

# GLOBALIZATION AND AMERICAN TRADE POLICY

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## HEARING

BEFORE THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

—————  
FEBRUARY 27, 2001  
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## **GLOBALIZATION AND AMERICAN TRADE POLICY**

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**TUESDAY, FEBRUARY 27, 2001**

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

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

Also present: Senators Murkowski, Snowe, Kyl, Baucus, Rockefeller, Conrad, and Lincoln.

### **OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE**

The CHAIRMAN. I thank everybody for their kind attendance, particularly for everybody to be on time so we can move ahead.

This is the first hearing of something that both Senator Baucus and I consider some of the most important part of the work of our committee, not only for the United States, but for the world as well.

Today's hearing is entitled "Globalization and American Trade Policy." We hope to address fundamental questions of what globalization means to our American economy.

Recently, we had Ambassador Zoellick's nomination hearing before our committee, and we heard a lot of specific concerns about a number of individual trade issues. Every member has got some concerns, including this member from Iowa: lumber, steel, bananas, aircraft, beef, catfish. The list can go on and on.

Serious concerns are involved, and I share many of these concerns. But this will be a very important year for America's broad trade policy interests.

One month from now in Geneva, the United States will try to advance the agricultural trade negotiations at a very important meeting of the special session of the WTO Agriculture Committee. In April, President Bush will attend the Summit of the Americas to try to regain momentum of this crucial Free Trade Area of the Americas talks.

In November, the United States will again play a central role at the WTO ministerial conference meeting, where 140 WTO member nations may again try to launch a new round of global trade talks.

With this far-reaching trade agenda before us, I believe it is important for us, today, to look at what will be the very big picture before us because it is much too easy to lose sight of why trade liberalization matters.

It was the United States' leadership that created the modern world trading system as the best way to rebuild global economic prosperity and peace following the devastation of World War II.

I hope we share a desire for continued U.S. leadership and for the concomitant economic prosperity that it brings globally.

In 1947, when we started post-war trade liberalization, the total value of world exports was \$50 billion. Today, the total value of world exports is \$7 trillion, more than three times the entire budget of the U.S. Government. Because of globalization, free trade has enriched every American family.

Now, I have pointed this out before, but the numbers are so stunning it needs to be pointed out again. I refer to President Clinton's 1998 economic report. The added economic benefit to each American through expanded trade is \$1,000 per year, or \$4,000 per year for a family of four, as we generally measure and use as an economic unit.

So, that would be equal, through the principle of expanded trade, to an annual \$4,000 family tax cut. That is real money. That is money that families can use for any of the important needs of family today, particularly family with children: to save for a house, to put away for retirement, for education for those kids.

Now we have started to talk in Congress about returning surplus revenues collected by the government, to the American people who earned it in the form of tax cuts. There is a lot of debate about how we ought to go about those cuts, but I do not think that the tax cuts we are discussing come close to the amount of economic benefit that the average American family of four gets through expanded trade.

So it is hard to understand why anyone would oppose legislation to renew the President's trade promotion authority so that we can tear down more trade barriers and provide even more trade-related economic benefits to the American people; second, why anyone would oppose the democratic institutions like world trade organizations which help us open new markets and protect our trading interests.

This is an institution, the WTO, that was built by the world's democracies and is run by the principle of consensus—where more so can minority views be protected than in the principle of consensus. You cannot get much more democratic than that, except maybe the U.S. Senate.

Best of all, the trade liberalization has helped keep the peace. As nations become highly dependent on one another for their economic success, the potential for destabilizing world conflict fades.

You would think that, with its enormous contribution to global peace and prosperity, trade liberalization would not need defending. But it seems like we are always defending it. Unfortunately, thanks to well-funded, well-organized anti-free trade campaigns, the 50-year American-led effort to enhance global prosperity and peace through reducing barriers to trade is in jeopardy.

Thanks to the distortions fostered by the opponents of free trade, the increasingly integrated world economy is often seen as nothing more than the source of global inequality and exploitation.

The democratic institutions that we have created, like the WTO, are wrongly portrayed as the tools of this exploitation. I am deeply

sorry to say that they, and the people who staff them, are even becoming frequent targets of violence.

So it is time to set the record straight, and that is what we are here today to do. The American people deserve to hear the truth about free trade and about globalization.

They deserve to know why it is so vital to our future and the future of our children that we continue to lead the effort to become more connected with our modern world through trade, because that is what globalization really means, a growing interdependence and interconnectedness of our people through increased movement of goods, services, capital, information, and people.

This hearing will consider two issues. First, the necessity of restoring the credibility of U.S. leadership in international trade. In my judgment, nothing is more damaging to the credibility of the United States in trade negotiations than not renewing the President's trade promotion authority.

