S. HRG. 104-96

CARIBBEAN BASIN INITIATIVE

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

ON

S. 529 and H.R. 553

MAY 15, 1995

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

92-608—CC WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-047466-3

COMMITTEE ON FINANCE

BOB PACKWOOD, Oregon, *Chairman*

BOB DOLE, Kansas
WILLIAM V. ROTH, JR., Delaware
JOHN H. CHAFEE, Rhode Island
CHARLES E. GRASSLEY, Iowa
ORRIN G. HATCH, Utah
ALAN K. SIMPSON, Wyoming
LARRY PRESSLER, South Dakota
ALFONSE M. D'AMATO, New York
FRANK H. MURKOWSKI, Alaska
DON NICKLES, Oklahoma

DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
BILL BRADLEY, New Jersey
DAVID PRYOR, Arkansas
JOHN D. ROCKEFELLER IV, West Virginia
JOHN BREAUX, Louisiana
KENT CONRAD, North Dakota
BOB GRAHAM, Florida
CAROL MOSELEY-BRAUN, Illinois

LINDY L. PAULL, *Staff Director and Chief Counsel*
LAWRENCE O'DONNELL, JR., *Minority Staff Director*

SUBCOMMITTEE ON INTERNATIONAL TRADE

CHARLES E. GRASSLEY, Iowa, *Chairman*

BOB PACKWOOD, Oregon
WILLIAM V. ROTH, JR., Delaware
ORRIN G. HATCH, Utah
LARRY PRESSLER, South Dakota
ALFONSE M. D'AMATO, New York
FRANK H. MURKOWSKI, Alaska

DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
BILL BRADLEY, New Jersey
JOHN D. ROCKEFELLER IV, West Virginia
JOHN BREAUX, Louisiana
KENT CONRAD, North Dakota
BOB GRAHAM, Florida

CONTENTS

OPENING STATEMENTS

Page

Grassley, Hon. Charles E., a U.S. Senator from Iowa, chairman of the subcommittee 1
Graham, Hon. Bob, a U.S. Senator from Florida 3
Breaux, Hon. John, a U.S. Senator from Louisiana 12

ADMINISTRATION WITNESSES

Barshefsky, Charlene, Deputy U.S. Trade Representative, Washington, DC 4
Watson, Hon. Alexander F., Assistant Secretary for Inter-American Affairs, U.S. Department of State, Washington, DC 6

PUBLIC WITNESSES

Braswell, Fred O., III, vice president, external affairs, Russell Corporation, Alexander City, AL, on behalf of the American Textile Manufacturers Institute, Inc. 18
Schott, Jeffrey J., senior fellow, Institute for International Economics, Washington, DC 20
Beasley, Noel, international vice president, Amalgamated Clothing and Textile Workers Union, Chicago IL 22
Woltz, William K., Jr., president and chief executive officer, Perry Manufacturing Company, Mt. Airy, NC, on behalf of the American Apparel Manufacturers Association 23

ALPHABETICAL LISTING AND APPENDIX MATERIAL SUBMITTED

Barshefsky, Charlene:
- Testimony 4
- Prepared statement 33

Beasley, Noel:
- Testimony 22
- Prepared statement 36

Braswell, Fred O., III:
- Testimony 18
- Prepared statement 39

Breaux, Hon. John:
- Testimony 12

Graham, Hon. Bob:
- Opening statement 3
- Testimony 41

Grassley, Hon. Charles E.:
- Opening statement 1

Hatch, Hon. Orrin G.:
- Prepared statement 46

Schott, Jeffrey J.:
- Testimony 20
- Prepared statement 46

Watson, Hon. Alexander F.:
- Testimony 6
- Prepared statement 50

Woltz, William K., Jr.:
- Testimony 23
- Prepared statement 52

Page

COMMUNICATIONS

Ariza, Hon. H.E. Jośe Del Carmen (Dominican Republic) 61
Association of American Chambers of Commerce in Latin America 55
Central American and Caribbean Textile and Apparel Council 56
de Osuna, Hon. Sheelagh (Trinidad and Tobago) 79
Fashion Accessories Shippers Association 60
Hoglund, Forrest E. (Enron Oil & Gas Co.) 62
Hylton, Hon. Anthony (Jamaica) 64
International Intellectual Property Alliance 66
International Sugar Policy Coordinating Commission of the Dominican Republic 69
Levi Strauss & Co. 73
Mauritius Sugar Syndicate 76
Tropicana Products, Inc. 81
U.S. Sugarbeet and Sugar Cane Growers and Processors 82
West India Rum Refinery, Ltd. 83

CARIBBEAN BASIN INITIATIVE

MONDAY, MAY 15, 1995

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

The hearing was convened, pursuant to notice, at 2:05 p.m., in room SD–215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the subcommittee) presiding.

Also present: Senators Breaux and Graham.

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

Senator GRASSLEY. Good afternoon everybody. Thank you all for participating.

I know there is a lot of interest in this legislation, and we will get right to the witnesses just as soon as I have an opening statement, and Senator Graham does.

Today's hearing is on the Caribbean Basin Trade Security Act, S. 529, introduced by our friend, Senator Graham.

The purpose of this legislation is to insure that the countries of the Caribbean Basin do not suffer from a reduction in trade and investment as a result of NAFTA.

Passage of NAFTA affected the competitiveness of the Caribbean Basin by diverting existing and potential investments from the region, in favor of Mexico.

This bill, which can also be called the NAFTA Parity Bill, is necessary to avoid the unintended adverse consequences arising from the passage of NAFTA to businesses and workers in the U.S. who rely on co-production arrangements with countries of the Caribbean Basin.

The effect of NAFTA has been to place Mexico in a preferential position, compared to the Caribbean, in terms of U.S. market access for a number of the region's key export products, including apparel, footwear, leather goods and petroleum.

Senator Graham's bill would close the gaps in trade opportunities between Mexico and the CBI countries. Granting these trade concessions is not only good for U.S. foreign policy objectives, but it is also very good for the U.S. economy because experience shows that prosperity in the Caribbean translates directly into more business, more income and, most importantly, jobs for Americans.

Since the implementation of the CBI in 1983, the U.S. trade balance has shifted from a $3 billion deficit in 1984 to a $2 billion surplus in 1994.

U.S. exports to the region have doubled during this period, going from $6 billion to $12 billion. This $12 billion supported some 200,000 jobs here in our country.

Moreover, as personal incomes in the region rise, demand for U.S. consumer goods also rises. It is estimated that, for every dollar earned in the Caribbean Basin, 60 cents are used to buy American products. Now, in comparison, Asian countries spend only 10 cents of every dollar earned to buy American products.

CBI industries are strongly inclined then to purchase American raw materials, machinery and equipment.

The recent decision to establish a Free Trade Area of the Americas by the year 2005 further strengthened the case for this legislation.

As tariff barriers continue to fall in the Western Hemisphere, the relative advantage of CBI diminishes. By putting the necessary transition mechanisms in place, the accession of the CBI countries to NAFTA at the earliest possible date would be accomplished smoothly.

This bill provides a framework for maintaining the momentum towards that goal. It mandates a process where the United States and the CBI trade ministers plan the transition, and it assesses progress on the part of the CBI countries towards readiness to assume NAFTA-style obligations in the areas of investment, market access and intellectual property rights.

Now this last point I mentioned about intellectual property rights, I am particularly concerned about whether S. 529 deals adequately with the continuing challenge of protecting U.S. intellectual property rights in the Caribbean Basin.

Exports of products protected by intellectual property rights are increasingly vital to our global competitiveness. Congress recognized this back in 1983, when it first extended trade benefits under the CBI program. Because, to be eligible at that time, countries had to provide adequate and effective protection for U.S. intellectual property rights.

We reaffirmed this link as recently as last December, when we brought our own intellectual property laws up to the standards of the GATT TRIPS agreement, and called on all other nations to—and these were our words—"accelerate the implementation of this landmark agreement."

This legislation may not go far enough in advancing this well-established link between trade benefits and intellectual property protection. We cannot afford to relax our vigilance on intellectual property.

So I look forward to exploring with the author, and with Ambassador Barshefsky and the other witnesses, whether we need to improve and strengthen S. 529 in this area.

Now in conclusion, I just want to state that the U.S. benefits when the economies of the region are healthy and strong. I hope that is common sense today, but I think we have to repeat it anyway.

The economic and political development of the Caribbean Basin creates markets. It is a place for our exports. And when we export, we create jobs for our American citizens.

An economically thriving and politically democratic Caribbean Basin serves the best economic and security interests of the United States in this regard.

There is strong enthusiasm for this important legislative proposal, and I look forward to working with the administration, and with Senator Graham, to assure its passage in the Senate.

Senator Graham?

OPENING STATEMENT OF HON. BOB GRAHAM, A U.S. SENATOR FROM FLORIDA

Senator GRAHAM. Mr. Chairman, I want to thank you for that extremely comprehensive and encouraging opening statement.

In light of that, I will ask that my opening statement, which covers many of the points that you have so eloquently outlined, be submitted for the record, and I will just make a few comments.

As you have emphasized, this is a trade bill which also has other important implications to the United States. It is very much in our interest that there be stable democracies in our immediate neighborhood in the Caribbean.

It was impressive at the Summit of the Americas, held in December of last year, that over half of the countries that were represented there were countries who were members of the CBI. This was an indication of the strength of democracy in this region of the hemisphere.

It is also important that these countries have an expanding economic base, because we know that stable democracies depend upon people having a sense of their future economic opportunities.

As you have indicated, this has been a very positive development for the United States. The chart indicates the fact that when the CBI started, the United States had a trade deficit of some $2.6 billion with the countries of the Caribbean Basin. Today we have a surplus of nearly $2 billion. And from your updated number, that is even a greater surplus today than it was in 1993.

So this is an important step forward. It recognizes the potential of an unanticipated consequence of the North American Free Trade agreement, and that is a competitive imbalance directed at the Caribbean, which threatens the progress that has been made, particularly in the apparel economic sector.

This legislation is designed not to create an advantage for the CBI countries, relative to those countries that are participants in NAFTA, but rather to create parity.

Mr. Chairman, I hope that we can move this bill rapidly because there is an urgency to do so before there is further damage done to the countries of the CBI.

As the second chart indicates, since NAFTA was adopted, there has been a decline in the growth level of apparel activities in the CBI countries, with a commensurate sharp upward movement in Mexico. That is because companies which have already been investing in the CBI countries have stopped production and moved it to Mexico. And other companies which were considering the relative benefits of Mexico and a CBI country, have elected to go to Mexico.

I would anticipate that those lines might even be further exaggerated as a result of the recent devaluation of the peso in Mexico,

which has created an additional monetary advantage for production in Mexico.

So, Mr. Chairman, this is important and urgent legislation that we are dealing with. I am pleased that we have so many excellent witnesses, and I know you are anxious to turn to them. So I would ask that my full statement be included as part of the record.

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

Senator GRASSLEY. Thank you for your leadership. And thank you for being here today.

Our first witness is Hon. Charlene Barshefsky, Deputy United States Trade Representative. She is already at the table.

And our next witness, also on the first panel, is the Honorable Alexander Watson. He is the Assistant Secretary for Inter-American Affairs at the Department of State.

So I think we will go with you, Ms. Barshefsky, and then with Mr. Watson.

STATEMENT OF HON. CHARLENE BARSHEFSKY, DEPUTY U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador BARSHEFSKY. Thank you very much, Mr. Chairman and Senator Graham. It is a pleasure to appear here before you to provide the administration's comments on S. 529, the Caribbean Basin Trade Security Act of 1995.

With your permission, Mr. Chairman, I would like to summarize my formal statement, which I ask be formally entered into the record.

Senator GRASSLEY. Let me take a moment to remind all of our witnesses that we will try to keep to the usual time limits, demonstrated by the lights here. And your full statement will be put in the record.

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

Ambassador BARSHEFSKY. Thank you, sir.

Mr. Chairman, the administration endorses the thrust of S. 529. The bipartisan support Congress has given to the Caribbean Basin Initiative since its inception has greatly assisted U.S. efforts to promote economic development and democracy in the region.

The administration appreciates that the sponsors of S. 529 are continuing this bipartisan tradition. With almost all countries in the Caribbean Basin embracing open markets and free elections, the United States has a unique chance to help these countries achieve longer-term prosperity.

S. 529 recognizes that access to the U.S. market is a powerful stimulant to broadly-based economic development.

Mr. Chairman, and Senator Graham, the CBI program has benefited both the U.S. and the Caribbean, as you have already pointed out. U.S. exports to the region jumped from $5.8 billion in 1983 to $12.2 billion in 1993, an increase of 112 percent.

As you have pointed out, the U.S. trade deficit with the region of $2.6 billion in 1984 turned into a surplus of nearly $2 billion last year.

Countries in the Caribbean Basin are very good customers of U.S. products. About half of their imports come from the United

States, and some countries purchase over 70 percent of their goods from the United States.

The CBI has, of course, also benefited. U.S. imports of products entering under the CBI program have jumped by more than 100 percent during the past 5 years, twice the rate of growth of total imports from the region.

It is in our interest to insure that this mutually advantageous relationship continues and expands. We believe this can be accomplished by legislation which will help insure that CBI countries are not disadvantaged in their trade relationship with the United States by virtue of the NAFTA.

As I am sure the Subcommittee is aware, the House has a companion bill to S. 529, H.R. 553, as amended. As you may know, the administration initially identified some concerns with H.R. 553. We worked with the Ways and Means Committee to address these concerns, and to craft a bill that is mutually acceptable to bipartisan leadership on the House side and to the administration.

We wish to work with the Finance Committee to seek revision of S. 529 in a similar fashion. And, if I may, I would like to describe briefly those provisions we would seek to work with you to revise.

First, the administration strongly believes that countries should undertake specific new trade commitments if they are to receive new benefits beyond those in the original CBI. S. 529, as drafted, would not impose such new obligations in CBI countries.

The administration would like to work with the Finance subcommittee to include provisions which address this concern. We would propose revising S. 529 to include a review every 3 years of CBI nations' compliance with certain more stringent criteria on intellectual property rights protection, investment and market access.

Under these criteria, CBI countries would need to improve their intellectual property rights protection, as measured against U.S. standards. They would have to enhance their investment protection to a level reflected in U.S. bilateral investment treaties, and provide market access for U.S. exports.

These criteria are more specific than in the current CBI, and will provide a strong incentive for countries to improve regimes in these areas.

Incidentally, these steps will also help to prepare these countries for the eventual Free Trade Area of the Americas.

The administration's second concern is in regard to the length of the transition period for bringing countries into the NAFTA or NAFTA-equivalent free trade arrangement. S. 529 specifies a 6-year period; we would propose a 10-year transitional period.

First, a 10-year period would be consistent with the date 2005, which was developed at the Summit of the Americas as the date for constructing the Free Trade Area of the Americas.

Second, a 10-year transition period provides greater security to investors and potential investors in the region than a 6-year period.

Third, in light of U.S. obligations under the World Trade Organization and the NAFTA, the administration is concerned about the sugar provision in S. 529. We would hope to see that provision deleted.

Finally, we have a number of technical suggestions to the bill which would enable the bill to operate as intended, to clear up ambiguities and refine definitions, and to better clarify the interrelationship between the bill and the NAFTA provisions.

Most of these technical changes found their way into the amended version of H.R. 553.

In conclusion, Mr. Chairman and Mr. Graham, I would like to thank the Trade Subcommittee for proposing this legislation. By doing so, the Subcommittee clearly demonstrates the priority it assigns to further strengthening the bilateral relationship between the Caribbean Basin and the United States.

The administration shares this commitment. We wish to work closely with you in crafting a bill that achieves our mutually-held objectives. And we look forward to beginning the process of working together immediately.

Thank you so much.

Senator GRASSLEY. You finished right on time.

Ambassador BARSHEFSKY. I hurried at the end.

Senator GRASSLEY. Is it all right if we hear from Ambassador Watson first, before we ask questions of both of you?

Ambassador BARSHEFSKY. Oh, yes.

Senator GRASSLEY. I have a message here that we are expecting a roll call vote at 2:30. Maybe we will be able to get you and our questions out of the way before we go to that roll call, and then we will hear the second panel after the roll call.

Would you go ahead, Mr. Watson?

STATEMENT OF HON. ALEXANDER F. WATSON, ASSISTANT SECRETARY FOR INTER-AMERICAN AFFAIRS, U.S. DEPARTMENT OF STATE, WASHINGTON, DC

Secretary WATSON. Thank you, Senator. Thank you very much for the opportunity to testify before this Subcommittee on Senate bill S. 529, the Caribbean Basin Trade Security Act of 1995.

The Caribbean Basin Initiative, which S. 529 seeks to enhance, is important in promoting two of our most important foreign policy objectives in the hemisphere—the growth of democracy and economic prosperity.

Broad bipartisan support, which has marked the passage of CBI legislation in the past, reflects a consensus in Congress and the Executive Branch that the U.S. has a strong interest in, and remains committed to, the economic and political well-being of the Caribbean Basin. The United States is engaged in not only the Caribbean Basin's economic development and integration, but also that of the entire hemisphere.

This commitment was reaffirmed in Miami at the Summit of the Americas last December, when the United States and the other nations of the hemisphere pledged to work toward greater economic integration of the goal of a Free Trade Agreement for the Americas by the year 2005.

To date, the Caribbean Basin Initiative has been an unqualified success. The fundamental economic goal of the CBI—that is to say broadening and diversifying the economic base of the beneficiaries—is being realized.

Since the CBI went into effect in 1984, non-traditional exports from the region have grown at a rate of nearly 25 percent per year.

The CBI has not simply benefited those countries; it has resulted in increased U.S. exports to and investment in the region. The last decade has seen impressive growth in trade in both directions.

The Caribbean Basin is often referred as the third border of the United States. Much of our trade with the hemisphere passes through the sea lanes, ports and airports of the region.

Democracy, stability and broad-based economic growth, grounded in free market principles, are the goals we share with the countries of the region.

The countries of Central America and the Caribbean are enjoying increasing prosperity and positive political change. The region is beginning to gather some of the fruits of their market-oriented reforms. Growth last year for the CBI region as a whole totaled a little over 3 percent. After the turbulent and economically devastating decade of the 1980's, our neighbors of the Basin are well on the road to consolidating democracy and building market-based economies.

In the interest of time, Senator, if I could just shorten my remarks briefly, I just wanted to touch on a couple of the countries where we have made really significant progress.

First, El Salvador, which perhaps had the most violent and vicious armed struggle during the decade, has really come through dramatically. The U.S.-sponsored peace process has been an unqualified success, and the country is moving forward to solidify its democratic reforms.

The economic reforms undertaken by President Alfredo Cristiani and Calderon Sol have stimulated foreign investment and fueled impressive growth of up to 5 percent in 1994.

Nicaragua, another country that was suffering terribly during the 1980's, has now chosen democracy when it picked, in a surprising election, Violetta Barrios do Chamorro, and is pursuing political change through democratic processes. The investment climate there has changed, although there is still room for further work in that regard.

In the Caribbean, of course, democracy is generally the rule. Haiti was a dissident exception, but the U.S.-led multinational force entry into that country in October, 1994, as authorized by the U.N., has turned that place around.

Without going into the details of the efforts there, I think it is safe to say that the signs of political reform and economic change are making a difference this country so desperately needs.

The threats to these countries are no longer external aggressors. They are poverty, uneven development, poor education and health systems. And we must work with them in that regard.

Foreign assistance has played an important role in the past, but I think most of those countries now realize that levels of external assistance will be decreasing, and they must now compete on a global basis for markets and investment capital.

Those with the most efficient markets will reap the greatest rewards, and those with the greatest protectionism will be least likely to attract foreign capital.

Many of these countries have made great strides in reforming their economies. These reforms sometimes entail dislocation and unemployment. Through the opportunities created by the CBI, and those offered by S. 529, countries of the CBI will have tools for continued economic reform.

This legislation can also help the U.S. and the CBI nations address two additional problems—drug trafficking and illegal immigration. While the threat of externally-generated challenges to democracy in the region has nearly dissipated, it has been replaced by the different, more insidious threat of international narco-terrorism and drug trafficking.

These problems pose a serious threat to the stability of many of the countries in the region. Prosperous and growing economies offer alternatives to the lucrative and corrosive narcotics trade destined for the U.S. and Europe.

Another phenomenon under development, and an increasing threat to the U.S., is, of course, illegal immigration. Increased jobs and opportunities at home reduce the number of people seeking to cross our borders.

The leaders of the Caribbean Basin countries have met with President Clinton in 1993 and 1994 to express their concerns about the impact that NAFTA would have on their development. They were not looking for a handout; they were looking for access to our markets to strengthen their economies.

We support that fully, and we think that this legislation that you are considering in your Committee, sir, contributes markedly to that end, and to the realization of our foreign policy objectives in the region.

Thank you very much.

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

Senator GRASSLEY. Thank you both.

As I indicated in my opening statement I want to visit with you a little bit about intellectual property rights.

This happens to be the first trade bill to be considered after the GATT implementation. And yet, it does not reflect the priority Congress placed on compliance with the TRIPS agreement. And I know that you understand the importance of copyright and patent enforcement because you, as well as your Agency, have been very involved with that.

Should not this legislation encourage the CBI countries to upgrade their copyright and patent laws, and enforce policies to meet TRIPS standards as soon as possible?

While I am asking that, I might ask what in your view would be a realistic deadline to set for TRIPS compliance? And I am aware of the review you are supposed to give after 3 years. It is in the House bill.

Ambassador BARSHEFSKY. Yes. We agree, Mr. Chairman, that it is critical for the United States to insert, as conditions for benefits, upgrading of the TRIPS regime of these countries, as well as the investment protection regime of these countries, and market access.

With respect to TRIPS, we conduct annual reviews of compliance with intellectual property rights bilateral agreements under the GSP program, of which the CBI countries are beneficiaries.

Just in this last year alone, we conducted very detailed reviews of four of the CBI countries under that provision of the law—El Salvador, Guatemala, Honduras and the Dominican Republic.

We do find violations in many of these countries with respect to basic copyright protection, patent protection, as well as piracy of copyrighted works, including computer software, as well as film and sound recording works.

These are serious problems. When the House proposed its version of S. 529, there were similarly no conditions attached to the receiving of benefits.

We in the administration appreciate that these countries are in need of benefits that would bring these countries to NAFTA parity. Therefore, we have no objection to starting out a program which would grant benefits immediately. But we do wish to see an upgrading of TRIPS protection and investment protection. As a result, we worked with the Ways and Means Committee to come up with two things.

First of all, a 3-year review mechanism, after which the President, in his discretion, could determine whether benefits should continue.

And second, specific standards which would be incorporated into the legislation, which these countries would be expected to meet.

In the case of the Crane bill on the House side, those standards have to do with meeting high levels of protection with respect to intellectual property rights, as well as meeting bilateral investment treaty standards of protection on investment.

We would like to see those same protections incorporated into S. 529.

Senator GRASSLEY. Under the CBI program, the Trade Office has the authority to suspend or revoke trade benefits of CBI countries if they fail to give adequate protection to intellectual property rights.

To my knowledge, the USTR has never exercised that authority, even though several of the CBI countries have not met the criteria under existing law for protecting U.S. intellectual property. And I am thinking of the CBI legislation, and I did not think in terms of anything that could be done under GSP.

In light of this history, do you think it is credible for us to give additional benefits without any new commitments to protect U.S. intellectual property?

Ambassador BARSHEFSKY. The difficulty with the criteria under the CBI is that they are very ill-defined. It is criteria that is taking steps toward higher protection of intellectual property rights, but does not define the standard against which that protection is to be measured.

This has created some difficulty in utilizing the CBI conditions as a means for revoking benefits. I would note in addition that USTR has never received a petition for the revocation of CBI benefits with respect to intellectual property rights. GSP, yes. CBI, no. That may be an indication of how loose the standard is.

The standards that we proposed be inserted into the original House bill mandate that the standards against which IPR protection is to be judged is U.S. bilateral protection of the highest order, which is TRIPS plus.

Senator GRASSLEY. Well, let me consult my colleague. You could ask your question, Senator Graham. Since the vote has started, I could go and vote now. Senator Breaux, you could go and vote with us, and then we could continue on our question when we come back, and we would not waste any of your time.

Senator BREAUX. I'll go with you, but I may not vote with you. [Laughter.]

Senator GRAHAM. Thank you, Mr. Chairman.

Ms. Barshefsky, relative to the issue of a 6- or 10-year period of parity protection, one of the rationales of the 6-year period was urgency to move forward to bring the CBI countries into a bilateral relationship for accession to NAFTA.

The second was a feeling that since these countries have already had an in-depth trade relationship with the United States for over a decade, they would be at the head of the line, so to speak, for this process. And, in terms of ordering entry into the hemispheric free trade agreement by the year 2005, putting a date that would require this process to be completed by the CBI countries earlier than the year 2005 would create greater orderliness in the whole process.

I have now stated to the best of my ability the case for the 6-year period. You have indicated that you think the 10-year period is more appropriate. I wonder if you could elaborate on that?

Ambassador BARSHEFSKY. Yes. Thank you, sir.

When we looked at this, we asked ourselves two questions. First of all, would these countries be ready within 6 years? And, second, where do U.S. economic interests lie with respect to NAFTA readiness, for example?

When we did the FTAA process, the Miami process, there were countries that wished to see the FTAA be created by the year 2000, not the year 2005. But it was largely at the urging of the smaller economies that the date was changed to 2005, because many felt that they could not possibly be ready by the year 2000. There would be too many internal changes that would need to be made, too much pressure on their domestic public for further trade liberalization and trade reform. And, therefore, a longer period of time would be necessary.

So part of our request before the Ways and Means Committee for a 10-year period was based on a sense that many of these countries themselves believe that they would not be ready in a 5- or 6-year period to assume full obligations of a NAFTA-type arrangement.

Second, as we looked at the range of U.S. economic interests, it seemed to us that neither the administration, or any administration, or the Congress should necessarily prejudge at this point the order in which, for example, NAFTA accession should occur.

There are many very large economies that are moving very rapidly toward trade liberalization. There are some of the smaller economies within the CBI region itself that are far advanced beyond where many of the CBI countries are.

We felt that in order to keep the field as open as possible with the Congress and the administration at any given point in time, the ability to assess what is in the best economic interest of the United States, that we should not mandate a separate period of

time for one group of countries, potentially at the expense of another group of countries.

Therefore, we again thought the 10-year period would accomplish our aim of ultimately insuring hemispheric integration, but integration that proceeds on a basis that is consistent with overall U.S. economic interest.

Senator GRAHAM. Mr. Watson, do you have any comments on that question?

Secretary WATSON. Not really. I think that Ambassador Barshefsky has stated the case extremely well. I do not think I have anything at all to add in that regard.

Senator GRAHAM. Ms. Barshefsky, you also suggested that the provision relative to sugar might be deleted. That provision gives to the President the authority, if he determines that there is an adverse effect on the CBI countries as a result of the sugar provision in NAFTA, that he can take steps, including coming to Congress with legislative proposals, presumably looking at either quota issues between the CBI countries and the United States or the quota between the United States and its NAFTA partners.

You have indicated that you think that is part of this legislation that might be deleted. Could you elaborate as to why?

Ambassador BARSHEFSKY. Yes, Senator.

As you know, the United States undertook a variety of obligations in the NAFTA, as well as in the WTO.

Among the obligations were a variety of provisions related to sugar, with respect to quota allocations among countries, not just within the NAFTA, but countries around the world. As a practical matter, the President has virtually no discretion with respect to the reallocation of quota quantities beyond that already in the WTO obligations and in the NAFTA obligations.

Were we to reallocate the quotas, we would violate either NAFTA or the WTO obligations, or both. And because the President's discretion, as a practical matter, is severely circumscribed, we felt that the best course would be to delete this provision.

Senator GRAHAM. We have now reached the halfway point on the current vote. The chair will be returning shortly. He has asked if you would stay for further questions by Senator Breaux, as well as himself.

I am going to leave to vote at this time, so the hearing is temporarily recessed, pending the return of Chairman Grassley.

Ambassador BARSHEFSKY. Thank you.

[The Committee recessed at 2:40 p.m., to reconvene at 2:47 p.m.]

Senator GRASSLEY. I will call on Senator Breaux for both questions and opening statement, since he was not here for his opening statement.

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

Senator BREAUX. Thank you very much, Mr. Chairman. I thank our panel members for being with us, and I look forward to working with them on this legislation.

I certainly support an increase in our U.S. trade relationship with the CBI nations. I think that we as a country have for too

long neglected trade with our neighbors in Central and South America—in essence, the Americas.

I think the next decade is going to offer our country tremendous opportunities to increase trade and thereby contacts and relations with our neighbors to the South.

I am very pleased that the administration has made trade in the Americas a high priority. I think that it is something that has been neglected in the past and, as a consequence, we all have suffered as a result of it.

Our neighbors to the South and in the Caribbean are making dramatic progress, economically and socially. By every standard by which you measure the success of nations, I think our neighbors to the South are making tremendous improvements, and we have to be part of that. We need to be involved in it. We need to be a help where we can. We need to be partners in those areas.

So I certainly support the efforts of those who want to expand trading opportunities with our CBI neighbors. It is very very important.

However, I have some problems with the legislation that is currently pending. I have talked with my good friend, Senator Graham, from Florida. I commend him for the terrific job that he has done on this legislation, and for his interest in this area.

Working with the CBI nations, he has long recognized their importance to his State, particularly because of Florida's geographic relationship to these nations. Senator Graham also knows this relationship is good for our own nation.

I will ask, Madam Ambassador, for some comments from you on two areas. One, of course, is sugar. I understand that you have already commented on it while I was voting. It seems to me that our sugar program is one of the few farm programs—if not the only farm program—that is operated at no cost to the American taxpayer.

If this legislation, as currently drafted, were to be implemented, and sugar imports into the United States were to increase from one of our NAFTA partners, like Mexico, this legislation would obligate the President to take actions which I think would be damaging to the objectives of this entire agreement.

I think this bill before us is generally a good piece of legislation, especially if we were to completely drop the sugar section. I do not think this section adds very much, and instead I think it creates serious problems, and certainly makes it more difficult for a CBI parity bill to pass. But, more importantly, as a matter of principle, it would suggest a breech of existing U.S., WTO, and NAFTA obligations. The provision is really not necessary.

Did you make any additional comments about what the administration's position is?

Ambassador BARSHEFSKY. Senator, I did not make additional comments, although I did indicate why the administration shares your view. And that is that the sugar provision in S. 529 should be deleted.

We share that view because, as a practical matter, given our WTO obligations and our NAFTA obligations with respect to sugar, the President does not have discretion to reallocate sugar quotas in

any significant respect without violating WTO and NAFTA commitments.

Senator BREAUX. And this legislation, without those provisions, is still a solid piece of legislation, as far as what it attempts to accomplish. Is that correct?

Ambassador BARSHEFSKY. We believe the legislation is very solid in its thrust although, as I indicated in my opening remarks, we have some specific concerns which we believe need to be addressed to make the legislation more consistent with U.S. trade policy overall.

And that is that no benefits are free; that countries need to open their markets reciprocally; countries need to adhere to high standards with respect to intellectual property rights protection and with respect to investment protection generally, and all the more so when they are receiving one-way preferential trade benefits.

