Commerce Department, for every $1 billion in exports, 19,700 U.S. jobs are supported.

This basic premise was overlooked, and the program sacrificed, in the complicated negotiations resulting in the U.S.-Canada Free Trade Agreement. Now, this mistake is about to be compounded and repeated in the NAFTA. Mr. Chairman, we urge your Committee not to allow this to happen. The drawback provision must be revised before the NAFTA is allowed to go into effect.

The NAFTA drawback text essentially provides the following (Article 303):

- Beginning in 1996, drawback on shipments between the U.S. and Canada will end. [This supersedes the U.S.-Canada FTA provision which eliminates drawback on shipments between the two countries beginning in 1994, unless the parties agree to extend it.]
- Beginning in 2001, drawback on shipments between the U.S. and Mexico will end.
- After drawback is eliminated, each NAFTA country will adopt a procedure for goods still subject to duties in the free trade area whereby a country may waive or refund the lesser of:

—duties owed or paid on imported, non-North American materials used in the production of a good subsequently exported to another NAFTA country; or
—duties paid to that NAFTA country on the importation of such good.

What this means for U.S. companies is an annual loss of over $350 million dollars in duty drawback resulting from exports to Canada and Mexico. And, since 90% of *this* loss in duty drawback is derived from U.S. exports to Canada, the majority of this loss would begin to occur in 1996, when drawback for U.S.-Canada trade will be eliminated, according to the NAFTA text.

Many of the industries that use duty drawback most intensively are already facing severe profitability pressures and losses in employment caused in large part from intense competition in international markets. In addition, they are experiencing massive and rapid structural changes resulting from this competition. In this environment, drawback remains an important contributor to U.S. industry profitability and competitiveness.

To illustrate the impact of eliminating duty drawback, the automotive industry offers a compelling example. The motor vehicle and equipment manufacturers' industry is a vital part of the economy, with one in about seven jobs in the U.S. tied to the motor vehicle industry and related industries. It is also a major consumer of U.S. basic and high-tech goods. Obviously, any downturn in the industry has important ramifications for the general economy.

By analyzing the actual financial performance of U.S. automobile manufacturers in recent years, we looked at what the financial outcome would have been if duty drawback refunds for exports to Canada had been eliminated—a loss which is roughly equivalent to an annual reduction in earnings of the Big Three automakers of $140 million. This becomes significant when considered in terms of overall profitability and other financial measures. Moreover, competition is so intense in the industry that every dollar of cost savings has an immediate and visible effect on the

bottom line. For the Big Three U.S. automakers, our review showed the following effects:

- *Profits:* Cumulative 1989–1992 profits for the Big Three are estimated to be $2.7 billion. In the context of this level of earnings, a $560 million loss of drawback over four years is quite significant. In effect, the elimination of duty drawback would have reduced Big Three earnings for the 1988–1992 period by over 20%. (See Figure 1.)
- *Capital Investment:* Deterioration in the financial condition of the domestic automakers is particularly troubling in light of the enormous levels of investment needed for maintaining competitiveness. Capital spending for the three automakers in 1990 alone was about $16 billion. Faced with continuing investment requirements of this magnitude, the Big Three auto companies are attempting to reduce costs on every front. In this light, the elimination of duty drawback should be viewed against competing uses of these funds. Consider, for example, the following:

—The investment costs to GM of developing the popular Seville model were $778 million. Cost recovery from duty drawback for the industry over a four year period would finance 72% of these costs.

—Chrysler spent approximately $700 million in the early 1980s to develop the highly successful minivan—the model responsible for a large part of Chrysler's current sales. In this case, duty drawback recovery for the industry over a four year period would finance 80% of the development costs.

Given the current and the prospective weakened outlook for the financial condition of the Big Three automakers, a cost increase of the relative magnitude created by elimination of duty drawback with Canada would materially weaken their competitive situation, causing added downward pressure on earnings and employment opportunities.

Other industries—including chemicals, pharmaceuticals, electronics, petrochemical, steel, textiles and others—will experience a similar impact if duty drawback is eliminated with Canada.

Yet, despite this immediate and significant loss to U.S. companies, the Administration ignored industry's call for a continuation of duty drawback in the NAFTA. They based this decision on abstract theories that have no basis in historic fact. For example, the Administration argues that the duty drawback program in a free trade context distorts international trade flows and will result in "export platforming" to the U.S. market.

While this argument has some superficial appeal in a theoretical model, the reality of North American trade is:

—Before the U.S.-Canada FTA, there were many duty free transactions between the two countries with duty drawback in place. In fact, approximately 80% of automotive trade between the U.S. and Canada has been duty-free since 1965 under the Automotive Products Trade Agreement (APTA). Approximately 50–60% of U.S.-Canadian trade is automotive related. To this point, no one has suggested that duty drawback has resulted in trade distortion or influenced plant location.

—Duty drawback is but a small factor in a complex international trade framework No company is going to choose their plant location because of duty drawback. The leading factors influencing plant location include comparative costs, wage rates, tax differentials or tax incentives, infrastructure factors and investment climate. Duty drawback is not a significant factor in this equation. The existence of duty drawback simply will not lead to export platforming. At the same time, however, the elimination of duty drawback will cost U.S. manufacturers hundreds of millions of dollars annually—a fact which is important to the profitability and competitiveness of U.S. industry.

—The concern that producers in non-NAFTA countries will invest in manufacturing facilities in Canada or Mexico to take advantage of the NAFTA could and should be addressed by the enactment and enforcement of stringent rules of origin. The Administration's obsession with elimination of duty drawback as the way to prevent "platforming" merely diverts attention away from the real means to avoid platforming in Mexico—the rules of origin.

We seriously question the logic of eliminating duty drawback at a time when U.S. industry needs all the competitive advantages it can get. Drawback programs are serving their intended purpose. They promote exports and therefore jobs within the U.S. These programs allow U.S. manufacturers to more effectively compete in foreign markets.

There is no evidence to support the notion that the presence of drawback is somehow inimical to free trade. A U.S. manufacturer who utilizes imported components which are later exported in a final product still has the added cost of the duty paid. The export of these products are still exports whether or not they are destined to a free trade country. Drawback's benefit to and encouragement of U.S. manufacturers in their effort to compete internationally remains unchanged in the context of NAFTA.

Duty drawback is a proven advantage for U.S. manufacturers. It stimulates their export activity and provides for increased employment. We urge you not to let the Administration sacrifice this important program now on the basis of some illusory and unfounded theory that is contradicted by good sense. Drawback is a benefit to U. S. exports and we urge Congress to insist that duty drawback be preserved in NAFTA.

Thank you for your consideration of our views.

STATEMENT OF THE NATIONAL GRAIN AND FEED ASSOCIATION

INTRODUCTION

The National Grain and Feed Association (NGFA) appreciates the opportunity to present its views on the proposed North American Free Trade Agreement (NAFTA). We commend you, Mr. Chairman, for your leadership on and support of the North American free trade concept, one that we strongly believe offers tremendous economic benefits to U.S. agriculture and the general U.S. economy.

The NGFA is the national nonprofit trade association of 1,200 grain, feed and processing firms comprising 5,000 facilities that store, handle, merchandise, mill, process and export more than two-thirds of all U.S. grains and oilseeds utilized in domestic and export markets. The NGFA also consists of 40 affiliated state and regional grain and feed associations whose members include more than 10,000 grain and feed companies nationwide.

Mr. Chairman, we believe that the proposed NAFTA is vitally important to the future economic growth of U.S. agriculture. As negotiations have progressed during the past year, we have fully supported the goal of a free trade area comprised of the United States and two of its largest trading partners, Canada and Mexico. Now that negotiations have been completed and we have reviewed the proposed agreement, we continue to strongly support it.

We applaud Mexican, Canadian, and U.S. negotiators for reaching an agreement that enhances market access for U.S. agricultural commodities, and takes the view that all parties to the agreement should continue work toward the elimination of market-distorting domestic supports and export subsidies through appropriate international bodies. We also believe the inclusion of sanitary and phytosanitary standards based on rigorous, objective scientific evidence is a necessary ingredient for a successful trade agreement. Upon development of necessary implementing legislation, we urge quick Congressional approval of the proposed NAFTA package under fast-track rules.

IMPACTS OF THE PROPOSED NAFTA AGREEMENT

Agricultural trade among the United States, Canada, and Mexico provides a clear example of the importance of trade to the economic well-being of all three countries. More than 90 percent of Mexico's agricultural exports are shipped to the United States, and nearly 80 percent of its agricultural imports originate in the United States. Similarly, Canada is the largest supplier of agricultural goods to the U.S. market, and 60 percent of Canada's agricultural imports are from the United States. Canada and Mexico are the third and fifth largest markets, respectively, for U.S. agricultural goods.

We are convinced that the symbiotic nature of free North American trade will become even more evident under NAFTA. Consumers in all three countries will benefit from increased efficiencies, and increased trade will lead to job creation and a higher standard of living.

The benefits of the proposed agreement in the grain and oilseed sector are clear. Some trade barriers, such as Mexico's current 15 percent seasonal tariff on grain sorghum imports from the United States, would be eliminated immediately. Other requirements, such as Mexico's import licensing system, would be converted to transitional tariff-rate quotas to be phased out over a period of 10 years. In general, all tariffs and tariff-rate quotas would be phased out over 10 years.

One notable exception in the grains sector is for corn. Duty-free access into Mexico of 2.5 million tons of U.S. corn would be allowed immediately. Mexican imports of

U.S. corn above 2.5 million tons would be subject to a tariff of about $206 per metric ton, to be phased out over 15 years. It is our understanding that the above-quota tariff could be waived by Mexico if additional U.S. corn imports are desired. While we would have preferred a higher initial duty-free access level and a shorter transition period for phasing out the tariff, we support the process of "tariffication" and the conversion of Mexican import restrictions to transparent, easily understood duties, with the ultimate goal of free and unrestricted trade in agricultural commodities.

The U.S. Department of Agriculture recently released a preliminary analysis of projected NAFTA impacts on specific U.S. commodity exports. As we expected, the analysis shows that the U.S. grains and oilseed sector would reap substantial benefits from the proposed agreement. For example, U.S. wheat exports to Mexico are projected to increase 40% over expected levels without a NAFTA. The USDA projections show that an additional $30 million in revenues would accrue to the U.S. wheat industry by the end of the transition period contained in the agreement.

Similarly, U.S. soybean exports to Mexico are expected to rise by approximately 20% by the end of the NAFTA transition period. Farm prices for soybeans are projected to rise by about 2% per bushel, and industry revenues are expected to increase by $400–500 million by the end of the transition.

Dramatic benefits under NAFTA would also be seen in the coarse grains sector. The USDA projects that NAFTA trade reforms, over the 15-year transition, would increase U.S. corn exports to Mexico to about 6 million tons, almost 50% above the level expected in the absence of NAFTA. Exports of U.S. sorghum to Mexico are expected to reach about 6 million tons within ten years, approximately 15% above projections without NAFTA. Other coarse grain exports are also expected to increase about 20% above non-NAFTA projections. In sum, the USDA predicts U.S. farm prices for corn about 5 cents higher, increased sorghum prices, and higher industry revenues of $400–450 million.

RESOLUTION OF PRIVATE COMMERCIAL DISPUTES

We are also very supportive, Mr. Chairman, of a provision in the proposed agreement that would establish an advisory committee to "work toward a system for resolving private commercial disputes that arise in connection with transactions in agricultural goods." The proposed text further states that, "The system of each party shall be designed to achieve prompt and effective resolution of such disputes . . ." Our association administers a 90-year old system of arbitration and trade rules for grain and feed that we think could serve as a model for dispute settlement, particularly in small to medium-size cases among private parties.

The NGFA's Trade Rules facilitate trade among all firms in the grain, feed, and processing industry. They are reviewed each year to ensure that they continue to be current and relevant. It is important to note that our rules are designed to reflect industry trade practices, not to create or establish them. Today, virtually every commercial grain transaction in the United States references the NGFA's Trade Rules, and they are increasingly utilized in cross-border trade between U.S. and Canadian firms.

When a dispute arises, it can be resolved through the NGFA's Arbitration System. Under this system, arbitration cases are prepared by the parties involved. Cases are considered by a panel of three impartial industry experts, whose decisions are based upon evidence submitted by the parties. Arbitration proceedings usually are conducted by mail, but either party may request an oral hearing, in which case it is automatically granted. In general, arbitration cases can be concluded within 130 days after filing of an initial complaint. Every award under the arbitration system is subsequently printed and distributed to our members.

A major benefit of the Arbitration System is that it negates the need for costly and time-consuming legal proceedings. We suspect, too, that many trade disputes have been settled before being submitted for arbitration because of the discipline imposed by publication of all Arbitration Decisions.

Mr. Chairman, we see a great need for the extension of a similar system of trade rules and arbitration under NAFTA. We met earlier this year with officials of the U.S. Trade Representative's office and the U.S. Department of Commerce to explain the NGFA's Trade Rules and Arbitration System. We want to take this opportunity to volunteer our time to work with the Administration and your committee to establish a framework in which private commercial disputes can be handled quickly, inexpensively, and fairly, thereby enhancing trade under NAFTA.

LONG-TERM BENEFITS OF FREE TRADE

We believe the proposed NAFTA text offers significant market opportunities to U.S. agriculture. Perhaps even more important, however, are the real, long-term benefits to agriculture of a truly market-oriented trading system worldwide. We strongly believe that the production, marketing, and transportation infrastructure of U.S. agriculture gives us a competitive advantage that should be utilized. In a world trading environment based on economics, rather than on trade-distorting subsidies, we think the U.S. would fare exceedingly well.