Senator BREAUX. I appreciate that. But I guess it is correct that the absence of the sugar provisions does not affect the effectiveness of the legislation overall?

Ambassador BARSHEFSKY. You are quite right, sir.

Senator BREAUX. Let me ask you my second question, which would be on the provisions in the legislation which contain an exception to the NAFTA textile and apparel rules of origin.

Ambassador BARSHEFSKY. Yes, sir.

Senator BREAUX. My problem is with regard to imports of textile products from a CBI nation that would be made with non-U.S. or non-CBI fabric—getting NAFTA benefits—I have a problem with that.

I think it is important for us to help the Caribbean nations in terms of jobs and industry, but I do not think it should be our purpose to extend NAFTA benefits to Asian products sent to the CBI nations to be assembled, and then to be further exported into the United States.

I am concerned that an open exception, as I interpret this legislation to contain, would allow Asian fabric, for instance, to be sent down to the CBI nations and further assembled, and then re-exported to the United States duty free. It seems to me that this is certainly something that is not in keeping with what we are trying to accomplish with this agreement—a marriage of U.S. textiles with CBI apparel production. I think any kind of an improved CBI program should be a two-way trade agreement between the CBI nations and the United States.

And I guess my point is that we can handle this problem if we make some changes in the legislation. I am certainly willing to be flexible in that regard, to the point of even suggesting that we could support a limited exception to the rule of origin if it was needed. If the U.S. did not have the domestic fabric to assemble the apparel products, that would establish a need. Therefore, this type of transaction might be allowed. But, as long as we have the domestic capability, then the exception would not apply. Would you comment on that thought?

Ambassador BARSHEFSKY. Certainly, sir.

I had testified on this provision before the Ways and Means Committee which, as you know, has a companion bill to S. 529. At

the time, I indicated that the administration did not believe that this language was economically necessary.

The administration and the NAFTA negotiated TPL's, as they are called, because at that time Mexico had a very high proportion of non-conforming goods—that is, goods that would not have passed the more stringent NAFTA rules of origin.

We negotiated these tariff preference levels as a practical matter; they have virtually never been used, except in some small respect on wool suits.

The Caribbean has a very high proportion of conforming trade in textiles. Therefore, I had indicated to Ways and Means that we did not think, as an economic matter, this kind of provision was necessary.

However, we also indicated that we could certainly live with language that gave the President discretion to negotiate these TPL's, provided that no particular outcome were mandated by the legislation in any respect.

We believe that approach is certainly adequate, and we understand, Senator, that you are concerned about this issue. Obviously, we would be pleased to work with you and Members of the Committee, if that would be helpful.

Senator BREAUX. Is a modification to their provision along the lines that it would not apply if domestic producers are capable of supplying the material in question in a timely fashion? Is that along the lines of what we should be moving towards?

Ambassador BARSHEFSKY. As I said, sir, we believe that the amended H.R. 553 would be adequate. But certainly, if there is particular language or particular thoughts on that which you would like from us, I would ask our Chief Textile Negotiator, Jennifer Hillman, to review that.

Senator BREAUX. Mr. Chairman, may I ask one more question?

Senator GRASSLEY. Sure.

Senator BREAUX. Secretary Watson, do you have any differences with any of the comments by the Ambassador on this legislation?

Secretary WATSON. No, sir, I do not.

Senator BREAUX. All right.

Thank you very much.

Senator GRASSLEY. Thank you, Senator Breaux.

I would have one more question of the Ambassador, and couple of the Secretary.

I would start with you, Secretary Watson. You have indicated in your testimony that the CBI parity is important to political implications for the stability of the region.

I would like to have you tell us what the possible negative consequences might be if we fail to pass legislation granting parity.

Secretary WATSON. I think the principal negative consequence would be that some industries have been set up under the CBI that I think have really made a difference to the economic life of the CBI countries, as well as to American exporters and investors. I think those industries would be jeopardized over time, as the chart Senator Graham showed earlier on indicates.

That would mean decreasing employment and a narrowing of prospectives for these countries, which is certainly not in our interest. We want more investment, more employment there, rapid eco-

nomic growth, given their tremendous propensity to import goods from the United States.

So these industries would, I think, atrophy and go elsewhere, not in the United States, but some other part of the world.

Senator GRASSLEY. And also, Mr. Secretary, you mentioned in your testimony—and this is how I understand it—that the program had a two-step process for granting trade benefits that included a commitment to upgrade intellectual property protection. I would like to have you describe that process, and tell us why the administration is not pursuing that approach.

Secretary WATSON. That is an issue on which I would rather yield to Ambassador Barshefsky, if I could, Mr. Chairman. She is an expert in that field.

Senator GRASSLEY. All right.

The only thing is, am I not right that you did not have input through your agency in the interim trade report? Is that right?

Secretary WATSON. Well, we certainly have been cooperating fully with USTR throughout this process. We have been working together and consulting with each other in developing policies.

Senator GRASSLEY. All right. I do not find fault with you deferring to her. I just wanted to know if that was because you did not have any input into it.

Secretary WATSON. No.

Senator GRASSLEY. And I misinterpreted your input into it?

Secretary WATSON. Merely because she is far more expert on this than I am.

Senator GRASSLEY. All right. Then let us go to you, Madam Ambassador.

Ambassador BARSHEFSKY. If I may just clarify, the United States is seeking substantially increased protections with respect to intellectual property rights. And we believe the language that is contained now in the amended H.R. 553 would appropriately be considered by you and the Members of your Subcommittee for inclusion in S. 529.

The same can be said with respect to investment protection, market access, and also with respect to worker rights which, as you know, is an important component of the CBI itself, and is continued through in H.R. 553 as amended.

Senator GRASSLEY. All right. Maybe if I have any disagreement with you, it would be expressed in my final question.

I understand that you have improved dramatically on the House bill in regard to intellectual property rights, and that you feel there is real progress being made if, after 3 years, the President reviews and makes some sort of determination.

I guess I would look at it this way, and only in the sense of having dialogue with you on the subject. Under GATT, these countries have to meet the intellectual property rights, the TRIPS requirements, by 1999. All right, we are giving them 3 years of enhanced benefits, a pretty tasty carrot without any stick involved.

I would wonder if we should not have some very clear benchmarks, or timetables, for progress in the legislation to preserve incentives for CBI countries to improve their intellectual property protection.

Ambassador BARSHEFSKY. Sir, with respect to intellectual property protection, we tend to have bilateral negotiations with virtually every country in the region. The problems tend to differ.

Certainly we would hope that these countries would accelerate TRIPS implementation. But what the administration seeks would be not only accelerated implementation of TRIPS, but also TRIPS plus because, as you know, there are areas with respect to intellectual property rights protection not covered by TRIPS, which the United States would like to see covered. Satellite signaling is one such example.

We would propose to work with each country individually on a bilateral basis, as we do now, in order to better assess where their regime is currently, and to work with them in a realistic way to see levels of protection increase continually throughout that 3-year period.

Senator GRASSLEY. Well, maybe we should continue discussing that at another time, and probably in a different environment. Maybe your position is entirely legitimate vis-a-vis where we are headed with GATT. I have not made that determination yet, and I will think of it from your point of view, and maybe have some further questions for you.

Senator GRASSLEY. Senator Graham?

Secretary WATSON. Mr. Chairman, if I may add just one small comment. We are just about to begin negotiations of bilateral investment treaties with a great number of the countries in the Caribbean Basin Initiative. If we link that to proper IPR standards as well, I think that the appetite of these countries for these bilateral investment treaties is such that it would be an incentive to push forward on IPR as well.

Senator GRASSLEY. I guess if I had a suggestion, it would be having a petition process similar to GSP in the CBI process. And I would see that not as an end in itself, or as any sort of determination that the administration was not sincere in their efforts.

But in any Governmental policy process, a shotgun behind the door where a private citizen can enter into the process, probably is going to make sure that we have the most responsible decision making by our public officials and public servants.

Senator Graham?

Senator GRAHAM. Thank you, Mr. Chairman.

I just have one last question, which really goes to the step beyond the legislation that we are considering today.

I am concerned that a number of the countries in the Caribbean Basin, specifically in the Eastern Caribbean, are going to be under tremendous pressure to diversify rapidly and effectively as a result of the economic changes.

For example, a number of the countries which have relied primarily on bananas are already facing a very serious economic need to provide alternative employment and sources of export earnings.

Do either of you have any recommendation of changes that might be made in this legislation, or what other initiatives the United States might consider that would facilitate economic diversification at the pace that is going to be required for the countries in the Basin?

Ambassador BARSHEFSKY. Certainly, Senator, we agree. We think that these economies will be under substantial pressure. Many of the Eastern Caribbean nations are one-crop economies, and that makes them very vulnerable to any one of a number of changes, not the least of which is climatic.

Certainly the negotiation of bilateral investment treaties that provide for high levels of investment protection for U.S. companies would be very beneficial to these countries in attracting long-term, stable sources of investment. Likewise, enhanced intellectual property rights protection would be very important for these countries.

In addition, of course, their full participation in the FTAA process, where they commit to further market liberalization, where they commit to high levels of protection, will also assist in the diversification of these economies, at least in the longer term.

Senator GRAHAM. Thank you.

Senator GRASSLEY. Probably, along that line, we have been asked to help in regard to the Caribbean countries getting bananas into Europe as well. There is some dispute whether we are doing enough in that regard.

Ambassador BARSHEFSKY. Mr. Chairman, the Caribbean countries now have certain preferences with respect to their banana trade with the European Union under the Lomay Convention, which provides preferential access for Caribbean bananas into the European Union.

The United States has long supported that preferential access for the Caribbean nations. But the European Union has also erected a banana regime which adversely impacts so-called dollar-denominated bananas. These are bananas grown, for example, in Costa Rica, Colombia and other Central American economies.

That part of the EU regime which is not related to the Lomay preferences, but which is a different portion of the regime, is very discriminatory against U.S. marketers of dollar-denominated bananas into Europe.

We are currently in negotiation with the European Union over this, as well as with Costa Rica and Colombia, who have in a further discriminatory manner implemented the EU regime.

But through that process, and in consideration of the Caribbean nations, we have started a separate working group with them to seek their advice and counsel on how best to handle these issues, and to try to help insure that the Caribbean producer is not caught in the crossfire between the United States and the European Union on this issue.

Senator GRASSLEY. Thank you both very much. As happened in the House after your testimony, there were some changes in the bill. We look forward to working with you on this legislation as well.

Ambassador BARSHEFSKY. Thank you, sir. And we will look forward to working with you and Senator Graham on this very fine piece of legislation.

Secretary WATSON. Thank you very much.

Senator GRASSLEY. Our second panel is Mr. Noel Beasley, international vice president of the Amalgamated Clothing and Textile Workers Union. Then we have Mr. Fred Braswell, III, vice president for external affairs at the Russell Corporation in Alexander

City, Alabama. He is testifying on behalf of the American Textile Manufacturers Institute. Then we have Mr. William Woltz, president and chief executive officer of Perry Manufacturing Company, located in Mt. Airy, North Carolina. He is here on behalf of the American Apparel Manufacturers Association. And then Mr. Jeffrey Schott, senior fellow at the Institute of International Economics, who has written extensively in the area of trade in Latin America.

I think we will go as I introduced you. No, let us make it simple. We will just go from my left to right. So, Mr. Braswell, will you start out, please?

STATEMENT OF FRED O. BRASWELL, III, VICE PRESIDENT, EXTERNAL AFFAIRS, RUSSELL CORPORATION, ALEXANDER CITY, AL, ON BEHALF OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE, INC.

Mr. BRASWELL. Thank you, Mr. Chairman, Senator Graham. It is a pleasure to be here. My name is Fred Braswell. I am from Alexander City, Alabama. I work for the Russell Corporation, where I am corporate vice president for external affairs.

Russell is a Fortune 500 company, which is based in Alexander City, Alabama, and we employ about 17,000 people, almost 16,000 of which are working in 5 Southeastern States—Alabama, Florida, Georgia, North Carolina and Virginia.

We are proud to be members of both the American Textile Manufacturers Institute (ATMI) and the American Apparel Manufacturers Association (AAMA). In fact, our chairman, John Adams, chairman and CEO of our company, is an officer in both of these organizations. So it is also a pleasure to represent Russell, as well as ATMI, as you have mentioned, Mr. Chairman.

We are a vertically integrated company, where we are international designers, manufacturers and marketers of active wear, athletic uniforms, better knit shirts, leisure apparel, licensed sports apparel, sports and casual socks, and a comprehensive line of lightweight yarn-dyed woven fabrics.

Chances are, your favorite professional team or college team wears our products, at least on game day or on the practice field.

Mr. Chairman, we welcome the opportunity to testify before the Committee on S. 529, the Trade Security Act, which would extend benefits of NAFTA to the countries of the Caribbean. Senator Graham, we also appreciate your efforts to get us here on this panel today.

Last year, the U.S. textile and apparel industry exported $2.5 billion in fabric and apparel to the Caribbean Basin countries, making the region one of our largest and fastest growing markets.

Last year, the Caribbean accounted for almost 9 percent of our overall industry's fabric exports and 6 percent of our yarn exports.

Along with our National trade association, ATMI, Russell strongly supported NAFTA, and worked hard for its passage because we believe that Mexico, the Caribbean and all of Latin America should become part of a hemispheric trading bloc with the United States.

We therefore support the concept that the countries of the Caribbean Basin should become full NAFTA partners as soon as they

can. Until they do, we also support the concept of extending those benefits to them, so that they are not harmed during the interim.

Last year, we supported the Interim Trade Program, (ITP) to grant CBI countries access to our market, equivalent to that of Mexico, for apparel and other textile products which follow the NAFTA rule of origin.

The ITP was a one-way grant of access by the United States to serve several very important purposes. First, by granting Caribbean exports of certain textile products access to the U.S. on terms equivalent to similar shipments from Mexico, the CBI region would increase its production of garments, and displace Far East garments in the U.S., as Mexico is doing under NAFTA.

Second, the region would remain a growing and major market for U.S. textiles. In 1994, the U.S. exported $2.25 billion worth of textiles to the Caribbean, either as cut pieces or fabrics or yarns.

The region ranked first, ahead of even Canada and Mexico, among the United States' top export markets for fabrics and yarns.

We are concerned that if NAFTA-type access is not provided quickly, garment production will begin to shift from the Caribbean to other countries. In fact, growth in fabric and garment trade is already starting to slow, as we saw by the charts earlier.

Russell's support for these efforts, as well as that of ATMI, is based on three key points: Number one, the legislation should include the NAFTA yarn-forward rule of origin; number two, it should include NAFTA provisions concerning customs enforcement; and three, there should be no provisions to circumvent the rule of origin unless and until the country signs on to the entire NAFTA agreement.

We are pleased that S. 529 does include the first two of our objectives. However, we are concerned that the bill also authorizes the administration to negotiate exceptions to the rule of origin, known as tariff preference levels.

These exceptions, generally referred to as TPL's, permit countries to ship a predetermined quantity of goods which do not meet the rule of origin, and receive tariff benefits as though they did meet the rule of origin.

We urge that TPL's not be authorized until the countries in the region become full-fledged NAFTA partners and signatories to a completed agreement, as we have with Mexico and Canada.

If TPL's must be included in the legislation, we strongly recommend that the Finance Committee change it to require goods shipped under TPL to be made of fabrics which are cut in the U.S., and which are unavailable in commercial quantities.

We further recommend that the TPL's be negotiated on a product basis with each country seeking them, capped at 10 percent of the 807 trade of that product, and that separate TPL's be negotiated for wool.

Again, this proposed change would eliminate many of the potential obstacles to S. 529's enactment. It would not in any way reduce economic opportunities for the Caribbean nations and would, in fact, promote increased economic opportunities in the region.

Mr. Chairman, the Russell Corporation appreciates the opportunity to testify, and we urge your acceptance of the modifications I have mentioned.

Thank you.

Senator GRASSLEY. Thank you.

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

Senator GRASSLEY.Mr. Schott?

STATEMENT OF JEFFREY J. SCHOTT, SENIOR FELLOW, INSTITUTE FOR INTERNATIONAL ECONOMICS, WASHINGTON, DC

Mr. SCHOTT. Thank you very much, Mr. Chairman.

I appreciate the opportunity to comment on the provisions of the Caribbean Basin Trade Security Act. My statement reflects the extensive analysis of regional integration contained in the book, "Western Hemisphere Economic Integration," which Gary Hufbauer and I coauthored last year. The basic conclusion of that book was that both the United States and Latin America and the Caribbean Basin tend to derive substantial benefits from the extension of the North American Free Trade Agreement to the other countries of the Western Hemisphere.

My written statement goes into some detail on the benefits for the United States, on both economic and foreign policy terms. They essentially echo your opening statement, so I will skip over that part because I fully support the statement you issued at the beginning of this hearing.

As far as the benefits for the CBI members, those countries rely on the U.S. market for about 50 percent of their total trade. So, obviously, NAFTA has placed the CBI countries at a competitive disadvantage in the U.S. market versus Mexican suppliers, particularly in the textiles and apparel sector.

Providing treatment in the U.S. market for CBI countries comparable to that received by Mexico under the NAFTA both would redress this distortion, and provide incentives for the CBI countries to accelerate their economic reforms in anticipation of early accession to the NAFTA.

I should point out that, as a practical matter, the successful implementation of these reforms, the domestic economic reforms in the Caribbean Basin countries, is a prerequisite for NAFTA membership. Without these reforms, I believe that developing countries of the region are unlikely to be able to assume, much less to sustain, the extensive obligations of the NAFTA.

Given the time constraints, I will briefly touch on three critical questions.

First, are the CBI countries ready to implement the reciprocal trade obligations of the NAFTA?

Second, are we ready to deal with the vexing budget issue raised by the pay-as-you-go budget rules in the Congress?

Three, how should the NAFTA parity be implemented?

As far as the readiness of CBI countries to join the NAFTA, Hufbauer and I have developed "readiness indicators" for the CBI and other Western Hemisphere countries. We found that several CBI countries would be well positioned to negotiate NAFTA accession if their current economic reforms can be sustained over the next few years.

Many CBI countries have made notable progress in taming inflation, improving fiscal discipline, and managing their external debt.

They still have a major challenge in terms of fiscal reform, which will need to be addressed. But several countries in the region should be able to meet the timetable set out in the Senate bill for NAFTA accession.

The second point is on the budget considerations. According to the CBO estimates, the new legislation would require offsets of almost $800 million for the period fiscal years 1995 to 1999. The requirements of the pay-as-you-go budget rule probably present the biggest obstacle to the passage of NAFTA parity legislation, since there seems to be bipartisan support for this legislation.

I believe it is inappropriate and illogical for trade agreements to be the subject of these rules. Budget discipline and trade liberalization are mutually reinforcing. Trade reforms promote growth. They dampen inflation, and thus strengthen the U.S. revenue base.

For the United States to require offsets when our overall tariff revenues account for less than 2 percent of our total Federal revenues does not make sense. I strongly urge the Congress to exempt trade agreements from this budget rule.

This budget issue perhaps goes beyond the scope of the legislation but, given the opposition that is going to be generated against this legislation just on this very issue alone, irrespective of the merits of the legislation, I think it deserves comment.

The final point covers the issue of how do you implement the CBI parity, over what time frame? And in light of the wide differences in the levels of development of the 24 CBI countries, concerns have been raised both that the proposed transition period is too long for some countries, and is too short for others.

Ambassador Barshefsky has gone into great detail answering your questions on this point. I think the timetable in the House bill, as amended, is preferable, if you envisage a case-by-case negotiation with each country as they become ready to join the NAFTA.

However, if one envisaged a single negotiation, or a negotiation with the core countries in the Caribbean and with Central America, then the 6-year period makes more sense, since it would avoid the convoy problem namely allowing the foot-draggers in the region to set the pace for the accession of all the countries. By calling for a 10-year transition period, Ambassador Barshefsky seems to have already accepted the risk of the convoy problem.

In my view, the 6-year transition period is preferable, and I would be happy to go into more detail on that. This approach should still allow the poorest countries to have an extended period of time, while allowing the bulk of the economies in the region to move forward.

So in summary, Mr. Chairman, I believe the NAFTA parity for the CBI region is a good idea. And I think S. 529 merits support in the Congress.

Thank you very much.

Senator GRASSLEY. Thank you, Mr. Schott.

Mr. Beasley?

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

STATEMENT OF NOEL BEASLEY, INTERNATIONAL VICE PRESIDENT, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, CHICAGO IL

Mr. BEASLEY. Thank you, Mr. Chairman. Thank you, Senator Graham.

I saw my first enterprise zone 23 years ago in Kowshung, Taiwan. At that time, I had never heard of the term "enterprise zone", or maquiladora, but I quickly understood barbed wire, electrified fences, armed guards and workers showing their ID security cards as they went to work, when passing from their own city into a kind of industrial twilight zone of this oceanside complex in Kowshung.

The overriding image that I still carry with me 23 years later is of children working in hot, miserable conditions, making shoes that they could never afford to buy, that indeed would never cross over the electric barbed wire fence into their own country.

In the early 1980's, I served as the chairman of the Indiana Save our Jobs Campaign, a coalition of unions, religious and community organizations who were trying to protect the people of Indiana from the imposition of these kinds of zones into our State.

We successfully beat back a number of so-called job creation initiatives, whose net effect was to pit town against town in Indiana, village against city in the same State, in a race to fund low-wage jobs.

Such intra-community competition, of course, has become quite commonplace in our land, to the great enhancement of corporate profits and CEO salaries.

In the past 20 years as a union official, I have unfortunately presided over many plant closings, trying to help workers and their families try to recover from the devastation and trauma of the mass executions that occur most often with little or no assistance from the companies issuing the orders to terminate.

Most recently, within the last year, I was the first U.S. trade unionist to ever be allowed to tour the enterprise zones in the Dominican Republic. And what I saw there were the same fences, virtually the same armed guards, and the production of apparel there that the workers could not afford to buy, and indeed would not be distributed in the Republic itself.

And, Senators, I believe this is most striking. I saw the same defiant, the same courageous look in the eyes of the children that I saw in Taiwan almost a quarter century ago.

In all that time, in hours of discussion and debate and testimony that I have engaged in on this topic, no one has ever explained to me how these programs, such as are being proposed by this piece of legislation, are beneficial to the workers, let alone to the children who are forced to be workers in these operations.

It is very very clear to me how they are beneficial to companies and to investors. I understand that point very well. But I would urge you, Senators, someone must see these programs through the eyes of these children.

For these reasons and many more, the Amalgamated Clothing and Textile Workers Union registers many concerns and objections concerning S. 529.

We certainly understand the discussion that has been held here this afternoon about investment protection and about securing in-

tellectual property rights. I am very concerned about the fact that so far there has been virtually no discussion of the rights of children, the rights of human beings.

We have three specific key objectives, Senators. First of all, to include workers' rights in the negotiating objectives of the bill.

Second, the GSP-style processes should be specifically written into the text of the bill.

And we also share a concern about the tariff preference levels, in that parties outside the region should not gain undue advantage as a result of enacting this legislation.

We would make the following arguments, and these are contained in my printed testimony to underscore why these objectives are ours.

First of all, we contend that the case that CBI countries will suffer serious disinvestment due to NAFTA has not been made convincingly; far from it. All the charts, all the diagrams, all the statistics that you want to put up here, will not convince us that serious disinvestment is occurring.

It certainly will—and we have a proven track record of documentation on this—increase job loss and continue to reduce even lower the standard of living of workers in this country.

It will perpetuate the under-development of CBI countries. It will further weaken worker and human rights, and undermine labor standards throughout the region. And it will continue to increase the forced migration of workers from the CBI countries to the U.S., as working conditions in these countries deteriorate.

I find it a tremendous irony that the job creation statistics that the administration and the Government put forward in the last year or two contain the statistics of workers who are turned out of their jobs as a result of INS raids on existing plants and jobs. These go into job creation statistics. It is an irony that we drive these workers from their countries, from their island domiciles to our land, throw them out of the factories where they find jobs here, and then label that as job creation.

Thank you for hearing my testimony. I would urge you to consider these arguments as you are considering the legislation before you.

Senator GRASSLEY. Thank you, Mr. Beasley.

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

Senator GRASSLEY. Mr. Woltz?

STATEMENT OF WILLIAM K. WOLTZ, JR., PRESIDENT AND CHIEF EXECUTIVE OFFICER, PERRY MANUFACTURING COMPANY, MT. AIRY, NC, ON BEHALF OF THE AMERICAN APPAREL MANUFACTURERS ASSOCIATION

Mr. WOLTZ. Excuse me. I have a broken jaw, and it just slipped down.

Thank you, Mr. Chairman. I am William Woltz, Jr., president of Perry Manufacturing Company, headquartered in Mt. Airy, North Carolina, and a past chairman of the Apparel Manufacturers Association.

The AAMA is the central trade association for American producers of garments. AAMA members are responsible for about 70 per-

cent of domestic apparel production. Many American operators also operate in Mexico under NAFTA, and in the Caribbean and Central America under the 807 program.

I have supported the idea of CBI parity since before the NAFTA negotiation was completed. I believe parity should have been made part of the NAFTA enabling legislation. I believe it should have been made part of the Uruguay Round enabling legislation.

Clearly, CBI parity is leftover work from the previous Congress. And I hope that this Congress will approve it at the earliest possible date.

Historically, the CBI region and Mexico have been treated alike in terms of apparel trade. Both have the advantage of section 807, under which garments sewn in Mexico or the Caribbean can be returned to the United States with duty paid only on the value added by the sewing operations.

When the 807–A program was created in 1986, it essentially made many classes of apparel quota-free from the Caribbean. That program was immediately extended to Mexico, where it is called the special regime.

NAFTA, however, tipped the scale dramatically in favor of Mexico. Under NAFTA, most garments now enter the United States duty- and quota-free. This amounts to an 8 to 10 percent cost advantage for Mexico, a very significant advantage in an industry with historically low profit margins. This advantage has been greatly increased with the recent devaluation of the Mexican peso.

CBI parity is good for both the Caribbean region and for the U.S. apparel industry. U.S. apparel companies have contributed thousands of jobs to the region, contributing significantly to the economic development and the acceptance there of democratic principles.

The U.S. apparel industry is not in the business of moving jobs offshore. The production that has gone to the Caribbean was no longer economically viable in the United States. If it had not gone to the CBI or Mexico, it would have gone to the Far East, where there would have been very little to no American participation in the manufacturing or pre-manufacturing processes.

It is estimated that every hundred jobs in the CBI produce 15 apparel jobs in the United States in design, cutting, marking, distribution, and the list goes on— recapping tires and making cardboard boxes. In addition, it preserves many jobs in the textiles and all of our other supplier industries.

Most importantly though, co-production in Mexico or the Caribbean allows U.S. companies to lower their overall costs and compete in a world market, while still maintaining a large volume of employment in the United States.

Mr. Chairman, the U.S. apparel industry today stands very much at a crossroads. Because of the Uruguay Round, we face for the first time since the late 1960's a future without benefit of quotas on imported apparel.

I believe the U.S. industry has the strength to compete because of two very important advantages. The first is obvious. It is our proximity to our own market, and our commitment to quick response programs that allow us to replenish retail shelves in a frac-

tion of the time it takes to do such replenishment from the Far East.

The second is our ability to share some production with Mexico, Central America and the Caribbean. If we exploit these advantages—and I believe the U.S. apparel industry fully intends to exploit these advantages—we can remain a major factor in the global apparel marketplace, and continue to provide good jobs for many thousands of Americans.

Mr. Chairman, I would like to take this opportunity to commend Senator Graham for introducing S. 529, the Caribbean Basin Trade Security Act, and you, Mr. Chairman, as well as Senators Bradley, Hatch, Lautenberg Mack and Moseley-Braun, for cosponsoring S. 529. I urge you to move quickly to adopt this legislation.

However, I would like to point out to the Subcommittee one provision of the legislation which is of particular concern to me in the textile and apparel industry. I suggest to the Committee that the provisions regarding TPL's need revision.

In summary, there is strong and consistent movement by countries in the CBI region towards democracy, economic reform, and trade and investment liberalization. During the past few years, countries of the CBI have initiated significant economic restructuring and trade liberalization, and continue to do so as a part of their move to NAFTA accession.

Programs such as CBI and 807 contribute significantly to the political stability and economic growth of the region. Progress in the region enhances each country's political security, as well as that of the United States.

Passage of NAFTA adversely affected the competitiveness of the CBI region.

Thank you.

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

Senator GRASSLEY. I think I will start with you, if that is all right. And by the way, if you have this jaw problem, you will never be able to serve in the Senate, you know that? [Laughter.]

From the standpoint of your own company, as opposed to the association you speak for, could you tell us how joint or co-production with CBI countries allows you to compete with imports from the Far East?

Mr. WOLTZ. It allows us to take programs at an overall competitive price that is within a range of the much lower price in the Far East, by commingling certain parts of the production. For instance, if you had a style, you might make the basic colors in the Caribbean, where you knew that you were going to run red, blue and black in relatively long runs. You would make the fashion colors that would tend to change seasonally in your United States plants. You could commingle or co-price that to have a competitive advantage over nothing but a domestic price, and be within a competitive range of Far Eastern prices.

One thing I would like to add which was not addressed specifically, but the plants that are owned and operated by the members of the AAMA have all adhered to an extremely high standards vis-a-vis their workers. Almost all are higher than are required by the host countries, most of which have fairly strict labor laws.

Senator GRASSLEY. Are apparel imports from the CBI region replacing imports from the Far East, or are these additional imports, at the expense of U.S. jobs and manufacturing?

Mr. WOLTZ. In my opinion, it is almost all garments that would have been produced in the Far East. As the trade has moved, it has moved to combat pricing out of China, Taiwan and the Far East.

Senator GRASSLEY. Mr. Braswell, the 10-year phase-out of the multi-fiber arrangement is a reality. How do you see the future of the U.S. textile and apparel industry? And how exactly does CBI parity fit into this future?

Mr. BRASWELL. Well, Mr. Chairman, in terms of my company's perspective, we see that CBI parity fits into it very nicely, in that our company over the last years has had to accept the fact that we are working in a global marketplace. For instance, last year our international sales grew some 46 percent, whereas domestic sales grew only at several percent.

So we see that CBI parity allows us access to a market, allows us to better serve the market we are currently in. As we go forward, we see that that will have healthy benefits to our ability to compete worldwide, as well as protect jobs, as was alluded to earlier.

For instance, in my home State of Alabama, we have seen about 35 percent of all manufacturing jobs created in the last 5 years were in the textile an apparel industry. We have over 102,000 working in this industry in our State. So we have seen jobs grow as a result of programs like what we are finding in CBI countries.

Senator GRASSLEY. Mr. Schott, my last question will be directed to you, but it is also something that Mr. Beasley indicated. And if you would like to comment, Mr. Beasley, you are invited to do so as well.

He indicated that the CBI parity is a bad deal economically for both the United States and the beneficiary countries. Now, obviously, you disagree. Where in his analysis do you feel that Mr. Beasley errs?

Mr. SCHOTT. Well, the labor criticism of trade liberalization is so broad and so contradicted by conventional economic wisdom that we would have to have a repeat of the NAFTA debate to go into those details. I am not sure you would want to do that.

Senator GRASSLEY. No, I do not want to do that, but I just wondered——

Mr. BEASLEY. Oh come on. Let us do it!

Senator GRASSLEY [continuing]. If we could do it in regard to something that might be unique to the CBI debate, or do you think that, in regard to Mr. Beasley's comments, it would be the same general approach that affects GATT and affects NAFTA?

Mr. SCHOTT. Well, I think the most important thing to stress is that the real benefits for the U.S. economy come not in terms of a transitional increase in exports or a trade balance effect, but come from the efficiency gains that come from having an expanded market, being able to source more broadly in that regional market, being able to take advantage of economies of scale of production—the very reasons that Mr. Braswell and Mr. Woltz pointed out that their companies are benefiting from these arrangements.

Those are long-term real benefits that will result in increased productivity of U.S. industry. And it is only when we increase productivity that we will be able to increase the real wages of American workers. So I think that is the real bang for the buck of a trade liberalization agreement such as NAFTA, and it applies as well to extending NAFTA to the CBI region and the Uruguay Round agreements.

So I disagree with the critics that dispute the overall benefits of the NAFTA for the U.S. economy. There may be questions about the distributions of those benefits, and whether one should have programs to assist workers, or training or things like that. But that gets beyond the case for the trade agreement itself.

Senator GRASSLEY. Senator Graham?

Senator GRAHAM. Thank you, Mr. Chairman.

Mr. Woltz and Mr. Braswell, you both raise questions about the TPL provision, which is in the legislation as introduced. That provision was drawn to parallel the TPL provision which is in NAFTA, basically to allow for the integration of materials that are not available in commercial quantities within one of the beneficiary countries.

Could you elaborate as to why you think that was an appropriate provision in NAFTA, but inappropriate in this CBI parity bill?

Mr. WOLTZ. Fred, I am going to defer to you. You are the expert on that.

Mr. BRASWELL. Well, Senator Graham, I would only add that I think that we are concerned that these provisions will at least eliminate a loophole that allows Far Eastern fabrics from coming in. And it is sort of why give CBI benefits to China, and so forth, with large unrestricted limits that we are concerned about?

We are trying to learn the rules of international trade, and we think that this gives us a more definable environment to work in, and one that we can accommodate moving forward.

Senator GRAHAM. Do you have those concerns about the TPL in the NAFTA, that it will be a loophole, and used for purposes other than that for which it was intended?

Mr. BRASWELL. Well, we are certainly concerned with provision and implementation of any trade policy. We talk about the intentions of various trade policies, but when we move forward with implementation, sometimes we find that we are faced with entirely different results. So as we move along day by day, we learn more and more, and so we ask more questions. And this will be a function of asking more questions of how in fact these policies are going to be implemented, what are the regulations going to look like that will be developed, and that is why we are expressing these concerns.

Senator GRAHAM. Mr. Beasley, you feel that the consequence of this legislation is likely to be adverse on the working conditions of the employees in the CBI countries. What do you feel that the basic Caribbean Basin Initiative has done to working conditions in the Caribbean and Central America over the last dozen years?

Mr. BEASLEY. It has created a substantial number of jobs in enterprise zone situations, at the expense, we believe, of jobs at much better wages and better working conditions in this country and in Canada.

The overall effect has been to produce situations where workers go to work, earn minimal wages, so that they are barely able to support themselves and their families. They are faced with constant harassment on the job to produce more and more for less and less wages, and are consistently terrorized at any time that they try to undertake the act of forming an organization such as a union to protect them.

So in the half dozen years that I have been touring El Salvador, Guatemala and the Caribbean Basin, I have seen no significant improvement in either the economies of the towns and cities where these jobs have been created or in the lives of the working people who are creating those profits.

The key to an enterprise zone is that it does not exist inside the country itself, for purposes of taxation, for purposes of wages and working conditions. The goods come in, the goods are processed and manufactured, the goods go out. It is the same thing I saw in a prototype version in Kowshung in 1972. It is exactly the same situation right now.

I have never been able to understand how conditions, and specifically living conditions, improve in a country if decent wages and decent working conditions are not established. I think that is where Mr. Schott and I would certainly disagree.

Whatever the conventional economic reason is, it does not seem to translate to people who are living in cardboard boxes under railroad tracks, who are working 50 hours a week.

Senator GRAHAM. So you believe that, but for the CBI legislation, the jobs that have been created in the Caribbean Basin would have been created in the United States?

Mr. BEASLEY. I think that we would not have seen the exodus of jobs from the United States. And if jobs were going to be created, a substantial portion of those could have been created here.

We have worked very successfully with a number of employers in creating worker involvement programs, joint partnerships, ESOP's and so forth that have kept jobs in the United States, and have expanded jobs by working smarter and working better.

I do not think it is necessary to compete with the Far East by employing children at substandard wages.

Senator GRAHAM. Mr. Braswell, or Mr. Woltz, from your own experience and that of other members of your associations, do you believe that had the opportunity to establish these twin plant relationships in the Caribbean Basin not been available, it would have resulted in more jobs in the United States?

Mr. WOLTZ. Absolutely not. Nobody wanted to go to a foreign country to work. We had millions of dollars invested in sophisticated, state-of-the-art sewing plants in the United States.

For us to leave North Carolina and go to Costa Rica, Honduras, El Salvador to set up plants was a tremendous undertaking, and one that we undertook for one motive, and that was survival. The Far Eastern penetration in the American apparel market, the import penetration, was over 50 percent. It was strictly a matter of survival.

And to further answer your question, the idea that enterprise zones are some kind of bugaboo, my company operates inside enterprise zones, we operate outside enterprise zones. There is relatively

no difference. My customers are major retailers in the United States. Most of the American apparel manufacturers sell to major customers in the United States. None of us are going to be in a position to have our customers embarrassed.

I would invite the Senators to tour these plants. You will find that the working conditions are exemplary. Contrary to what Mr. Beasley said, we have seen in our plants, as our people work and earn money on incentive, that their standard of living does increase. They wear nicer clothes, they are able to buy some of the things that make life nicer, they buy consumer electronics in the towns. And we can see when a plant goes up, and it stays there several years, shops spring up around the plant where local entrepreneurs are selling people things.

There is very much the same phenomenon that happens in the United States. If you go and build a plant somewhere that is economically depressed, watch the whole area come back. Watch the radiating effect of jobs.

Senator GRAHAM. Thank you.

I have a couple of more areas of inquiry. I would like to follow up on the comments that have just been made by Mr. Beasley and Mr. Woltz.

Mr. Schott, is there any empirical data on things such as per capita income, other indicators of economic change at the individual worker level, over the 12-year period of the CBI that would indicate whether the CBI has contributed to the advancement or decline of workers in the region?

Mr. SCHOTT. I think you can read anything you want out of statistics, Senator. So, to be fair, I would be cautious in evaluating those statistics which do show improvement in many of the countries. There are many other factors going on in the economy besides trade pacts that affect the well-being of workers. Moreover, the overall numbers mask sharp differences between the types of plants that Mr. Woltz is running and some of the plants that Mr. Beasley has talked about.

I think they are both correct. Exemplary plants exist, and there are plants that have gross abuses. And the statistics you see will bunch them together into one aggregate number, so you will not get the proper story.

I think on balance though, you have to look at a combination of policies, both the trade policies and the domestic economic reforms in these countries that the CBI legislation is supposed to be promoting—and I think will promote—and the combination of ingredients will help build economic growth, and improve the welfare of people in those countries.

Senator GRAHAM. Mr. Beasley, do you want to comment further?

Mr. BEASLEY. Yes. I would like to respond with three very brief points.

First of all, in terms of this question of having to compete with the Far East, the problem is that imports from the Far East have not fallen off either. In fact, imports from the Far East also continue to increase relentlessly, at the same time the jobs are leaving here and going to CBI.

The second point is that 75 percent of the imports are brought in by retailers in this country, not by manufacturers. And, again,

that primarily accounts for the flood of imports coming in from the Far East.

And the final point I would make is that, if you want evidence as to how these trade policies are working out, ask a Mexican worker if he or she is better off today than he or she was a year ago or 2 years ago. And I think you will see the fruits of NAFTA very well borne out in the economy of Mexico, which was very carefully and artificially buttressed up until NAFTA was passed. Then when it had to stand on its own, we all know what followed from that.

Senator GRAHAM. Mr. Schott, I am going to ask you my last question. If you would like to use that as an occasion to comment on any other aspects, please do so.

I asked the previous panel about the issue of economic diversification within the region, given the fact that within 10 years we are committed to the goal of a free trade area within the Western Hemisphere, and the degree to which many of these countries of the Caribbean Basin continue to be dependent upon a very narrow economic base.

Do you have any recommendations for alterations in this legislation, or in other areas that Congress might consider, which facilitate a rapid pace of economic diversification within the Caribbean Basin?

Mr. SCHOTT. I think this legislation makes a significant contribution to helping the Caribbean Basin countries achieve the goals they have set, as well to improve the welfare of their people.

Export-led growth will be promoted by this legislation, to the benefit of both our countries. But a lot more needs to be done in the region. A trade agreement creates trade opportunities, but you still have to be able to take advantage of those opportunities. So there will need to be substantially more infrastructure investment, for instance in the ports and roads.

If you look at Haiti or the Dominican Republic, a tremendous amount of basic infrastructure investment is needed in order for those countries to be a viable base for production, whether it be domestic or from foreign companies.

Technology needs to be brought in. The emphasis that Senator Grassley has put on the improvement in intellectual property rights and investment protections is important to encourage the continued inflows of foreign capital which bring in technologies that will help improve the technological base of those economies.

Diversification is very important. And with an improved investment climate, I think these countries will be able to do more in the services sectors as well to complement their manufacturing base.

But one has to recognize that there are some very poor countries in these regions that are dependent on single crops. It will take some time for them to develop. They will need additional assistance from the Inter-American Development Bank. They will need technical assistance in improving their capacities to implement the obligations, whether it be intellectual property, investment, or customs procedures that are in these trade agreements.

And I think they are willing to do so, to open their economies for more competition to improve their prospects for growth.

Senator GRAHAM. Thank you.

Senator GRASSLEY. One last comment on what Mr. Beasley said. I do not have any questions. I just ask you to consider this.

When you spoke about the buttressing of the economy to get NAFTA passed, I would submit that bad monetary policy was for the purpose of the reelection of the party that has been in power there for 60 years. Once the new president was sworn in, that is when things started to fall apart.

And I believe that you would see that those are political judgments related to internal politics more than to the external matters involving NAFTA.

Thank you all very much, and I will adjourn the hearing.

[Whereupon, at 3:52 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF CHARLENE BARSHEFSKY

INTRODUCTION

Mr. Chairman, thank you for the opportunity to submit the Administration's comments on S. 529, the "Caribbean Basin Trade Security Act of 1995." The Administration endorses the thrust of this bill.

The bipartisan support Congress has given to the Caribbean Basin Initiative (CBI) since its inception has greatly assisted U.S. efforts to promote economic development and democracy in the region. The Administration appreciates that the sponsors of S. 529 are continuing this bipartisan tradition.

With almost all countries in the Caribbean Basin embracing open markets and free elections, the United States has a unique chance to help these countries achieve long-term prosperity. S. 529 can be a very constructive catalyst to this process. This bill recognizes that access to the U.S. market is a powerful stimulant to broadly based economic development.

Before I outline the Administration's position on S. 529, let me review briefly the status of the CBI. Mr. Chairman, while you and Senator Graham may be well acquainted with the CBI, my summary might be particularly useful for new members. Also, we hope this presentation will put into perspective the Administration's subsequent comments on S. 529.

STATUS OF CBI LEGISLATION

CBI I and CBI II

The 1984 CBI provided the President the authority to proclaim duty-free treatment for all products except textiles/apparel subject to agreements, footwear, petroleum, categories of flat goods and gloves, leather apparel, canned tuna and a minor category of watches. Countries must meet the conditions, which are sufficiently flexible to provide the President considerable leverage to encourage reforms without forcing specific action. Only one country has ever been suspended from the CBI program, for failure to cooperate on narcotics matters. CBI benefits are now granted to 24 nations.

The Executive Branch in 1986 created the "Guaranteed Access Level" (GALs) quota program for CBI apparel exports. Under the GALs program, a Caribbean Basin country may ship "guaranteed" levels—virtually unlimited quantities—of apparel and other textile products to the United States made from U.S. cut and formed fabric.

In 1990, the CBI was made a permanent program. This provision greatly improved the private sector's inducement to invest in the region.

The CBI has benefitted the Caribbean Basin and the United States. U.S. exports to the region jumped from $5.8 billion in 1983 to $12.2 billion in 1993—an increase of 112 percent. A U.S. trade deficit with the region of $2.6 billion in 1984 turned into a surplus of about $2 billion last year.

Countries in the Caribbean Basin are very good customers of U.S. products. About half of their imports come from the United States, and some countries purchase over 70 percent of their goods from the United States

The CBI has, of course, also benefitted the Caribbean Basin. U.S. imports of products entering under the CBI's provisions have jumped by more than 100 percent during the past five years, which is twice the rate of growth of total imports from the region.

Textiles and apparel trade between the United States and the CBI region has shown tremendous growth rates. In 1994, we exported $2.5 billion of fabric and apparel to the CBI countries (annualized data). U.S. imports of apparel from the region have grown by an average of 20 percent per year since 1986.

These summary data illustrate why—just in trade terms—it is in the U.S. interest to enhance our relationship with countries in the Caribbean Basin. The United States also wants to promote economic prosperity and stable democracies in the region. And, this Administration has tried to do just that.

Interim Trade Program

Following the conclusion of the NAFTA, CBI countries became increasingly concerned that their trade benefits would be substantially eroded and that investment would be diverted out of their nations. Also, U.S. firms that had invested in the Caribbean Basin expressed their concern about their financial ability to remain in the region.

After analyzing closely the potential effects of NAFTA on the CBI, the Administration developed some proposals to address the region's legitimate concerns. Due to circumstances at the time, these proposals could not be presented as part of NAFTA implementing legislation.

These proposals, refined further to become the Interim Trade Program (ITP) in 1994, were prepared for submission in the Administration's Uruguay Round bill in Congress. In the end, however, on the basis of discussions with Members of Congress, the ITP was not included in the Uruguay Round bill.

H.R. 553

As I am sure this Subcommittee is aware, the House has a companion bill to S. 529. It is H.R. 553, as amended.

Let me explain the Administration's difficulties with the original version of H.R. 553 and how those problems were addressed in the amended version. Because S. 529 is virtually identical to the original version of H.R. 553, describing our concerns with H.R. 553 and how this bill was amended is a way we point out ways we believe S. 529 can be improved. The Administration now supports H.R. 553, as amended.

First, we expressed concern about expanding the product coverage beyond textile and apparel products that meet the NAFTA's rules of origin. We focussed on textiles and apparel because our analysis showed this to be the sector most vulnerable to competition from the NAFTA and by far the largest, accounting for about $4 billion of U.S. imports from the region. Also, U.S. manufacturers, which operate partnership production arrangements, have substantial investment in the region.

In addition, we wanted to fashion a bill that would pass quickly without controversy and that enjoyed industry support. We were concerned that H.R. 553, by including all previously excluded products, would attract opposition.

Since the Administration's statement on H.R. 553 on February 10, we have received only one complaint about including products outside of the textile and apparel area. This dearth of letters to USTR apparently supports the view that including all products in new CBI legislation would generate little opposition. We, therefore, have been convinced that full product coverage would not derail the bill.

Second, the Administration believes strongly that countries should undertake new commitments if they are to receive new benefits. The original version of H.R. 553 did not impose any new obligations on CBI countries.

Working with both Republican and Democratic Members of the House Trade Subcommittee, we were able to craft provisions which address this concern. The amended version of H.R. 553 includes modified criteria and a review every three years of CBI nations' compliance with these criteria.

The revised criteria indicate that CBI countries need to improve their intellectual property rights (IPR) protection up to U.S. standards, enhance their investment protection to those in the U.S. bilateral investment treaty, and improve market access. These modified criteria are much more specific than those in the current CBI and, therefore, establish clearer benchmarks.

We believe these criteria will serve a dual function. They should help the CBI nations help themselves attract investment—exactly what these countries want. The criteria are also designed to enhance protection for U.S. investors and U.S. manufacturers of IPR-related products.

The period of three years was selected for very good reasons. The current CBI requires a review of the operation of the program every three years. Also, three years is approximately the period the Administration chose for encouraging the CBI countries to adopt higher IPR and investment' protection.

The Administration's third concern was over the length of the "transition period" for bringing countries into the NAFTA or a NAFTA-equivalent free trade agreement. H.R. 553 specified a six year period.

The amended H.R. 553 revises this transition period so that it is now 10 years. The advantage of this longer transition period is that it is consistent with the date, 2005, which leaders at the Summit of the Americas adopted for constructing the "Free Trade Area of the Americas. " Also, the longer period gives greater security to investors than would six years.

Fourth, the Administration expressed difficulties with the sugar provision in H.R. 553, which directs the President to take action if the NAFTA is adversely affecting Caribbean Basin countries. Within the constraints of the existing domestic sugar program and our obligations under the NAFTA and the World Trade Organization (WTO), the President has very little discretion to increase sugar access levels or reallocate market shares. U.S. discrimination among countries in allocating overall reductions in access to the U.S. market would be inconsistent with our WTO obligations.

We asked that this sugar provision be reviewed and changed in light of U.S. commitments. Unfortunately, the sugar provision remains in the amended version of H.R. 553.

Finally, we had a number of technical suggestions on H.R. 553. Most of these found their way into the amended version.

COMMENTS ON S. 529

Since the Administration supports H.R. 553, as amended, we would prefer this bill to S. 529. We believe the types of changes which have been made to H.R. 553 would strengthen the provisions of S. 529.

With the benefit of our experience on H.R. 553, we can offer the following additional comments on S. 529.

Objectives

I am very pleased to say that the Administration supports the ultimate goal of S. 529, which is to bring CBI nations into NAFTA-type trade agreements. This is the goal that hemisphere's leaders at the Summit of the Americas in December adopted for completing the negotiations of the "Free Trade Area of the Americas" by the year 2005. We welcome Congress' support for this outcome of the Summit.

The Administration also recognizes that achieving this objective will take time and will not be easy. We realize that during this process, investment in some sectors in the Caribbean Basin could be affected by the NAFTA. Addressing the potential impact of the NAFTA on the Caribbean Basin remains our focus in any new legislation providing trade preferences.

Product Coverage

As I indicated above, the Administration's concerns about including products in addition to textiles/apparel have been mitigated since our initial testimony before the House. We can now endorse full product coverage, as in S. 529.

Section 202

The Administration believes strongly that we should negotiate FTAs only with countries that are "ready"—those willing and able to undertake the serious obligations of an FTA. Enhancing the credibility of U.S. trade policy and maintaining the confidence of the American people in the value of open trade depend on well-conceived and properly executed trade agreements. International trade is in the U.S. economic interest; the American people deserve to see a proven track record of success from our trade agreements.

The Administration is developing criteria to assess when other nations might be "ready" to negotiate and to implement such a complex and comprehensive undertaking as a NAFTA-type agreement. The provisions in section 202 of S. 529, "factors in assessing ability to implement NAFTA," are very useful guidelines for the Administration's process.

Additional Comments

Section 2: Findings and Policy

As I have indicated, the Administration supports the goal of creating the "Free Trade of the Americas" by the year 2005. While our preference is for this goal to be achieved by accession to the NAFTA, we would like to leave negotiating flexibility on the approach we ultimately use. For this reason, we suggest inserting the phrase included in Title II of S. 529, "or to enter into mutually advantageous free trade agreements," whenever the phrase "accession to the NAFTA," is used.

Technical Corrections

In addition to the substance comments, we have technical changes to H.R. 553 which we would like to see included in S. 529. We would like to work with your staff on these revisions to S. 529.

CONCLUSIONS

In conclusion, Mr. Chairman, I would like to compliment you, Senator Graham, and the other members of this Trade Subcommittee on proposing this legislation for the Caribbean Basin. By doing so, you clearly demonstrate the priority this Subcommittee assigns to strengthening further the U.S. relationship with the nations of the Caribbean Basin.

This Administration shares that commitment. We will work closely with you in crafting a bill that achieves our mutually held objective S. 529. We believe H.R. 553, as amended does that. We would urge the Senate to move in that direction.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF NOEL BEASLEY

Chairman Grassley and Members of the Subcommittee:

Our union has always been an advocate of development, and not a spokesman for "protectionism." We have a long tradition of supporting workers in third world countries to better their living standards and encouraging policies that assist in that effort. The problem with the current proposal for CBI parity is that it fails on all the tests of economic improvement: it contributes to undermining the US economy, it does not promote economic development in the CBI countries, and it drags down living standards in the entire Hemisphere.

ACTWU believes this legislation is bad policy for a host of reasons which will be summarized in the following points:

1. The Case That CBI Countries Will Suffer Serious Disinvestment Due to NAFTA Has Not Been Made. This conclusion is largely supported by a study prepared by the US International Trade Commission (USITC) in July, 1992 on the potential effects of a North American Free Trade Agreement on apparel investment in CBERA countries (USITC Publication 2541, July 1992). Among other things, the report found that low wages were a critical element in investment decisions and the Caribbean would continue to be competitive in this area even after NAFTA.

> "Labor costs ranging between 58 cents and $1.10 per hour for an apparel assembly worker in CBERA countries, are sufficiently low (particularly in relation to US wages) **to encourage further growth** [emphasis added] in the region's apparel industry."

Many CBI countries have wages and labor standards that are substantially below Mexico's even after the recent devaluation of the peso. In fact, the labor laws on the books in Mexico are relatively strong and there is an established trade union movement in Mexico. Thus there is an institutional mechanism to give workers a voice in distribution of the added wealth produced by enhanced trade. With rare exception, the same can not be said of the majority of CBI countries that would receive these trade concessions. Almost all production takes place in Free Trade Zones where domestic laws on worker rights and standards are either inapplicable or unenforceable.

> The Dominican Republic alone produces 50% more apparel for export to the US than Mexico right now. The entire CBI apparel exports are 4 times greater than Mexico's. Why? Labor costs, as the ITC clearly identified. Duty levels are almost irrelevant, except for the big retailers and multinationals who hunger to pocket this extra money.

Table 1.— PER CAPITA IMPORTS, TEXTILE AND APPAREL

	1990	1991	1992	1993	1994
Mexico	$11	$14	$17	$20	$26
CBI	$43	$56	$75	$91	$104

Table 2.—ADJUSTED HOURLY WAGE OF CBI APPAREL OPERATORS, AS A PERCENTAGE OF US WAGE

Country	Hourly Wage As Percentage of US
US	100%
Dominican Republic	8% to 10%
Guatemala	10% to 12%
Honduras	12% to 14%
Jamaica	8% to 10%
El Salvador	8% to 10%

Source: Based on *Bobbin*, November 1993. Wages include fringe benefits and social charges.

Expansion of CBI apparel production is still skyrocketing despite NAFTA, and our economy doesn't need further encouragement of American companies to close here and open there.

2. It Will Increase Job Losses and Reduce Living Standards in the US. There still are 1.7 million people making apparel and textile products in the US—more than in the auto, steel, and rubber industries combined. And it is the 600 thousand Hispanic Americans and Black Americans who will be the primary losers of these jobs as companies relocate in response to the perverse incentives of this NAFTA parity proposal. It will certainly undermine the apparel industry in Puerto Rico, where apparel accounts for 20 percent of all manufacturing jobs. The only true winners will be the big retailers like the Wal-Marts and K-Marts, not US consumers or workers. It contributes to a race to the lowest common denominator of living standards, not a lifting of standards everywhere. *Just as increasing supply reduces consumer prices in classical theory, increasing the supply of labor by making CBI and American workers compete directly with each other has to reduce the "price" of workers—their wages and conditions of work. Consumer prices may decline, but US workers wages will decline even more!*

The bill's premise is "to avoid the potential diversion of investment from beneficiary countries under the program to Mexico as a result of the North American Free Trade Agreement." The irony of this legislation is not lost on thousands of textile, apparel, footwear and leather products workers who have lost their jobs to Caribbean and Mexican imports of these products. They are wondering why the Subcommittee is not more concerned about the diversion of investment from the United States to the Caribbean and Mexico that has occurred and is continuing to occur as a result of the current CBI program, "807," and the potential of NAFTA. They want to know why it is that the Subcommittee is not considering legislation that minimizes, not maximizes, the transference of jobs of thousands of American workers to the Caribbean and Mexico and why they have been all but forgotten in this debate.

3. It Will Perpetuate the Underdevelopment of CBI Countries since CBI is already a bad development policy for the region's economies. Jobs in export-oriented manufacturing have been created in the area due to CBI, but job losses have also occurred in the agricultural, mining and domestic- oriented manufacturing sectors of Caribbean and Central American countries under CBI. Job losses in these traditional sectors have far outweighed job gains. CBI displaced workers have not been re-hired in CBI-related jobs. And CBI-related jobs pay below poverty level wages, thus exacerbating income inequality, social instability and migration from the Caribbean Basin region.

4. It Will Further Weaken Workers and Human Rights and Undermines Labor Standards as repressive and inhuman conditions are characteristic of free trade zones in countries like Guatemala, El Salvador, Honduras and Dominican Republic are not addressed. The best national laws are deliberately violated or ignored in the Foreign Trade Zones (FTZs).

For example, the Government of El Salvador recently drafted a new labor code to maintain its GSP privileges. But when the 900 workers at Mandarin International informed management last January that a legal union representing the workers had been formed, including legal recognition by the Ministry of Labor, the company locked out all the workers saying it would never accept a union. The workers still don't have their jobs as of today, despite their compliance with Salvadoran labor law.

In Honduras, the story is essentially the same at the King Star Garment Co. There in January, the union officers and active union members were all fired, despite their union being completely legal under recognition by the Honduras Ministry

of Labor and a written agreement by the company signed last year that it would abide by workers desire to be represented by a union.

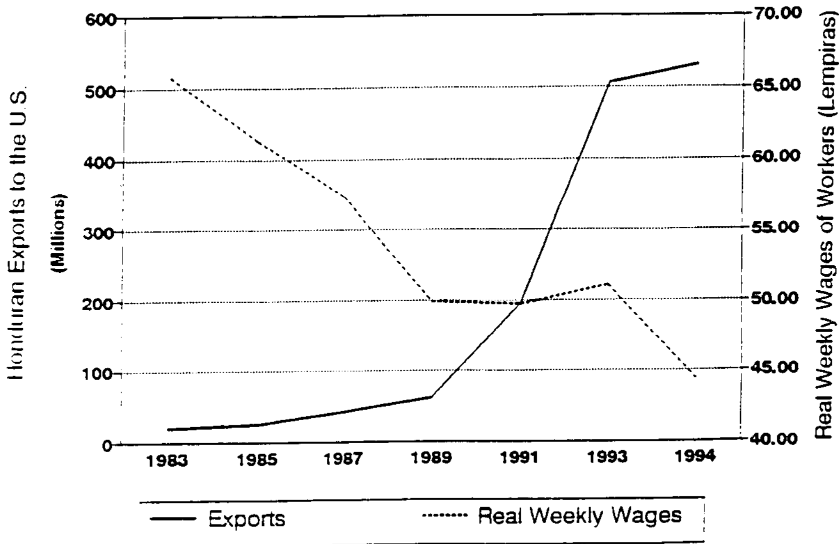
We also know that laws against child labor are never enforced in many CBI countries. In Honduras, El Salvador and Guatemala children 15 years old and younger make up 13 to 15 percent of the work force in the apparel industries. We have the testimony of hundreds of women reporting they are forced to work long hours of overtime above the normal 44 hour week, that they are literally physically abused (slapped, punched, kicked, etc.) or constantly sexually propositioned to keep their jobs. Health care, even legally mandated benefits, are frequently ignored.

Consequently, the countries in the Caribbean that have relatively high wages, strong effective unions, and political democracy will lose out to those countries which are weakest on these measures of social and political development.

5. It will increase migration from the Caribbean Basin countries to the US as working conditions in those countries deteriorate to the lowest common denominator. For instance, between 1983 and 1991 as Dominican Republic exports from FTZs increased by 470 percent, real minimum wages declined by 26 percent and immigration to the United States increased by 88 percent.

The evidence of failed benefits of an export-only oriented trade program to developing countries is most clear in the following comparison of wages and maquiladora exports in Honduras over the last decade:

CHART A



Certainly the decade of CBI benefits in non-apparel industries has not demonstrated any takeoff in CBI economic development nor lessened migration flow to our shores. In fact this legislation creates the same hyperinflated investment incentives that in good measure led to the Mexican currency collapse.

6. It Will Reduce Tax Revenues for the US treasury, which will further increase the federal budget deficit. We calculate the amount of tax revenue loss will be nearly $1.5 billion for the next 5 years, not the $800 million previously predicted. And this does not count the huge federal revenue loss from import-displaced Americans, who will far outnumber the few additional workers employed by increased exports.

The supposed $13 billion of US exports to CBI countries is a statistical fraud. Probably two thirds of our "exports" are not designed for sale in these countries,

but are simply component parts being processed for return to our country. This is not trade.

This legislation is a perversion of free trade, not an enhancement of it. It is a one-way free trade road, where everything can come here, but all road blocks on products going there remain intact.

Just because NAFTA parity benefits are extended for "only" ten years—at which time the CBI countries would either accede to NAFTA, or sign their own free-trade accord with the US, or lose benefits—no one should believe for a minute that the benefits would be revoked under any circumstances. Once extended, the congressional sponsors of this legislation would never permit the benefits to be withdrawn. The legislation is just a not-so-clever ruse to provide trade preferences or "foreign aid" to the Caribbean at the expense of American workers and American standards of living.

The approach taken by S. 529 is capitulation before negotiation. Benefits and obligations go together. Granting the former first creates no incentive for acceptance of the latter. What S. 529 will produce is a managed trade agreement benefiting only corporate managers and shareholders. What should really be done by Congress is to mandate the President to renegotiate NAFTA, fix its neglect of currency policy, labor rights standards and environmental consequences.

At least in the 70s there was a tacit social contract between Government and our citizenry. As trade was to be made more open, the people who would be displaced would be given income support and educational opportunities to allow them to move to new occupations or opportunities. Today this Congress is tearing up that contract and throwing the dispossessed unto the scrap heap of permanent joblessness, poverty and long term misery.

Our union has proposed 6 points on meaningful worker rights protection that should be included in this legislation. We urge the Subcommittee to add the 6 points appended to this statement to the CBI parity bill. Failure to include significant worker rights protection will force us to ask Congress to reject this legislation.