The proposed NAFTA is a large first step toward a free-trading agricultural world. It offers tremendous benefits to U.S. agriculture, and we strongly support it. However, we do not believe that NAFTA can serve as a substitute for what is really needed in agriculture—that is, a sound multilateral agreement to reform trade through the General Agreement on Tariffs and Trade (GATT). We would caution against anyone taking the view that a GATT agreement has become less urgent due to progress toward a NAFTA.

In both GATT and NAFTA, there clearly will be some adjustments in agricultural production and trade. We understand that some producer organizations will pose difficult questions about impacts on specific commodities. However, we encourage policy makers to take a longer term perspective in thinking about government policies toward agriculture. The proposed NAFTA and a potential GATT agreement both offer large net gains to the U.S. economy, particularly in agriculture.

RENEWED FOCUS ON DOMESTIC U.S. AGRICULTURAL POLICIES

Phasing out market access barriers will enable us to further develop markets in Mexico, beady the United States' fifth largest agricultural trading partner. However, it would be a mistake to assume that the enhanced market opportunities presented by free trade are the sole province of the United States, regardless of the policy approach we choose. The United States must produce and compete for expanded trade opportunities obtained through such negotiation to receive benefits.

In an increasingly competitive world agricultural trading environment, it is critical that we make the right policy decisions to enable U.S. agriculture to compete and grow. We believe that recent policy decisions limiting agricultural production and idling our infrastructure have resulted in lost export business. With the opportunities it presents, we think the NAFTA accord makes it imperative that the United States start now to review its own domestic farm policies and to discuss ways to reform those policies to ensure U.S. competitiveness in a growing world market. We need to prepare ourselves to aggressively produce and market agricultural products to take advantage of trade opportunities like NAFTA.

CONCLUSION

In conclusion, Mr. Chairman, the NGFA firmly believes that the proposed NAFTA would bring great economic benefit to U.S. agriculture and our entire economy. We urge its expeditious consideration by Congress and its approval under fast-track rules as soon as possible.

STATEMENT OF THE NATIONAL PEANUT GROWERS GROUP

Thank you Mr. Chairman for the opportunity to appear here today. I am James Earl Mobley and I am representing the National Peanut Growers Group, an organization I have served as Chairman for the past 13 years. The National Peanut Growers Group is composed of representatives of all of the peanut producing states and marketing cooperatives. As such, we speak for the entire producer sector of the peanut industry.

For the past six years peanut producers and, indeed all farmers, have faced the uncertainty of change due to the negotiations in international trade initiated in the Uruguay Round addressing trade in agricultural products. During negotiations initially in the GATT and more recently NAFTA, peanut producers have been told repeatedly that they were the "big losers." You can imagine the fear and frustration which six years of uncertainty can produce for individual producers who are trying to plan for the future of their operations and their families' well-being. To date, we do not feel that our concerns have been addressed in the context of the negotiations. We continue in good faith to present our concerns to this Committee and to our negotiators.

With the September 18 announcement by President Bush that he intends to ratify NAFTA, the concerns of the National Peanut Growers Group have become a reality.

We understand that since the initial announcement that through your efforts, with the assistance of Chairmen Hatcher and Stenholm, significant changes have been made relating to the treatment of peanuts in the NAFTA Agreement. For that effort Mr. Chairman, we are grateful. The peanut farmers of the nation thank you.

We continue to have significant concerns regarding NAFTA. We are shocked to see language in the agreement that could later dictate domestic support levels. Not once during the NAFTA negotiations did anyone suggest that such a provision would be included, or for that matter was even being considered. We strongly object to such a provision and urge that this: Committee advocate its removal from the agreement and provide language in: enabling legislation which would preclude any such intrusion into the recognized authority of the United States Congress.

Mr. Chairman, as the NAFTA negotiations approached their final stages, the National Peanut Growers Group sought in vain to secure from the USDA and USTR an analysis of the economic impact of the treaty on peanut producers and peanut producing regions. It was our contention that this data should have been a part of the negotiating process. Members of Congress made similar requests. Unfortunately, to our knowledge, no such analysis has been forthcoming.

Peanut producers have had access to the research of two agricultural economists working in the Agriculture Economics Department of the University of Georgia. Dr. Stanley M. Fletcher and Dr. Dale H. Carley have been tracking the GATT and NAFTA negotiations for the past several years. They have testified before this Committee on the Economic Impacts of the GATT, and are perhaps the most qualified authorities in the nation to speak on this subject.

Drs. Fletcher and Carley have provided us with a preliminary analysis of the effects of the NAFTA Agreement as it pertains to peanuts. Their analysis covers the effect of the elimination of Section 22 for peanuts, the tariffication and tariff reductions on "NAFTA grown peanuts" and the likely points at which Mexican peanuts would impact the domestic U.S. peanut production. This analysis assumes that Rules of origin can and will be enforced.

In their analysis, Drs. Fletcher and Carley project two likely scenarios. The first assumes a Mexican price of $600 per metric ton (based on current world prices for Argentine peanuts). Calculations of shelled peanuts (Table I: Support Loan Rate Minus World Import Price/Metric Ton), shows that by the second year of the agreement, Mexican imported peanuts would have a $16.87 per metric ton price advantage over U.S. quota peanuts marketed under the existing domestic support program. By the sixth year of the agreement, Mexican imports would have a $168 metric ton advantage. In this scenario, it becomes immediately obvious that U.S. peanut farmers would lose all practical protection which is currently afforded by Section 22 Import Quotas in only one year. Furthermore, the minimum access levels of peanuts allowed to enter domestic markets increases at significant levels over the fifteen year phase in of the peanut provisions in NAFTA.

Under a second scenario, the assumption is made that Mexican peanuts would be imported into the U.S. domestic market at the bench-mark price used in the Dunkel text in the GATT negotiations or, ($698.33 per metric ton, shelled basis). Under this scenario, U.S. farmers would enjoy a slightly longer time to adjust to the NAFTA treaty. Calculations of the shelled peanuts (Table II: Support Loan Rate Minus World Import Price/Metric Ton) illustrate that U.S. markets would be protected for four years before the reductions of the tariffication price levels became positive to Mexican exporters. In the fifth year Mexican peanuts would enjoy a $31.73 price advantage over U.S. domestic peanuts.

Mr. Chairman, either of these scenarios would severely damage the U.S. peanut program and would not allow U.S. peanut farmers or the domestic peanut industry time to adjust to the impact of imported peanuts. These scenarios contain no quantitative assumptions regarding the stimulus which entry to U.S. markets would have on Mexican producers, or the potential for U.S. producers to move their farming operations to Mexico. Only a cost of production analysis would allow us to make these projections. However, it is safe to project that the loss of Section 22, the tariffication of import quotas, and the rapid reduction of tariffs would adversely affect the conduct of the peanut program almost from the start of the agreement.

We are concerned that replacing import quotas with tariffs and giving up the protections of Section 22 for all agricultural products that U.S. negotiators have severely undermined this nation's position in the GATT negotiations. We also see as inconsistent the position taken to allow Canada to maintain import barriers on supply managed commodities in that nation.

We are concerned that establishing duty free import minimums which increase that NAFTA undermines the integrity of the domestic peanut program. Each imported ton displaces a domestic quota ton and the small American farmer loses. Additionally, the federal budget is placed in greater jeopardy.

We understand that the August 12 "handshake agreement" provided no assurances that peanuts of other origins could be imported into Mexico or Canada and transshipped into the United States as NAFTA peanuts However, we now understand that this Committee has addressed this point firmly with the Administration and with negotiators and that firm rules regarding peanuts from other origins are in place. However, our concerns continue and we ask that this Committee continue to work to assure that enforcement of these provisions is carefully spelled out in enabling legislation.

A committee of the National Peanut Growers Group has conducted an independent study of border procedures as they relate to foreign peanuts entering the United States under Section 22 import quotas [1.7 million pounds]. We would ask the Committee to review procedures and records of USDA-AMS, the Federal State Inspection Service, APHIS, Custom and FDA regarding their inspection and quality requirements on all peanuts and peanut products entering the United States under Section 22 import quotas. We would like to be assured that all peanuts entering this country be inspected for grade, and For phytotoxins, with the same degree of care as peanuts produced in the United States for domestic edible markets, and to be insured that this nation is capable of making these inspections at any point of entry. U.S. peanut producers and product manufacturers are subject to the strictest quality standards in the world, most of which are self-imposed to protect the interest of the citizens of this nation. As a result, U.S. consumers have a high degree of confidence in the peanut products they eat. Unsupervised, uninspected, or ungraded peanuts, peanut butter, peanut paste, or other products containing peanuts entering this nation can undermine this confidence rapidly, with devastating effects on the American peanut farmer and the domestic peanut industry. As a minimum requirement Mexican peanuts entering as a part of the NAFTA Agreement must meet minimum domestic standards.

We would prefer the term "Mexican Grown" to the term "NAFTA Grown." We produce the safest, highest quality peanuts in the world and are confident that we can compete with the small quantity and low quality Mexican: production. However, with the evidence presented by Drs. Fletcher and Carley, the damage to U.S. peanut production would come early in the program. The: term "Mexican Grown" as it applies to U.S. imports of peanuts and peanut products, would provide enforcement personnel the opportunity to work with known quantities of peanuts in both U.S. and Mexican crops.

We were encouraged by the answers provided in testimony last week by Ambassador Hills that U.S. additional peanuts would be subject to the legal sanctions provided under the Peanut Title of the Food, Agriculture, Conservation and Trade Act of 1990, if any attempt were made by either Canadian or Mexican processors to export peanuts or peanut products made from U.S. Additional peanuts to the United States. We would ask the Committee to monitor this closely, to make certain that this prohibition is included in enabling legislation and the enforcement provisions are provided to assure that the law can be enforced at the Canadian and Mexican borders.

In summary Mr. Chairman, I am sure the nation's peanut farmers would prefer to join with the supply managed commodities of Canada and be left out of the MAMA altogether. We see no benefit for us in the proposed agreement. However, assurances on the following statements provides us encouragement and we commend you on your contribution to obtaining these concessions and assurances.

1. For shelled or unshelled peanuts imported into the United States from Mexico or Canada under the NAFTA, the peanuts must be Mexican Grown.
2. For peanut products such as mixed nuts or candy, only Mexican peanuts may be utilized.
3. U.S. additional peanuts will continue to be subject to legal sanction and penalty under current law if they are re-imported into the United States.
4. Imports must be subject to the same standards as domestic edible peanuts and adequate inspection will be provided to assure American consumers a continuation of the high quality and safety of the domestic peanut supply.

We understand that members have requested that the Special Trade Representative a provide the Committee citations and explanations of how points one through three will be implemented and administered. Peanut producers would be grateful if these would be shared with us.

With these statements, we must observe Mr. Chairman, that currently there is no assurance that the NAFTA accords can be enforced. More importantly, there is no provision within the agreement to allow compensation for the American family farmer who will ultimately lose a portion of the domestic edible market, and there

is no relief from the continuing economic and social uncertainties and disruptions which continue to accrue to the ongoing trade talks.

Thank you Mr. Chairman.

Attachments.

Table 1. Estimated tariffication for shelled edible peanuts based on NAFTA and current world prices, United States, 1993/94 to 2007/08.

Marketing year	Tariff[a]	World import price[b]	Support loan rate[c]	Support loan rate minus world import price[d]	Import quota under no tariff
	($/mt)	($/mt)	($/ton)	($/mt)	(mt)
Base	803.00	1403.00	674.00	-57.31	3377.00
1993/94	782.93	1382.93	684.11	-20.35	3478.31
1994/95	762.85	1362.85	694.37	16.87	3582.66
1995/96	742.78	1342.78	704.79	54.34	3690.14
1996/97	722.70	1322.70	715.36	92.07	3800.84
1997/98	702.63	1302.63	726.09	130.07	3914.87
1998/99	682.55	1282.55	736.98	168.33	4032.31
1999/00	606.71	1206.71	748.04	262.63	4153.28
2000/01	530.87	1130.87	759.26	357.21	4277.88
2001/02	455.03	1055.03	770.64	452.07	4406.22
2002/03	379.19	979.19	782.20	547.22	4538.41
2003/04	303.36	903.36	793.94	642.65	4674.56
2004/05	227.52	827.52	805.85	738.38	4814.79
2005/06	151.68	751.68	817.93	834.41	4959.24
2006/07	75.84	675.84	830.20	930.74	5108.02
2007/08	0.00	600.00	842.66	1027.38	5261.26

a. Tariff based on NAFTA Tariff Schedule of 123.1% ad valorem or $803/mt for shelled peanuts.

b. World import price into the U.S. equals the tariff + world average price. World average price was set at $600/mt which is approximately the current price for Argentina 40/50's runners in Rotterdam.

c. The support loan rate is approximately $674/ton farmer stock basis. The loan rate is assumed to increase by an average of 1.5% annually. This average increase is based on historical increases.

d. The suport loan rate is converted to shelled basis based on methodology utilized by the U.S. International Trade Commission.

Table 2. Estimated tariffication for shelled edible peanuts based on NAFTA and the Dunkel Text of GATT, United States, 1993/94 to 2007/08.