Appendix A

MEANINGFUL WORKER RIGHTS PROTECTION FOR CBI COUNTRIES QUALIFYING FOR NAFTA PARITY

1. NAFTA parity for CBI countries should be conferred only after an initial review of each country's record of respect for internationally recognized worker rights.
2. There should be an annual review of each country which allows individuals and organizations to petition, testify and present documentation pertinent to continued CBI parity status of beneficiary countries. If GSP language should be used in CBI parity legislation to define worker rights and the review process, the GSP phrase "Taking or have taken steps" to protect internationally recognized worker rights should be amended to read "are adhering to and enforcing internationally recognized worker rights."
3. Any sanctions following demonstrated worker rights abuses should be focused more carefully on the offending parties. For example, violations found in a particular maquiladora or plant might lead to a loss of parity benefits for the offending maquila or employer only. In this way, responsibility for enforcing worker rights could be centered on offending zone owners and operators and employers without penalizing legitimate parties.
4. In moving from CBI parity to full NAFTA accession, CBI countries shall retain all worker rights protection provided by CBI parity, as outlined above.
5. There should be no tariff preference levels in the CBI parity legislation. The benefits of the program should accrue exclusively to parties in the region.
6. Appropriate funds should be allocated to monitor and remedy worker rights abuses in CBI countries, particularly those involving child labor, and mitigate the economic dislocation and hardships of workers in the U.S. caused by this legislation.

Prepared Statement of Fred Braswell

Mr. Chairman and Members of the Subcommittee on International Trade, my name is Fred O. Braswell, III, Corporate Vice-President of External Affairs, for Russell Corporation. Russell Corporation is a Fortune 500 textile and apparel company which is headquartered in Alexander City, Ala. The Russell Corporation employs approximately 17,000 people, with almost 16,000 of those working principally in Alabama, Florida, Georgia, North Carolina and Virginia. We are proud to be members of both the American Textile Manufacturers Institute (ATMI) and the American Apparel Manufacturers Association (AAMA), and our Chairman and CEO, John

Adams, is an officer in both organizations. In fact, in addition to representing Russell today, I am here on behalf of ATMI.

By way of background, I wanted to tell you a little about our corporation. Russell was founded in 1902 and is a vertically integrated international designer, manufacturer and marketer of activewear, athletic uniforms, better knit shirts, leisure apparel, licensed sports apparel, sports and casual socks and a comprehensive line of lightweight, yarn-dyed woven fabrics. The company's manufacturing operations include the entire process of converting raw fibers into finished apparel and fabrics. Russell's products are marketed through five sales divisions—Knit Apparel, Athletic, Licensed Products, International and Fabrics—as well as through Cross Creek Apparel, Inc., and DeSoto Mills, Inc., two wholly owned subsidiaries. Russell products are marketed to sporting goods dealers, department and specialty stores, mass merchandisers, golf pro shops, college bookstores, screen printers, distributors, mail-order houses, and other apparel manufacturers. We believe that our company is the largest manufacturer of athletic uniforms in the United States.

Mr. Chairman, we welcome the opportunity to testify before the Committee on S. 529, the "Caribbean Basin Trade Security Act," which would extend benefits under the North American Free Trade Agreement (NAFTA) to the countries of the Caribbean. We also appreciate the efforts of Senator Graham, the bill's sponsor, to include us on this panel.

In 1994, the U.S. textile and apparel industry exported $2.5 billion in fabric and apparel to the Caribbean Basin countries, making the region one of our largest and fastest growing export markets. Last year, the Caribbean accounted for almost 9 percent of our industry's fabric exports and 6 percent of our yarn exports.

Along with our national trade association, ATMI, Russell strongly supported NAFTA and worked hard for its passage because we believe that Mexico, the Caribbean and all of Latin America should become part of a hemispheric trading bloc with the U.S. We therefore support the concept that the countries of the Caribbean Basin (CBI) should become full NAFTA partners as soon as they can. Until they do, we also support the concept of extending those benefits to them so that they are not harmed during the interim. Last year, with ATMI, we supported the "Interim Trade Program" (ITP) to grant the CBI countries access to our market equivalent to that of Mexico for apparel and other textile products which follow a NAFTA rule of origin.

The ITP was a one-way grant of access by the U.S. that served several very important purposes.

First, by granting Caribbean exports of certain textile products access to the U.S. on terms equivalent to similar shipments from Mexico, the CBI region would increase its production of garments and displace Far East garments in the U.S. market—as Mexico is doing under NAFTA.

Second, the region would remain a growing and major market for U.S. textiles. In 1994, the U.S. exported $2.25 billion worth of textiles to the Caribbean—either as cut pieces or as fabrics or yarns.

The region ranked first, ahead of even Canada and Mexico, among the United States' top export markets for fabrics and yarns. We are concerned that if NAFTA-type access is not provided quickly, garment production will begin to shift from the Caribbean to other countries. In fact, growth in fabric and garment trade with that region to the U.S. is already starting to slow.

For these reasons, we were enthusiastic about the Interim Trade Program last year and greatly appreciate Senator Graham's introduction of S. 529 this year.

Russell's support for these efforts, as well as that of ATMI, is based on three key points:

(1) the legislation should include the NAFTA yarn-forward rule of origin;

(2) it should include NAFTA provisions concerning customs enforcement;

(3) there should be no provisions to circumvent the rule of origin unless and until the country signs on to the entire NAFTA agreement.

We are pleased that S. 529 does include the first two of our objectives. However, we are concerned that the bill also authorizes the Administration to negotiate exceptions to the rule of origin, known as tariff preference levels.

These exceptions, generally referred to as TPLs, permit countries to ship a predetermined quantity of goods which do not meet the rule of origin and receive tariff benefits as though they did meet the rule of origin. While NAFTA does include TPLs, we do not believe that TPLs are justified in this legislation because S. 529 is not a two-way reciprocal trade agreement. S. 529 is a unilateral grant of access to the U.S. market provided certain conditions are met. TPLs are inappropriate in such an arrangement because the benefits of duty-free access accrue to the countries of the Caribbean free of charge, without any reciprocal action on their part. Adding authority to negotiate unrestricted TPLs would be like inviting someone to your

home for dinner and letting them bring all their friends to empty your refrigerator as well.

We urge that TPLs not be authorized until the countries in the region become full-fledged NAFTA partners and are signatories to a completed agreement as we have with Mexico and Canada. If TPLs must be included in the legislation, we strongly recommend that the Finance Committee change it to require goods shipped under the TPL to be made of fabrics which are cut in the U.S. and which are unavailable in commercial quantities in the U.S. We further recommend that the TPLs be negotiated on a product basis with each country seeking them, capped at 10 percent of the 807 trade of that product, and that separate TPLs be negotiated for wool apparel. These changes would:

(1) reduce the revenue loss of S. 529 by $386 million—this would help ease the budgetary problems created by the overall bill and counter one of the main arguments of some of those who are opposing the legislation;

(2) limit the benefits of granting duty-free access into the U.S. market to countries in the region, rather than to countries like China, India and Pakistan which would benefit from large, unrestricted TPLs;

(3) reduce transshipment possibilities from China, whose use of forced labor in their textile industry is well-documented; limiting use of the TPL to 807 trade enhances the ability of U.S. Customs to ensure that actual garment production did occur in the Caribbean; and,

(4) minimize job and production losses and maximize export opportunities for the U.S. textile and apparel industry, which would allow its members to actively and fully support the Caribbean Basin Economic Security Act.

Again, this proposed change would eliminate many of the potential obstacles to S. 529's enactment, particularly with respect to the financing question and the concerns of Members of Congress from textile and apparel states. It will not, in any way, reduce economic opportunities for the Caribbean nations and will, in fact, promote increased economic opportunities in the region.

Also, this modification, which is supported by both ATMI and AAMA, should not generate substantive opposition by other interests because there will still be ample opportunity for up to 150 million square meters of textile products to be brought in under TPLs—a significant exception to the rule of origin. Moreover, by accepting this change to the TPL provisions during full committee markup, the committee would be able to gain broader support for passage of S. 529, enough to generate momentum and help overcome possible obstacles in the Senate to its enactment.

Mr. Chairman, the Russell Corporation appreciates this opportunity to testify, and we urge your acceptance of the modification to the TPL provision which I have outlined in my testimony. I would be happy to answer any questions you might have.

Prepared Statement of Senator Bob Graham

Mr. Chairman, I would like to thank you for scheduling this hearing and for your leadership on this important issue.

It is of great importance to the United States to have an economically and politically stable Caribbean Basin. Many of us in this room have been working for the past twelve years to achieve this goal through the promotion U.S.-Caribbean trade. The Caribbean Basin Initiative (CBI) of 1983 laid the foundation for a trading relationship which helped the Caribbean Basin expand economically. This economic prosperity helped stabilize the democracies of the region. At the same time, the United States' trade balance with Caribbean Basin countries shifted dramatically following the implementation of the CBI, from a deficit of $2.6 billion in 1984 to a surplus of nearly $2.0 billion in 1993. Caribbean and Central American consumers have demonstrated a strong preference for products from the U.S.A.

In the last two years, however, conditions in the Caribbean Basin have called for our leadership once again. As was predicted in 1991, implementation of the North American Free Trade Agreement (NAFTA) has left the nations of the Caribbean Basin at a competitive disadvantage to Mexico, which has prompted corporations to move to Mexico. For an apparel item produced in a CBI country with materials from the United States, a 20 duty is charged on the value added by off shore assembly. Under NAFTA, this same item can be imported from Mexico duty-free, and without quota limits. Just last month an apparel manufacturer which had been sourcing in Guatemala abandoned 18 production facilities and moved its operations to Mexico. This imbalance threatens U.S. jobs and jeopardizes the progress we have made in bringing economic stability to this politically fragile region. The recent devaluation of the Mexican peso exacerbates this situation.

The economic sector which has been most severely impacted by NAFTA is the apparel industry, which can only be described as "critical." Consider, for example, Miami businessman Mano Howard, who owns Bend & Stretch, a 300-person company which cuts U.S. fabric in Miami and sends it to the Dominican Republic where it is assembled into clothing. Unless apparel products assembled in the Caribbean Basin can be exported to the U.S. with tariff parity to similar Mexican products, plants in the Dominican Republic and other CBI nations will be forced to close, and many U.S. companies similar to Mr. Howard's will suffer. Some 280,000 jobs in the United States which are supported by exports to the Caribbean are at risk.

The good news is that the urgent need for this legislation is matched by broad bipartisan support for CBI parity. The Caribbean Basin Trade Security Act (S. 529), which I introduced on March 10, was cosponsored by four members of this Committee: Senator Hatch, Senator Moseley-Braun, Senator Grassley, and Senator Bradley.

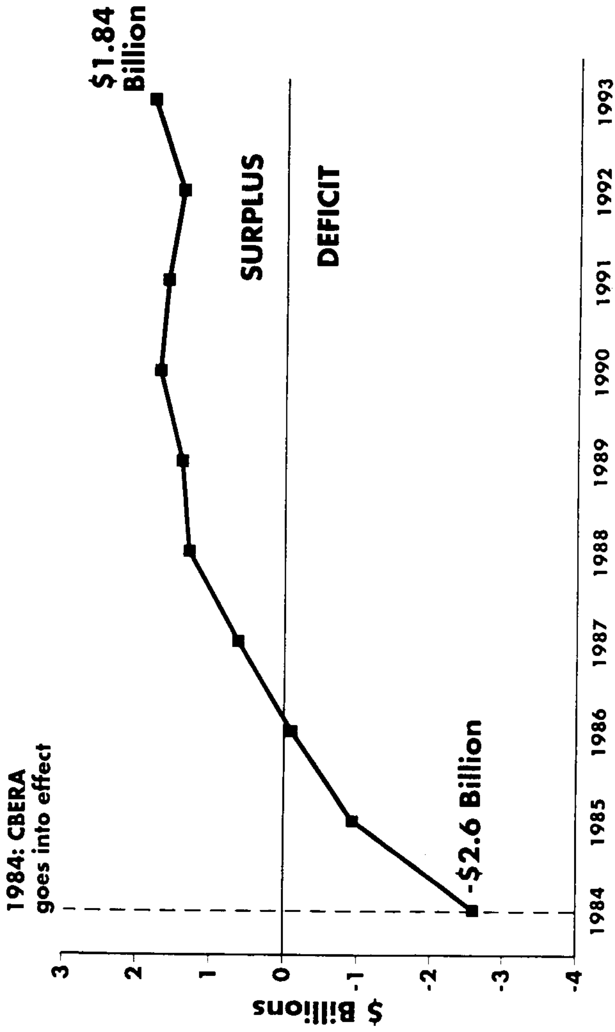
Over in the House, Representatives Crane and Gibbons have given CBI parity the priority it deserves. They have made great progress advancing H.R. 553, the companion bill to S. 529, through the Ways and Means Trade Subcommittee and to the full committee. President Clinton included CBI parity in the original NAFTA legislation. We commend the Administration for its early leadership on this issue and for its continued involvement—and we look forward to the testimony of Ms. Barshefsky of the USTR and Mr. Watson of the State Department.

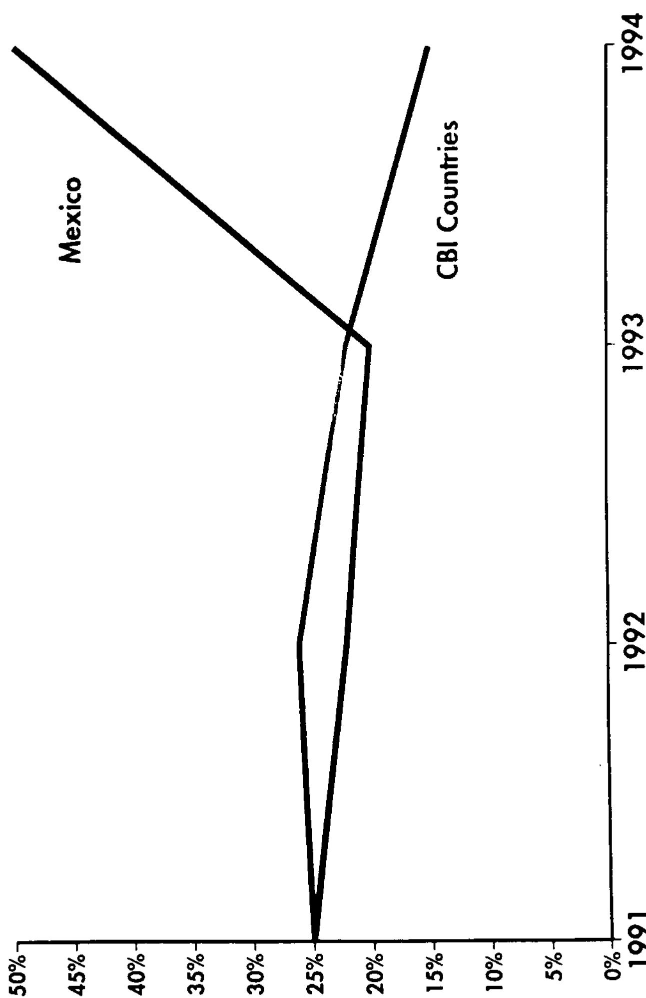
This legislation accomplishes two important objectives that are of keen interest to the United States. First, by temporarily extending NAFTA benefits to CBI countries, we would effectively level the playing field, and thereby assure that our Caribbean and Central American trading partners are no longer forced to operate at a disadvantage. Secondly, S. 529 is a vehicle which will allow the CBI nations to move toward the obligations of the NAFTA: to make further improvements in macroeconomic reforms, improve market access for U.S. firms, and protect intellectual property rights. Preparing CBI nations for future membership in NAFTA-type arrangements is a significant step towards the realization of hemispheric-wide free trade, an objective agreed upon at the December 1994 Summit of the Americas.

As my colleagues and I have laid the groundwork for the Caribbean Basin Trade Security Act, we have welcomed comments and concerns from a broad array of voices. Throughout this dialogue, we have maintained the focus of this endeavor: our goal is to extend to the CBI the same trade benefits enjoyed by Mexico under NAFTA. It is my hope that as we advance this urgent legislation, our common purpose and mutual goals will guide the debate.

This legislation will enhance what has been a symbiotic trading relationship with our Caribbean and Central American neighbors. It will promote jobs in the U.S., contribute to economic stability in the Caribbean Basin, and move the region closer to the goal of hemispheric-wide free trade. But we need to take action to bridge the gap caused by NAFTA before it exacts too high a price. The CBI has been a great success story, and there is every reason to add more chapters. The time for the parity chapter is now.

I would like to welcome our panel of witnesses to share their perspective on this legislation. I look forward to early action by this Committee and the Senate on S. 529.


U.S. Trade Balance with Caribbean and Central American Countries
1984: CBERA goes into effect
$ Billions
3
2
1
0
-1
-2
-3
-4
-$2.6 Billion
$1.84 Billion
SURPLUS
DEFICIT
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
CBERA = Caribbean Basin Economic Recovery Act.


Growth of U.S. Apparel Imports from Mexico and the CBI
Percent Changes for January-December 1991-1994
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
1991
1992
1993
1994
Mexico
CBI Countries
Source: U.S. Department of Commerce, Office of Textiles and Apparel
Prepared by the American Apparel Manufacturers Association

U.S. TRADE WITH CBERA COUNTRIES 1984-1993

(in millions of $)

Year	U.S. Exports	U.S. Imports	U.S. Trade Balance
1984	5,953	8,649	**-2,696**
1985	5,743	6,687	**-944**
1986	6,065	6,065	**0**
1987	6,668	6,039	**629**
1988	7,422	6,061	**1,361**
1989	8,105	6,637	**1,468**
1990	9,307	7,525	**1,782**
1991	9,885	8,229	**1,656**
1992	10,902	9,426	**1,476**
1993	11,942	10,094	**1,848**

Source: Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, U.S. International Trade Commission, Publication 2813 (September 1994)

GROWTH OF U.S. APPAREL IMPORTS FROM MEXICO AND THE CBI

(annual increase in quantity of imports)

Year	Mexico	CBI
1991	24.7%	24.8%
1992	23.0%	25.8%
1993	21.8%	21.8%
1994	50.2%	15.7%

Source: Major Shippers Report, U.S. Department of Commerce, Office of Textiles & Apparel; U.S. Imports of Textiles and Apparel Under the Multifiber Arrangement: Annual Report of 1994, U.S. International Trade Commission, Publication 2884 (April 1995)

May 15, 1995
Hearing on S. 529
Finance Subcommittee on International Trade

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

Mr. Chairman, thank you for the opportunity to speak on the Caribbean Basin Trade Security Act, of which I am an original co-sponsor.

I share the concern of all CBI supporters for equity in the treatment of our good neighbors and, as has been proven in the past, many reliable allies. But I am equally concerned that the CBI nations must move more quickly toward committing themselves to the international trade conventions that lie at the foundation of NAFTA, GATT and all bilateral and MFN agreements.

Mr. Chairman, I *want* NAFTA privileges extended to the CBI nations; that is why I joined this bill. But I also want much more progress in intellectual property protection. The Dominican Republic has made appreciable progress in developing IPR statutes, but they lack enforcement, as do the IPR laws of Costa Rica. Honduras warranted "special mention" in the 1994 Special 301 country review and the piracy of software remains widespread, including the theft of software products made in my state of Utah. Guatemala continues to exclude many chemical compounds as well as food processing methodologies from patentability. Nicaragua has no law explicitly protecting software, and is weak on trademark protection.

I might add that there are other trade disputes of importance to the U.S. involving many of our CBI partners. Most notably the banana framework agreement which appears to involve the expropriation of market access rights and revenues of American companies. This dispute is now the subject of a Section 301 investigation, and I commend the administration for its leadership.

Mr. Chairman, I also applaud the initiative taken by several of our House counterparts in amending their version of the bill to require the President to report on compliance of the beneficiary Caribbean nations with the rules of international trade provided under GATT and WTO. Their amendments address both the intellectual property as well as the U.S. investment concerns that I have expressed. I would encourage this committee to act accordingly.

Everyone in this room is sensitive to the surging importance of trade. But we must be mindful that the complex flow of goods, capital, technology, and enterprise creates interdependence. And it is this interdependence that trading partners must come to deal with. Otherwise the benefits of trade will diminish as the costs of interdependence increase.

In closing, Mr. Chairman, I welcome the opportunity to hear our panelists and encourage support of expanded Caribbean cooperation.

PREPARED STATEMENT OF JEFFREY J. SCHOTT *

I appreciate the opportunity to comment on the provisions of S. 529, the Caribbean Basin Trade Security Act. My statement reflects the extensive analysis of regional integration contained in *Western Hemisphere Economic Integration,* that I coauthored with Gary Hufbauer last year. Our study concluded that both the United States and Latin America and the Caribbean Basin can derive substantial benefits from the extension of the North American Free Trade Agreement to the other countries in the hemisphere.

The goals of the S. 529 are laudable, and deserve support. By providing access to the US market comparable to that afforded Mexico under the NAFTA for the twenty-four countries participating in the Caribbean Basin Initiative (CBI), the legislation should bolster economic growth in both the United States and the CBI region. In so doing, the legislation should also serve important US foreign policy interests.

Although US trade with the CBI countries accounts for only 2 percent of total US exports and imports, US firms will benefit as the integration of the CBI countries into the NAFTA region opens up a larger and faster growing market. In addition, the new trading opportunities in the US market should reinforce economic growth in the CBI region, and thus also serve US foreign policy interests by promoting political stability in the region and providing viable alternatives to both illegal immigration and drug trafficking (as Senator Graham has argued in testimony on parallel legislation introduced in the House).

THE RATIONALE FOR NAFTA PARITY FOR THE CBI REGION

The North American Free Trade Agreement (NAFTA) provides extensive benefits for its members, but these preferences are not generally offered to nonmember coun-

* The views expressed in this statement are those of the author and do not necessarily reflect the views of individual members of the Institute's Board of Directors or Advisory Committee.

tries. Such discrimination is permitted under the world trade rules, provided the pact meets certain conditions, on the rationale that the growth generated by the regional trade liberalization will create additional trading opportunities for member and nonmember countries alike that more than offset the trade diverted from nonmember countries as a result of the regional preferences.[2]

Overall, the NAFTA will be trade-creating for both its members and for third countries that will be able to sell to an expanding regional market. This conclusion rests on a simple fact: the US economy accounts for about 85 percent of the North American market, and US trade barriers are low in most sectors. Accordingly, the risk of discrimination is low since the tariff preferences available to NAFTA members are not much better than the most-favored-nation rates available to almost all other countries.

The main sectors where the United States maintains significant protection are textiles and apparel, and agriculture. Unfortunately, the Caribbean Basin is probably the only region in the world whose exports to the United States are concentrated in these two areas. Consequently, its trade on balance will be adversely affected by the NAFTA.

In 1993, the year before the NAFTA entered into force, US imports of textiles and apparel from the CBI countries totaled $4.1 billion, or about 40 percent of total US imports from those countries. Agricultural products accounted for another $2.2 billion of US imports from the CBI region. To be sure, trade in these products from the CBI countries receive special preferences under various US programs, but these benefits do not match the preferences accorded Mexican producers under the NAFTA. Moreover, the sharp depreciation of the Mexican peso has further weakened the competitive position of CBI suppliers in the US market.

The CBI countries rely on the US market for about 50 percent of their trade. Thus, impediments to access to the US market, or increased competition in the US market with other suppliers benefitting from special trade preferences, will have a significant impact on the Caribbean Basin economies.

In sum, the NAFTA has placed the CBI countries at a competitive disadvantage in the US market versus Mexican suppliers, particularly in the textiles and apparel sector. Providing treatment in the US market for CBI countries comparable to that received by Mexico under the NAFTA both would redress this distortion and provide incentives for the CBI countries to accelerate their economic reforms in anticipation of early accession to the NAFTA.

NAFTA PARITY AND THE MIAMI SUMMIT DECLARATION

On 11 December 1994, the United States joined with 33 other democratically-elected governments in the Western Hemisphere at the Summit of the Americas in Miami in a commitment to negotiate a "Free Trade Area of the Americas" by the year 2005. The Miami Summit partners agreed that the coverage of this hemispheric trade pact should in most respects be as comprehensive as the NAFTA.[3]

The provisions of S. 529 should facilitate the achievement of the visionary goals set by the Summit of the Americas. The six-year horizon for the accession of CBI countries to the NAFTA is consistent with commitments made at the Summit of the Americas last December in Miami to conclude negotiations of a Free Trade Area of the Americas "no later than 2005," and to achieve "concrete progress toward the attainment of this objective . . . by the end of this century."

Extending NAFTA parity to CBI countries in return for their commitment to accede to the NAFTA within six years should reinforce and accelerate the pace of market-oriented reforms now being implemented in those countries. As a practical matter, the successful implementation of these reforms is a prerequisite for NAFTA membership, since without these reforms, the *developing* countries of the CBI region are unlikely to be able to assume, much less sustain, the extensive obligations of a reciprocal free trade pact with industrial countries.

Are the CBI countries ready to implement the reciprocal trade obligations of the NAFTA? Readiness indicators developed by Gary Hufbauer and me in our book, Western Hemisphere Economic Integration, indicated that several CBI countries would be well positioned to negotiate NAFTA accession, if their current economic

---

[2] For a full discussion of these issues, see chapter 5 of Gary Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment,* Washington: Institute for International Economics, second ed., October 1993.

[3] The "Plan of Action" agreed by the Summit countries set out a comprehensive agenda for the Free Trade Area of the Americas that covers all the main areas of the NAFTA (even though the NAFTA itself is not referenced), as well as non-traditional issues such as competition policy and worker rights.

reforms can be sustained over the next few years.[4] With the exception of Haiti, Nicaragua, Guyana, and a few others, many CBI countries have achieved notable progress in taming inflation, improving fiscal discipline, and managing their external debt. Fiscal reform remains a major challenge in the region; most countries are overly dependent on trade taxes for their budget revenues and will not be able to implement further trade liberalization without a restructuring of their tax system.

NAFTA PARITY: BUDGET CONSIDERATIONS

S. 529 would extend NAFTA-like benefits to products formerly excluded from CBI preferences, in anticipation of accession to the NAFTA by CBI countries within 6 years. The Senate bill, like parallel legislation introduced in the House by Rep. Crane,[5] provides more comprehensive trade coverage than the Interim Trade Program (ITP) for the Caribbean Basin that was advanced last year, but killed during the debate over the ratification of the Uruguay Round agreements (primarily due to budgetary reasons).

The broader scope of the new CBI parity bills raises the potential price-tag of the legislation: under the "pay-as-you-go" budget scoring rules of the Congress, forgone tariff revenues must be offset by comparable spending cuts or tax increases. The new legislation would require offsets of almost $800 million for the period FY 1995-1999.[6]

The requirements of the "pay-as-you-go" budget rule present probably the biggest obstacle to the passage of NAFTA parity legislation for the CBI region. It is inappropriate and illogical for trade agreements to be subject to these rules. Budget discipline and trade liberalization are mutually reinforcing.[7] Trade reforms promote growth, dampen inflation, and thus strengthen the US revenue base. To be sure, some developing countries have problems in liberalizing trade because a large share of their current revenues derive from tariffs, but for the United States to do so (when US tariffs account for only 1.7 percent of total federal revenues) is ludicrous.[8]

PROPOSED TRANSITION PERIOD TO NAFTA ACCESSION

S. 529 provides NAFTA-like preferences for CBI countries for a period of up to 6 years. In comparison, the House bill, as amended in late March, affords up to 10 years for CBI countries to join the NAFTA, but requires a review every three years to determine the progress those countries are making in protecting intellectual property and the rights of investors, as well as other market-oriented reforms. The 10-year transition period would parallel the maximum time afforded under the Miami Summit Declaration to negotiate the Free Trade Area of the Americas.

In light of the wide differences in the levels of development of the 24 CBI countries, concerns have been raised both that the transition period is too long for some countries, and is too short for others. In particular, the poorest CBI countries (e.g., Haiti, Nicaragua) may not be able to meet the stringent requirements of NAFTA membership within a decade.

The timetable in the House bill is preferable, if one envisages accession negotiations on a case-by-case basis as each country becomes ready to join the NAFTA club. In that scenario, the maximum 10-year transition period is reasonable and the triennal reviews useful to encourage the implementation of economic reforms in the CBI countries.

---

[4] The readiness indicators are detailed in chapters 5 and 6 of Gary Hufbauer and Jeffrey Schott, *Western Hemisphere Economic Integration,* Washington: Institute for International Economics, 1994.

[5] The Clinton administration initially objected to the House bill because it immediately extended trade preferences in the US market without reciprocal commitments by the recipient countries to negotiate WTO-plus agreements on investment and intellectual property issues. The House bill was subsequently amended in late March 1995 to include, inter alia, monitoring of progress on investment and intellectual property issues.

[6] The estimated cost of the 1994 ITP over five years was in the range of $150-250 million.

[7] My colleague, C. Fred Bergsten, argued the same point last week in comments on legislation extending "fast track" authority. His proposal to exempt trade pacts from the "pay-as-you-go" budget rule received warm support from members of both parties. See his statement, "Renewing Fast Track," before a joint session of the House Rules and the House Ways and Means Committee, 11 May 1995.

[8] In fact, the application of the budget rule is strangely skewed. Trade reforms that benefit the US economy are covered by the rule, but trade retaliation that hurts the US economy is not. Proposed penalty tariffs against high-priced Japanese autos would probably preclude the import of those products, thus reducing US tariff revenue.

However, if one envisages a single negotiation that encompasses all the CBI countries as a group,[9] then the six-year period set out in the Senate bill would be preferable, since it would avoid the "convoy" problem in which footdraggers in the region slow the pace of the accession of the CBI countries as a whole.

In my view, the 6-year transition period in S. 529 is feasible and desirable. Most of the major countries in the CBI region will be able to begin the implementation of the NAFTA by the year 2001. The accession agreements can provide longer transition periods for sectors that face significant adjustment burdens (just as the NAFTA provides a 15-year period for the liberalization of the most sensitive US and Mexican farm trade barriers). Given the pace of liberalization already underway in the region, the task of removing remaining trade barriers may not be as onerous as it now seems, and the potential transition period may need to be only a few years, compared to the maximum 10 to 15 years for some products in the NAFTA.

Furthermore, once governments set a target for policy reforms, business usually accelerates the process by revising trade and investment strategies in anticipation of the prospective new regime. Such a phenomenon occurred in Europe with the announcement of the internal market reforms under the 1992 process; during the Canada-US FTA talks; and during the NAFTA negotiations, when investors flooded into Mexico long before the agreement was signed. In short, setting a target completion date can be a powerful signal to investors that in turn accelerates the pace of integration.

However, the poorest countries should be allowed to defer NAFTA accession until the 2005 deadline set implicitly by the Miami Summit Declaration. Such flexibility is consistent with the "variable speed" approach toward integration already being implemented in other subregional trade pacts in the Western Hemisphere.

IMPLICATIONS OF NAFTA PARITY FOR US COMPETITIVENESS

Over the long term, the main impact of expanded trade between the NAFTA countries and the CBI countries will be higher incomes made possible by greater efficiency and faster growth. Efficiency in economies throughout the region will be boosted by the tendency of each country to export those goods and services in which it has a comparative advantage. Faster growth will result from more intense competition among a larger number of firms in each segment of the market, and from an expanded North American market that will enable each firm to realize economies of scale. In turn, this could result in an improved trade balance for the expanded NAFTA region with the rest of the world, or better terms of trade for the NAFTA region.[10]

CONCERN ABOUT TRADE AND INVESTMENT DIVERSION

Simply put, the NAFTA was designed to make it harder for foreign firms to compete in the regional market—*not* because of higher barriers against third-country trade and investment but because of the heightened competitiveness of regional firms. Regional integration should promote the more efficient use of natural and human resources, and better exploitation of scale economies of production, and thus enable regional firms and workers to compete more effectively against foreign suppliers both at home and in world markets. However, except for the textiles and agricultural sectors noted earlier, NAFTA preferences should exert little additional impact on foreign suppliers to the US market beyond the discrimination that already existed because of generous US tariff preferences previously granted to Mexican suppliers.