Marketing year	Tariff[a]	World import price[b]	Support loan rate[c]	Support loan rate minus world import price[d]	Import quota under no tariff
	($/mt)	($/mt)	($/ton)	($/mt)	(mt)
Base	803.00	1501.33	674.00	-155.64	3377.00
1993/94	782.93	148'.26	684.11	-118.68	3478.31
1994/95	762.85	1461.18	694.37	-81.47	3582.66
1995/96	742.78	1441.11	704.79	-44.00	3690.14
1996/97	722.70	1421.03	715.36	-6.26	3800.84
1997/98	702.63	1400.96	726.09	31.73	3914.87
1998/99	682.55	1380.88	736.98	70.00	4032.31
1999/00	606.71	1305.04	748.04	164.30	4153.28
2000/01	530.87	1229.21	759.26	258.88	4277.88
2001/02	455.03	1153.37	770.64	353.74	4406.22
2002/03	379.19	1077.53	782.20	448.88	4538.41
2003/04	303.36	1001.69	793.94	544.32	4674.56
2004/05	227.52	925.85	805.85	640.05	4814.79
2005/06	151.68	850.01	817.93	736.08	4959.24
2006/07	75.84	774.17	830.20	832.41	5108.02
2007/08	0.00	698.33	842.66	929.04	5261.26

a. Tariff based on NAFTA Tariff Schedule of 123.1% ad valorem or $803/mt for shelled peanuts.

b. World import price into the U.S. equals the tariff + world average price. World average price was set at $698.33/mt which is the average price for Argentina and China 40/50's runners in Rotterdam for the marketing years 1986-1988 and used in the Dunkel Text of the GATT negotiations.

c. The support loan rate is approximately $674/ton farmer stock basis. The loan rate is assumed to increase by an average of 1.5% annually. This average increase is based on historical increases.

d. The support loan rate is converted to shelled basis based on methodology utilized by the U.S. International Trade Commission.

STATEMENT OF THE NON-FERROUS METALS PRODUCERS COMMITTEE

I. Introduction

This statement regarding the North American Free-Trade Agreement (NAFTA) is submitted by the Non-Ferrous Metals Producers Committee (NFMPC), which is an association of U.S. producers of primary copper and primary lead.[1] Primary metals are those produced from mined-ores, rather than from scrap

[1]The member companies of the NFMPC are: ASARCO Incorporated of New York, NY; The Doe Run Company of St. Louis, MO; and Magma Copper Company of Tucson, AZ.

materials. The NFMPC has consistently supported the negotiation of a NAFTA which achieves the goals of true free trade and recognizes the circumstances and interests of the U.S. non-ferrous metals mining and processing industry. The NAFTA text as submitted to Congress by the President satisfactorily achieves a number of objectives of the NFMPC, but it fails to deal successfully with the industry's needs in other areas. This statement provides the NFMPC's views on three areas of the negotiations that are particularly important to this industry: investment, phased elimination of tariffs, and disciplines on government subsidization practices.

II. Investment

The NFMPC is pleased that the investment provisions have achieved significant progress in removing important barriers to foreign investment in Mexico. The agreement appears to provide for national treatment and forbids the imposition of "performance requirements" on foreign investors. There are protection against expropriation and provisions affording appropriate compensation. A dispute resolution mechanism provides for binding investor-state arbitration or the remedies that are available in Mexican courts.

The NAFTA permits the Mexican Government to screen U.S. investment during a phase-in period. Unfortunately, however, the screening provision discriminates against investment in the mining sector by imposing more restrictive screening requirements on the mining sector than on other sectors during the phase-in period. In the mining sector, Mexico reserves the right to screen both "greenfield" investment and acquisitions for a period of five years after the NAFTA comes into force. After the five-year transition period, "greenfield" investment will be unrestricted and not subject to any screening. With the exception of uranium mining and processing which continues to be restricted, the mining and processing of all other minerals is open to U.S. investment.

In general, non-mining acquisitions are to be screened only if the asset value of the target exceeds a progressively-rising threshold. The threshold is $25 million for the first three years; $50 million for the next three years; $75 million for the next three years; and $150 million in year 10 and thereafter. The threshold levels will be indexed to inflation.

Mining industry acquisitions will still be screened regardless of size during the first five years of the NAFTA, just as mining investment in greenfield projects are to be screened. In year six, however, mining acquisitions will become subject to the same $50 million screening threshold then in effect for all other sectors. The threshold for mining acquisitions will subsequently proceed to increase on the same schedule as other investment areas.[2]

Although investment in the mining sector will ultimately be treated the same as investment elsewhere in the Mexican economy, it is unfortunate that the needless restrictions on mining investment will delay for five years the great potential benefits in national production and employment that U.S. investment in Mexican mining ventures could bring.

III. Phased Elimination of Tariffs

The NFMPC supports the goal of ultimate tariff elimination in primary non-ferrous metals. However, Mexican tariffs on these

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[2]/In most respects, investment in Canada will continue to be largely unrestricted for "greenfield" projects and subject to screening for acquisitions larger than the C$150 million level specified in the U.S.-Canada Free-Trade Agreement (CFTA).

products are in the range of 10 percent to 15 percent while U.S. tariffs are no higher than 4 percent. Therefore, the NFMPC proposed that the phase-down of both the U.S. and Mexican tariffs reach zero at the same time, particularly on key products such as continuous cast copper rod (CCR)[3]. For those products on which Mexico enjoyed duty-free GSP treatment and was to get immediate permanent reduction of the duty to zero, the NFMPC believes that the Mexican tariff on the counterpart product should likewise be reduced immediately to zero.

Unfortunately, however, essentially all of the Mexican tariffs on the relevant non-ferrous metal products are to be phased down over at least five years. The 15 percent Mexican duty on CCR will be phased down over 10 years. From the perspective of the U.S. non-ferrous metals industry, the U.S. industry's tariffs have been negotiated away permanently with no commensurate benefit to the U.S. industry received from Mexico.[4]

IV. Discipline on Government Subsidization Practices

The NFMPC is deeply concerned that the NAFTA fails to address the need to achieve effective disciplines on government subsidization by Canada and Mexico. An extremely contentious part of the U.S.-Canada Free-Trade Agreement (CFTA) negotiations was the creation of a U.S.-Canadian Binational Panel to replace judicial review of antidumping and countervailing duty final determinations in spite of the fact that no agreement had been reached on a mechanism to establish real discipline on Canadian federal and provincial government subsidy programs. As an interim measure, the CFTA created a Subsidies Working Group whose mission included the effort to "seek to develop more effective rules and disciplines concerning the use of government subsidies" and to "seek to develop a substitute system of rules for dealing with unfair pricing and government subsidization." (Article 1907)

An additional important interim measure was the Baucus/Danforth Amendment which became Section 409(b) in the CFTA implementing legislation. It provided a means for U.S. industry to prevent the possible acceleration of the tariff elimination phase-down for their products so long as they were able to demonstrate that they faced the prospect of (1) increased imports of subsidized Canadian goods and (2) deterioration in their competitive position before the mission of the Working Group was completed.

After significant delays in getting the Working Group underway, its activities were suspended pending the completion of the Uruguay Round Subsidies Negotiations in the GATT. It was understood that the multilateral GATT negotiations would form the general framework of GATT disciplines on subsidies and that the CFTA Working Group would build on the new GATT rules to achieve the higher level of bilateral disciplines that would be consistent with countries joined in a free-trade area. So important was this goal of enhanced bilateral trade disciplines that the CFTA permitted either the United States or Canada to terminate the whole CFTA if the negotiations failed to reach a satisfactory subsidies agreement. (Article 1906)

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[3]/HTS 7408.11.60

[4]/The NFMPC is an active participant in, and supporter of, the U.S. "Zero-for-Zero" tariff initiative for non-ferrous metal products in the Uruguay Round tariff negotiations. As it is uncertain whether that negotiation will ever achieve the goal of multilateral duty elimination for these products, the U.S. duties on these products should be recognized and treated as valuable negotiating assets which should not be given away lightly in bilateral negotiations.

It is unfortunate that the NAFTA not only fails to pursue a similar goal with the Mexican Government, it also abandons entirely this effort with respect to Canadian subsidization. There appears to be a policy decision that the only subsidy disciplines worth pursing are those sought in the currently-deadlocked GATT negotiations. While the minimalist disciplines being pursued in the 108-nation GATT negotiations are worthy of being sought, the basic disciplinary framework of the so-called Dunkel Text is far from adequate to ensure that market forces are truly free of subsidy distortions within a free-trade area such as the NAFTA.[5] This is particularly true with respect to so-called "domestic subsidies."

Federal government subsidization has been referred to as the "glue" that binds the Canadian provinces and territories together within its federal system. There is tremendous economic and political pressure within Canada to continue the use of such subsidies.[6] Within the institutional framework set up by the NAFTA, there appears to be little prospect of significantly discouraging the continuation of Canadian subsidization practices.[7]

The NAFTA does set up a trilateral Working Group on Trade and Competition to make recommendations on "relevant issues concerning the relationship between competition laws and trade in the free trade area." (Article 2604) However, it is unclear what such a committee's true role would be or whether it would even pursue subsidy discipline as a goal. The design of this committee appears to reflect a major reduction in the priority that the U.S. Government places on the elimination of the distortions arising in North American trade due to government subsidization practices.

5/The NFMPC strongly endorses the progress achieved so far in the Uruguay Round's subsidy negotiations with respect to disciplines on government subsidies on exports to a third country market. Although various significant problems remain to be resolved in the Dunkel subsidies text, the text appears to contain provisions which would address the economic disruption endured by the U.S. industry that results from foreign countries subsidizing the production and export of non-ferrous metal commodity products, such as primary copper and lead to third country markets. An additional uncertainty regarding these Dunkel text subsidy disciplines, however, is that they can only be effective if the GATT's current dispute settlement mechanism is revised to prevent the subsidizing country from blocking the imposition of remedial measures.

6/One area of potential growth in Canadian Government subsidization that is particularly of concern to the U.S. non-ferrous metals industry is environmental compliance. As environmental regulations become increasingly stringent in both Canada and the United States, there can be considerable commercial advantage for a firm that can get its government to shoulder part of the compliance cost. The Canadian federal and provincial governments appear to be quite willing to provide such assistance. For example, the Canadian Federal Government and Manitoba Provincial Government are providing C$80 million for pollution control investments to Hudson Bay Mining and Smelting Company, a significant producer of copper and zinc. The aid is being provided explicitly because the firm cannot raise the funds from commercial sources.

7/In the NAFTA, the only vestige of the CFTA Working Group's explicit goal of enhanced subsidy discipline is a vague agreement "to consult on . . . the potential to develop" more effective rules and disciplines. (NAFTA Article 1907)

The U.S. implementing legislation should contain provisions that remedy this problem and refocus attention on subsidy discipline as a high priority concern. In addition, Congress should ensure that the Baucus\Danforth amendment -- Section 409 (b) -- to the CFTA implementing legislation is not eliminated in the implementation of the NAFTA. That provision provides a useful counter-measure to continued Canadian Government subsidization of its non-ferrous metals industry.

IV. Conclusion

The NAFTA contains a number of provisions which will be very beneficial to the U.S. non-ferrous metals industry. However the provisions on investment and the phased elimination of Mexican tariffs include measures which unnecessarily limit and delay the realization of the full potential benefits of the NAFTA for both the United States and Mexico. Furthermore, the absence of a meaningful provision addressing government subsidization is a major disappointment for the NFMPC. The NFMPC urges Congress to consider measures in the NAFTA implementing legislation which meaningfully address the issue of government subsidies and prevent the dismantling of the few useful instruments created in connection with the CFTA which are directed to the worthy goal of disciplining government subsidy practices.

STATEMENT OF DAVID J. STEINBERG

Dedicated as I have been for over 25 years to advocacy of a definitive free-trade strategy worthy of the name, I have considerable reservations about the North American Free Trade Agreement (NAFTA) which the United States has just negotiated with Mexico and Canada. My reasons concern (1) foreign policy and (2) domestic preparedness.

1. Foreign Policy

Instead of designing a fully multilateral free-trade strategy as the next step (following the Uruguay Round) in the long, arduous quest for an open world economy (free trade with as many countries as care to participate), the U.S. administration has opted for the prevailing haute couture in trade-policy planning around the world. Regional trade blocs are in high fashion. The United States wants one too -- one that extends the existing U.S.-Canada free-trade pact to Mexico, encompassing all of Latin America some day, no one can say when. Besides delaying the fully multilateral free-trade initiative whose time has come, efforts to implement and perfect the North American agreement will (a) delay efforts to provide greatly needed equal access to the North American market for the world's less-developed countries (doing so one or one group at a time over a period of years will not suffice), and (b) lessen U.S. leverage in the efforts that must be made to wean the European Community and other regional blocs from protectionist practices costly to American exporters. That is, it will lessen this leverage until such time as the costs of dividing the world trading system into regional blocs are found to be too high and a global free-trade compact is deemed a necessary remedy.

NAFTA's inherent discrimination against imports from other countries will be costly to many nonmember nations (many of them poor countries, many in Latin America) in whose economic development and political stability the U.S. has a substantial stake. Still without a strategy to negotiate away the costly discrimination U.S. exporters face in other regional blocs (and will continue to face after the

Uruguay Round is at long last concluded), the U.S. should be especially sensitive to the costs of trade discrimination other countries will encounter in the NAFTA market and to the urgency of eradicating such disadvantages as quickly as possible.

2. Domestic Preparedness

Although thousands of American jobs will be created in response to the new market opportunities NAFTA will stimulate, the U.S. administration has failed to adopt domestic-adjustment policies calculated to minimize whatever job and community dislocation NAFTA implementation may engender. U.S. policy is already negligent in its response to job and community dislocation resulting from freer trade in general and production shifts to Mexico in particular, shifts certain to continue without the free-trade agreement and certain to increase if NAFTA takes effect.

In short, rushing headlong into negotiation of a North American free-trade agreement in the absence of a fully multilateral framework crossing hemispheric lines is flawed foreign policy. And doing so without a coherent, credible domestic adjustment strategy to backstop it lessens the economic merit of such a trade initiative for the American people, and impairs its domestic political viability as well.

Since the U.S. government has invested so much foreign-policy capital in NAFTA, every effort should be exerted to make it fully responsive to the total national interest. Assurance of adequate safeguards concerning labor standards, environmental controls, and other issues of national concern will not be enough. Congressional approval of the pact should also be conditioned on a commitment by the president of the United States (a) to a domestic-economic strategy ensuring that NAFTA will benefit, not only the nation as a whole, but every state in the Union, and (b) to a foreign-economic strategy projecting a global free-and-fair-trade initiative (with appropriate treatment of poor countries subscribing to certain trade-policy standards), backstopped by a domestic-adjustment strategy suitable for so far-reaching a trade initiative. Today a trade initiative of this scope lacks domestic economic and political viability. The U.S. cannot afford to be so poorly prepared for a trade-policy initiative that ought to be a high U.S. priority for the "new world order" in which we claim a leadership role.

More than the U.S. administration is at fault on the foreign-policy and domestic-policy issues I have identified. Most self-styled "free traders" in this country are also at fault -- (a) in failing to stress the fully multilateral dimensions of the free-trade policy the U.S. should be programming, and (b) in failing to address the backstop domestic strategy needed for the economic and political viability of even a truncated free-trade initiative like the North American Free Trade Agreement. Their predictions of "on balance" and "long run" benefits to the American economy are not the kinds of assurances with which the American people should be satisfied.

When a quarter century ago I escalated my advocacy of progressively freer and fairer international trade to outspoken advocacy of a definitive free-trade strategy, my visionary venture was met with consternation -- with derision as unrealistic -- by nearly all the self-styled "free traders" aware of the idealistic course on which I had embarked. I am still waiting for those skeptics to join me on this new frontier.

Addendum

After the typing of this statement, President Bush announced (in his September 10 speech to the Economic Club of Detroit) that his 'agenda for American renewal" (as he called it) includes "a strategic network of free trade agreements around the world." He explicitly proposed free-trade pacts "with Latin America; with Poland, Hungary and Czechoslovakia; and with countries across the Pacific." This hodgepodge does not measure up to the coherent, comprehensive, fully multilateral free-trade initiative I have advocated (nor does any trade-policy from the Clinton campaign or anywhere on Capitol Hill). There is no suggested timetable for the grab-bag of agreements he envisages, no definition of "countries across the Pacific" (does this include Japan, as my proposal does?), and (as in the NAFTA initiative) no strategy of domestic-policy preparedness relating to and essential to the economic and political viability of such ventures, not only in the nation as a whole but every state in the Union.

It should be noted, incidentally, that so-called "free trade" agreements as envisaged by the U.S. administration (as in the case of NAFTA) are laced with many exceptions in their coverage of products and practices and hence do not project totally free and totally fair trade even after a long transition period.

Statement of the Sweetener Users Association

The Sweetener Users Association represents U.S. food and beverage manufacturers who are industrial users of sugar and other sweeteners, and the trade associations representing such companies. We support the sweetener and sweetened-product provisions that have emerged from the North American Free Trade Agreement (NAFTA) negotiations. While we have stated our preference for addressing these issues in a multilateral framework, the NAFTA Agreement will, following the transition period, eliminate tariff and nontariff barriers on these products between the United States and Mexico.

We believe that the elimination of trade barriers and distortive internal subsidies through bilateral, regional and/or multilateral agreements is in the interest of efficient U.S. producers, consumers, and manufacturers. Our industries are competitive and will grow and prosper in an economy less hindered by restrictions on trade.

The NAFTA represents significant trade opportunities for the U.S. sweetener industry because Mexico is a large and growing market for sweetened food and beverage products. Population growth is 2.3 percent annually, more than double the rate in the United States. Thus, while Mexico has a smaller population than the United States (90 million vs. 250 million), the absolute increase each year is almost the same in the two countries. With incomes also rising, Mexican consumers represent a major growth market for U.S. produced foods and beverages.

The goal of achieving a comprehensive agreement that eliminates virtually all of the remaining trade and investment barriers between the United States and Mexico has been satisfied by this Agreement. In agriculture, there appears to be no exceptions to the general principle that, following a transition period, all tariff and nontariff barriers will be eliminated. Therefore, we believe that the Agreement for sugar and sweeteners is worthy of our support.

Negotiating Criteria

The Sweetener Users Association set forth the following negotiating criteria for assessing the sugar provisions of the NAFTA:

- The elimination of all tariff and nontariff barriers on sweeteners and sweetened products traded between the United States and Mexico, allowing for a reasonable transition period.
- The avoidance of conditions that may result in displacement of the consumption of sugar and other sweeteners originating in the United States and Mexico by sugar and other sweeteners imported from non-parties.
- The retention of the U.S. sugar and sugar-containing product reexport program with respect to Mexico; and

- The establishment of an effective consultative and dispute-settlement mechanism.

SPECIFIC RECOMMENDATIONS

During the consultative process before the conclusion of the NAFTA negotiations, we made several specific recommendations to our trade negotiators regarding the sweetener and sweetened-product provisions:

- *Sugar should be included in the comprehensive trade agreement*

Sugar has been included in the final NAFTA Agreement. The second-tier duty on imported sugar will be eliminated after 15 years. It is appropriate that sugar has been given an adjustment period.

- *During the transition period, Mexico should become a net exporter of sugar before gaining increased access to the U.S. market in the first tier*

This criteria has been incorporated in the final NAFTA Agreement. This provides the needed safeguard against Mexico exporting its sugar to the United States and replacing it with third-country imports.

- *The refined sugar reexport program should remain intact.*

The final NAFTA Agreement provides for the retention of this program. This is appropriate because Mexico does not have sufficient refining capacity and the program enables U.S. cane sugar refiners to maintain their refining capacity.

- *The sugar-containing product reexport program should remain intact.*

This program will remain intact for seven years following the implementation of the Agreement. This program is important to manufacturers of sweetened products while the price for U.S. sugar is selling at a premium to world-priced sugar. Although the program will be eliminated after seven years, it will remain intact during seven of the ten years in which Mexican duties on imports of U.S. sugar containing products are being phased out.

- *Sugar-containing product duties should be eliminated.*

The final NAFTA Agreement provides for the elimination of all sugar-containing product duties following a 10-year phaseout period. We support the elimination of these duties.

- *Mexico should adopt third-country border measures similar to the United States by Year 7.*

The final NAFTA Agreement provides that Mexico shall implement a tariff quota to be applied on a Most-Favored-Nation basis for sugar with tariff rates equal to those of the United States no later than six years after the implementation of the Agreement. This is an appropriate means of protecting the U.S. market from third-country sugar, either by way of transshipment or displacement.

- *Mexico should convert its sugar barriers to a dollar-based tariff rate quota equivalent to that of the United States and reductions should mirror the schedule of reduction to the U.S. duties*

We understand that Mexico currently uses a dollar-based tariff system. This is essential to ensure harmonized import regimes and it should negate exchange rate differentials.

- *The United States and Mexico should conduct annual joint consultations.*

The final NAFTA Agreement provides that Mexico and the United States consult by July 1 of each year of the sugar transition period. It also provides that, in the event that Mexico and the United States cannot reach a joint determination through such consultation, either party may request dispute resolution in accordance with the Agreement. We support this because the sugar provisions must be based upon accurate, reliable and agreed-to data. In the event that there is disagreement, there must be an effective dispute settlement mechanism.

- *The long-term goal of achieving the elimination of trade barriers to sweeteners and sugar-containing products between Mexico and the United States should be achieved through this Agreement.*

The final NAFTA Agreement has achieved this long-term goal. The NAFTA sugar provisions should be used as a model for the ongoing GATT negotiations and for any possible accession agreements to the NAFTA. We believe it is imperative that the Uruguay Round be brought to a successful conclusion and that the GATT process

continue so that the ultimate goal of eliminating agricultural trade barriers and subsidies can be achieved on a global basis.

SUMMARY

The overall mandate for a North American Free Trade Agreement to reach a comprehensive agreement eliminating, to the extent possible, all remaining tariff and nontariff barriers between the United States and Mexico appears to have been achieved. We strongly support the sweetener and sweetener-containing product portions of the Agreement because most, if not all, of our negotiating criteria and specific recommendations have been met in the final NAFTA Agreement. Thank you for the opportunity to present our views on this most vital issue.

STATEMENT OF VISTA CHEMICAL CO.

Vista Chemical Company, located in Houston, Texas, is a major U.S. producer of commodity and specialty chemicals. Vista produces a number of surfactants which are used in household and industrial cleaning products.

Vista is a strong supporter of the NAFTA. We recognize the tremendous opportunities which the agreement will create for U.S. companies and are enthusiastic about these possibilities.

At the same time, however, we know that it is critical to the success of NAFTA that there be strong rules-of-origin in place. This is the only way to ensure that the benefits of North American free trade will accrue to the three NAFTA countries and that Mexico or Canada will not become a platform for duty-free exports into the U.S. from non-NAFTA countries.

During the NAFTA negotiations, Vista communicated with U.S. negotiators to alert them to a serious problem that had arisen when the U.S.-Canada FTA rules-of-origin were implemented. The issue involves linear alkylbenzene (LAB)—a surface active agent used in household and commercial detergents and other cleaning products. LAB is a highly import sensitive product, with margins in the industry significantly below the level necessary for reinvestment.

Under the FTA rules of origin, there is a very real potential for transshipment of LAB through Canada, since a very easy and inexpensive sulfonation process will qualify it as a North American product. Specifically, the situation with regard to LAB is this:

> LAB is classified under HTS 3817.10.10 with a U.S. duty of 17.3% + 1.1¢/kg. Canada does not have an external tariff on LAB. There has not been any Canadian production of LAB. In light of this wide disparity between the Canadian and U.S. tariffs for LAB, it is critical that the rules-of-origin are written so that the U.S. LAB tariff cannot be circumvented by a mere tariff shift without sufficient value added.
>
> Nearly all of LAB (more than 98%) is ultimately converted to linear alkylbenzene sulfonic acid/sulfonate (LAS)—classified under HTS 3402.11.10 with a U.S. duty of 7.2%. LAB can be converted to LAS by means of a very simple and inexpensive sulfonation process.
>
> Under the U.S.-Canada rules of origin, LAB imported into Canada duty-free from a third country can undergo a simple and inexpensive sulfonation process, which converts the LAB to linear alkylbenzene sulfonic acid (LAS) [a product classified under HS 3402.11.10 with a U.S. duty of 7.2%]. The LAS can then be exported to the U.S. duty-free under the U.S.-Canada Free Trade Agreement as a North American product (See Attachment One, the rules-of-origin for chemical products). This can occur even though the value added to the LAB in Canada is only about 15%.

- Since all of LAB is ultimately converted to LAS before it can be used to manufacture detergents or other cleaning products, this permissible tariff shift presents a very real and very serious threat to the U.S. LAB industry.

We explained this problem to U.S. negotiators, emphasizing how important it is to correct this unintended result in the NAFTA negotiations. However, not only was this defect not corrected, it now has been duplicated in the rules-of-origin which will apply to U.S.-Mexican trade. We were told by U.S. negotiators that there would be a post-NAFTA review of the chemical tariffs, where problems such as these would be resolved. (See Attachment Two.) We find such a promise to be less than reassuring—particularly when there is no reference to such a post-NAFTA review anywhere in the text. Clearly, the NAFTA negotiations were the proper forum for addressing

such issues. For negotiators to allow such a damaging tariff shift to continue and, even be expanded to another country, is very disappointing.

We hope Congress will look carefully at the rules-of-origin and endeavor to correct any obvious defects which would undermine the beneficial impact of the NAFTA.

[ATTACHMENT ONE]

2. A change to headings 2710-2715 from any other heading outside that group.

3. A change to heading 2716 from any other heading.

Section VI
Products of the Chemical or Allied Industries
(Ch. 28-38)

1. A change to Chapters 28-38 from any chapter outside that group.

2. A change to any subheading of Chapters 28-38 from any other subheading within those chapters; provided, except for the other rules in this section, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

3. A change to a heading of Chapter 30 from any other heading, including other headings within that chapter, except a change to heading 3004 from heading 3003.

4. A change to Chapter 31 from any other chapter.

5. A change to headings 3208-3215 from any other heading outside that group.

6. A change to Chapter 33 from any other chapter.

7. A change to headings 3304-3307 from any heading outside that group.

8. A change to a heading of Chapter 34 from any other heading, including another heading within that chapter.

9. A change to subheadings 3402.20-3402.90 from any other subheading outside that group.

10. A change to a heading of Chapter 35 from any other heading, including another heading within that chapter.

11. A change to a heading of Chapter 36 from any other heading, including another heading within that chapter.

12. A change to Chapter 37 from any other chapter.

13. A change to heading 3704 from any other heading.

14. A change to headings 3705-3706 from any other heading outside that group.

15. A change to heading 3808 from any other heading; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party, or, in the case of goods which contain more than one active ingredient, not less than 70 percent of the value of the goods when exported to the territory of the other Party. Any materials that are eligible for duty-free treatment in both Parties on a most-favoured-nation basis, or any materials imported into the territory of either Party which, if imported into the territory of the United States of America, would be free of duty under a trade agreement that is not subject to a competitive need limitation, shall be treated as materials originating in the territory of a Party.