Classical trade diversion, however small or large, is not the end of CBI concerns about NAFTA. Even more important is the threat of investment diversion in favor of Mexico. In a sense, investment diversion is a major objective of the NAFTA. By forming a common trading area, the three countries have made the region a more attractive location to produce goods and services for the global economy.

Moreover, third countries have no recognizable complaint under the WTO or other international agreements about investment diversion. The world economic system contains no presumption against investment diversion that results because a country or region improves its economic climate. To be sure, investment diversion that results from targeted subsidies and performance requirements is a recognizable

[9] Alternatively, one could envisage two separate negotiations with the two large subgroups of CBI members (one entailing the core economies of Central America, and the other those of the Caribbean).

[10] Whether a more competitive NAFTA region translates into an improved trade balance or an appreciated currency (and hence better terms of trade) will depend on macroeconomic conditions in North America and other regions of the global economy.

problem, and one that will begin to be addressed by the TRIMs agreement of the Uruguay Round. But investment diversion caused by better economic policies of a general character is applauded, not condemned, by the world economic system.

Faced with investment diversion stemming from a more attractive economic climate in NAFTA or other regions, the only remedy available to third countries is to make their own investment climates more enticing. Many factors influence the decision to invest abroad, but trade agreements are generally less critical to that decision than the underlying economic conditions in the host country. Not surprisingly, the growth in foreign direct investment in Mexico in the 1990s was closely correlated with macroeconomic reforms, which were introduced and began to produce results long before the NAFTA talks were even broached. Similarly, the sharp drop in FDI in 1995 (likely to be down 80 percent from 1994 levels) tracks the peso crisis.

To be sure, the NAFTA and CBI parity provisions should enhance the investment climate in each participating country. However, a country's own policies constitute the main link between its economy and the world trading system. Trade pacts play only a small part in the investment diversion story.

PREPARED STATEMENT OF AMBASSADOR ALEXANDER F. WATSON

INTRODUCTION

Mr. Chairman, I wish to express my deep gratitude for the opportunity to testify before your Committee on Senate Bill 529, the Caribbean Basin Trade Security Act of 1995.

The Caribbean Basin Initiative, which S. 529 seeks to enhance, is important in promoting two of our most important foreign policy objectives in the hemisphere—the growth of democracy and economic prosperity. The broad bipartisan support which has marked the passage of CBI legislation in the past, reflects a consensus in Congress and the Executive Branch that the U.S. has a strong interest in, and remains committed to, the economic and political well-being of the Caribbean Basin.

The United States is, and will remain, engaged in not only the Caribbean Basin's economic development and integration, but also that of the entire hemisphere. This commitment was reaffirmed in Miami at the Summit of the Americas last December when the United States and the other nations of the hemisphere pledged to work toward greater economic integration and the goal of a Free Trade Agreement for the Americas by the year 2005.

CBI: A SUCCESS

To date, the Caribbean Basin Initiative has been an unqualified success. The fundamental economic goal of the CBI—broadening and diversifying the economic base of the beneficiaries—is being realized. Since the CBI went into effect in 1984, non-traditional exports from the region have grown at a rate of nearly 25% per year. But CBI has not simply benefitted those countries, it has resulted in increased U.S. exports to and investment in the region. The last decade has seen impressive growth in trade in both directions. U.S. exports to the region have grown rapidly, strengthening the overall job base in the U.S.

U.S. INTERESTS IN THE REGION

The Caribbean Basin is often referred to as the third border of the United States. Much of our trade with the hemisphere passes through the sea lanes, ports and airports of the region. Democracy, stability and broad-based economic growth grounded in free market principles are the goals we share with the countries in the region.

The countries of Central America and the Caribbean are enjoying increasing prosperity and positive political change. The region is continuing to implement market-oriented reforms, and is beginning to gather some of the fruits of these reform efforts. Growth last year for the CBI region as a whole amounted to 3.1%. This is an encouraging sign, although it does not yet represent the kind of vibrant growth necessary to address the deep-seated poverty and social problems of many of the countries in the region. After the turbulent and economically devastating decade of the 1980s, however, our neighboring countries in the hemisphere are well on the road to consolidating democracy and building market-based economies.

I want to mention some recent progress the CBI countries have achieved. In El Salvador, which struggled through more than a decade of armed aggression between the government and the FMLN rebels, a negotiated settlement was achieved between the government and the FMLN rebels on the last day of 1991. Implementation of the U.N.-sponsored peace accords was vigorously pursued by all parties and

have borne great success in the integration of many former guerrilla leaders into the political system and most former combatants into the productive sector. The process of reconciliation continues apace and the highly successful U.N. mission, known as ONUSAL, has completed its task. Only a much reduced office reporting to the U.N. Secretary General continues to monitor the peace process. The impressive economic reforms undertaken by the governments of President Alfredo Cristiani and of Armando President Calderon Sol have stimulated critical foreign investment and are fueling impressive growth, reaching 5% in 1994.

Nicaraguans chose a democratic future when they elected Violeta Barrios de Chamorro as President in 1990. The previously warring factions are now pursuing political change through the National Assembly and are preparing for the next general elections set for November 1996. There is new leadership in the national army and the size of the armed forces has decreased more than 70%. While improvements have been made in improving the investment climate, we continue to vigorously pursue further changes with the Government of, Nicaragua.

Panama, at the center of the Western Hemisphere, elected a dynamic new president last year, Ernesto Perez-Balladares. His government is pursuing policies of democratic consolidation and vastly more open markets.

In the Caribbean, democracy is becoming the rule, not the exception. The legitimate government of Haiti was restored in October 1994 by the U.S.-led Multinational Force authorized by the United Nations. This action sent a powerful message to those who do not respect the authority of electoral outcomes and would rule instead by repression and force.

The direct challenge to legitimate power in Haiti led to one of the most direct security challenges to the United States and all democracies of the Caribbean—the tragic outflow of thousands of boat people over many months following the September 1991 coup detat. Developments in Haiti following the U.S.-led action, however, are very promising. Parliamentary and local elections are set for June 25. A new civilian police force is in training, and the new police academy will graduate its first class next month. The human rights situation has shown vast improvements, and the U.S. is joining other donors to assist in completely overhauling the justice system.

Haiti has experienced a drastic decline in per capita income, which is the lowest in the hemisphere. In 1990, per capita GDP was 21% below that of 1981; in 1994, it dropped another 34%. The new signs of political reform in Haiti provide hope for the political stability and economic development which this country so desperately needs.

With the end of the cold war, the real threats to the political stability of nascent democracies in the area are posed by endemic internal problems rather than by foreign aggressors. Uneven development, poverty and widespread unemployment, poor education and health systems, and public sector corruption are the new forces of destabilization. We must work with countries in the region to develop consensual and transparent democratic government, encouraging citizens to work within the system rather than outside it and to make the necessary economic changes to ensure further economic growth and development.

While development assistance has played a significant role in the development of the Caribbean basin, CBI nations are now adjusting to declining real levels of external assistance. The CBI countries must compete on a global basis for markets and investment capital. Those economies with the most efficient market forces will reap the greatest rewards and those with the greatest protectionism, will be least likely to attract foreign capital. This legislation, with the changes outlined by Ambassador Barshefsky, will strongly increase the ability of these nations to reap the rewards of economic reform.

Many of the CBI countries, including Haiti, have made great strides to reform their economies to become more competitive in the world marketplace. But these reforms often come with high short term costs. Dislocation and unemployment are natural by-products of such reform. Through the opportunities created by the CBI, and those offered in S. 529, countries of the CBI will have the tools to support their continued economic reform and to bring this region a step closer to the goals established by the Summit of the Americas.

This legislation can also help the U.S. and the CBI nations address two additional problems—drug trafficking and illegal immigration. While the threat of externally generated political/military challenge in the region has nearly dissipated, it has been replaced by the different but highly insidious threat of international narco-terrorism and drug trafficking. These problems pose a serious threat to the political stability of many of the countries in the region. Prosperous and growing economies offer alternatives to the lucrative and corrosive narcotics trade destined for the U.S. and Europe. Another phenomenon of underdevelopment, and an increasing threat

to the U.S., is illegal immigration. Increased jobs an opportunities at home reduce the number of people seeking to cross our borders illegally.

NAFTA'S IMPACT ON CBI

The passage of the NAFTA by the 103rd Congress was a triumphant event in the relationship of the United States and all democracies of the Western Hemisphere. It marked a new era of mature partnership. This legislation offers an opportunity to address the unintended consequences of the NAFTA on the CBI and to move forward in partnership with the CBI nations toward shared economic goals.

The leaders of the Caribbean Basin countries met with President Clinton in November 1993 to express their serious concerns about the impact of NAFTA on their economic development. They did not come seeking a handout. They came seeking enhanced access to our market. Their objective is laudable—to strengthen their economies in order to be more competitive as the hemisphere deepens its integration.

The President responded to their concerns last year by proposing the Interim Trade Program (ITP). Due to circumstances at the time, it was withdrawn for future consideration.

The Administration supports legislation to enhance the CBI and hopes that it will win the same bipartisan support enjoyed by earlier CBI legislation. Such legislation is needed to ensure that U.S. firms working and investing actively in the Caribbean Basin will continue to do so, improving our overall healthy level of trade activity with the Caribbean basin. As I hear often from private sector groups I meet with, this legislation is of great interest to U.S. firms with ongoing investments or considering investment in the region. They are looking for our government to take action to reinforce the economic and financial vitality of the region as a market for U.S. goods and a destination for U.S. investment. Further, we support such legislation because we want to continue to promote the impressive economic and political reforms undertaken, while encouraging further changes in critical areas like protection for intellectual property rights, market access and investment protection.

CONCLUSION: TOWARD THE FTAA

At the Summit of the Americas last December, the nations of the hemisphere threw their support fully behind democracy, open markets and free trade. The democratically elected leaders of these countries pledged to work toward the goal of a Free Trade Area of the Americas by 2005. The Caribbean Basin Trade Security Act, as amended, would be a positive step in that direction, providing many of the countries in the region a building block toward market economic reform and greater economic integration. Legislation addressing the effects of NAFTA on the CBI will help ensure that CBI beneficiaries implement necessary and far-reaching reforms to enable them to stand by the market discipline required to compete in a free trade area, and to continue their economic development.

We believe that these objectives serve the foreign policy interests of the United States. Sound and stable democracies throughout the bordering Caribbean region, with increasing opportunities for economic advancement at home, means greater export opportunities for U.S. manufacturers and a brighter future for citizens of the Caribbean basin.

Thank you very much, Mr. Chairman.

PREPARED STATEMENT OF WILLIAM WOLTZ, JR.

Mr. Chairman, my name is William Woltz, Jr., I am President of Perry Manufacturing Company. I am also a past Chairman of the American Apparel Manufacturers Association (AAMA) which is the primary trade association of the U.S. apparel industry, representing approximately 70 percent of the U.S. production. AAMA members make everything from socks to caps, from underwear to shirts and sweaters, to suits and overcoats. While the industry is large, most of the companies are relatively small. Most companies have sales under $20 million and many have sales under $10 million. There are approximately 1,000,000 apparel manufacturing jobs in the U.S. and almost every state has some apparel employment. Nineteen states have more than 10,000 apparel jobs and eight of those have more than 50,000 jobs. Approximately 40% of American apparel workers are minorities and 90% are women.

American apparel companies are not in the business to move jobs offshore. However, they must compete with low-wage imports which have taken over half of our market. In order to compete with low-wage imports, many U.S. companies opened

production in Mexico and the CBI countries. Firms often found sourcing from the CBI countries best fit their operations, even though apparel was specifically excluded from the CBI program. This exclusion was partially offset by the 807 program which gives us lower average costs, makes U.S. companies more competitive and allows us to maintain significant employment in the U.S. Under 807, a $10.00 garment usually has $6.00 in U.S. components and about $4.00 in value-added by offshore assembly. The duty is assessed on only the value-added. That duty is usually about 20%, which on $4.00 is 80 cents. This is equivalent to 8% on the value of the entire garment. With wholesale and retail markups, a garment from the CBI region carries a penalty of approximately $3.00, as compared to the same garment coming from Mexico.

In 1986, 807 was modified by the creation of the 807-A program. Under it, duty still was paid, but only on the value-added in the region. However, the creation of Guaranteed Access Levels (GALs) essentially made many products from the region quota-free. 807-A was duplicated for the Mexican industry and named the Special Regime.

It is important to realize the production moved was no longer viable in the U.S. Without the incentives of 807-A, NAFTA and hopefully CBI parity, that production would go to the Far East where there would be little U.S. involvement in the manufacturing process.

With the implementation of NAFTA, which I strongly supported, apparel assembled in Mexico of U.S. formed fabric enters our market quota and tariff-free. However, duties are still charged on the value added to imports from the CBI countries. This places the CBI countries at a great competitive disadvantage vis-a-vis Mexico, and the progress the U.S. fostered in the Caribbean Basin will, in large part, be reversed. Competition from Mexico will force many local and U.S. firms out of business or to move their investments from the CBI countries to Mexico.

With the elimination of tariffs under NAFTA, this 8% cost no longer is added to the price of garments coming from Mexico. Couple this with slightly easier and cheaper transportation between Mexico and the U.S. vs. that between the Caribbean and the U.S. and Mexico has a significant advantage. Eight percent may not appear to be a significant savings, but the average profitability of an apparel firm in the U.S. is much less than that.

Historically, Mexico and the CBI region played on a level playing field. The implementation of NAFTA tilted the field sharply in favor of Mexico. As this chart demonstrates, traditionally, the growth rate of imports from the CBI region and Mexico were at approximately 20%. For 1994, since NAFTA's implementation, the growth rate for Mexico soared to almost 50% and the CBI's growth rate fell to 10%. And that tilt, undoubtedly, was steepened by the devaluation of the peso. 807 production created thousands of good jobs in Mexico and the Caribbean Basin. It is estimated 15 apparel jobs in the U.S. are created by every 100 jobs in 807 production in the region. This is in addition to the thousands of U.S. jobs it maintains in the textile, transportation and other industries. These jobs in Caribbean Basin, the related U.S. apparel jobs and the jobs in ancillary industries will not come to the U.S. if the Caribbean should be shut down. They will migrate to the Far East.

Parity makes good foreign policy. It is clearly in the best interests of the U.S. to have stable, democratic governments in our hemisphere, and the jobs available in the apparel industry contribute considerably to that stability. Enacting legislation affording NAFTA parity for the CBI region, the U.S. will continue to encourage CBI countries to assume their full obligations under a free trade agreement and to further open their markets to U.S. products, services and investment.

The continued economic health of the CBI region is tied inextricably to the growth of the region's apparel assembly. Export revenues generated by apparel assembly encourages Caribbean Basin governments to increase and accelerate economic reform, including investment liberalization, protection of intellectual property rights and market access. Job creation in the region would have been stagnant without the demand for apparel assembly workers. Improving economic conditions contribute to political stability, deter illegal immigration, and create an alternative to the production and trafficking of illegal drugs.

I would like to commend Senator Graham for introducing S. 529 and you Mr. Chairman, as well as Senators Bradley, Hatch, Lott, Mack and Moseley-Braun for co-sponsoring S. 529 and urge you to move quickly to adopt the legislation. However, I would like to point out to the Subcommittee one provision of the legislation which is of particular concern to many in the textile and apparel industries and if I may suggest to the Subcommittee needs revision—the provision regarding TPLs.

The American Apparel Manufacturers Association (AAMA) and the American Textile Manufacturers Institute (ATMI) believe the TPL provisions in the legislation are vague and unworkable and create a feeling of uncertainty. I strongly agree with

that conclusion and would strongly urge the Subcommittee to consider their proposal for modifying the TPL provisions. Their proposal provides parameters and guidelines for the use of TPLs. Their proposal is:

(1) TPLs should be negotiated on a country-by-country basis. There should be a separate TPL for cotton and man-made fiber apparel and a separate TPL for wool;

(2) TPLs should be available only for 807 goods;

(3) TPLs should not exceed 10% of the previous 12 months imports of 807 goods;

(4) TPLs should be used only for fabrics that are unavailable in commercial quantities in the U.S.; and

(5) CITA should make the determination within 30 days of receiving a request, after consultations with manufacturers and users.

I hope the Subcommittee will give careful consideration to this proposal. I believe it will strengthen the legislation by providing certainty and guidelines for the use of TPLs.

In summary, there is a strong and consistent movement by countries of the CBI region towards democracy, economic reform and trade and investment liberalization. During the past few years, countries of the Caribbean Basin initiated significant economic restructuring and trade liberalization and continue to do so as part of their move to NAFTA accession.

Programs such as CBI and 807 contributed significantly to the political stability and economic growth in the region. Progress in the region enhances each country's political security, as well as the United States'.

Passage of NAFTA adversely affected the competitiveness of the CBI region by diverting existing and potential investment from the region in favor of Mexico. Parity assures a level playing field will exist between the CBI region and Mexico. Without parity, U.S. companies already in the region, competitively disadvantaged by the elimination of Mexican duty rates and quotas, will disinvest existing manufacturing facilities, destabilizing the economies of the region.

A reversal in the investment climate will have serious consequences for the social, economic and political stability of the CBI region. Economic stability have much to do with how effectively longstanding political issues—terrorism, drug trafficking, immigration, democracy and human rights—are addressed. Economic stability in the region is the key to keeping the flow of drug trade and its transshipment to a minimum.

The GATT Agreement which went into effect on January 1, 1995, presents a new challenge to the U.S. apparel industry. For the first time since the late 1 960s, quotas on imported apparel will cease to exist. The U.S. apparel industry is determined to meet this new global competition, and to do it while maintaining a large domestic work force. I believe a combination of NAFTA, CBI Parity and quick response to our domestic markets will enable us to compete with other parts of the world and maintain large domestic employment.

COMMUNICATIONS

STATEMENT OF THE ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA

May 7, 1995

The Honorable Bob Graham
United States Senate
Washington, D.C. 20510

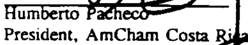
Dear Senator Graham:

At a recent regional meeting of the American Chambers of Commerce in Central America--representing AmChams in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama--delegates voted unanimously to support S. 529, the Caribbean Basin Trade Security Act, which you drafted. You have been an ardent advocate of "NAFTA Parity" legislation since the unintended, adverse effects of the North American Free Trade Agreement began to appear. You and all cosponsors of S. 529 are to be applauded for their initiative in pushing this important bill forward.

The six American Chambers of Commerce in Central America were strong supporters of NAFTA during its negotiation and the ensuing Congressional debate, for we all realize the importance of free trade to the development and growth of our host nations. Having the U.S. Congress pass parity legislation is an important first step toward deepening trade integration in the region, and strengthening U.S. trade relations with the countries of Central America and the Caribbean Basin.

Thank you for taking such a leadership role in advancing NAFTA parity legislation. All of the undersigned AmChams look forward to meeting with you when we travel to Washington May 22-26 to attend the Annual Meeting of the Association of American Chambers of Commerce in Latin America (AACCLA).

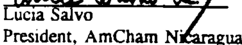
Sincerely,


Humberto Pacheco
President, AmCham Costa Rica

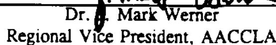
Carlos Iraheta
President, AmCham El Salvador

Emilio Wong
President, AmCham Guatemala

John F. Coleman
President, AmCham Honduras


Lucia Salvo
President, AmCham Nicaragua

Juan Francisco Pardini
President, AmCham Panama


Dr. J. Mark Werner
Regional Vice President, AACCLA

Networking the Americas to Enhance Trade and Investment

cc: Senator Bob Packwood, Chairman, Finance Committee

STATEMENT OF THE CENTRAL AMERICAN AND CARIBBEAN TEXTILE AND APPAREL COUNCIL

Thank you, Mr. Chairman, we appreciate your calling this hearing on the issue of CBI parity. CACTAC is the coordinating body for the representation of the textile and apparel industries located in 24 countries in the Caribbean and Central America. In these countries, several hundred U.S. companies, employing tens of thousands of people, have responded to the U.S. support for the CBI by building facilities to process textiles and apparel, making these U.S. companies globally competitive.

On September 23, 1993, in testimony submitted to Congress, CACTAC went on record as supporting the completion and passage of NAFTA. At that time NAFTA stood as, and remains, the next logical step in the economic restructuring and market openings that Mexico, Latin America and the Caribbean had recently undertaken. In part, our support grew from the realization that the improvement of economic relations in the region had a positive impact on long-standing political issues—human rights, terrorism, drug trafficking, democracy, and immigration. At the same time, our members were extremely concerned the passage of NAFTA would adversely affect the competitiveness of the Central American and Caribbean region by drawing existing and potential investment from the region to Mexico, particularly in the textile and apparel sectors.

So while supporting NAFTA, we worked toward the passage of free standing parity legislation and/or the inclusion of language in NAFTA granting limited parity to the nations of Central America and the Caribbean to mitigate some of the harsh effects we predicted would be caused by the lopsided benefits NAFTA would bestow on Mexico. Unfortunately this language was dropped from the bill's final version, and instead the region was promised its opportunity to blunt NAFTA's unintended, disadvantaging consequences would come in the GATT Uruguay Round implementing legislation.

The Interim Trade Program, the Administration's version of limited parity, was first included in the draft version of the Uruguay Round legislation. However, as a result of concern over "extraneous" provisions causing added controversy on an already controversial measure, the provision was jettisoned from the GATT in the final hours of the negotiations prior to the bill's introduction.

Unfortunately, today we find ourselves armed with proof that our predictions about the effects of NAFTA, without parity, were entirely correct. Since the implementation of NAFTA in 1993, CBI textile and apparel trade growth, which had been on the rise, began a serious decline. Indeed, the growth of Mexican textile and apparel exports to the U.S. matched, nearly dollar for dollar, the decline in exports from the CBI nations since NAFTA was implemented (see Appendix A). In the past 6 months, 74 factories have closed in Guatemala.

To add insult to injury, the devaluation of the Mexican peso has given manufacturer's an even larger incentive to move operations to Mexico. Where as under NAFTA, Mexico has a unique advantage with regard to unrestricted quotas and tariffs, it now is able to undercut the nations of the CBI with regard to production costs. This represents a grave situation for textile and apparel manufacturers in the region who find themselves unable to compete with Mexican products in a highly portable industry. CACTAC estimates that these textile and apparel operations can be closed, moved and reopened in a matter of 6-7 weeks.

Without parity, U.S. companies already in the region, competitively disadvantaged by the elimination of Mexican duty rates and quotas and now the peso devaluation, will be forced to consider relocating existing manufacturing facilities. At the very least, they will likely avoid any future investment in the region. Such a reversal in the investment climate will have tragic consequences for the social, economic and political stability of the region. The passage of S. 529 would reassure both established and future investors that a level playing field will continue to exist between the Central American and Caribbean region and Mexico in textile and apparel.

Over the past ten years, the Caribbean Basin Initiatives have contributed significantly to the economic growth and political stability in this nearby, strategically important region. Clearly, any progress the region make enhances the U.S.' political security. In fact over the last decade, largely as a result of CBI, we have witnessed a strong and consistent movement by the Central American and Caribbean nations towards democracy, economic reforms and trade and investment liberalization.

This growth and development has occurred with the help of an economic base stimulated by the U.S. CBI program and, as a result, the demand for U.S. goods and services has grown. The U.S. has maintained a larger and more consistent job-creating trade surplus (on a per capita basis) with Central America and the Caribbean than with any other region in the world (Appendix B). The Central American Panamanian Federation of Private Entities indicated in a report that "60% of the

Caribbean and Central American region's income goes to buy American products." The report also stated "45% of raw material, machinery and equipment imports of Central America and Caribbean Basin countries comes from the United States." Thus, we have the truest elements of symbiotic trade . . . mutuality of interest and benefit.

For every 100 jobs created in Central America and the Caribbean, 15 new jobs are created in the U.S. In contrast, the Pacific Rim apparel trade creates only 2 jobs in the U.S. for every 100 jobs dedicated to apparel production in that region. And, U.S. exports to the Central American and Caribbean Basin region are expanding at a rate three times the rate of exports to the world as a whole. If the Central American and Caribbean textile and apparel industry is shut down, the thousands of jobs in the region and the related U.S. textile and apparel jobs and the jobs in the ancillary industries they support, will not come to the United States; they will migrate back to the Far East.

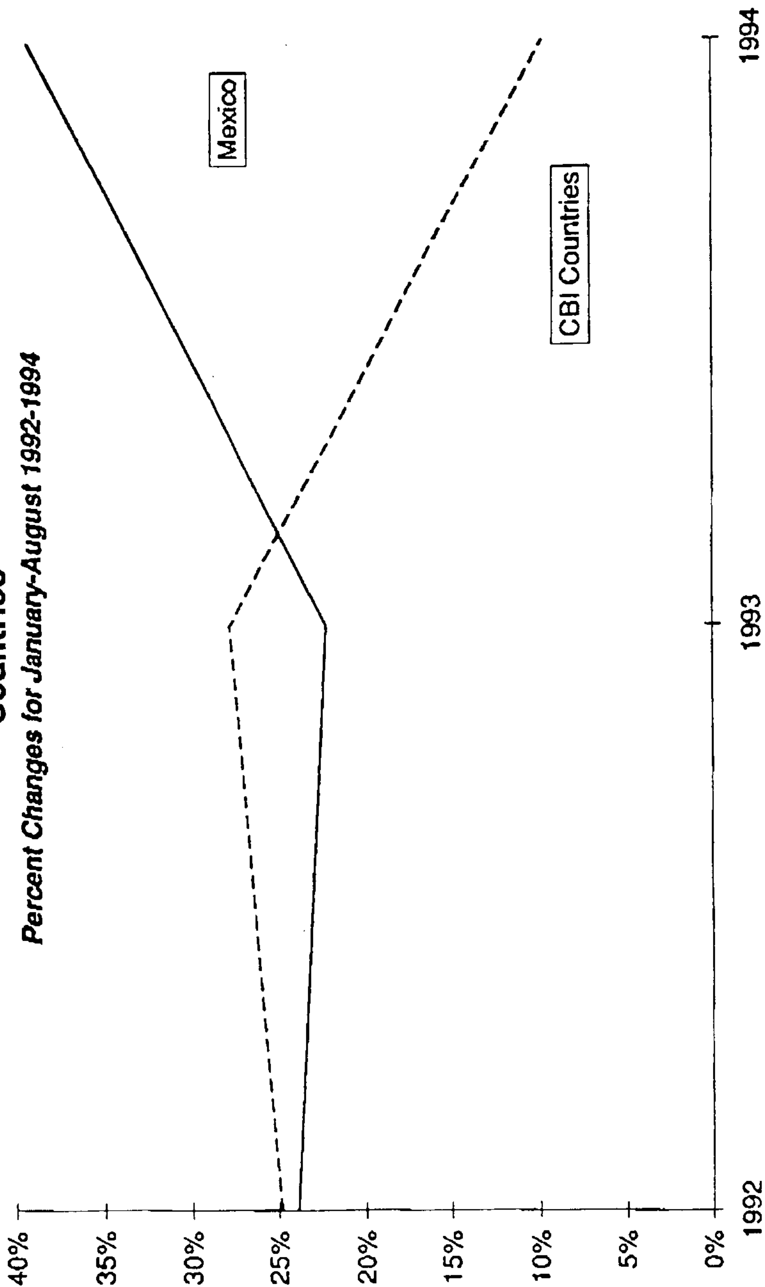
A large number of the textile and apparel producers that make up CACTAC use U.S. cut and formed fabric. Over 77 percent of Central American and Caribbean textile and apparel exports to the U.S. are assembled, in whole or in part, from U.S. components. This fabric is shipped from the U.S. to Central America and the Caribbean and assembled. This two way process provides numerous benefits for both Central America and the Caribbean and the United States with the most important benefits being investment, jobs, and trade.

These imports from Central America and the Caribbean displace imports from Asia which contain little, if any, U.S. content. Jobs are thus protected in the United States that would otherwise go offshore. In fact, the textile and apparel jobs that are being created in Central America and the Caribbean were lost to East Asia long ago. Indeed, the decline in textile and apparel exports from Asia has a direct correlation to increases from the CBI region.

As a practical matter, parity is essential to products such as textile and apparel. These products account for nearly 50 percent of total U.S. imports for Central America and the Caribbean. These products are currently ineligible for CBI duty-free treatment; they carry the highest rates in the U.S. tariff schedule. Free access for Mexico's exports of these products gives the Mexican exporter anywhere between an 8 to 25 percent cost advantage over his/her competitors in the Central American and Caribbean beneficiary countries.

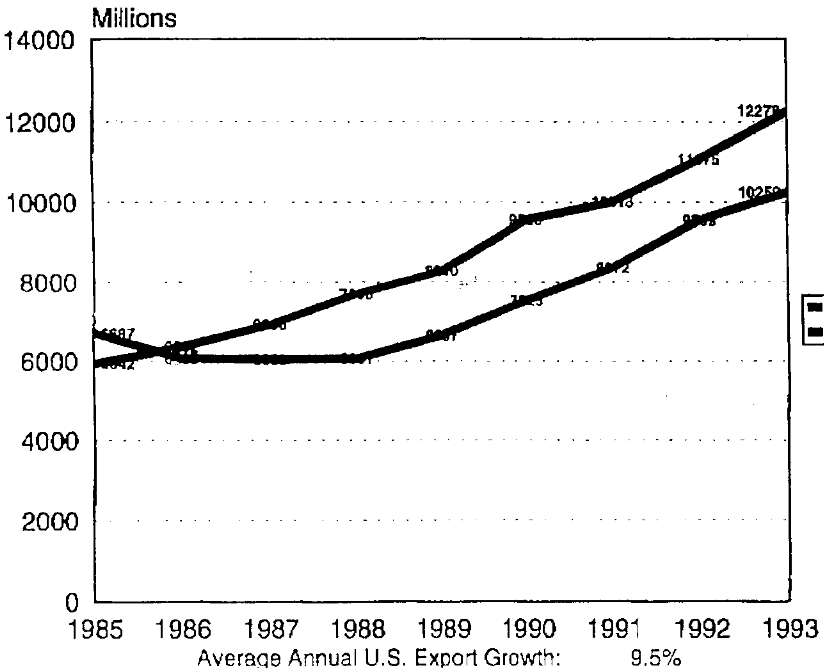
S. 529 protects the interests of U.S. companies in the region especially in the textile and apparel industry. Many U.S. firms invested in the region in order to compete with low cost Asian textile and apparel manufacturers while still maintaining facilities in the U.S. Failure to provide NAFTA-like access for Central American and Caribbean nations would punish U.S. firms who at the encouragement of the U.S. Government took the risk and invested in Central America and the Caribbean. More importantly, it would also harm American workers in the mill and apparel sectors reliant on co-production with the region.

From a broader perspective a combination of NAFTA and Central American and Caribbean parity would help create a regional trading area which will allow the United States to compete more effectively with the European trading block and to counter competition from the Pacific Rim countries. Over the past 10 years, the combination of private U.S. investment and foreign and economic policy has been instrumental in the establishment of the textile and apparel industry in Central America and the Caribbean. This industry has contributed to the democratic stability and economic growth in the region. S. 529 continues the progressive thinking that has the textile and apparel industry working hand-in-hand in the U.S. and Central America and the Caribbean. S. 529 also necessitates that the nations of the CBI region enter into reciprocal free-trade agreements with the United States thus laying the groundwork for Central America and the Caribbean to become part of the permanent economic integration of the entire Western Hemisphere. We strongly urge the adoption of S. 529.


Growth of Imports of Apparel From Mexico and the CBI Countries
Percent Changes for January-August 1992-1994
Mexico
CBI Countries
40%
35%
30%
25%
20%
15%
10%
5%
0%
1992
1993
1994

U.S./CBI TRADE BALANCE STATISTICS (1985-1993)

(Millions of U.S. Dollars)



Average Annual U.S. Export Growth: 9.5%

Note: 1993 marked the 8th straight year of U.S. trade surpluses

YEAR	ANNUAL EXPORT GROWTH	TRADE BALANCE IN MILLIONS
1985		-745
1986	7.1%	297
1987	8.6%	867
1988	11.4%	1629
1989	7.8%	1653
1990	15.4%	2044
1991	4.6%	1641
1992	10.6%	1516
1993	10.9%	2026

Source: U.S. Department of Commerce
U.S. International Trade Commission

STATEMENT OF THE FASHION ACCESSORIES SHIPPERS ASSOCIATION

The Fashion Accessories Shippers Association, Inc. ("FASA") is a trade association of firms importing handbags, luggage, small leather goods, gloves and belts, whose headquarters are located in New York City. Its membership of 100 firms, however, spans the East Coast and consists mostly of small to medium size privately held companies, employing less than 500 workers. There are some members who are large public companies with thousands of employees. All told, more than ten thousand workers are employed in the United States by FASA members. These comments are submitted on behalf of the FASA membership to voice their support for S. 529, which offers NAFTA equivalent treatment to Caribbean Basin beneficiary countries.

INTERNATIONAL OBLIGATIONS

On a global level, FASA members recognize the necessity for the United States to take an active role in encouraging the development of strong democratic governments internationally. When, as in the instant case, the countries are our neighbors, the necessity is all the more pressing. The pathway to this goal is through revitalization of the economic stature and security of the countries involved. In 1983, the United States committed itself to revitalizing, as well as facilitating the expansion of, economic opportunities in the Caribbean Basin region with the Caribbean Basin Economic Recovery Act ("CBERA"). As CBERA is scheduled to expire on September 30, 1995, the proposal to grant NAFTA benefits is very timely.

EQUAL FOOTING WITH MEXICO

Moreover, granting NAFTA parity would undo the harm that has evidently resulted from the NAFTA benefits accorded Mexico. We understand that a high percentage of trade previously conducted with Caribbean Basin countries has been diverted to Mexico, causing many factories to close. According these countries the same NAFTA benefits as Mexico would put the countries on a more equal footing [with Mexico], reinstate the commitment made by the United States, help restore whatever economic stability had been previously attained and, spur further development and stability in the Caribbean Basin countries.

DOMESTIC INTERESTS

From the domestic standpoint, the FASA membership and its employees have much to gain by passage of S. 529. Opportunities to not only increase and expand their respective operations both abroad and domestically but the ability to have a more "hands-on" approach in keeping with the "Reasonable Care" theme of the "Mod Act" (North American Free Trade Agreement, Pub. L. No. 103-182, Title VI—Customs Modernization), would present themselves.

Increased Opportunities

Being located on the East Coast, they would have easy access to the various Caribbean Basin countries for new sources of materials. The significance of this new source lies in English being the major language in the area, resulting in uninhibited communication of ideas and requirements. Additionally, the majority of business people on the East Coast have a general familiarity with these countries due to their being well-known vacation "spots."

Logistically, transportation of goods would be facilitated and, as a result, more economical. Shipments would arrive faster than, for example, from Europe or the Far East. As these are islands, the containers could be loaded and shipped directly to the appropriate East Coast port, rather than having to travel long distances overland. Consequently, there is less chance of damage to, or a mix-up with, the contents.

Additionally, although trade has declined, the currency and political environment of the Caribbean Basin countries are relatively stable. Both of these factors make them more conducive to investment, than, for example, Mexico.

Finally, certain FASA members have expressed an interest in setting up cutting operations within the United States. The proximity of the Caribbean, coupled with NAFTA parity, makes the premise more conducive, as well as more feasible. Thus, contrary to displacing American jobs, affording NAFTA treatment to the Caribbean Basin countries actually may result in creating them.

Reasonable Care

The easy access and lack of language barriers facilitate more than FASA membership business opportunities. The Mod Act now requires that importers exercise "reasonable care" and correctly classify and establish the value of entries. Importers

must also abide by the various other Customs laws, e.g., establishing the proper country of origin of merchandise, meeting customs marking requirements, etc. The proximity of the Caribbean will afford FASA members the opportunity to ensure that the products are being manufactured **where, how and with what materials** they are supposed to be. Ease of communication will also facilitate the members' control over the manufacturing process, and ensure that labels comport with not only Customs, but Federal Trade Commission, Consumer Product Safety Commission, etc., requirements. All of this serves to assist the importer in being more intimately involved with the importation of goods into our country, and thus, ensure comportment with our requirements, standards and laws.

On behalf of the Fashion Accessories Shippers Association, and its member companies, we hope that Congress and the Administration will accord the Caribbean Basin countries treatment equivalent to that accorded Mexico under the North American Free Trade Agreement.

Respectfully submitted,

JOEL K. SIMON.

STATEMENT OF HON. H.E. JOSÉ DEL CARMEN ARIZA AMBASSADOR OF THE DOMINICAN REPUBLIC TO THE UNITED STATES

INTRODUCTION

Chairman Grassley, we welcome the opportunity to submit comments for our country on this extremely important bill and we commend you for your attention to this matter.

Our country appreciates your wisdom and leadership and that of Senators Bradley, Graham, Hatch, Lott, Mack and Moseley-Braun in introducing and co-sponsoring this measure to address the inadvertent adverse effects of NAFTA on the CBI region. To be very clear, we publicly supported passage of NAFTA as a major step to regional and hemispheric free trade and, as one of the major trading partners of the United States in this hemisphere, we are asking only for equivalent treatment.

CBI EFFECTS

Over the past twelve years the CBI has been successful in fostering economic development in the countries of the region. In fact, the Dominican Republic is the primary beneficiary of the CBI program. We are the United States' sixth most important trading partner in the hemisphere and *the largest among the CBI countries.* Last year the Dominican Republic imported almost $2.8 billion in American products, generating or maintaining 56,000 U.S. jobs. Bilateral trade has climbed to approximately $6 billion, or 26 percent of the region's trade with the United States. Of the forty-seven nations comprising Latin America and the Caribbean, the Dominican Republic's trade with the United States is surpassed only by Mexico, Brazil, Venezuela, Argentina, and Colombia.

The CBI has been extremely instrumental in helping the Dominican Republic make significant progress in achieving many of its long-standing goals to diversify its economy, develop new industries, create employment, improve working conditions, and maintain its position as a stable, functioning democracy. For example, as a result of CBI preferences, the Dominican Republic has experienced tremendous growth in its free zone operations.

Free zones are the fastest growing sector of the Dominican economy. At present 476 companies operate in the country's thirty-two free trade zones spread throughout the country, and they employ 176,311 workers. Most of the businesses are either subsidiaries of U.S. companies, or affiliated with U.S. companies in one way or another. Free zone companies account for approximately one-third of the Dominican Republic's exports, and ninety-six percent of these exports go to the United States.

The major activities in the free zones are textiles and apparel, footwear, metalworking, jewelry, services, electronics, tobacco, pharmaceuticals, and sporting goods. Before the CBI went into effect, there were 7,176 Dominicans employed in the free zones. Within four years of CBI's enactment, the number jumped dramatically to 32,509 in 1986. This doubled to 68,770 in 1990, and more than doubled again to 176,000 by 1994. Significantly, fifty-seven percent of these jobs, i.e., 101,568, are held by women.

To emphasize what we said earlier, the CBI benefits the United States as well as the "beneficiary" countries. In 1994 U.S. exports to the Dominican Republic helped support jobs for 56,000 U.S. workers. In addition, co-production arrangements have helped U.S. businesses compete with low wage production from Far

Eastern countries. Almost fifty percent of the companies in the free zones are directly owned by U.S. businesses; twenty-five percent more are contractors for U.S. companies. Passage of S. 529 will help ensure that these favorable trends continue.

S. 529

S. 529, the Caribbean Basin Trade Security Act, and its parallel bill in the House of Representatives, H.R. 553, is designed to ensure that the value of the CBI program is not eroded because of NAFTA. Although we have a few comments on the technical language, we want to say on behalf of the Government of the Dominican Republic that we strongly support the thrust of the bill and hope for its prompt approval.

First, we believe that the extension of "parity" treatment to products other than textiles is an important step and we commend this approach. Second, the provisions relating to NAFTA accession or negotiation of specific free-trade agreements is a positive step toward fulfilling the Summit of the Americas' commitments for a wider hemispheric free trade arrangement.

Third, the provisions in the bill concerning monitoring NAFTA sugar imports are a good step, but in light of the harmful effects to the Dominican economy that cuts in the sugar quota have had over the past twelve years, some technical changes need to be made to protect the Dominican Republic's and other CBI countries's traditional levels of access to the U.S. market against further erosion over the long run and hopefully restore the levels of access contemplated in the original CBI legislation. (The Dominican Republic sugar industry will submit a separate statement addressing these technical issues.)

Fourth, we believe it might be more convenient to take a flexible approach to the six-year "transition period" envisaged in section 101. This would accommodate unforseen delays in the negotiation/accession process so long as good faith efforts were being made.

RECENT DEVELOPMENTS

The recent fall of the Mexican peso makes timely action on the bill even more necessary for two main reasons: (1) over the short run Mexican imports have become, and will continue to be, more attractive in dollar terms than before for U.S. purchasers, and (2) over the long run, investors are likely to avoid committing new capital anywhere in the region without a boost in confidence. Passage of S. 529, we believe, will provide that boost.

CONCLUSION

We want to thank our friends in Congress and the Administration for this far-sighted measure that will enable us to continue restructuring and developing the Dominican economy to face international competition. We believe that the passage of S. 529 will help us in achieving these vital objectives.

STATEMENT OF FORREST E. HOGLUND
CHAIRMAN AND CEO OF ENRON OIL & GAS CO.

My name is Forrest E. Hoglund and I am Chairman and CEO of Enron Oil & Gas Company. Enron Oil & Gas is one of the largest independent (non-integrated) oil and gas companies in the United States in terms of domestic proved reserves. The company's reserves base is 86 percent North American and 90 percent natural gas.

Oil and gas development and extraction has been underway in Trinidad by U.S. companies, including Enron, Amoco and Texaco, since about 1971. EOG is investing $250 million dollars over 5 years to develop gas fields and produce natural gas and condensates offshore Trinidad.

These wells are currently producing 150 MMCFD or 23 percent of Trinidad's natural gas demand. A favorable investment climate, good gas reserve potential, low finding costs and low operating costs are among the favorable conditions EOG finds in operating in Trinidad. Trinidad represents almost 20 percent of EOG's 1995 estimated gas production volumes.

Enron completed the development of the Kiskadee Gas Field within budget and ahead of a very aggressive schedule. Agreements were signed in November 1992 and first gas production was achieved less than one year later, a remarkable achievement.

Trinidad is in a strong position to attract additional investment and trade dollars. Trinidad will show for 1994, for the second consecutive year, a balance of payments

surplus of about $150 million, which shows their economic policies are working. 1994 real GNP growth was at 4 percent, double their earlier expectations. In 1995, inflation is expected to be under 5 percent.

Their exchange rate, consequently, has held firm. Their natural gas reserves, at 10.6 trillion cubic feet, represents a 45 years reserves life index.

The U.S. currently imports 80 MBD of crude oil and petroleum products from Trinidad and Tobago valued at over $500 million dollars a year in 1994, or 1 percent of our nation's oil imports.

Trinidad is the world's second largest exporter of nitrogenous ammonia fertilizer, a natural gas by-product, (i.e. the Former Soviet Union is the largest). One-third of the United States 3 million tons of ammonia imports annually come from Trinidad, valued at $240 million dollars in 1994, according to the U.S. Department of Commerce. This equates to about 5 percent of U.S. ammonia fertilizer usage annually.

An LNG (or liquefied natural gas) export project is being planned for siting in Trinidad by the Government together with its partners, which include Amoco, at La Brea, on a new industrial site in southwest Trinidad. The end-use markets being considered for this LNG include Cabot LNG of Massachusetts and, Puerto Rico, where Enron Development Corporation is developing plans for an electric power plant project.

Among new U.S. companies to enter into business in Trinidad is Unocal, which has signed an agreement to explore for oil off the east coast, as part of a $411 million oil recovery program. Texaco (with U.K.'s British Gas) also aims to develop gas reserves to help supply the LNG export project. Other new entrants into Trinidad, in addition to EOG, are NUCOR, Chevron, Mobil, Exxon, Arcadian, Southern Electric and Farmland.

Enron Gas and Oil Trinidad, Limited reports that the political, business and social environment of Trinidad and Tobago is especially suitable for the low cost, fast track approach which is the hallmark of Enron's success.

ECONOMY, INVESTMENT AND TRADE

The gross domestic product (GDP) of Trinidad and Tobago is over $5 billion dollars annually. A top local government agenda item is to reduce the high 18.8 percent unemployment rate in the country, which has just over 1.2 million citizens. The U.S. is its largest investment partner, and through investment, free trade status can benefit the two countries—on both sides of business transactions—by creating valuable jobs in the energy and trade sectors, and in related support service industries, like ports, shipping and trade finance. U.S. direct investments in the economy of Trinidad and Tobago have been averaging a half billion dollars a year since 1990, reports the U.S. Department of Commerce. The 1994 investment is estimated at $700 million dollars. With an expanded NAFTA trade agreement with Trinidad as a member, these investments can be expected to increase.

The State of Texas, where EOG is headquartered, and Florida are the two largest exporter states of goods to Trinidad and Tobago, which include machinery parts, steel pipes, computers and software, oil products and lube oils, rice, corn, wheat and soybeans. Texas and Florida export goods valued at $200 million and $80 million dollars a year, respectively, to customers in Trinidad and Tobago. Other U.S. businesses which have been active in Trinidad and Tobago include: Citibank, 3M Company of Minnesota, IBM, Johnson and Johnson and Hilton International.

BENEFITS OF FREE TRADE

Opportunities for growth and investment for companies here in the U.S. and in Trinidad and Tobago are increasing. The turnaround in the Trinidad oil and gas industry is underway. Trinidad presents very good expansion opportunities for U.S. firms interested in doing business in the Caribbean and in working with Trinidad as a nexus for trade with South America and the Pacific Rim through the Panama Canal. Trinidad has gone beyond GATT in eliminating domestic subsidies.

Trinidad and Tobago will, under NAFTA, maintain U.S. environmental, health and safety and workplace standards. Its government procurement provisions guarantee U.S. firms the ability to compete for government contracts to supply goods and services to federal government agencies. Tariffs on over two thirds of U.S. exports are eliminated in these sectors: computers, oil refining equipment, special industrial machinery, pharmaceuticals, telecommunications equipment and photographic equipment. Trinidad has already signed both a Bilateral Investment Treaty and an Agreement on Intellectual Property Rights with the U.S. In 1995, the Government of Trinidad and Tobago reduced the corporate tax rate from 45 percent to 38 percent to improve the financial environment for foreign investors.

At Enron, we support the early accession to NAFTA for Trinidad and Tobago and see its accomplishment as a firm step in the direction of Western Hemisphere economic integration. We feel it is very important to let countries such as Trinidad and Tobago join in NAFTA, since they have met their requirements on their own and with such positive results.

Thank you.

STATEMENT OF THE HONOURABLE ANTHONY HYLTON, MP

PARLIAMENTARY SECRETARY IN THE MINISTRY OF FOREIGN AFFAIRS AND FOREIGN TRADE—GOVERNMENT OF JAMAICA

Good Morning Mr. Chairman and Members of the Honourable Committee. My name is Anthony Hylton and I am currently the Member of Parliament and the Parliamentary Secretary in the Ministry of Foreign Affairs and Foreign Trade of the Government of Jamaica. It is an honour Chairman Grassley, to have an opportunity to submit this testimony on a matter of vital importance to Jamaica, to CARICOM countries and to the entire Caribbean Basin.

S. 529, and its House companion bill H.R. 553, represent an important Congressional commitment to the larger movement towards hemispheric integration by providing full NAFTA parity to the CBI countries. Jamaica is truly encouraged by the comprehensive coverage proposed in this bill and I would like to thank Senators Graham and Mack, Congressmen Crane, Gibbons and Rangel, and all of the bill's supporters for taking an interest in the growth, development and economic well-being of the Caribbean region.

With the passage of NAFTA, the Congress inadvertently tilted the playing field against the Caribbean, historically one of the best trading partners of the U.S. The parity bills remedy this situation for key CBI-excluded products, safeguard the future of the Caribbean Basin textiles and apparel sector, and recognize and create a true transition process to free trade for CBI countries. The legislation features provisions that will build on major liberalization measures that have already been made in the Caribbean Basin and at the same time will greatly benefit the U.S. economy.

The Caribbean Basin Trade Security Act is a well-conceived measure urgently needed to ensure that Jamaica and other Caribbean nations do not suffer diversion of trade and investment as a result of the NAFTA agreement. Passage of NAFTA has had the unintended effect of hindering the competitiveness of the Caribbean Basin by diverting existing and potential investment from the region in favour of Mexico. S. 529 is necessary to avoid irreparable and unintended harm arising from enactment of NAFTA to businesses and workers in the U.S. who rely on co-production arrangements with the Caribbean Basin. This is because many exports are excluded from CBI duty free benefits but are subject to NAFTA preferences, giving investors a strong incentive to shift production to Mexico. The legislation would have the beneficial effect of placing exports like petroleum and textiles on a level playing field with exports from Mexico.

SAFEGUARDING THE JAMAICAN TEXTILE AND APPAREL SECTOR

The unintended, adverse effect of NAFTA is to place Mexico ahead of the Caribbean in terms of U.S. market access for a number of the Caribbean's key export products either not included, or not treated as advantageously, in the CBI as they are in NAFTA. The most critical of these for Jamaica and CARICOM are apparel products, footwear, leather goods, and petroleum. The Graham bill and its House counterpart, HR 553, close important gaps in trade access between Mexico and the CBI countries. They equalize the playing field in three of the most important areas of disadvantage:

1. Equivalent duty-free treatment of value added to 807 apparel.
2. Tariff Preference Levels (TPLs) giving quotas of reduced-duty access for apparel made of foreign fabric.
3. Equivalent duty-free access for other CBI products not now covered, including leather goods and footwear.

Of great concern to Jamaica is how the region's apparel and textile sectors will be affected by the NAFTA agreement. The textile and apparel sector has become a critical component of the region's export profile. Since 1988, textiles and apparel have been the leading category of non-CBI-eligible U.S. imports from the CBI countries. Imports of textiles and apparel doubled from $1.5 billion in 1988 to $3 billion in 1992. By 1993 they reached $4 billion—eight (8) times their value in 1984 when the CBI began.

Under the NAFTA, import duties were immediately removed on the overwhelming majority—approximately eighty (80) percent—of Mexican apparel exports to the U.S. The remaining twenty (20) percent benefit from an accelerated implementation of free trade, with annual duty cuts and quota liberalization which began on January 1, 1994 and will end by the year 2000.

Under 807 and 807A programs, garments assembled in the Caribbean Basin from U.S.-formed and sewn inputs can re-enter the U.S. free of duties on the value of U.S. components, and effectively free of quotas. But the counterpart Mexican product also has those tariff and duty advantages and is free of duties on the Mexican value-added portion as well. Unlike the CBI, NAFTA also provides reduced or eliminated duties for apparel cut in Mexico, or made from fabric that can be of Mexican or Canadian as well of U.S. origin.

In addition, NAFTA has an important provision for apparel products from Mexico that do not qualify for NAFTA origin: it provides Tariff Preference Levels (TPLs), a form of tariff-rate quota, for products containing fabric from different countries other than Mexico, the U.S. or Canada.

The relative advantage enjoyed by Mexico will divert trade and investment away from what has become one of Jamaica's (and the Caribbean's) most promising sectors. This adverse and unintended consequence of the NAFTA treaty is already apparent. Trade figures for the first nine months of 1994 show that U.S. apparel imports from the CBI countries grew by only ten percent over the first nine months of 1993, while apparel imports from Mexico during that period jumped by 45 percent.

Through successive bilateral textiles agreements, the Jamaican private sector has developed an active partnership with U.S. industry to take advantage of the most efficient productive activities that each country offers. In a host of industries, U.S. and Jamaican firms cooperate to produce finished goods using a combination of Jamaican and American skills, capital, and technology. It is this complementarity of Jamaican/U.S. production that maintains the competitiveness of the final product in the global marketplace and even in the U.S. market.

S. 529 remedies the problem of unequal tariff levels for Mexican and Jamaican finished goods industries.

BILL LAYS OUT IN DETAIL STEPS FOR NAFTA ACCESSION

Providing equal treatment for Caribbean exports is a necessary and vital step towards the establishment of a Free Trade Area of the Americas (FTAA). Providing clear rules and procedures for NAFTA accession is also an essential precursor to the creation of the FTAA. S. 529 is effective because it specifically lays out requirements for NAFTA accession and offers a useful guideline for Caribbean countries like my own that aspire to become a part of NAFTA. By taking this approach, S. 529 creates a climate of greater certainty and equality for CBI countries and also demonstrates seriousness on the part of the NAFTA countries to make the Caribbean region a full partner in hemispheric trade. Jamaican Efforts to Reform Economy

Jamaica remains committed to an open multilateral trading system that serves as a stimulant to economic growth. As a developing nation, our policy is fully consistent with the principles and disciplines of GATT. Jamaica ratified the Agreement establishing the World Trade Organization in January of this year.

Jamaica's domestic economic policies have focussed recently on bringing about meaningful economic reform and stabilization. We have successfully created an economic climate that encourages private sector growth and the aggressive pursuit of new markets. A market-determined exchange rate system is operating successfully and our privatization programme is among the most extensive and successful in the developing world. Central to our ongoing efforts is the elimination of trade barriers through tariff reductions, the abolition of price and exchange controls, and the imposition of strict monetary and fiscal discipline.

For my country, the CBI program has represented a springboard to hemispheric trade liberalization and to growing prosperity for the U.S. and Jamaica. My country will continue to make the necessary changes to accelerate this process. Recently, for example, Jamaica has signed both a Bilateral Investment Treaty (BIT) and an Intellectual Property Rights (IPR) agreement with the United States. Our bilateral textile agreement with the U.S. includes strengthened anti-circumvention provision. Jamaica stands ready to enter the next phase of trade liberalization with the United States and other hemispheric partners and the enactment of S. 529 will be an important factor in bringing about this process.

CONCLUSION

The ties between the U.S. and Jamaican economies are strong. As personal incomes in the region rise, demand for U.S. consumer goods—from food products to computers—also rises. Roughly 60 cents of every dollar Jamaica earns from exports to your country is spent in the U.S. buying American-made consumer goods. By contrast, Asian countries spend only ten (10) cents of every dollar earned in the U.S. Thus, CBI countries have a strong propensity to purchase American raw materials, machinery and equipment.

Granting these trade concessions to the Caribbean Basin is not only good for U.S. foreign policy objectives, but also good for the U.S. economy. Experience shows that prosperity in the Caribbean Basin translates directly into more business, income and jobs for the United States. Since the implementation of the CBI, the United States trade balance has shifted from a $2.7 billion trade deficit in 1984 to a $1.8 billion surplus in 1993. U.S. exports to the region doubled during this period, growing from $6 billion to $12 billion. In 1993, this $12 billion worth of exports supported some 200,000 American jobs.

The growing inter-relatedness of the world's economies and of sectors within the modern economy means that the economic benefits from Caribbean Basin prosperity goes far beyond those U.S. industries directly involved with imports, exports or co-production.

The economic and political development of the Caribbean Basin creates markets, exports and jobs for the United States. An economically thriving and politically democratic Caribbean region serves the best economic and security interests of the United States. In this regard, we hope you share our strong enthusiasm for the "Caribbean Basin Trade Security Act" and urge you to endorse this critically important legislative proposal.

STATEMENT OF THE INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE

Hon. CHARLES GRASSLEY,
Chairman, Subcommittee on International Trade,
Committee on Finance,
U.S. Senate,
Washington, DC

Dear Senator Grassley: The International Intellectual Property Alliance (IIPA), representing America's copyright-based industries, appreciates the opportunity to comment on S. 529, the Caribbean Basin Trade Security Act, now pending before your subcommittee. We support the main objective of S. 529: to extend to Caribbean and Central American nations some of the trade benefits enjoyed by Mexico under NAFTA. But we urge that the bill be amended to require these nations to meet clearly defined benchmarks toward stronger protection for U.S. intellectual property rights—consistent with the requirements of NAFTA—as a condition for receiving NAFTA trade benefits.

IIPA AND THE COPYRIGHT INDUSTRIES

IIPA consists of eight trade associations (named at left), each of which, in turn, represents a significant segment of the U.S. copyright industries. IIPA represents more than 1,500 companies that produce and distribute computer and computer software; motion pictures, television programs, and home videocassettes; music and sound recordings; and textbooks, tradebooks, reference and professional publications and journals.

Copyright-based industries play a crucial and growing role in the U.S. economy. A February 1995 report prepared for IIPA by Economists, Inc., entitled *Copyright Industries in the U.S. Economy: 1977-1993,* estimated that the core copyright industries:

- contributed $238.6 billion to the U.S. economy in 1993, or about 3.74% of the entire Gross Domestic Product;
- grew more than twice as fast as the economy as a whole (5/6% vs. 2.7%) between 1991 and 1993;
- created new jobs almost four times faster than the economy as a whole (2.6% vs. 0.7%) between 1988 and 1993; compiled estimated foreign sales of $45.8 billion in 1993, an increase of 11.7% over 1992.

THE CBI PROGRAM AS A TRADE POLICY TOOL

The enactment in 1983 of the Caribbean Basin Economic Recovery Act[1] was a turning point in the use of U.S. trade policy to promote exports of products and services protected by copyright, patents, trademarks, and other intellectual property laws. For the first time, Congress explicitly linked trade benefits to intellectual property protection by beneficiary countries. Under the Caribbean Basin Initiative (CBI), countries can only receive trade preferences if they satisfy statutory criteria, which include intellectual property rights (IPR) standards.[2]

Over the past twelve years, the IPR criteria of the CBI program have provided the incentive for substantial improvements in the copyright laws and enforcement practices of many Caribbean and Central American countries. However, serious problems remain.

Many CBI countries do not now meet the statutory IPR criteria to receive CBI trade preferences, and U.S.-based motion picture, sound recording, music publishing, software and book publishing industries suffer tens of millions of dollars each year in losses due to copyright piracy in CBI countries.

The IPR provisions of the 1983 CBI legislation are significant in another way: they provide a template for several other U.S. trade laws that link benefits for our trading partners to respect for the intellectual property of U.S. companies. These include the Generalized System of Preferences Renewal Act of 1984[3] and the Andean Trade Preferences Act of 1991.[4] Together with the "Special 301" provisions of the Omnibus Trade and Competitiveness Act of 1988,[5] which authorizes the imposition of retaliatory tariffs on trade with countries that fail to enact strong laws and curb copyright piracy, these laws supply our trade negotiators with both carrots and sticks to use in encouraging our trading partners to bring their IPR laws and enforcement policies up to world standards. Over the years, these bilateral tools have been extraordinarily effective in opening markets around the world to U.S. exports of copyrighted materials.

S. 529: ANOTHER TURNING POINT?

S. 529 would extend to CBI countries preferential tariff treatment on the basis of parity with the treatment enjoyed by Mexico as the result of the North American Free Trade Agreement (NAFTA). IIPA fully supports the goal of CBI parity, and of speedy accession of Caribbean and Central American countries to NAFTA, or other bilateral or multilateral free trade arrangements. We are deeply concerned, however, that, in its current form, S. 529 would offer these enormously valuable trade benefits to CBI countries without any new commitments on their part with regard to protection of the intellectual property rights of U.S. companies.

Enactment of the legislation in its current form would mark a radical departure from the time-tested and successful policy of linking trade preferences to IPR criteria—strong laws and effective enforcement—that open foreign markets for U.S. copyrighted materials. Severing this link would weaken incentives for Caribbean and Central American countries to improve their currently inadequate performance in fighting copyright piracy, and would send the wrong signal to other nations around the world about U.S. resolve to develop its export markets through these bilateral trade tools. It would also send the wrong signal to Mexico, which received the benefits of NAFTA only after it agreed to shoulder significant IPR obligations.

CBI PARITY AND INTELLECTUAL PROPERTY: A BENCHMARK APPROACH

IIPA believes that a more consistent and effective approach to CBI parity would be to condition eligibility for increased, NAFTA-level trade benefits on firm, enforceable commitments from Caribbean and Central American countries to bring their IPR laws and practices up to a standard comparable to NAFTA obligations. We recognize that not all these countries will be prepared to make these changes in one

---

[1] See Section 212 of the Caribbean Basin Economic Recovery Act, Pub. L. No. 98-67 (codified at 19 U.S.C. 2702).

[2] The statute mandates that CBI beneficiary country status be denied if U.S. intellectual property is expropriated (19 U.S.C. 2702(b)(2)(A) and (B)), or if a government-owned entity broadcasts U.S. copyrighted material without authorization (19 U.S.C. 2702(b)(5)). The key discretionary criterion for CBI beneficiary designation is the extent to which a country provides "adequate and effective means for foreign nationals to secure, exercise and enforce exclusive rights in intellectual property . . . ." 19 U.S.C. 2702(c)(9).

[3] See section 503(c)(5) of the GSP Renewal Act of 1984, Pub. L. No. 98-573, codified at 19 U.S.C. 2462(c)(5).

[4] See Andean Trade Preferences Act of 1991, Pub. L. No. 102-182, codified at 19 U.S.C. 3202.

[5] See section 182 of the Omnibus Trade and Competitiveness Act of 1988, codified at 19 U.S.C. 2242.

step. Fortunately, there exists an ideal benchmark for measuring the progress of CBI countries in protecting intellectual property rights: the TRIPS Agreement reached during the Uruguay Round.[6] This comprehensive legal and enforcement framework represents today's "least common denominator" world standard, well above current levels of protection in most CBI countries, but less stringent, in several important respects, than the level of protection required by NAFTA.