Section VII
Plastics and Articles Thereof; Rubber and Articles Thereof (Ch. 39-40)

1. A change to any heading of Chapter 39 from any other heading, including another heading within that chapter; provided, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50 percent of the value of the goods when exported to the territory of the other Party.

2. A change to Chapter 40 from any other chapter.

3. A change to any heading of Chapter 40 from any other heading within that chapter; provided, except for the rules below listed in this section, that the value of materials originating in the territory of either Party or both Parties plus the direct cost of processing performed in the territory of either Party or both Parties constitute not less than 50

ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON

June 15, 1992

Attachment Two

The Honorable Bill Archer
U.S. House of Representatives
Washington, DC 20515-4307

Dear Mr. Archer:

Thank you for your recent letter to Deputy Assistant Secretary John Simpson regarding the NAFTA rules of origin and linear alkylbenzene.

U.S. negotiators have taken the position that the simple and inexpensive sulfonation process converting linear alkylbenzene (HS 3817.10) into linear alkylbenzene sulfonic acid (HS 3402.11.10) should not confer eligibility for the preferential NAFTA tariff. The other parties however, have not agreed, but we shall continue to press for this position.

Acting upon the counsel of chemical industry advisors and their trade associations, negotiators from all the parties have agreed to revisit the entire chemical chapter after completion of the negotiations and implementation of the agreement. Should we be unable to secure an agreement to our position in the NAFTA, we shall make it one of our top priorities in the revision process.

Sincerely,

(Signed)

Mary C. Sophos
Assistant Secretary
(Legislative Affairs)

STATEMENT OF THE VIRGIN ISLANDS RUM INDUSTRIES, LTD.

Mr. Chairman and Members of the Committee: I would like to thank you for the opportunity to submit this statement concerning the proposed North American Free Trade Agreement ("NAFTA"). My name is Jay R. Kraemer, and I am a partner in the law firm of Fried, Frank, Harris, Shriver & Jacobson. I am submitting this statement on behalf of our client, Virgin Islands Rum Industries, Ltd. ("VIRIL"), a corporation organized in the U.S. Virgin Islands. VIRIL owns and operates a rum distillery on the island of St. Croix the competitive viability of which is inextricably tied up in how rum is treated under the NAFTA.

SUMMARY

In response to petitions in 1987 and 1990 to designate rum products from the Republic of the Philippines and Colombia, respectively, as eligible for duty- free treatment under the Generalized System of Preferences ("GSP") program, VIRIL has previously argued that rum must be considered "import-sensitive" and therefore, inappropriate for duty-free treatment.[1] In opposing these petitions, VIRIL specifically noted that the principal beneficiaries of duty-free treatment for rum imports from GSP beneficiary countries would be Mexico and Brazil, the two countries which, because of their large domestic supplies of sugar cane molasses and other cost advantages, were in the best position to exploit duty-free entry to make substantial penetration of the U.S. rum market. For these same reasons, Mexican rum constitutes a major threat to the economic viability of rum producers of United States flag territories. The U.S. rum market ceased expanding several years ago, and is now in decline. Suppliers currently in the market are experiencing significant excess capacity.

Reduction of the present 37 cents per proof liter duty (approximately 30 cents per 1-liter bottle) on Mexican rum products is likely to result in substantial Mexican penetration into the U.S. rum market. Such penetration, even in the absence of price competition, would have a very serious impact on American-flag rum manufacturers. Coupled with the distress already caused by the present decline in U.S. rum consumption and increasing foreign low-priced bulk rum imports under the Caribbean Basin Economic Recovery Act, it would result in increased unemployment, further reduced capacity utilization, severe pressures on profitability, and perhaps even cause some domestic producers to abandon their distilling operations altogether.

INTEREST OF VIRIL

VIRIL manufactures some 85–90% of all rum produced in the U.S. Virgin Islands which is sold to U.S. bottlers and distributors. VIRIL's Cruzan and Old St. Croix brand rums are aged in the Virgin Islands and shipped in bulk to the United States, where they are sold as middle-priced rums. VIRIL sells its remaining aged and unaged bulk rum products to regional distributors in the United States who bottle rum under their private labels (or that of retailers), or to national beverage companies who sell it under their nationally-marketed labels or combine the rum in their own prepared cocktail brands. The U.S. market accounts for about 90% of VIRIL's sales. VIRIL supplies approximately 8–10% of the U.S. rum market. Its products are priced in the middle and, to a greater extent, the lower portions of the market.

FACTUAL BACKGROUND

Rum is distilled from molasses, a sugar cane by-product. The largest single cost factor in the production of rum is molasses, followed by the cost of the fuel used to heat the fermented molasses mash in the distillation process. Before being bottled for sale to the ultimate customer, most rum is first aged in oak barrels for some period of time (or blended with aged rum), depending on the grade of rum to be marketed for final consumption. The aging of rum results in aged rum both costing more to produce and commanding higher prices than unaged molasses distillate, VIRIL's principal product today.

Successful marketing of rum is heavily dependent on three factors: recognition of the final product's brand name, the existence of a very extensive, well developed network of distributors, and relative price. Because of the costs required to develop distributor and marketing networks in the U.S. (and the uncertainty of success in such marketing efforts), as well as higher shipping costs for transporting bottled rum long distances to the market, rum producers without their own established

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[1] GSP treatment for rum products was withheld in each instance. While no reason was stated for that result, the applicable statutes strongly suggest that rum was found to be import-sensitive. See 19 U.S.C. §§2463(c)(1)(G), 2461(3). More recently, VIRIL raised similar arguments in successfully opposing duty-free treatment for rum under the Andean Trade Preference Act.

brand name(s) often prefer to sell bulk rum to firms in the continental U.S., who then age and bottle the rum for distribution at the wholesale level.

The U.S. rum market is currently dominated by producers located in Puerto Rico. The largest U.S. market supplier is Bacardi (Puerto Rico), which sells more than 60% of the rum consumed in the U.S., under the brand names of Bacardi and the lower-priced Ron Castillo. Bacardi, together with VIRIL (Virgin Islands), Jim Beam (Ronrico—Puerto Rico), Destileria Serallas (Don Q—Puerto Rico), and Brugal (Virgin Islands) account for the manufacture of some 85–90% of the rum sold in the United States. Perhaps an additional 5% is supplied by other U.S. producers, principally in Florida. The remainder—approaching 10% in 1991—is imported, principally from Jamaica, Barbados and other Caribbean countries. See USITC Pub. No. 2522, June 1992. Relatively little rum is imported from countries, including Mexico, outside the Caribbean.

Historically, rum has been considered too import-sensitive to withstand duty-free treatment for imports, a point implicitly recognized in 1987 and 1990 when the USTR denied the petitions of the Republic of the Philippines and Colombia seeking GSP treatment for rum and reiterated as recently as last year when the Congress declined to include rum in the duty-free treatment granted under the Andean Trade Preference Act ("ATPA"). See Pub. L. 102–182, Title II, §204(b)(8).

Until the early 1980's, all foreign-produced rum was subject to a substantial U.S. customs duty. In 1983, however, in response to the President's Caribbean Basin Initiative ("CBI") Congress enacted the Caribbean Basin Economic Recovery Act ("CBERA"), which created a broad system of duty-free preferences for most products (including rum) originating from Caribbean countries. Pub. L. 98–67. Congress affirmed the sensitivity of rum to imports by enacting, as part of the CBERA, several measures specifically designed to protect Puerto Rico, the Virgin Islands and their rum producers. Pub. L. 98–67, §214, 97 Stat. 384, 19 U.S.C. §§3012, 2251 (note), 2703 (note), 33 U.S.C. 1311 (note). The CBERA conferees also required that the ITC prepare an annual report for the Senate Finance Committee specifically to monitor the economic effects of the CBI on the U.S. rum industry.

RUM IS NOT AN APPROPRIATE PRODUCT FOR NEAR-TERM DUTY REDUCTION UNDER THE NAFTA

1. The Depressed State of the Current Market

For the past several years, the U.S. rum industry has experienced stagnation which has now evolved into a serious decline. Consumption is down from the mid-1980's. Capacity utilization is also down. The factors explaining these trends are all long-term in nature. In addition, recent statistics show a dramatic increase in bulk rum imports from Barbados, indicating that previously voiced concerns regarding the effect of CBERA to diminish the market shares of Virgin Islands rum producers for lower priced rums were well-founded.

The current downtrend in rum consumption in the U.S. can be understood only in the context of the growth in the rum market in the fifteen years preceding the industry turnaround of the late 1980's. Retail consumption nearly tripled from 1971 to 1979. Consumer demand stabilized, however, in the early 1980's, peaking in the period 1982–1984 at a three-year average level of 14.6 million 9 liter cases. Consumption dropped slightly in 1985; then, in 1986, U.S. rum consumption suffered a substantial decline of 7.2%. Since then, U.S. rum consumption has continued its downward drift. In 1991, it fell 9.8% from the previous year, to just 12.3 million 9 liter cases. *See Jobson's Liquor Handbook 1992* p.103. Rum consumption levels for 1991 were less than any year since 1978, notwithstanding a significant growth in the U.S. adult population in the intervening 13-year period. Industry analysts now project a 1.6% annual decrease in rum consumption in the United States through 1996. *See Jobson's Liquor Handbook 1992,* p. 17.

The decline in the rum market parallels the drop in the distilled spirits market generally. The social and cultural factors which caused that decline include: (1) the nationwide increase to 21, in the minimum legal age for drinking and purchasing distilled spirits; (2) greater public interest in preventing drunk driving; (3) the two federal excise tax increases on distilled spirits imposed in 1985 and 1991, totaling more than 28%, which forced significant retail price increases on distilled spirits and products containing such spirits; (4) evolving consumer preferences for beverages with lower or no alcohol content as a result of health and dietary concerns; and (5) the availability and aggressive marketing of alternative beverages such as wines, wine coolers, bottled water and light beers. These factors are all expected to continue or even intensify, which supports the experts' projections that the decline in demand for rum is also likely to continue.

In the 1970's and early 1980's, based on past projections of continued steady growth and expansion to meet such demand (*see, e.g., Jobson's Liquor Handbook* (1978–83 editions) (projections for rum consumption)), producers increased their capacity, much of which is now sitting unused. VIRIL, for example, substantially expanded its capacity in 1976 to meet projected growth, and such growth did in fact materialize in the late 1970's and early 1980's. Since then, however, VIRIL has suffered from increasing excess capacity due to the gradual decline in the U.S. rum market and increasing foreign bulk rum imports.

The threat which favorable tariff treatment to bulk rum imports poses to U.S.-flag rum producers in general, and VIRIL in particular, is illustrated by the increase in bulk rum imports from Barbados. While Barbadian imports of low-priced rum increased from a two-year average of 7,500 proof gallons in 1984–85 to 386,000 proof gallons in 1990–91, VIRIL's shipments to the United States for consumption fell by hundreds of thousands of proof gallons over the same period. The parallel between the decline in VIRIL's shipments of low-priced bulk rum and the precipitous increase in imports of such bulk rum from Barbados indicates that the elimination of a tariff on rum leads to severe and detrimental economic effects on U.S.-flag rum producers. The elimination of a tariff on Mexican rum is likely to have even more drastic and dire results, as Mexico has natural and other resource advantages (discussed below) that are vastly superior to those of Barbados.

2. Rapid Reduction of the Tariff on Mexican Rum Will Exacerbate the Depressed State of the U.S. Rum Market

In the current market, under market conditions (due to decreased consumption and increasing bulk rum imports from Barbados) even worse than when the GOP petitions of the Philippines and Colombia were denied, it would be even less reasonable to grant rapid reductions for the duty on rum imports from Mexico. If rum was import-sensitive in the past, it is even more vulnerable now. Nor is there reason to believe that concomitant reductions in Mexico's tariff on U.S.-origin rum will offset the harm, especially at the low-priced end of the market.

As noted above, the critical factors determining success in the U.S. rum market are (1) brand-name recognition, (2) the existence of a widespread, well-developed marketing network, both of which are established over a period of time (and in which Bacardi has been uniquely successful), and (3) relative pricing. The importance of these factors is heightened in the face of shrinking consumer demand. With excess capacity chasing fewer and fewer sales, these factors are essential for retaining a share of a declining volume of business.

By far the largest producer of rum in Mexico today is Bacardi. For Bacardi, the question is whether to switch a significant portion of its name-brand production from Puerto Rico to Mexico (i.e., to take market share ultimately at the expense of its sister company) or to use the inherent advantages of its location in Mexico (noted below), coupled with Bacardi's well developed distribution network and rum retailing contacts in the United States, to penetrate the low-priced sector of the U.S. rum market. It would appear that, unless it wants to penetrate the U.S. rum market at the expense of its own affiliate, Bacardi (as well as its rum producing competitors in Mexico and potential new entrants there) will recognize that the only effective way for a Mexican rum producer to increase sales in the U.S. is to undercut the prices of existing suppliers. Indeed, price undercutting is a traditional means by which many new market entrants gain market share. The effect of such undercutting on existing domestic producers, however, is more pronounced in a stagnant or declining market such as that characterizing rum. Mexican rum exports to the United States have historically been very small. Absent a preexisting U.S. distribution system or established brand name (premium or otherwise), and in view of current market conditions, it appears that all Mexican producers other than Bacardi will have to compete on price to achieve anything more than de minibus sales quantities. (Bacardi, for the reasons indicated above, may well choose to compete on price.)

Such price underselling would have severe consequences for VIRGIL. In the price-sensitive, "commodity rum" sector of the market, prices have for many years remained at about the same levels as the tariff itself. Put another way, the current tariff in this market sector is about 100% on an ad valor basis. Thus, removal of the tariff would have a much greater impact in this market sector than for higher priced rums for which the tariff is much lower, in ad valor terms. Should new market entrants from Mexico begin selling bulk or bottled rums at lower than prevailing prices, this would tend to force existing sellers of lower priced grades, such as VIRIL, to reduce their prices still further to remain competitive. The effects of such cut-throat competition are obvious.

Thus, VIRIL believes substantial near-term duty reductions, even without major inroads into the market by Mexican sources, would increase the number of suppliers

in the market with whom U.S. rum producers must compete, which will have a price-suppressing effect on all participants (except perhaps, for Bacardi (Puerto Rico), whose market position may be sufficiently entrenched to disregard price-cutting).

The Subcommittee should take particular notice of the factors which, in combination with reduced-duty entry, would permit Mexican rum to achieve substantial penetration of the U.S. rum market: (1) a plentiful domestic supply of Mexican molasses;[2] (2) a pre-existing, well-developed distribution system in the United States;[3] (3) low prices for fuel oil and/or electricity and water needed in the rum manufacturing process; (4) low transportation costs to and from the U.S. market due to Mexico's greater proximity to the continental United States, and a relatively well-developed system of roads and ports; (5) the availability of a large pool of cheap, unskilled labor;[4] and (6) the absence of a pervasive and extensive regulatory regime (e.g., OSHA, workmen's compensation). In addition, the size of the Bacardi facility in Mexico may enable it to achieve economies of scale not available to most Caribbean Basin rum producers.

The foregoing factors are significant because they all point so strongly to the ability of Mexican producers to produce rum at a very *low cost,* to ship it to the U.S. inexpensively, and to sell it at low prices in the U.S. Thus, it is the price-sensitive portion of the U.S. rum market, the very segment which is most important to VIRIL's viability, which is most vulnerable to Mexican rum imports if reduced-duty treatment is rapidly made available to them.

In addition to the impact on the U.S. domestic industry, granting duty- free treatment to rum from Mexico would have a deleterious effect on CBI imports, thereby undermining U.S. foreign policy interests in supporting the Caribbean Basin Initiative, interests which led to duty-free treatment for Caribbean countries less than nine years ago. In the debates preceding enactment of the CBERA, rum was the focus of a major controversy. Rum is a product of special importance for CBI countries, but only to a much lesser extent in Mexico. Under the CBERA, Caribbean rum has entered the United States duty-free since January 1, 1984. Because of Mexico's unique advantages in seeking to penetrate the U.S. rum market (particularly, the ample supplies of inexpensive molasses and fuel oil and the existence of extensive, well-developed transportation and distribution networks to bring Mexican rum into the U.S.), granting substantial near-term duty reductions to Mexican rum would substantially erode the "special benefit" which the CBERA was supposed to provide to these CBI rum producers, and for which their governments argued with such vigor.

CONCLUSION AND RECOMMENDATIONS

VIRIL recognizes that a product being deemed "import-sensitive" in the GSP context may not justify an exclusion in the context of NAFTA. After all, the free-trade agreement presumably carries with it offsetting benefits for other U.S. industries in terms of new opportunities in Mexico's markets.[5] VIRIL believes, however, that even

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[2] Molasses, the most important cost factor in rum production, is a by-product of cane sugar production. The United States Department of Agriculture's World Sugar Report indicates the vast degree by which Mexican cane sugar production surpasses the aggregate output of the Caribbean countries (excluding Cuba). *See World Sugar Situation and Outlook,* Supplement 1-91 (Jan 1991), pp. 3-5. This abundance of available cane sugar and, therefore, of cane sugar molasses, makes Mexico a uniquely advantaged potential competitor to existing rum producers. Mexico has, in the past, been a source of raw material molasses for rum production in Puerto Rico and the Virgin Islands. Reduction, and eventual elimination, of the tariff on Mexican rum may lead to a cut-off in that supply. Moreover, one published report indicates that Bacardi is the largest user of molasses in Mexico, has obtained a stock interest in three sugar mills in Mexico and, with that ownership interest, a discount on the price of its molasses. This same report indicates that the Mexican sugar industry has been heavily subsidized by the Mexican government. *See Mexico's Sugar Industry Comes Full Cycle,* Sugar y Azucar (Dec. 1990).

[3] Mexico has the advantage of already having a Bacardi plant operating within its borders, thus giving the country access to an extensive, well-developed rum distribution system which is operational and which can be called upon to service increased rum production encouraged by the granting of reduced-duty entry to the United States.

[4] This could be particularly important if a Mexican rum producer elected to bottle rum in Mexico, before shipping it to the U.S., since bottling is the most labor-intensive aspect of the entire rum distribution chain. A bottling plant near the U.S. border would maximize the cost advantages of inexpensive labor and physical proximity to the U.S., while minimizing the cost penalty of shipping rum in bottles rather than in bulk form. In the Virgin Islands, by contrast, the statutory minimum wage rate is even higher than in the United States and the union contract minimum wage paid by VIRIL is substantially higher still.

[5] Unfortunately, because the Virgin Islands is a U.S. insular possession outside U.S. Customs Territory and produces tropical products and services largely similar to (and competitive with)

in the context of a free-trade agreement, the economic situation for U.S. rum producers (and particularly producers of low-priced rum) is so at risk that an exceptional disposition is necessary.

The combination of economic vulnerability and importance to its community of the Virgin Islands rum industry is unique. The economic vulnerability to loss of market share to reduced-duty Mexican rum is described hereinabove. The industry's importance to the Virgin Islands community lies not so much in its employment (although that employment is a significant share of the total manufacturing employment in the Territory), but in the fact that the Virgin Islands Government receives a significant share of the U.S. excise tax on the rum the local industry ships to the United States mainland. In the not-distant past, the excise tax contribution has accounted for up to 20% of the Territorial Government's total revenues; even today it amounts to nearly 10% of the total.

Rum has never been a major export of Mexico to the U.S. Although Mexico may have many natural advantages to become a significant supplier of rum to the U.S. market (e.g., ample domestic molasses, cheap fuel oil, geographic proximity and relatively good transportation), no current Mexican jobs depend on such a shift in the supply of rum. On the other hand, tariff reduction for Mexican rum has the real potential to cause economic dislocation, not only on the Virgin Islands rum industry, but on the Territory itself. If the risks of the negative economic effects on U.S. citizens—both those engaged directly in the rum industry and others—arising from tariff reduction for Mexican rum are balanced against the potential benefits to Mexico from granting it, the conclusion is clear that Mexican rum products should be granted reduced tariff treatment only slowly and with great sensitivity (and feedback) to the impacts of those reductions within the United States.

The proposed NAFTA would put rum in the "C" category, with a straight-line 10% annual reduction in the tariff, leading to duty-free treatment for Mexican rum in 2003. VIRIL believes that such a schedule for tariff reduction for import-sensitive rum, especially low-priced rum, will unnecessarily threaten the economic viability of certain U.S. rum producers. While a ten-year phase-out is certainly preferable to immediate tariff elimination, VIRIL believes it is too rapid to permit current producers, already under price pressures from imported rum, to accumulate the resources necessary to adjust their market positions to escape the highly price-sensitive commodity rum segment. In other words, a 10-year straight-line tariff elimination would not afford the producers sufficient time or revenue to adjust to a new market role in which they might successfully meet the impending challenge of duty-free Mexican rum.

To enable U.S. flag rum producers to meet that challenge, VIRIL would recommend a tariff reduction regime for rum of 15–20 years, in which the reductions in the first 8 years were no more than 5% annually. Such a regime, coupled with a "snap-back" provision (or, at least, appropriate provision for the institution of tariff-rate quotas) if Mexican rum imports began to significantly impinge upon U.S.-flag producers' domestic market share more rapidly than anticipated, would provide a measured and balanced approach. It would create mechanisms to ensure that U.S.-flag producers would not be swamped by a flood of low-priced Mexican rum. It would give them time to adjust to new market conditions and to seek to build up the brand name recognition necessary to withstand price-based competition from new market entrants from Mexico. Such strategies are not quickly or easily implemented, and a 10-year straight-line tariff phase out does not allow adequate time to do so. VIRIL also supports the inclusion of rum in a "Caribbean Basin Basket" of goods afforded distinct treatment due to their importance under the CBERA.

VIRIL also notes that Canadian rum may already enter the U.S. duty-free. This leads to a concern that Mexican rum, dutiable if it entered the U.S. directly, may be shipped to Canada, perhaps blended there with other rums, and then enter the U.S., thus evading even the reduced duties that would be imposed under category "C" treatment. We hope that the rules of origin provisions implemented under NAFTA will provide adequate means to prevent such an abuse of the trilateral arrangements under that Agreement.

We thank the Committee for its consideration and hope that VIRIL's views will be incorporated as the Congress carries out its role in shaping the final version of the NAFTA. We are, of course, prepared to work with the Committee staff to develop the specific mechanisms necessary to open the U.S. rum market to Mexico over time without unduly threatening the existing producers in that market.

Attachment.

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those produced in Mexico, few if any of those offsetting benefits are likely to find their way into the U.S. Virgin Islands.

RUM: ANNUAL REPORT (Covering 1990 and 1991) ON SELECTED ECONOMIC INDICATORS

Report to the Senate Committee on Finance, on Investigation No. 332-175 Under Section 332 of the Tariff Act of 1930

USITC PUBLICATION 2522

JUNE 1992

United States International Trade Commissio .
Washington, DC 20436

PREFACE

On January 13, 1984, at the request of the Chairman of the Committee on Finance, U.S. Senate, and in accordance with the provisions of section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)), the United States International Trade Commission instituted investigation No. 332-175, Rum: Annual Report on Selected Economic Indicators. The purpose of the report is to gather and compile data on the rum industry from public sources and report such data to the Committee on an annual basis.

The report, as requested by the Finance Committee, contains the following statistical information on rum: (1) U.S. production; (2) U.S. exports; (3) imports for consumption (total and by countries designated as eligible for the Caribbean Basin Initiative (CBI)); (4) apparent U.S. consumption; and (5) shipments from Puerto Rico and the U.S. Virgin Islands to the United States.

The eighth annual report covers 1990 and 1991. Subsequent reports will be issued on a calendar-year basis as long as rum is accorded duty-free treatment pursuant to the Caribbean Basin Economic Recovery Act; the next report covering calendar year 1992 will be issued in 1993 as soon as data are available.

CONTENTS

Page

Preface i
Highlights 1

Tables

1. Rum: U.S. production, ex rts of domestic merchandise, imports for consumption, and apparent consumption, 1989-91 2
2. Rum: U.S. imports for consumption, by des gr ated CBI countries and other sources, 1990 and 19 1 3
3. Rum in containers each holding not over 4 liters: U.S. imports for consumption, by designated CBI countries and other sources, 1990 and 1991 4
4. Rum in containers each holding over 4 liters: U.S. imports for consumption, by designated CBI countries and other sources, 1990 and 1991 5
5. Rum in containers each holding over 4 liters, valued at not over 53 cents per proof liter: U.S. imports for consumption, by designated CBI countries and other sources, 1990 and 1991 6
6. Rum in containers each holding over 4 liters, valued at over 53 cents but not over 92 cents per proof liter: U.S. imports for consumption, by designated CBI countries and other sources, 1990 and 1991 7
7. Rum in containers each holding over 4 liters, valued at over 92 cents per proof liter: U.S. imports for consumption, by designated CBI countries and other sources, 1990 and 1991 8
8. Rum: U.S. exports of domestic merchandise, by principal markets, 1990 and 1991 9
9. Rum: Shipments from Puerto Rico and the U.S. Virgin Islands to the United States, 1990 and 1991 10

HIGHLIGHTS

The following are highlights of the economic data collected on rum for 1990 and 1991.

- For 1991, U.S. production of rum decreased to 81.9 million proof liters, 24 percent lower than the amount produced in 1990.
- U.S. exports of rum in 1991 increased to 9.7 million proof liters, and reached $8.9 million in value. The quantity exported in 1990 was 7.4 million proof liters, valued at $7.1 million.
- For 1991, imports of rum amounted to 6.5 million proof liters, valued at $12.7 million, compared with 5.5 million proof liters, valued at $16.9 million, in 1990.
- Rum imports from CBI eligible countries accounted for 89 percent of the value of total rum imports during 1991, and rum imports from Jamaica made up 63 percent of the total value of U.S. rum imports from CBI countries. During 1990, the share of total import value supplied by CBI countries was 90 percent and Jamaica accounted for 66 percent of the imports from CBI countries.
- Apparent U.S. consumption of rum in 1991 amounted to 71.3 million proof liters, 33 percent lower than in 1990. The import-to-consumption ratio was 9.1 percent in 1991, compared with 5.2 percent in 1990.
- Rum shipments from Puerto Rico to the United States declined from 62.1 million proof liters in 1990 to 54.6 million proof liters in 1991. During the same 2 years, rum shipments from the U.S. Virgin Islands to the United States decreased from 10.0 million proof liters to 9.2 million proof liters.