In enacting the Uruguay Round Agreements Act last December,[7] Congress reaffirmed our long-standing national commitment to improving intellectual property protection worldwide. Section 315 of the URAA, setting national trade objectives in intellectual property, called for accelerated implementation of the TRIPS Agreement, and for building on TRIPS and NAFTA to open foreign markets for U.S. copyrighted material and other intellectual property.

CBI parity legislation is Congress' first chance to deliver on these commitments, and offers an unsurpassed opportunity to advance this objective by linking NAFTA-level trade benefits to a deadline for TRIPS compliance. Without this incentive, many Caribbean and Central American countries could choose to take advantage of TRIPS transitional rules for developing countries, and postpone TRIPS compliance until January 1, 2000, leaving U.S. intellectual property inadequately protected in the meantime.

Accordingly, IIPA suggests that S. 529 be amended to provide that CBI countries which now meet the criteria for beneficiary status under current law become immediately eligible for NAFTA-level trade preferences, as soon as they enter into a binding agreement with the United States setting specific timetables to upgrade their IPR regimes on a priority basis. Such a timetable could either be spelled out in the CBI parity legislation, or included in legislative history, as binding guidance to the U.S. Trade Representative. In either case, the timetable should call for achievement, within one year of enactment, of the following benchmarks:

- Bringing intellectual property laws into full compliance with TRIPS standards;
- Enacting prohibitions on unauthorized decryption of scrambled satellite signals (a benchmark justified by the long history of satellite signal piracy throughout Central America and the Caribbean); and
- Providing full national treatment with regard to the protection and enforcement of all intellectual property rights.

A country that met these benchmarks would be well on its way to fully shouldering its IPR obligations under NAFTA, and would enjoy NAFTA-level benefits throughout the transition period. A country that failed to live up to its undertakings would lose the enhanced benefits. Other benchmarks could be specified in out-years to provide further guideposts for a smooth transition. We are confident that these criteria are reasonable and achievable for all CBI countries, and we understand that many of these countries were prepared to accept similar conditions and timetables when CBI parity was debated last year.

The "benchmark" approach would deliver NAFTA-level benefits to cooperating beneficiary countries immediately, while preserving the incentives for them to make further progress in safeguarding intellectual property, and maintaining continuity and consistency with other bilateral trade programs such as GSP, ATPA, and Special 301. Extending such benefits unilaterally, as S. 529 would do in its current draft, would sap incentives for further progress, and leave CBI countries unprepared to make the transition to full NAFTA accession or the equivalent when the statutory authorization for enhanced benefits terminates.

LOOKING AHEAD: THE OPPORTUNITY OF CBI PARITY

For over a decade, the U.S. has successfully conditioned trade preferences on respect by beneficiary countries for U.S. intellectual property. As introduced, S. 529 would decouple that link, and undermine the credibility of Congress stated trade objectives. We urge the subcommittee to maintain and strengthen the vital link between trade benefits and open markets for U.S. intellectual property. Conditioning NAFTA-level benefits on progress toward NAFTA-level protections would best fulfill the Congressional commitment while achieving the important objective of CBI parity.

---

[6] Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, Annex 1C to Agreement Establishing the World Trade Organization, MTN/FA II-A1C.

[7] Pub. L. No. 103-465.

Thank you for your consideration of the views of the International Intellectual Property Alliance on S. 529. Please let us know if we can provide any further information that would be of value to the subcommittee.

Sincerely,

ERIC H. SMITH, *President.*

STATEMENT OF THE INTERNATIONAL SUGAR POLICY COORDINATING COMMISSION OF THE DOMINICAN REPUBLIC *

INTRODUCTION

The International Sugar Policy Coordinating Commission of the Dominican Republic (Dominican Sugar Policy Commission)[1] welcomes the opportunity to submit this statement in response to the Subcommittee on International Trade's request for comments on S. 529, the "Caribbean Basin Trade Security Act," which was introduced by Senators Bradley, Graham, Hatch, Lott, Mack and Moseley-Braun on March 10, 1995.

The Dominican Sugar Policy Commission supports the thrust of the bill, particularly the provisions designed to ameliorate the effects of the North American Free Trade Agreement (NAFTA) on sugar imports from beneficiary countries of the Caribbean Basin Initiative (CBI).[2]

Under NAFTA Mexico, which never supplied sugar to the United States in significant amounts, has been given substantially increased duty-free access to the U.S. market—up to 250,000 tons during the first fifteen years, and unlimited access thereafter. While Mexico is not a "net surplus producer"[3] now, it will achieve this status soon according to USDA. This could have disastrous consequences for the traditional off-shore suppliers, especially sugar producers in the Dominican Republic, who reliably provided sugar to the United States at times when we could have received higher prices elsewhere. This NAFTA preference in favor of Mexico is of particular significance for the Dominican Republic whose economy, despite significant strides in diversification, remains heavily dependent on sugar.

While a side agreement to NAFTA was reached which makes it harder for Mexico to be considered a net surplus producer and thereby qualify for 250,000 ton-access to the U.S. sugar market during the first fifteen years, there is still a very real danger that the Dominican Republic and other traditional suppliers in the Caribbean and Central America will be shut out of the U.S. market entirely after year fifteen, and Mexican sugar imports eventually could completely fill the "guaranteed minimum quota" established by the 1990 Farm Act, leaving no room for imports from traditional suppliers. Moreover, failure to address these problems in an effective manner also would have serious adverse consequences for the U.S. domestic industry.

Parity in the treatment of sugar should be restored. Changes should be made to the sugar provisions in section 102 of S. 529 for the bill to ensure that the CBI is not adversely affected by the implementation of NAFTA, and in particular to prevent any erosion in CBI sugar exporters' traditional access to the U.S. market. Section 102 should be amended to protect the CBI countries' traditional share of the guaranteed minimum quota. Furthermore, in the interests of fairness and parity, Mexico should impose marketing controls on its producers whenever marketing controls are in effect in the United States. The "monitoring and consultation" provisions in Section 102 need to be amended because, by the time Mexico becomes eligible to ship 250,000 tons

---

*This material is disseminated by Robert W. Johnson II, Esq., 1050 Potomac Street, N.W., Washington, D.C. 20007, who is registered with the Department of Justice, Washington, D.C., as an agent of the Government of the Dominican Republic. This material is filed with the Department of Justice where the required registration statement is available for public inspection. Registration does not indicate approval of this material by the United States Government.

[1] The International Sugar Policy Coordinating Commission of the Dominican Republic is a quasi-governmental agency comprised of both public and private sector members under the chairmanship of the Secretary of State for Foreign Relations of the Dominican Republic.

[2] Section 102 of the bill is identical with section 102 of H.R. 1403, introduced on March 18, 1993, in the 103rd Congress. The Dominican Sugar Policy Commission submitted comments to the Ways and Means Committee on H.R. 1403 on April 30, 1993, pointing out the problems in the sugar provisions in NAFTA, which at that time had been negotiated, but not yet enacted into law. The Finance Committee did not request comments on its version of the bill, S. 1155, which had been introduced on June 24, 1993.

[3] "Net surplus production" is defined as projected production minus projected domestic consumption. If this formula yields a positive number, Mexico would be a "net surplus producer."

in exportable surplus to the United States, it will be too late to prevent irreparable harm to the CBI countries.

PURPOSE OF S. 529

The underlying purpose of S. 529 is to prevent NAFTA from undermining the benefits of the Caribbean Basin Initiative. The bill proposes to accomplish this by giving CBI beneficiaries temporary parity with benefits Mexico receives under NAFTA (including favorable treatment for textile and apparel articles and other articles ineligible for duty-free treatment under CBI); by encouraging the twenty-four CBI countries to enter into Free Trade Agreements (FTAs) with the United States; and, in the case of sugar, by requiring the President to monitor the effects of increased sugar imports from Mexico and mandating that he take action or propose legislation to Congress to ameliorate any adverse effects.

The Dominican Sugar Policy Commission believes that passage of the bill, with the modifications we have described below, is crucial to protect the access of traditional off-shore suppliers' to the U.S. market and to prevent NAFTA from "nullifying and impairing" the benefits bestowed on CBI sugar producers by the CBI and related legislation, including the "guaranteed minimum quota" established by the 1990 Farm Act.

CARIBBEAN BASIN INITIATIVE

The Dominican Republic has been a strong supporter of the Caribbean Basin Initiative from its beginning, regarding it as one of the United States Government's most-important foreign policy initiatives undertaken in the 1980's, and the catalyst to generating increased foreign exchange earnings for the Dominican Republic which could be used to finance new industries and more varied agriculture in the region.

Unfortunately, in spite of the efforts of the public and private sectors in the United States and the twenty-four beneficiary countries, the program has not achieved all the positive results which were intended, namely, "to promote economic revitalization and facilitate expansion of economic opportunity in the Caribbean Basin."

Instead, the program has been only a modest success. There are a number of reasons for this, including changing market conditions and generally depressed commodity prices, and especially in the case of the Dominican Republic, the loss of foreign exchange earnings from substantially-decreased sugar exports to the United States.

LOSS OF FOREIGN EXCHANGE EARNINGS

Representatives of the Dominican Republic have emphasized the importance of sugar to the economy of the Dominican Republic in numerous earlier statements and appearances before the Ways and Means Committee. Historically, the sugar industry has been the nation's largest employer and the main source of the country's export earnings. From 1978-1987, sugar exports provided roughly 30 percent of the Dominican Republic's foreign exchange, which is needed to finance the purchase of the many essential imports that cannot be produced in the Dominican Republic. (The great bulk of manufactured items that the Dominican Republic imports are of U.S.-origin.) For example, the Dominican Republic's sugar exports to the United States averaged 805,000 tons per year during the 1975-1981 period, and under the Caribbean Basin Initiative it was contemplated that the Dominican Republic could export 859,794 tons (780,000 metric tons) per year duty-free.

Because of the operation of the U.S. sugar quota program, the Dominican Republic's sugar quota has steadily eroded. It is currently 219,404 metric tons for fourteen months (207,300 p.a.). Over the past decade the Dominican Republic has failed to realize more than $2 billion in potential sales to the United States due to the shrinkage in its U.S. sugar quota.

This is a huge sum for a developing country, and as a result, the economy of the Dominican Republic has been in a precarious position for several years. Foreign debt service has been draining a large portion of the limited foreign exchange earnings, and the bilateral and commercial debt have had to be rescheduled to prevent default. While other off-shore suppliers have not suffered as severely, their losses, too, have been significant.

The Dominican Republic has put forth tremendous effort to diversify its economy away from its traditional dependence on sugar, including significant expansion of free zone operations, but a revitalization of its sugar industry would be extremely helpful in enabling the country to take full advantage of CBI. These benefits were made permanent by the "CBI-II" legislation, the "Caribbean Basin Economic Recovery Expansion Act of 1989." Any further damage to the Dominican sugar industry, as threatened by the implementation of NAFTA, would be disastrous to the country.

FOOD, AGRICULTURE, CONSERVATION, AND TRADE ACT OF 1990

In addition to CBI-I and CBI-II, there is another law which is extremely important for Dominican sugar exporters, Title IX of P.L. 101-624, the Food, Agriculture, Conservation, and Trade Act of 1990 (the 1990 Farm Act), which amended the Agriculture Adjustment Act of 1938 (the 1938 Act) in two significant aspects. The 1990 Farm Act established a guaranteed minimum import quota of 1.25 million tons for traditional off-shore suppliers, and, in addition, it provides that marketing controls will be imposed on domestic cane and beet sugar and on crystalline fructose manufactured from corn if anticipated fiscal year imports for consumption are less than 1.25 million tons.

Underlying the adoption of these two provisions was Congress's concern about traditional off-shore suppliers' loss of access to the U.S. sugar market during the 1980's and the resulting harm to their economies, especially countries such as the Dominican Republic where sugar had been the engine of economic growth.

Congressional action in the 1990 Farm Act was an express recognition both of the importance of the guaranteed minimum quota to the economies of the traditional sugar suppliers and of the need to have marketing controls in the United States to assure the continued operation of the domestic sugar price support program at no net cost, and without forfeitures of pledged sugar to the Commodity Credit Corporation. The size of the guaranteed minimum quota (but not its allocation) was "bound" in the Uruguay Round Agreements.

MEXICAN SUGAR IMPORTS UNDER NAFTA

The Dominican Sugar Policy Commission is strongly opposed to the provisions in NAFTA which provide Mexican sugar exporters with increased preferential access to the U.S. market because of the threats to the "no net cost" sugar program and the guaranteed minimum quota for traditional off-shore suppliers.

The Dominican Sugar Policy Commission is concerned about the preferential treatment of Mexican sugar imports because the increased imports presumably would count against the over-all sugar quota, and with a lack of appropriate marketing and distribution restrictions in Mexico, the integrity of the "no net cost" program and the guaranteed minimum quota for traditional suppliers could be compromised.

INCREASED PREFERENTIAL ACCESS

Although as we have said, Mexico had not been a significant exporter of sugar to the United States, when NAFTA was negotiated, Mexico was given significantly increased access to the U.S. sugar market. After the negotiations had been completed, it became apparent that there were a number of flaws in the original language which had to be corrected, and furthermore, the Bush Administration's original assumption that Mexico would not become a "net surplus producer" was contradicted by a USDA study that Mexico would have tremendous exportable surpluses within a few years.

SIDE AGREEMENT ON SUGAR

After a "side agreement" with Mexico was reached, NAFTA was signed into law on December 8, 1993 and became effective on January 1, 1994 (P.L. 103-182). The side agreement was necessary because the original NAFTA language would have allowed serious problems to arise regarding "substitution," e.g., high fructose corn syrup (HFCS) and other nutritive sweeteners could have been substituted for sugar in domestic applications in Mexico. The displaced sugar could then have been exported to the United States duty-free.

The side agreement stipulates that, for purposes of the net surplus producer formula, HFCS will be considered on the consumption side only, so that Mexican sugar production will have to exceed Mexican consumption of both sugar and HFCS for Mexico to be considered a net surplus producer.

The side agreement also eliminated the so-called "two-year provision" in the original NAFTA language. This provision would have allowed Mexico duty-free access after year seven for its total net production surplus, provided that it had previously achieved a net production surplus for two years in a row.

Thus, in phase one (years one through six) Mexico now will have duty-free access for sugar exports to the United States for the amount of its net surplus production up to a maximum of 25,000 metric tons raw value. Even if Mexico is not a net surplus producer, it will still have duty-free access for 7,258 tons, or the "minimum boatload amount" authorized under the U.S. tariff-rate quota.

In phase two (years seven through fourteen), Mexico will have duty-free access to the U.S. market for the amount of its surplus as measured by the formula, up to a maximum of 250,000 tons with a minimum duty-free access still at the minimum boatload amount. After year fifteen, there would be no limits on Mexican exports to the United States.

FUNDAMENTAL PROBLEM

The fundamental problem is that, as a result of NAFTA, Mexico, which has never been a traditional exporter of sugar to the United States, has been given an advantage over the traditional suppliers such as the Dominican Republic. Under NAFTA Mexico's traditional volume of exports to the United States could be tripled in phase one, rising from 7,258 tons to 25,000 tons, and could be increased thirty-five fold, to 250,000 tons in phase two. This would give Mexico fully 20 percent of the entire guaranteed minimum quota of 1.25 million tons, and of course, the CBI countries' share of the quota would shrink. The Dominican Republic's share could shrink from 220,000 tons to 176,000 tons per year, causing a loss of approximately $50 million by year fifteen. The twenty-four CBI countries are collectively allocated 37.9 percent of the overall quota. By year fifteen, they could fail to realize a total of $100 million in foreign exchange earnings at projected prices, based on a loss of 94,750 tons a year.

This is unfair because, when the quota allocations were determined in 1982, they were based upon export levels to the United States over a representative period (as required by GATT Article XIII). Traditional suppliers received quota allocations determined by their traditional levels of exports. The Dominican Republic received the largest share of the allocated quota, 17.6 percent of the total. Mexico's traditional level was a "minimum boatload."

However, Mexico's potential access to the U.S. market has been increased substantially, since GATT Article XXIV provides an exception to Article XIII for FTAs. Thus, *sugar imports from Mexico can fill the largest part of the guaranteed minimum quota during the first fifteen years, and thereafter leave no quota at all for traditional suppliers.*

"PARITY" FOR CBI SUGAR

There are two primary areas where Congress should take action to restore "parity" in the treatment of sugar: (1) CBI countries' traditional sugar quota allocations should be protected against erosion by increased Mexican sugar imports, and (2) Mexican sugar producers should be subject to "substantially equivalent" marketing controls as U.S. producers. With regard to quota allocations, if Mexican sugar imports are counted against the over-all quota, *the CBI countries' quota allocations should be maintained at traditional levels* and the shares of non-CBI countries must, of necessity, be reduced to accommodate Mexican imports.

LACK OF MARKETING AND DISTRIBUTION RESTRICTIONS

One of the stated objectives of the NAFTA negotiations was to establish the framework for free trade throughout North America. Under this philosophy of creating a North American "common market" in sugar, Mexican sugar growers should not object to being subject to substantially the same marketing controls as U.S. producers. To do otherwise would undermine the express intent of Congress in the 1990 Farm Act, namely to provide traditional off-shore suppliers with guaranteed minimum access to the U.S. market while preserving a viable domestic sugar industry.

Increased domestic production (or decreased consumption) could trigger marketing controls on U.S. sugar producers. This would lead to the anomalous situation where Mexican producers could produce as much sugar as desired while U.S. producers would be subject to marketing controls. To prevent this, Mexican producers should be subject to the same or "substantially equivalent" marketing controls as those imposed on U.S. growers.

SUGGESTED AMENDMENTS TO S. 529

The need for legislation to protect against surges of Mexican sugar imports is obvious. According to an April 1993 Department of Agriculture (USDA) study on the Mexican sugar industry entitled "Mexico's Sugar Industry—Current and Future Situation," prepared by officials of USDA's Economic Research Service and Foreign Agricultural Service, *Mexico is expected to have exportable sugar surpluses reaching 800,000 tons by year fourteen of the agreement.*

Furthermore, as a result of $2 billion new investment in the Mexican sugar industry, total annual production is expected to increase by over 1 million tons by year

fourteen. While this investment may be delayed by the collapse of the peso, it would be wise to have a specific mechanism to protect against import surges from Mexico.

As drafted, Section 102 of S. 529 contains some provisions to protect off-shore suppliers. It requires the President to (1) monitor NAFTA's effects on the access of traditional suppliers to the U.S. market, and (2) take action or recommend appropriate legislation to Congress to ameliorate any adverse effects.

These provisions need strengthening to take into account future increased imports of Mexican sugar. It is a virtual certainty that Mexico will become a net surplus producer because of the increased investment described above. By that time it will be too late for any monitoring and consultation measures to have any effect. Therefore, the language of Section 102 should be amended as follows:

(1) *Protection of CBI Sugar Quotas.* The legislation should provide that, if Mexico's increased imports are counted against the "guaranteed minimum quota," the allocated shares of CBI countries may not be reduced. For example, the Dominican Republic's allocated share of the U.S. sugar quota is 17.6 percent and its share of the guaranteed minimum quota is 220,000 tons, i.e., 17.6 percent of 1.25 million tons. The bill should hold sacrosanct such percentage allocations (and volumes) for all the CBI countries.

(2) *Trigger for Presidential Action.* Congress has already established a threshold for determining when irreparable injury will occur to traditional off-shore suppliers, that is, whenever total imports are projected to be less than 1.25 million tons, i.e., the "guaranteed minimum quota" established in the 1990 Farm Act. This should be used in Section 102 to specify when the President must act, since in addition, marketing controls would be in effect in the United States under current law.

(3) *Required Presidential Action.* Since the second tier duty under the tariff rate quota is the only effective control on imports, the President should be required under Section 102 to reimpose the duty on all Mexican sugar imports whenever the access of traditional suppliers is threatened as described above. However, Mexico would be allowed to avoid a "snap-back" if Mexico imposes stand-by marketing controls on Mexican producers after year six (when the import quota rises to 250,000 tons) similar to those imposed on U.S. producers under USDA's marketing allocation regulations (or other controls that may be legislated in the 1995 Farm Bill). Thus, Section 102 should mandate a "snap-back" of the second tier tariff on all Mexican sugar imports unless "substantially equivalent" marketing controls are in effect in Mexico whenever marketing allocations or other controls on production or marketing are in effect in the United States after year six.

CONCLUSION

It is extremely important to the Dominican Republic that its sugar exports retain at least the minimum level of access to the U.S. market established by the 1990 Farm Act. Congress has recognized this and in order to accomplish this, it is necessary to enact S. 529, with the several amendments set forth herein. This would afford meaningful protections to Dominican sugar exporters and other traditional off-shore suppliers, and would prevent further damage to their economies.

It is fundamentally unfair to give preferential treatment to Mexico for its sugar imports at the expense of the CBI countries. Parity needs to be restored.

ROBERT W. JOHNSON II, *Counsel,*
International Sugar Policy Coordinating Commission of the Dominican Republic.

STATEMENT OF LEVI STRAUSS & CO.

(BY THOMAS W. TUSHER, PRESIDENT AND CHIEF OPERATING OFFICER)

INTRODUCTION

Levi Strauss & Co. appreciates the opportunity to express its support for freer trade policies in the Caribbean Basin region and for S. 529, "The Caribbean Basin Economic Security Act."

Levi Strauss & Co. strongly supports S. 529. We believe that this legislation establishes an equitable parity plan for the Caribbean Basin that is comprehensive in scope, flexible in application, and faithful to the North American Free Trade Agreement (NAFTA) benefits currently available to Mexico.

"The Caribbean Basin Trade Security Act" will help Levi Strauss & Co. kkeep its U.S. production competitive, expand its export capabilities to more foreign markets, and meet constantly changing business challenges into the next decade. In particular, by including a provision for Tariff Preference Levels (TPLs) for fabrics in short supply, not available, or not formed in the United States, S. 529 realistically balances the capabilities of the Caribbean basin and the future needs of U.S. manufacturers. Such a provision would extend to the Caribbean—and to U.S. apparel manufacturers—an important and adaptable NAFTA benefit currently offered to Mexico.

In addition, S. 529 offers a realistic time frame for negotiating fully reciprocal trade agreements with our trading partners in the region, while avoiding the unintended consequence of discouraging U.S. investment in the Caribbean.

Levi Strauss & Co. is the world's largest apparel manufacturer. We produce and market jeans, jeans-related products, and casual sportswear under the Levi's®, Dockers®, and Brittania® brands in the United States and more than 60 other countries. Our sales in 1994 exceeded $6 billion.

Although a global company, Levi Strauss & Co. remains firmly committed to its U.S. manufacturing roots. Of the approximately 36,000 Levi Strauss & Co. workers worldwide, more than 25,000 are employed in the United States. We operate 41 factories, finishing centers, and customer service centers in 20 states.

U.S. APPAREL INDUSTRY FACES NEW COMPETITIVE PRESSURES

Like many industries today, the textile and apparel sector is undergoing dramatic changes. These changes are being driven by: (1) new consumer demands and, in turn, our customers' needs; and (2) increased foreign competition.

Today's sophisticated, value-conscious consumers are seeking greater variety, high quality and reasonable prices—and they have more choices about where to find it. To meet the demands of these consumers, our competitive retailers are seeking higher quality, faster delivery, superior service and customized, ready-to-sell products.

Against this backdrop of industry changes and challenges, Levi Strauss & Co. is also facing increasingly fierce competition from abroad. With the phase-out of import quotas under the Multi-Fiber Arrangement (MFA) during the next ten years, competitive pressure from major textile and apparel exporting nations in Asia will increase dramatically. To face this new challenge, U.S. manufacturers require freer trade policies "in our own backyard"—in the Caribbean and in this Hemisphere. During the next decade, our industry must be prepared to meet this evolving foreign competition. To be successful, we will need to employ every available tool and competitive advantage.

Levi Strauss & Co. has already begun to examine how it needs to be structured for the marketplace of the future. One way has been to invest in our own U.S. employees and manufacturing facilities. We have redesigned how we do business—from the way work is organized in our factories to how we deliver products to our customers and consumers. For example:

- We have invested more than $300 million in training and new equipment to convert all of our U.S. factories from piece-rate production to team-manufacturing. An additional $500 million is being dedicated to improve our customer service and competitiveness.
- We have developed customer service goals that will reduce the total time it takes to move products from the design stage to the retail store from 18 months or more to 30 days.
- We are working toward a goal of delivering 95 percent of our orders within 72 hours of the request—and on the day and hour specified by our customers.
- We will deliver floor-ready products that the customer can make available immediately to consumers. This means folded or on hangers, with customized tags, labels and packaging.
- We are even linking consumers directly to our manufacturing sites. Today, many of our Original Levi's® Stores are using technology that allows consumers to send their personalized measurements electronically to our manufacturing facility in Mountain City, Tennessee, where a team of employees cut, assemble and finish made-to-order jeans, and deliver them to the consumer within three weeks.

While lower costs will continue to be important to the textile and apparel industry, other issues will become even more critical for our continued success. Increasingly, it will be important to manufacture near our customers. Because products will be introduced more quickly and changed more frequently, manufacturers will need quick access to a variety of fabrics. Overnight deliveries will become the rule. High quality standards, geographic proximity and the ability to meet quick turnaround

deadlines will become dominant competitive factors. Caribbean Basin parity as defined by S. 529 is essential to meeting these new business realities.

LEVI STRAUSS & CO. IN THE CARIBBEAN BASIN

Our company's experience with expanded trade and closer cooperation with the Caribbean Basin region has benefited Levi Strauss & Co.'s own U.S. manufacturing base, the American textile and apparel sectors, and the United States. For these benefits to continue—and for Levi Strauss & Co. to remain competitive in the face of dramatic industry changes and increasing imports over the next 10 years—it is critical that the Caribbean countries receive the equivalent tariff and quota treatment that exists under the North American Free Trade Agreement.

Levi Strauss & Co. has strong ties with Caribbean and Latin American nations. Shortly after Congress enacted the original Caribbean Basin Initiative (CBI) in 1983, our company responded to the call for private sector involvement in the region. Today, some of our key business partners are sewing and laundry contractors in Guatemala, the Dominican Republic, Honduras and Costa Rica, who help us produce garments for sale around the world. Most of these goods are made from U.S. fabric. In addition, the majority of the products assembled in the Caribbean are cut and finished in the United States by American workers.

THE NEED FOR CBI PARITY

U.S. manufacturers, like Levi Strauss & Co., need to utilize new free trade arrangements, like CBI parity, to help keep high-value, higher-wage manufacturing jobs in the United States, while maintaining competitive prices that will enable us to take advantage of strategic market access abroad.

To compete successfully in the new global marketplace, we need long-term sourcing strategies and more stable relationships with suppliers and contractors. These strategies and relationships depend on flexible, sound trade policies and agreements that take into account the varying opportunities and challenges in individual countries as well as the competitive needs of the U.S. textile and apparel industry. "The Caribbean Basin Trade Security Act" provides such sound policy and the framework for a permanent, but flexible agreement.

For Levi Strauss & Co., the benefits of CBI parity are as essential to our future success as the changes we are adopting in our own company. S. 529 will:

- Reduce tariffs on goods produced under "807" and "807A" programs, making them more competitive;
- Shorten the production cycle by making our production processes more vertically integrated so that sewing, finishing and packaging operations can be consolidated at a single location; and
- Create a new export platform from which we can sell more products abroad.

Faced with aggressive competition from China, India, Pakistan, Indonesia, and other major apparel exporting countries, U.S. manufacturers like Levi Strauss & Co. need to have the ability to obtain fabrics not available or in short supply from overseas sources. Likewise, if the small and undiversified economies of the Caribbean Basin are to remain our economic partners, they must be allowed to source globally without losing favorable access to the U.S. market.

Inclusion of tariff preference levels in the CBI parity plan and assurances that quota and tariff treatment for the Caribbean will be equal to that under NAFTA will provide U.S. apparel companies with the necessary flexibility to meet future competitive needs. Such flexibility will ensure that the Caribbean region remains an important business partner for American firms and that American manufacturers, like Levi Strauss & Co. can compete successfully once the MFA quotas have been phased-out.

In addition, "The Caribbean Basin Economic Security Act" will require that Caribbean nations assume greater responsibilities as members of the world trading system. This will benefit both the region and the United States. Protection of trademarks and intellectual property rights, as well as more rigorous enforcement of anti-counterfeiting and transshipment rules are especially important to Levi Strauss & Co. and the apparel industry. The Caribbean nations will also need to invest in modernizing their own infrastructures and in developing the skills of their work forces. Such efforts will help make the region more competitive internationally, ensure economic growth and stability, and encourage a more effective economic partner for the United States.

CONCLUSION

Levi Strauss & Co. supports passage of S. 529, "The Caribbean Basin Trade Security Act," and we look forward to working with the Trade Subcommittee on this crit-

ical issue. This legislation will benefit the United States by continuing to support an important trade relationship that has produced mutually beneficial results for our country and the Caribbean. By strengthening this relationship, S. 529 will ensure economic growth and political stability in the region, and more collaborative trade that supports American jobs.

We urge the Trade Subcommittee and Congress to approve this legislation in a form that provides U.S. companies with a valuable and flexible competitive advantage. In so doing, you will be creating an important tool that helps Levi Strauss & Co. and other manufacturers meet the challenges of a constantly changing and increasingly competitive international marketplace.

STATEMENT OF THE MAURITIUS SUGAR SYNDICATE *

The Mauritius Sugar Syndicate (MSS) respectfully submits the following comments on S. 529, the Caribbean Basin Trade Security Act. The MSS is a private sector organization that represents all sugar millers and planters in Mauritius and is responsible for exporting and marketing Mauritian sugar, including sales to the United States under the tariff rate quota. The views set forth below are presented on behalf of the entire sugar industry of Mauritius.

The MSS's comments are directed solely to Section 102 of S. 529, which concerns the effect of the North American Free Trade Agreement (NAFTA) on sugar imports from the beneficiary countries under the Caribbean Basin Economic Recovery Act, also known as the Caribbean Basin Initiative (CBI). Section 102 authorizes the President to monitor the effect, if any, of NAFTA on the CBI beneficiary countries' access to the U.S. sugar market. If the President considers that NAFTA is having an adverse effect on such access, Section 102 authorizes the President to propose legislation or take action to ameliorate such adverse effect.

As the Subcommittee is aware, the sugar provision of NAFTA provides Mexico with preferential access to the U.S. sugar market in the event it becomes a "net exporter" of sugar during the 15-year transition period. Thereafter, Mexico will have unlimited access to the U.S. sugar market. Contrary to the position taken in the United States' submissions in the Uruguay Round negotiations, the Administration has now modified the U.S. Harmonized Tariff Schedule to include sugar imports from Mexico within the first-tier quota of the U.S. tariff rate quota. See Presidential Proclamation No. 6763, 60 Fed. Reg. 1007 (Jan. 4, 1995). Accordingly, any increase in sugar imports from Mexico as a result of NAFTA would necessarily diminish the volume of sugar that could be imported from the other countries that hold allocations under the U.S. tariff rate quota.