Table 1
Rum: U.S. production, exports of domestic merchandise, imports for consumption, and apparent consumption, 1989-91

(Quantity in thousands of proof liters; value in thousands of dollars; unit value per proof liter)

Year	Production[1]	Exports	Imports	Apparent consumption[2]	Ratio (percent of imports to consumption)
	Quantity				
1989...	96,821	2,324	3,936	99,100	4.0
1990....	108,006	7,411	5,470	106,067	5.2
1991....	81,904	9,682	6,510	71,304	9.1
	Value				
1989....	107,833	2,692	10,814	([3])	-
1990....	125,754	7,088	16,902	([3])	-
1991....	92,552	8,862	12,670	([3])	-
	Unit value				
1989....	$1.11	$1.16	$2.75	-	-
1990....	1.16	.96	3.09	-	-
1991....	1.13	.92	1.95	-	-

[1] Represents rum bottled in the United States, as reported by the Bureau of Alcohol, Tobacco, and Firearms of the U.S. Department of the Treasury, and shipments of bottled rum into the United States from Puerto Rico and the Virgin Islands, reported by the Bureau of the Census of the U.S. Department of Commerce. Value is estimated from the average value of bottled rum shipped to the United States from Puerto Rico and the Virgin Islands.

[2] Adjusted for stock changes as reported by the U.S. Department of the Treasury.

[3] Not available.

Source: F.oduction data compiled from official statistics of the U.S. Department of the Treasury and the U.S. Department of Commerce, with conversions by the staff of the U.S. International Trade Commission; imports and exports compiled from official statistics of the U.S. Department of Commerce.

Table 2
Rum: U.S. imports for consumption, by designated CBI countries and other sources, 1990 and 1991

Source	1990	1991
	Quantity (1,000 proof liters)	
CBI countries:		
Jamaica	2,122	2,902
Barbados	2,120	2,428
Dominican Republic	505	355
Guyana	11	228
Bahamas	48	85
All other	179	175
Total of CBI countries	4,985	6,173
All other	485	337
Total	5,470	6,510
	Value (1,000 dollars)	
CBI countries:		
Jamaica	10,037	7,183
Barbados	1,983	1,699
Dominican Republic	2,387	1,483
Guyana	27	264
Bahamas	192	251
All other	625	437
Total of CBI countries	15,251	11,317
All other	1,651	1,353
Total	16,902	12,670
	Unit value (1,000 dollars)	
CBI countries:		
Jamaica	$4.73	$2.48
Barbados	.94	.70
Dominican Republic	4.73	4.18
Guyana	2.49	1.15
Bahamas	4.01	2.95
All other	3.49	2.50
Average of CBI countries	3.06	1.83
All other	3.40	4.01
Average	3.09	1.95

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 3
Rum in containers each holding not over 4 liters: U.S. imports for consumption, by designated CBI countries and other sources, 1990 and 1991

Source	1990	1991
	Quantity (1,000 proof liters)	
CBI countries:		
Jamaica	2,107	2,823
Dominican Republic	430	279
Bahamas	48	85
Haiti	47	51
Trinidad and Tobago	41	26
All other	90	27
Total of CBI countries	2,763	3,291
All other	477	236
Total	3,240	3,527
	Value (1,000 dollars)	
CBI countries:		
Jamaica	9,994	7,096
Dominican Republic	2,322	1,409
Bahamas	192	251
Haiti	149	180
Trinidad and Tobago	161	93
All other	425	119
Total of CBI countries	13,243	9,148
All other	1,639	1,231
Total	14,882	10,379
	Unit value (per proof liter)	
CBI countries:		
Jamaica	$4.74	$2.51
Dominican Republic	5.40	5.04
Bahamas	[illegible]	2.95
Haiti	[illegible]	3.52
Trinidad and Tobago	[illegible]	3.60
All other	[illegible]	4.41
Average of CBI countries	[illegible]	2.78
All other	[illegible]	5.22
Average	[illegible]	2.94

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 4
Rum in containers each holding over 4 liters: U.S. imports for consumption, by designated CBI countries and other sources, 1990 and 1991

Source	1990	1991
	Quantity (1,000 proof liters)	
CBI countries:		
Barbados	2,086	2,421
Guyana	0	219
Jamaica	15	80
Dominican Republic	76	75
Trinidad and Tobago	0	73
All other	47	13
Total of CBI countries	2,224	2,881
All other	8	101
Total	2,232	2,982
	Value (1,000 dollars)	
CBI countries:		
Barbados	1,822	1,673
Guyana	0	230
Jamaica	44	87
Dominican Republic	66	74
Trinidad and Tobago	0	72
All other	77	33
Total of CBI countries	2,009	2,169
All other	12	121
Total	2,021	2,290
	Unit value (per proof liter)	
CBI countries:		
Barbados	$0.87	$0.69
Guyana	-	1.05
Jamaica	2.93	1.09
Dominican Republic	.87	.99
Trinidad and Tobago	-	.99
All other	1.64	2.54
Average of CBI countries	.90	.75
All other	1.50	1.20
Average	.91	.77

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 5
Rum in containers each holding over 4 liters, valued at not over 53 cents per proof liter: U.S. imports for consumption, by designated CBI countries and other sources, 1990 and 1991

Source	1990	1991
	Quantity (1,000 proof liters)	
CBI countries:		
Barbados	861	1,741
Haiti	0	3
All other	0	0
Total of CBI countries	861	1,744
All other	0	0
Total	861	1,744
	Value (1,000 dollars)	
CBI countries:		
Barbados	314	640
Haiti	0	1
All other	0	0
Total of CBI countries	314	641
All other	0	0
Total	314	641
	Unit value (per proof liter)	
CBI countries:		
Barbados	$0.36	$0.37
Haiti	-	.50
All other	-	-
Average of CBI countries	.36	.37
All other	0	-
Average	.36	.37

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 6
Rum in containers each holding over 4 liters, valued at over 53 cents but not over 92 cents per proof liter: U.S. imports for consumption, by designated CBI countries and other sources, 1990 and 1991

Source	1990	1991
	Quantity (1,000 proof liters)	
CBI countries:		
Jamaica	0	63
Dominican Republic	22	50
Trinidad and Tobago	0	41
Barbados	304	25
All other	0	0
Total of CBI countries	326	179
All other	4	31
Total	330	210
	Value (1,000 dollars)	
CBI countries:		
Jamaica	0	51
Dominican Republic	13	30
Trinidad and Tobago	0	29
Barbados	1[illegible]5	17
All other	0	0
Total of CBI countries	208	127
All other	4	21
Total	212	148
	Unit value (per proof liter)	
CBI countries:		
Jamaica	-	$0.81
Dominican Republic	$0.59	.60
Trinidad and Tobago	-	.70
Barbados	.64	.69
All other	-	-
Average of CBI countries	.64	.71
All other	1.00	.68
Average	.64	.71

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 7
Rum in containers each holding over 4 liters, valued at over 92 cents per proof liter: U.S. imports for consumption, by designated CBI countries and other sources, 1990 and 1991

Source	1990	1991
	Quantity (1,000 proof liters)	
CBI countries:		
Barbados	921	655
Guyana	0	219
Dominican Republic	54	25
Trinidad and Tobago	0	32
Jamaica	15	17
All other	47	10
Total of CBI countries	1,037	958
All other	4	70
Total	1,041	1,028
	Value (1,000 dollars)	
CBI countries:		
Barbados	1,313	1,016
Guyana	0	230
Dominican Republic	53	44
Trinidad and Tobago	0	43
Jamaica	44	36
All other	77	32
Total of CBI countries	1,487	1,401
All other	8	100
Total	1,495	1,501
	Unit value (per proof liter)	
CBI countries:		
Barbados	$1.43	$1.55
Guyana	-	1.05
Dominican Republic	.98	1.78
Trinidad and Tobago	-	1.33
Jamaica	2.93	2.17
All other	1.64	3.20
Average of CBI countries	1.43	1.46
All other	2.00	1.43
Average	1.44	1.46

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 8
Rum: U.S. exports of domestic merchandise, by principal markets, 1990 and 1991

Market	1990	1991
	Quantity (1,000 proof liters)	
Mexico	396	2,288
Canada	1,822	2,393
Netherlands Antilles	1,061	1,314
Germany	1,665	589
Cayman Islands	479	376
Ecuador	45	407
Denmark	34	428
Chile	118	282
Japan	117	202
United Kingdom	0	178
All other	1,674	1,225
Total	7,411	9,682
	Value (1,000 dollars)	
Mexico	432	1,923
Canada	1,340	1,719
Netherlands Antilles	1,144	1,407
Germany	1,480	704
Cayman Islands	514	403
Ecuador	52	332
Denmark	23	308
Chile	127	302
Japan	129	227
United Kingdom	0	190
All other	1,847	1,347
Total	7,088	8,862
	Unit value (per proof liter)	
Mexico	$1.09	$0.84
Canada	.[illegible]4	.72
Netherlands Antilles	1.08	1.07
Germany	.89	1.19
Cayman Islands	1.07	1.07
Ecuador	1.14	.81
Denmark	.69	.72
Chile	1.08	1.07
Japan	1.10	1.12
United Kingdom	-	1.07
All other	1.10	1.10
Average	.96	.92

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 9
Rum: Shipments from Puerto Rico and the U.S. Virgin Islands to the United States, 1990 and 1991

(In thousands of proof liters)

Source	1990	1991
Puerto Rico:		
In containers not over 4 liters	27,278	28,497
In containers over 4 liters	34,859	26,149
Total	62,137	54,646
U.S. Virgin Islands:		
In containers not over 4 liters	1	13
In containers over 4 liters	10,013	9,147
Total	10,014	9,160

Source: Compiled from official statistics of the U.S. Department of Commerce.

Projected Distilled Spirits Consumption by Category 1991 - 1996 (thousands of 9-liter cases)*

Category	1991	1996	ACGR*
Straight	15 205	12,187	-4 3%
Blend	8 629	6.733	-4 8
Canadian	18.412	16.389	-2 3
Scotch	11.578	9.073	-4 8
Irish & Other Imp Whiskey	231	199	-3 0
Gin	12 679	10 492	-3 7
Vodka	33 397	32 306	-0 7
Rum	12 325	11.350	-1 6
Tequila	4 393	4 870	2 1
Brandy & Cognac	6 805	6 572	-0 7
Cordials & Liqueurs	16 261	15 502	-1 0
Prepared Cocktails	7 111	6.117	-3 0
Total	147,025	131,790	-2.2%

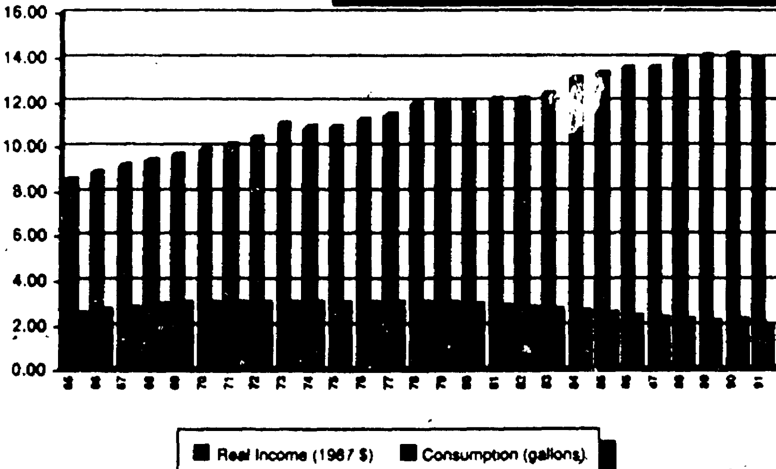
Estimated * Annual compound growth rate
Note Projections take into account trends toward smaller average case size and assume no further FET increase
Source Jobson Beverage Group Steve L Barsby & Associates Inc

Long Term Trends: Total Distilled Spirits (thousands of 9-liter cases)

Year	Cases Sold	ACGR*
1975	179.740	—
1980	190 903	1 2
1985	173.508	-1 9
1986	164 533	-5 2
1987	162 034	-1 5
1988	159 009	-1 9
1989	155 867	-2 0
1990	159 190	2 1
1991	147 025	-7 6
1996 (proj)	131.790	-2 2
1975-1985		-0 4
1985-1991		-1 4
1975-1996		-1 5

*Annual compound growth rate
Note Data from 1985 through 1991 are not comparable to earlier years
Source Jobson Beverage Group Steve L Barsby & Associates Inc

Long Term Trends-Per Capita Distilled Spirits Adult Consumption vs. Real Per Capita Income



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Rum

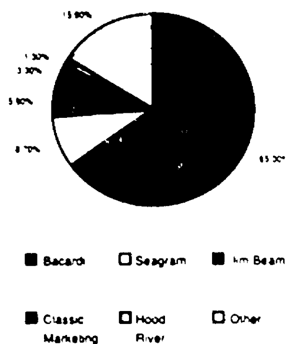
Both the rum category and the leading brand in the category posted decreases in 1991 consumption. The category declined by 9.1% compared with 1990, dropping to 12.3 million 9-liter cases. Bacardi, the number one spirit in the country, as well as the most profitable brand, lost 800,000 cases in 1991 for a decline of 10.0%.

The old adage, "As Bacardi goes, so goes the category" has been slowly disappearing, as the category has been expanding. While Bacardi represents 58.2% of the category, other rums have been gaining ground on the brand over the past few years. In fact, six of the top 10 brands experienced sales gains in 1991. Captain Morgan, classified as a fast track brand by *Beverage Dynamics*, posted a 7.5% increase in 1991. Don Q, Palo Viejo and Montego Bay posted double-digit increases in 1991.

In addition to a consumption decline for the category, advertising expenditures also experienced a downturn, dropping 25.8%. However, as in sales, certain brands increased their ad spending in 1991. Ad spending for Bacardi Black increased, as did their sales volumes, while expenditures for Bacardi dropped 39.1%. Captain Morgan's ad spending skyrocketed by 66.1%, and C. J. Wray Dry Rum, introduced in September 1991, spent $686,400.

The rum category offers a wide range of opportunities, many of which were previously underdeveloped. In addition to the traditionally popular light rums, the dark, aged, spiced and flavored rums are growing in popularity and volume. Sales of rum-based liqueurs and prepared cocktails are also on the rise. As the cachet of premium and super premium rum products catches on with consumers, marketers are vying for position as the category expands in all directions.

Share of Rum by Top 5 Suppliers



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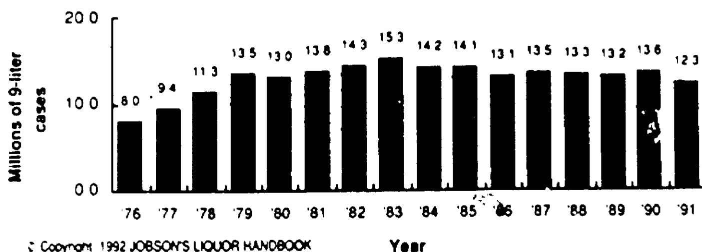
Leading Brands of Rum Estimated Sales, 1990 and 1991 (thousands of 9-liter cases)

Brand	Company	1990r	1991
Bacardi	Bacardi Imports	8 000	7 200
Castillo	Bacardi Imports	840	810
Captain Morgan	House of Seagram	670	720
Ronrico	Jim Beam Brands	700	695
Myers's	House of Seagram	370	355
Palo Viejo	Classic Marketing	135	170
Monarch	Hood River Distilleries	155	165
Montego Bay	Age International	90	125
World Famous	Charles Jacquin et Cie	105	110
Don Q	Classic Marketing	95	110

r Revised. Source: Jobson Beverage Group.



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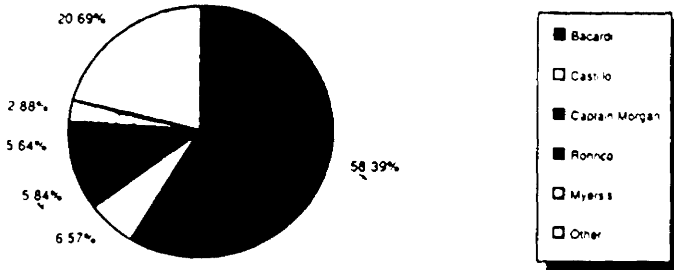
Leading Brands Share of Rum Sales



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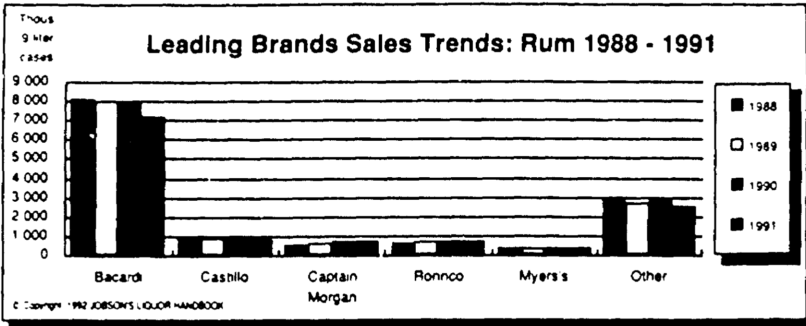

Total Advertising Expenditures for Rum ($ thousands)

Brand Name	1990 Magazine	1990 Newspaper	1990 Outdoor	1990 Total	1991 Magazine	1991 Newspaper	1991 Outdoor	1991 Total
Bacardi	$8 879 6	$24 3	$1,231 4	$10,135 3	$5,390 6	$ —	$779 4	$6,170 0
Bacardi Black	3,513 3	—	606 2	4,119 5	4 043 7	—	299 2	4 342 9
Captain Morgan	745 1	129 9	830 2	1,705 2	1,747 1	124 6	960 3	2 832 0
Myers's	2 539 9	42 3	—	2 582 2	2,190 7	—	395 5	2,586 2
Puerto Rican Rums	6,140 1	—	—	6 140 1	2,279 5	—	—	2 279 5
C J Wray	—	—	—	—	464 6	102 7	119 1	686 4
Palo Viejo	—	35 0	168 8	203 8	—	142 7	202 8	345 5
Mount Gay	2 070 3	—	0 3	2,070 6	332 2	—	—	332 2
Don Q	85 9	157 8	—	243.7	—	322 8	—	322 8
British Navy	11 8	—	—	11 8	124 6	—	—	124 6
Ronrico	—	—	—	—	—	—	89 5	89 5
Stubbs Queensland	—	—	—	—	—	—	74 4	74 4
Appleton Estate	—	—	—	—	—	—	42 0	42 0
Bacardi General Promotions	—	—	8 4	8 4	33 3	—	—	33 3
Turtle Bay	34 4	—	35 9	70 3	—	—	—	—
Total Expenditures	$24,020.4	$389.3	$2,881.2	$27,290.9	$16,606.3	$692.8	$2,962.2	$20,261.3

Source Jobson Beverage Group Steve L Barsby & Associates Inc from LNA

Top Ten Markets for Rum 1990 and 1991 (9-liter cases per thousand adults)*

State	1990	1991
Dist of Columbia	385 6	335 2
New Hampshire	233 8	236 9
Alaska	196 5	197 5
Nevada	178 9	159 1
New York	144 1	128 9
Hawaii	146 3	123 9
New Jersey	128 5	111 6
Maine	120 0	108 8
Connecticut	120 6	106 4
Delaware	113 9	99 0
National Average	**78.4**	**70.1**

*Based on Legal Drinking Age population 1990 population revised based on published decennial census
Source Jobson Beverage Group Steve L Barsby & Associates Inc

Top Ten Markets for Rum 1990 and 1991 (000 9-liter cases)

State	1990	1991
New York	1 851 5	1,665 0
California	1 373 3	1,238 8
Florida	1 093 6	930 8
New Jersey	718 6	625 9
Illinois	657 4	569.0
Texas	531 5	564 3
Michigan	545 9	502 3
Pennsylvania	443 5	421 2
Massachusetts	447 5	419 6
Maryland	393 3	340 4
Top Ten 1991 Markets	**8,056.0**	**7,277.2**
U S Total	13 564 1	12 324 8
Percent of U S Total	59 4%	59 0%

Source Jobson Beverage Group Steve L Barsby & Associates Inc

Sales by Month for Rum - 1991 (thousands of 9-liter cases)

Month	Cases Sold	% of Total
January	813 4	6 6%
February	825 8	6 7
March	912 0	7 4
April	899 7	7 3
May	998 3	8 1
June	1 023 0	8 3
July	1,059 9	8 6
August	1 133 9	9 2
September	961 3	7 8
October	1 010 6	8 2
November	1 084 6	8 8
December	1 602 3	13 0
Total Sales	**12,324.8**	**100.0%**

Source Jobson Beverage Group Steve L Barsby & Associates Inc

Supplier Case Price Classes — Rum (in percentages)

Price Ranges	Control	License
Under-$28 00	— %	— %
$28 00-$35 99	—	—
$36 00-$47 99	10 1	2 7
$48 00-$59 99	13 1	8 9
$60 00-$72 99	71 8	84 1
$73 00-$82 99	*	*
$83 00-$97 99	0 6	0 5
$98 00-$119 99	4 4	3 8
$120 00 and over	—	—
Total	100 0%	100 0%

*Less than 0 05%
Source Jobson Beverage Group Steve L Barsby & Associates Inc

Rum Bottling by Month Fiscal Years 1990 and 1991 (thousands of gallons)

Month	1990	% of Total	1991	% of Total	% Change
October	2 753 5	10.1%	3 267.8	13 2%	18 7%
November	2 345 3	8 6	891 0	3 6	-62 0
December	1,894 9	6 9	2,228 8	9 1	17 6
January	1,969 2	7 2	1,665 5	6 8	-15 4
February	1,880.0	6 9	1,348 1	5 5	-28 3
March	2,362 0	8 6	1,914 4	7 8	-19 0
April	2,688 8	9 8	2,132 3	8 7	-20 7
May	2,289 0	8 4	2,046 0	8 3	-10 6
June	2,123 9	7 8	2,191 8	8 9	3 2
July	2,095 2	7 7	2,172 9	8 8	3 7
August	2,406 9	8 8	2,243 3	9 1	-6 8
September	2,521 0	9 2	2,523 3	10 2	0 1
Total	**27,329.6**	**100.0%**	**24,625.2**	**100.0%**	**-9 9%**

Source Jobson Beverage Group, Steve L Barsby & Associates Inc from BATF data

Long Term Trends: Rum vs. Total Distilled Spirits (thousands of 9-liter cases)

Year	Rum Cases Sold	Rum ACGR*	Total Distilled Spirits Cases Sold	Total Distilled Spirits ACGR*
1975	6,878	— %	179,740	— %
1980	13,006	13 6	190 903	1 2
1985	14,118	1 7	173 508	-1 9
1986	13,053	-7 5	164 533	-5 2
1987	13,451	3 0	162 034	-1 5
1988	13,335	-0 9	159 009	-1 9
1989	13,191	-1 1	155,867	-2 0
1990	13,564	2 8	159 190	2 1
1991	12,325	-9 1	147 025	-7 6
1996 (proj)	11 350	-1 6	131 790	-2 2
1975-1985		7 5		-0 4
1985-1991		-0 7		-1 4
1975-1996		2 4		-1 5

*Annual compound growth rate Note Data from 1985 through 1991 are not comparable to earlier years Source Jobson Beverage Group Steve L Barsby & Associates Inc

Rum

Retail Spending for Rum in Top 20 States, 1991

DS Mkt Rank	Market	($ Million)	% of State DS Spending
1	California	$211	6 4%
2	New York	369	14 9
3	Florida	191	9 3
4	Illinois	102	7 3
5	Texas	99	7 2
6	Michigan	104	8 2
7	Pennsylvania	94	7 7
8	Ohio	81	7 3
9	New Jersey	118	10 6
10	Massachusetts	91	8 3
11	Wisconsin	43	4 8
12	Washington	71	8 6
13	Georgia	49	6 0
14	Minnesota	48	8.1
15	Maryland	51	9 5
16	Virginia	38	7 5
17	North Car. na	28	5 6
18	Indiana	36	7 2
19	Missouri	25	5 4
20	Tennessee	21	6 0
	Top 20 Total	**$1,870**	**8.3%**
	Other	551	7 0
	Total U.S.	**$2,421**	**8.0%**

Note: Provisional estimates
Source: Jobson Beverage Group, Steve L. Barsby & Associates, Inc.

Imports of Rum, Top 10 Countries 1989 - 1991 (thousands of proof gallons)

Country	1989	1990'	1989-90 Change	1991	1990-91 Change
Jamaica	414 9	560 6	35.1%	766.6	36 8%
Barbados	431 4	560 0	29 8	641 4	14 5
Dom Republic	71 4	133 5	86 9	93 7	-29 8
Guyana	7 5	2 9	-61.1	60 3	*
United Kingdom	14 4	7 8	-45 9	26 8	244 6
Trinidad	5 8	10 8	86 9	26 2	143 8
Bahamas	7 3	12 7	74 1	22.4	77 2
Canada	6 1	8 9	45 1	17 7	99 4
Hari	17 7	13 9	-21 4	14 7	5 8
Venezuela	12.7	13 9	10 3	14 3	3 1
Other	62 6	335 5	435 7	35.5	-89 4
Total	**1,051.7**	**1,660.3**	**57.9%**	**1,719.6**	**3.6%**

*Change in excess of 1 000%. 'Revised
Note: Does not include rum from Puerto Rico and the US Virgin Islands
Source: Jobson Beverage Group, Steve L. Barsby & Associates, Inc. from Dept. of Commerce data.

Shipments of Rum to the U.S. from Non-Contiguous Territories (thousands of proof gallons)

Origin	1989	1990'	% Change 89-90	1991	% Change 90-91
Puerto Rico	20,193 3	16 334 2	-19 1%	14 231 4	-12 9%
Bottled	6,498 0	7,125 4	9 7	7 323 4	2 8
Bulk	13 695 2	9,208 8	-32 8	6 908 0	-25 0
Virgin Islands	2,533 4	2,763 8	9 1%	3,012 0	9 0%
Bottled	—	—	—	—	—
Bulk	2,533 4	2,763 8	9 1	3 012 0	9 0
Total	**22,726.6**	**19,098.0**	**-16.0%**	**17,243.3**	**-9.7%**
Bottled	6 498 0	7,125 4	9 7	7 323 4	2 8
Bulk	16,228 6	11 972 6	-26 2	9 920 0	17 1

'Revised. Source: DISCUS