While Section 102 of S. 529 is intended to protect the CBI beneficiary countries against the threat of reduced access to the U.S. sugar market as a result of NAFTA, the CBI beneficiary countries are not the only countries that would be adversely affected by the sugar provision of NAFTA. Rather, 25 other countries hold allocations under the U.S. tariff rate quota. Most of these other quota holders are also developing countries for which sugar exports to the United States constitute a significant source of revenue to fund their economic development. For example, ten developing African countries export sugar to the United States under the tariff rate quota: Congo, Cote D'Ivoire, Gabon, Madagascar, Malawi, Mauritius, Mozambique, South Africa, Swaziland and Zimbabwe. As a group, these developing African sugar-exporting countries are more dependent upon sugar exports than are the CBI beneficiary countries.

Section 102 could have the unintended consequence of actually compounding the injury to the African sugar-exporting countries caused by the sugar provision of NAFTA. For example, as demonstrated by the attached table, if the President were to extend to the CBI beneficiary countries the same sugar access rights granted to Mexico in NAFTA, the CBI beneficiary countries—most of whom are already substantial net exporters—could by themselves supply more than the entire U.S. sugar quota of 1,117,195 metric tons. In other words, Section 102 could result in the complete elimination of access to the U.S. sugar market by the African countries and all other quota holders.

---

*This material is prepared, edited, issued or circulated by Pierson Semmes and Bemis, which is registered with the Department of Justice, Washington, D.C., under the Foreign Agent Registration Act as an agent of the Mauritius Chamber of Agriculture and the Mauritius Sugar Syndicate. This material is filed with the Department of Justice where the required registration statement is available for public inspection. Registration does not indicate approval of the contents of the material by the United States Government.

Such discrimination is clearly inconsistent with the fundamental tenet of most-favored-nation treatment (see GATT Article 1, section 1), and with the United States' commitment in the Uruguay Round to maintain current market access opportunities. Indeed, Ambassador Charlene Barshefsky testified before this Subcommittee on May 15, 1995:

> Within the constraints of the existing domestic sugar program and our obligations under the NAFTA and the World Trade Organization (WTO), the President has very little discretion to increase sugar access levels or reallocate market shares. U.S. discrimination among countries in allocating overall reductions in access to the U.S. market would be inconsistent with our WTO obligations.
>
> We asked that this sugar provision be reviewed and changed in light of U.S. commitments. Unfortunately, the sugar provision remains in the amended version of H.R. 553 [the House version of S. 529].

(Statement by Ambassador Charlene Barshefsky on S. 529, May 15, 1995, p. 4.)

Moreover, because the original CBI program granted preferential trade privileges to the beneficiary countries, the United States had to obtain a special waiver from the GATT. In granting permission to depart from the standard of nondiscrimination, the GATT expressly required that the U.S. sugar quota continue to be allocated on a nondiscriminatory basis: "The Government of the United States shall ensure that this waiver will not be used to contravene the principle of non-discriminatory allocations of sugar quotas." (GATT Decision of February 15, 1985, para. 4(i).) However, Section 102 would violate the GATT waiver upon which the entire CBI program is premised.

Finally, Section 102 is inconsistent with the spirit of Section 134 of the Uruguay Round Agreements Act of 1994, Pub. L. No. 103-465, § 134,108 Stat. 4809, 4840 (Dec. 8, 1994), which calls upon the President to "develop and implement a comprehensive trade and development policy for the countries of Africa." Rather than encouraging trade with and development in Africa, Section 102 would divert U.S. sugar trade from Africa to the CBI beneficiary countries.

In summary, Section 102 of S. 529 recognizes that the sugar provision of NAFTA threatens future access to the U.S. sugar market for numerous developing countries. Unfortunately, as currently drafted.Section 102 compounds the risk posed by NAFTA for the African sugar-exporting countries. It is respectfully suggested, therefore, that Section 102 should be either: (1) deleted; (2) modified to extend its protection to all countries that currently hold allocations under the U.S. tariff rate quota on sugar; or (3) modified to specify that preferential reallocation of the tariff rate quota on sugar is not authorized as a means of ameliorating any harm caused by the sugar provision of NAFTA. While any of the foregoing steps would ensure that S. 529 does not cause unintended harm to the numerous developing countries that rely upon access to the U.S. sugar market for their economic well-being, the second alternative—i.e., extending Section 102 to include all quota holders—would be the preferred result because it would be consistent with the principle of nondiscrimination.

The MSS appreciates the opportunity to submit its views on this important issue and would be happy to provide any further information that may be useful to the Subcommittee in its consideration of S. 529.

Respectfully submitted,

PAUL RYBERG, JR.,
PIERSON SEMMES & BEMIS,
1054 Thirty-First Street, N.W.,
Washington, D.C. 20007
(202) 333-4000
COUNSEL TO THE MAURITIUS SUGAR SYNDICATE

Potential Impact of CBI Parity Bill on the U.S. Sugar Quota

CBI Country	1993 Net Exportable Surplus	1994-95 Quota Allocation	1996-1999 (Surplus up to 25,000 MT)	2000-2009 (Surplus up to 250,000 MT)	After 2009 (Total Surplus)
Barbados	36,000	8,726	25,000	36,000	36,000
Belize	95,942	13,713	25,000	95,942	95,942
Costa Rica	100,000	18,699	25,000	100,000	100,000
Dominican Republic	326,120	219,404	219,404	250,000	326,120
El Salvador	40,000	32,412	32,412	40,000	40,000
Guatemala	721,386	59,831	59,831	250,000	721,386
Guyana	240,948	14,959	25,000	240,948	240,948
Haiti	(49,000)	8,468	8,468[1]	0	0
Honduras	11,800	12,466	12,466	11,800	11,800
Jamaica	100,751	13,713	25,000	100,751	100,751
Nicaragua	41,800	26,179	26,179	41,800	41,800
Panama	44,500	36,152	36,152	44,500	44,500
St. Kitts/Nevis	22,000	8,468	22,000	22,000	22,000
Trinidad/Tobago	45,317	8,726	25,000	45,317	45,317
CBI Subtotals	1,826,564	481,916	566,912	1,279,058	1,826,564
Mexico	(75,000)	8,468	25,000[2]	25,000	25,000
CBI/Mexico TOTALS	**1,826,564**	**490,384**	**591,912**	**1,304,058**	**1,851,564**

Balance of Global Quota Remaining for 25 Other Quota Holders	**626,811**	**525,283**	**(186,863)**	**(733,369)**

Assumptions:

1. Haiti fails to qualify as a net exporter.
2. Mexico becomes a net exporter in 1996, but does not exceed 25,000 MT net exportable surplus.
3. CBI quota holders maintain current net surplus.
4. The global quota remains at 1,117,195 MT, the bound level under the Uruguay Round.

Figures in Metric Tons ("MT").

STATEMENT OF HON. SHEELAGH DE OSUNA, SPECIAL TRADE AMBASSADOR TO THE REPUBLIC OF TRINIDAD AND TOBAGO

My name is Sheelagh de Osuna and I am currently the Special Trade Ambassador of the Government of Trinidad and Tobago. It is an honour, Chairman Grassley, to have an opportunity to submit this statement to you on a matter of vital importance to Trinidad and Tobago and to the mutually beneficial trading and commercial relationship we enjoy with the United States.

S. 529, and its House companion bill H.R. 553, represent an important Congressional commitment to the larger movement towards hemispheric integration by providing full NAFTA parity to those nations in the Caribbean Basin under the Caribbean Basin Initiative (CBI) which, in the last decade, have become significant trading partners of the United States. The legislation is needed because, as a consequence of the NAFTA, exports from Mexico are enjoying greater access to the U.S. market. As a result, investment is being diverted away from the Caribbean to Mexico, giving Mexico a competitive advantage and threatening economic harm to the Caribbean. Trinidad and Tobago is greatly encouraged by the parity of access to the U.S. market and the opportunity for a clear definition of the criteria for eligibility for accession to the NAFTA proposed in this bill. I would like to thank Senators Graham, Grassley, Mack, Lott, Moseley-Braun, Bradley, Hatch and all of the bill's supporters in the Senate for taking an interest in the growth, development and economic well-being of the Caribbean region.

The legislation would place exports from the Caribbean such as petroleum and textiles on an equal footing with exports from Mexico, providing equal treatment for Caribbean exports and reflecting the pragmatic realism with which we believe we must approach the creation of the Free Trade Area of the Americas (FTAA). Before we get to the FTAA, however, it is important that clear rules and procedures be established for NAFTA accession.

S. 529 provides criteria and guidelines for NAFTA accession, which assure equity and provide an understandable road map towards accession for us in the Caribbean. S. 529 lists a series of factors to be measured to evaluate the actual ability of countries to undertake NAFTA obligations. We want to bring to your attention the fact that Trinidad and Tobago at the present time meets all of the stated criteria contained in the legislation defining eligibility for accession. We have signed and implemented a bilateral investment treaty (BIT) and an intellectual property agreement (IPR) with the U.S., two of the most important prerequisites stated in the bill and endorsed by the Clinton Administration for eligibility for accession to the NAFTA. We are thus ready and able to begin the process for accession to the NAFTA.

The need for clearly defined guidelines for accession to the NAFTA has become increasingly apparent to those nations such as Trinidad and Tobago which desire to accede to the NAFTA and join the hemispheric free trade community. We note that the U.S. has embarked upon NAFTA accession negotiations with Chile, a nation which has much to recommend it as a trading partner, but which has not, to date, signed a BIT or an IPR with the United States. We believe that it is in the interests of the United States and all of the nations in the region to know what precisely is required for accession so that we will be able to respond meaningfully to the challenge of readying ourselves for full participation in the coming regional Free Trade Area of the Americas.

The Caribbean Basin Trade Security Act is a well-conceived measure urgently needed to insure that Trinidad and Tobago does not suffer diversion of trade and investment as a result of the NAFTA agreement. Passage of NAFTA has had the unintended effect of hindering the competitiveness of nations in the Caribbean Basin by diverting existing and potential investment from the region in favor of Mexico. S. 529 is necessary to avoid unintended harm arising from enactment of the NAFTA to businesses and workers in the U.S. as well as the Caribbean who rely on co-production arrangements with the Caribbean Basin. As a result of the NAFTA, the market access enjoyed by Caribbean nations has been superseded by that provided to similar exports from Mexico. The legislation would have the beneficial effect of placing exports from the Caribbean such as petroleum and textiles on a level playing field with exports from Mexico.

The major provisions of the bill are logical and essential: full parity for the CBI for six years, clearly defined criteria for eligibility for the negotiation of accession and a meaningful transition period. The bill provides for a six year transitional period, which provides sufficient time for countries with an immediate interest in NAFTA accession to prepare for the required negotiations. It also provides incentives for less-developed countries to accelerate domestic economic reforms, while guaranteeing those who do not seek NAFTA-type benefits favorable treatment as prescribed by preexisting CBI benefits. The six-year period also allows CBI coun-

tries to collect data and information about trade and investment that will serve as an accurate basis for moving towards accession. Trinidad and Tobago, however, reiterates that we are presently ready and willing to begin to negotiate our accession to the NAFTA immediately. The Government of Trinidad and Tobago has informed the U.S. Government that it is ready and willing to begin negotiations for accession to the NAFTA immediately or as soon as it is feasible after the conclusion of the negotiations with Chile.

On a broader scale and of most immediate urgency, however, Trinidad and Tobago, as well as our neighboring Caribbean countries, need parity of access to the U.S. market with the NAFTA, and we need clear guidelines and a timetable for accession to it because of the dramatic effect it will have on regional trade and economic diversification. Initial statistics show that U.S. investment is disproportionately moving from the Caribbean to Mexico because Mexican exports enjoy superior access to the U.S. market. A recent World Bank study concludes that some Caribbean nations are experiencing as much as a 60 percent export displacement due to NAFTA.

Continued trade and investment diversion from the Caribbean will erode the gains that the region has made in its economic development and will undermine the significant and increasing trade benefits experienced by the U.S. as well as by nations in the region. U.S. exports to the Caribbean have increased 63 percent between 1987 and 1993—from $7 billion to $11.7 billion. Trinidad and Tobago alone, with its population of 1.2 million, purchases over a half billion dollars of goods and services from the United States. We buy $100 million of goods from the States of Texas and Florida alone. U.S. companies operating in Trinidad and Tobago have enjoyed favorable treatment, allowing their products to become more competitive in the world marketplace.

The creation of a hemispheric free trade area would augment cross border investment and trade. After Canada and Mexico, the economies of the Caribbean nations are best suited for integration into the NAFTA framework. Sixty-six percent of Caribbean exports are sent to the United States, Canada or Mexico. The U.S. continues to be the Caribbean's most important trading partner. Caribbean nations import over $5 billion annually from the U.S. compared with imports of $262 million from Canada and $55 million from Mexico.

The Caribbean is also an important region for U.S. investment. U.S. direct investment in the Caribbean was $4.2 billion in 1989, while investment in Mexico and Central America combined was only $2.6 billion. Trinidad and Tobago alone received in 1994 some $700 million in U.S. investment. In 1995, committed investment flows will amount to $1.2 billion and our nation has received on a per capita basis more U.S. investment than any other nation.

It is critical to understand that trade between Caribbean countries accounts for a mere four (4) percent of our exports. Investment within the region is negligible. Trinidad and Tobago is the major creditor for our CARICOM neighbors and the main source of inter-regional economic investment. While we remain committed to building and integrating CARICOM economies, our resources are limited in size and quantity. Our economies are comparatively small and our markets, taken alone or as a whole, cannot absorb production and thus cannot foster meaningful trade expansion without the impetus provided by hemispheric trade agreements such as the NAFTA. I respectfully submit that the future of our region lies in continued integration into the NAFTA.

Despite the inherent limitations of our markets, there is remarkable diversity within our region. CARICOM noted this very fact as it concluded that individual member states would require varying provisions and timetables to accommodate particular national interests and economic development levels. As one of the most diversified economies in the region, Trinidad and Tobago has made remarkable progress in lowering and/or eliminating trade barriers. We have sought and entered into a Bilateral Investment Treaty and an Intellectual Property Rights Agreement with the U.S. and now want to pursue our accession to the NAFTA.

The common external tariff (CET) agreed to between CARICOM nations demonstrates the willingness of the region to engage in significant tariff reductions over the next five years. Trinidad and Tobago has accelerated the tariff reduction schedule voluntarily. Our markets will consequently become even more accessible. We seek only to ensure that major North American markets are equally as accessible to our products. Adherence to NAFTA will significantly strengthen our ability to promote market access and become meaningful partners in the establishment of a hemispheric free trade area.

We have seen from the events of the last decade that the spirit of diversification has truly taken hold. Manufactured exports from the U.S. to the Caribbean have increased from $US 1.6 billion in 1980 to $US 4.5 billion in 1992. During the same

period aid flows decreased significantly. The advent of Caribbean parity bills One and Two, the establishment of the Enterprise for the Americas, and the availability of 936 funds have stimulated trade and economic liberalization. The positive framework that U.S policy toward the Caribbean has created must continue and S. 529 ensures that incentives remain in place that will foster increased trade liberalization.

STATEMENT OF THE TROPICANA PRODUCTS, INC.

June 5, 1995.

Hon. CHARLES E. GRASSLEY,
Chairman, Subcommittee on International Trade,
Committee on Finance,
U.S. Senate,
Washington, DC.

Dear Mr. Chairman: I am writing on behalf of Tropicana Products, Inc. in response to the Trade Subcommittee's request for public comments on S529, a bill that would extend "NAFTA parity" benefits to a number of foreign countries under the Caribbean Basin Initiative (CBI). Tropicana favors the CBI program and, in principle, the extension of "NAFTA parity" to CBI beneficiary countries. However, Tropicana also believes that more should be done to encourage CBI beneficiary countries to reduce their own trade barriers, which are very high by global and hemispheric standards. Reducing barriers in those nations would expand export opportunities for U.S. products, and would help those countries become more competitive and better prepared for our common goal of a hemispheric free trade area by 2005.

Tropicana is the largest producer and marketer of 100% pure not-from-concentrate ("NFC") orange juice in the world. Tropicana also produces several other fruit juices and juice beverages. All of Tropicana's NFC is made from oranges grown in Florida and California by independent growers. While the majority of our production is sold in the United States, export markets have become increasingly important to Tropicana in the last several years, now accounting for $325 million in sales. We sell our products in more than 14 countries around the world. We believe our juices are the finest juices in the world, and can compete anywhere if given a fair opportunity.

Tropicana supports the objective of the "CBI" Program, to foster the economic development of the Caribbean countries. We have also hoped that CBI beneficiary countries would come to see that lowering their own trade barriers, while not legally required under the CBI program, would also enhance their competitiveness and economic growth.

In principle, those considerations would also argue in favor of efforts to grant "NAFTA parity" to the CBI countries. Indeed, Tropicana would not be adversely affected in a direct sense by the extension of NAFTA parity to CBI beneficiaries. Products of CBI countries that might compete with Tropicana in the United States have long been free of the import duties since the beginning under the CBI program. We have no desire to restore previous protection or create any new barriers.

Tropicana does wish, however, to expand its export opportunities in CBI markets. For that reason, we believe that simple extension to Caribbean nations of new one-way benefits would represent a missed opportunity to give stronger encouragement to CBI countries to lower the high barriers many of those countries now impose on our products (and presumably other U.S. products as well). The Senate and House bills both allude to market access concerns as part of a reporting requirement on NAFTA readiness, but we think stronger encouragement will be needed. For example, the Administration might be required to take into account public input in making a report. The current House and Senate bills also have the unfortunate, and probably unintended effect of allowing CBI beneficiary countries to ignore access issues in the lengthy intervals between reports. There should be a steadier incentive for liberalization, such as by authorizing the President to limit benefits if a beneficiary country slipped backward or failed to progress reasonably on access issues of importance to United States exporters.

Over the past decade, Tropicana has invested substantial effort and money to enhance our competitiveness and capability to export our products to foreign markets. The Caribbean Basin is a natural market for us, one literally on our doorstep with lower transportation costs than other market regions. Furthermore, it is an area of high juice and beverage consumption, with economies and cultures that are closely

attuned to the United States. The well-developed tourist economy of this region is a ripe market for U.S. branded juices.

Unfortunately, these efforts to expand exports to the countries of the Caribbean have been hampered by a series of high trade barriers that severely curtail market access. Although we have developed some opportunities in the region, entry into most Caribbean Basin markets has been made extremely difficult. Duties on imported juices range from 10% to 50%. Many of these governments also have a bewildering array of non-tariff taxes, fees and other payments imposing costs of up to an additional 50%. The cumulative effect of such measures can add up to as much as 100%, which often prices U.S. juices and juice beverages out of the market or makes it impossible to enter at all. Astonishingly, in the case of Belize, it is unlawful to import 100% citrus juices.

These duties and other barriers are very high by global and hemispheric standards. Such barriers are particularly inappropriate—even anachronistic—for countries that aspire to hemispheric free trade and NAFTA accession. In Miami last December, all of the democratically elected leaders of the Western Hemisphere, including President Clinton and the leaders of all of the CBI beneficiary countries, pledged to achieve a hemispheric free trade agreement by the year 2005. Some individual Caribbean nations have expressed interest in acceding to NAFTA well ahead of that schedule.

In their own interest, as well as in the interest of U.S. exports and U.S. jobs, we favor encouraging these countries to lower their trade barriers significantly so that they are in fact as well as in spirit ready to join NAFTA and achieve hemispheric free trade. Preparation for NAFTA is not merely a matter of study. If they are to be ready for true hemispheric free trade, with the heightened competition that implies, the Caribbean countries need to begin opening their markets further, reducing duties and eliminating other taxes and fees currently assessed on imports like ours. Such steps also will help their own industries to become more competitive, and encourage productive investment, rather than diverting scarce capital into industries that will never compete without high import barriers.

In summary, Tropicana favors the CBI program, and supports the extension of additional benefits to the CBI countries through NAFTA parity, provided that part of this expansion of CBI benefits includes stronger encouragement for CBI countries to reduce their own trade barriers than is now provided in the Senate or House bills. We would be pleased to work with you and your Subcommittee to achieve these objectives.

Sincerely,

NANCY R. LEVENSON, *Director Federal Affairs.*

STATEMENT OF THE U.S. SUGARBEET AND SUGAR CANE GROWERS AND PROCESSORS

U.S. sugarbeet and sugar cane growers and processors appreciate the opportunity to comment on companion bills H.R. 553 and S. 529, identified as the "CBI Parity Legislation," for which hearings have been scheduled for May 15 by the Senate Finance Committee.

We can understand the intention of the drafters of this legislation, which originated in the previous Congress, and the NAFTA concerns of our Caribbean Basin Initiative-nation friends. The final NAFTA sugar side letter agreement negotiated by U.S. Trade Representative Mickey Kantor and Mexico's Commerce Secretary, Jaime Serra Puche on November 3, 1993, however, renders the sugar proposal contained in Section 102 of H.R. 553 unnecessary.

The original sugar provisions of the NAFTA would have created an incentive for Mexico to substitute corn sweeteners for sugar in its soft drink industry, creating a surplus of an estimated 1.5 million tons of sugar that could have been dumped into the U.S. market, and rendering the 15-year transition to a common market in sugar meaningless. This would have severely and unfairly damaged U.S. producers and CBI producers, and would have assuredly jeopardized the "no cost" statutory mandate provisions of U.S. sugar policy.

This potential problem was addressed in a side letter agreement addressing the original sugar provisions of the NAFTA. By changing the formula for determining "net production surplus" of sugar available for export from Mexico, the new formula now factors in the consumption of corn sweeteners or fructose in the determination of "surplus production." *The new provisions virtually assure that the U.S. domestic market will not be flooded by Mexican imports during the 15-year transition period*

and significantly reduces. if not eliminates. the threat of reduced access for Caribbean producers to their share of the U.S. market.

Further, our USDA trade negotiators, in consultation with the concurring U.S. sugar industry, made the significant concession during the Uruguay Round to bind the 1.257 million ton sugar import quota in the GATT (now the WTO). Such a concession commits the U.S. to import a minimum of 1.257 million tons of sugar annually. The sugar industry's acceptance of the minimum import binding, support of the GATT agreement, and support of the NAFTA were, in large part, based on the Administration's commitment that any additional imports under bilateral agreements like NAFTA would be included as part of the bound, current-access commitment of 1.257 million tons. Domestic production shortfalls, or consumption increases could, in the future, require increased imports. But no less than the current access can be imported due both to the GATT binding and the import requirements of the 1990 Farm Bill.

Sugar imports into the U.S. represent at least fourteen percent of total U.S. consumption. Any unilateral expansion of our GATT-bound minimum access commitments in trade legislation, without concessions by those foreign producers who continue to subsidize and dump exports and consequently depress world market prices, is unadvised. Moreover, unilateral concessions during a multilateral transition process are clearly unacceptable to U.S. sugar producers and, we would hope, to the U.S. Government as well.

Finally, we believe that the language contained in the sugar section of the CBI Parity legislation sets a dangerous precedent at a time when we are unsure how far the NAFTA will be expanded and exactly which countries may wish to accede to membership. It is far better, we believe, to negotiate on a country-by-country or region-by-region basis than to make unilateral concessions without concessions being made in return on the other side of the negotiating table.

For these reasons, U.S. sugarbeet and sugar cane growers and processors recommend that the sugar section of the CBI Parity legislation be deleted, since the perceived problems raised by the NAFTA have already been addressed and resolved.

Thank you for including our views and recommendations as a part of the hearing record.

STATEMENT OF THE WEST INDIA RUM REFINERY, LTD.

(A MEMBER OF WIRSPA)

West India Rum Refinery, Ltd., a Member of The West Indies Rum and Spirits Producers Association ("WIRSPA"), appreciates the opportunity to provide the Committee on Finance with its views on S. 529, the Caribbean Basin Trade Security Act.

WIRSPA and its members fully support the Committee's efforts to ensure that the North American Free Trade Agreement ("NAFTA") does not damage the special relationship which the United States has established under the Caribbean Basin Initiative ("CBI") with the island nations of the Caribbean and the small countries of Central America. By providing "NAFTA parity" for products currently excluded from the CBI program and establishing a framework for free trade in the future, S. 529 would make important contributions to efforts to coordinate the NAFTA and the CBI.

We support not only the concept of NAFTA parity but also the most rapid possible enactment of S. 529. Our statement addresses, however, only one section of this important bill: section 103, designed to resolve an anomalous situation impeding the access of Caribbean rum to the U.S. market. The problem is a technical one but is significant to Caribbean rum producers.

A RULE-OF-ORIGIN ANOMALY

The problem addressed by section 103 is that liqueurs and alcohol-based coolers exported from Canada to the United States cannot use Caribbean rum as a base without sacrificing the duty-free treatment they would otherwise receive. (Caribbean rum in this discussion includes rum from the U.S. Virgin Islands as well as rum from CBI beneficiary countries.)

Caribbean rum entering Canada is classified under HTS 2208.40. When that rum is then used to produce another product such as a rum cooler, the finished product is typically classified under HTSUS 2208.90 upon exportation to the United States, the Canadian processing having rendered the finished product a product of Canada for general customs purposes. (According to the Customs Service, either HTSUS 2208.90.45 or HTSUS 2208.90.80 could apply.) Under the CFTA/NAFTA rules of origin governing availability of duty-free treatment, however, a change between sub-

headings 2208.40 and 2208.90 is not sufficient to confer a change of origin for the input (rum). Thus, the finished rum-based beverage in the above scenario would not be eligible for preferential CFTA/NAFTA tariff treatment. Rather, as a product of Canada deemed ineligible for preferential treatment, the finished product would be dutiable under HTSUS 2208.90.

The explanation for this result is complicated and involves General Note 3(c)(vii)(R)(4)(gg) of the Harmonized Tariff Schedule and NAFTA Annex 401-10. Special CFTA/NAFTA rules designed to cover such anomalous cases do not, for various reasons, apply in this particular situation. For example, within certain tariff headings, a finished product with sufficient value-added in Canada will automatically have Canadian origin for CFTA/NAFTA purposes. This value rule does not apply to Caribbean rum in the scenario described above, however, as there must be a specific provision for the value rule to operate and neither the CFTA nor the NAFTA contains such provision for headings 2207 through 2209. Similarly, while the NAFTA contains a de minimis rule allowing a product to qualify for NAFTA benefits so long as components of non-North American origin account for no more than seven percent of its total value, NAFTA Art. 405, headings 2207 through 2208 are specifically excluded from the de minimis rule. See NAFTA Art. 405(h).

At present, then, such Caribbean rum used in Canada cannot enter the United States duty-free even though (1) most Caribbean producers can ship rum directly to the United States (or to Canada) duty-free and (2) components added to the Caribbean rum in Canada would otherwise be entitled to CFTA/NAFTA duty-free treatment. This is a clearly unintentional outcome resulting from the interplay of various CFTA rules of origin that were, in relevant part, carried forward in the NAFTA. It adversely impacts both Caribbean rum production and Canadian processors and is inconsistent with the spirit of market access that underlies the CFTA, the NAFTA, and the CBI.

PROPOSED SOLUTIONS

A first step to resolve the problem was taken by Rep. Gibbons in 1993, when he introduced H.R. 2885 to allow Canadian producers to use Caribbean rum as an input without incurring the penalty of the loss of CFTA treatment. Specifically, the bill provided that Caribbean rum shall be treated as a product of the United States for purposes of determining whether a Canadian product incorporating that rum qualifies for CFTA treatment when entering the United States. After the bill was introduced, rum producers in the U.S. Virgin Islands discovered that they faced the same problem as producers in CBI beneficiary countries and asked that they be included in future legislative drafts (which has in fact happened).

A second proposal contemplated administrative, rather than legislative, action to solve the problem by proclaiming a change in the NAFTA rules of origin under Section 201(b) of the NAFTA Implementation Act. While principally used for accelerated tariff reductions, the Section 201(b) authority appears sufficiently broad to permit the necessary change—essentially the same change that would have been effected by H.R. 2885—to be proclaimed by the President after consultation and layover. WIRSPA filed a petition—endorsed in a letter to Ambassador Kantor from Rep. Gibbons—and pursued the 201(b) approach until notified by officials at the Office of the U.S. Trade Representative ("USTR") that the Administration preferred to include an appropriate Caribbean Basin Economic Recovery Act ("CBERA") amendment in the Caribbean trade provisions it hoped to attach to the Uruguay Round Agreements Act.

WIRSPA worked with USTR on a revised legislative draft (this time structured as a CBERA amendment) which was subsequently modified in minor respects as a result of discussions with Customs and other Treasury officials. The resulting provision—which now appears as section 103 of S. 529—adds the rum-based beverages in question to the list of "eligible articles" set out in 19 U.S.C. § 2703(a). Specifically, it provides that CBERA duty-free treatment applies to "liqueurs and spirituous beverages produced in Canada from rum" provided that:

- the rum is the growth, product or manufacture of a beneficiary country or of the U.S. Virgin Islands and is imported directly into Canada;
- the liqueurs and spirituous beverages are imported directly into the United States, entering under particular tariff subheadings; and
- the rum accounts for at least 90 percent by volume of the alcoholic content of the liqueurs and spirituous beverages.

This CBERA amendment was included in the Administration and House versions of the Uruguay Round implementing legislation. While dropped for procedural reasons from the final bill, it encountered no opposition on substantive grounds in the Congress. Indeed, there has been no opposition, domestic or otherwise, to WIRSPA's

effort to solve this problem or to the specific CBERA amendment developed in consultation with USTR. Initial concerns voiced by the U.S. Virgin Islands have been fully met. In preparing a formal report on the Gibbons bill in 1993, the International Trade Commission staff contacted other potentially interested parties and identified no opposition.

THE RUM COOLER RULE-OF-ORIGIN PROBLEM IS UNIQUE

As the discussion above makes clear, the situation addressed by section 103 is an utterly anomalous and unintended result of NAFTA and CBI rules of origin drafted at different times and now interacting in unforeseeable ways. There is no basis for concern that this provision will lead to, or set a precedent for, other legislated changes to generally sound and time-tested CBI rules. While other ways to solve the rum anomaly have been explored, the approach reflected in section 103 is the most concise and appropriate available. We are grateful for section 103's inclusion in the bill and urge that it be enacted at the earliest possible opportunity.

RUM IS A CBI SUCCESS STORY THAT SHOULD BE SUSTAINED

Rum is a product of special importance for many CBI countries, having been produced in the Caribbean for centuries and occupying a significant place in local cultures and economies. Under the CBI, Caribbean producers have obtained a foothold in the large U.S. rum market, earning much needed foreign currency and creating new jobs in the region. The International Trade Commission has identified rum as one of a limited number of products benefitting most from the CBI.

As we and others have cautioned in the past, however, the NAFTA threatens to overwhelm those hard-won gains by extending the preference enjoyed by Caribbean rum to Mexican rum which already enjoys huge advantages in energy costs and other factors. It is particularly appropriate, then, that a bill designed to curb the NAFTA's ill-effects on the CBI include a remedy for the anomalous and unintended situation addressed by section 103.

* * * * *

This Committee has long been in the forefront of efforts to protect and promote the interests of governments throughout the Caribbean region. We look forward to working with you to ensure that these important interests can be reconciled with the equally important objectives of the NAFTA.