Some say it does not matter if the President has that authority because, according to that view, you can start negotiations without it. The history of WTO and GATT trade negotiations show that, technically, that is true. You can start negotiations without trade promoting authority. But that is what happened in Uruguay, and it was not necessarily the right way to start.

But that argument totally misses the point. Our trading partners will not negotiate with us in good faith just because we are right on some narrow technical point. They will only fully engage us at the negotiating table when our negotiators have the ability to back up what they say.

Yes, we finally did get trade promotion authority for the President, 2 years after the Uruguay Round started, but we also ended up with an 8-year round that exhausted everybody and nearly fell apart at the end.

If our experience with Uruguay teaches us anything at all, it should teach us that trade negotiations have become much more complex. Our trade negotiators should have every ounce of credibility and every ounce of confidence that we can give them in this difficult and challenging environment.

That is why I want to fight for legislation to renew the President's trade promotion authority this year before we start any new WTO trade negotiations or before we try to move into the final phase of the Free Trade Areas of the Americas talk.

This legislation should provide for broad negotiating authority so that the President can negotiate for reduction of tariffs and non-tariff trade barriers on a regional or multilateral basis.

The second issue that I would raise today is that we have to find a way to rebuild the consensus in favor of this process and a further freeing of trade. We must rebuild this consensus at home, and internationally as well.

An important part of achieving this consensus is dissolving the issue over labor on the one hand, and environment on the other. I believe that the distinguished former chairman of this committee, Senator Moynihan, had it right when he said labor issues should be dealt with in the International Labor Organization and not in the WTO.

As Senator Moynihan has so eloquently argued, the International Labor Organization is uniquely competent for this mission. It has won worldwide recognition for its humanitarian work, including the Nobel Peace Prize. It displayed its effectiveness through its early public support of the solidarity trade union in Poland.

As the ILO has displayed its effectiveness through, just think, the public support of the Solidarity Trade Union of Poland, resulting in the emancipation of that country from the Soviet system.

In terms of the environment, I believe that there are things that we can do right now to improve the environment through trade policy. We should, for example, agree to eliminate the use of trade-distorting agricultural subsidies that damage the environment and lead to increased rural poverty in developing countries.

However, the one thing that we must not do is employ trade sanctions to enforce labor and environmental provisions of trade agreements.

I think this is a prescription for disaster in terms of rebuilding an international consensus of trade liberalization, particularly concerning the developing nations. It is an extreme position that is opposed by these nations as well.

Even British Prime Minister Tony Blair's Labor Government recently said it opposes labor and environmental provisions in WTO trade agreements. I will strongly oppose any legislation that directly or indirectly involves the use of trade sanctions to enforce such provisions in trade agreements.

I believe that, in the end, though, we will find much that we do agree on and much that we can do, not as Republicans or as Democrats, but as Americans to promote America's vital national interest in trade policy. I hope that today's appearance is a good place to start.

I now defer to Senator Baucus.

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

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

Good morning, everybody. I must say that one of the privileges of being a member of the U.S. Senate is to learn from such esteemed experts as those who are assembled before us today. Bill Proxmire once said that years ago, that one of the best parts of the job is he could get briefed on any subject by the best minds in the world.

I must say, Mr. Chairman, here today, I know that we have, if not the best minds, certainly some of the minds that are right up there that know these issues very well.

I just want to thank the four of you for coming and joining with us here today and telling us what you think about trade policy and where we go from here to there.

From my perspective, I might say that one of the things that makes international trade so fascinating, as you have said, Mr. Chairman, is it covers such a wide variety of subjects: a discussion of the politics of China's internal policies, for example, an assessment of the economics of the American farm program, a public proposal to open trade and information technology products, just to



name a few, which are all equally relevant to U.S. trade policy. There is nothing that is not included in international trade.

I must say, though, as we try to develop this so-called consensus to get back on track, I believe that our further development of trade policy has, in part, been stalled for some time now on the question of how to address labor rights and how to address environmental issues in trade negotiations.

It is a subject which you very correctly addressed, Mr. Chairman, and I do think it is one that we have to focus on in order to get us, if you will, back on track.

In the last several years, for example, a debate on this topic, I think, has begun to look more like trench warfare than open, productive debate. Advocates on both sides have taken what I regard as inflexible positions, refused to compromise.

I think the result is that Congress and the administration are not, so far, able to forge a compromise position that gets much, if anything, done. And who gets hurt as a consequence? Small businesses, farmers, exporters, and ultimately workers and environment. We all get hurt.

I think there are a number of ways to approach this. First of all, there are literally dozens of promising ideas out there on how to approach the question. One size does not fit all.

There are a variety of models which I think may be appropriate under different circumstances. The Jordan FTA demonstrates that labor and environment can be included in trade agreements. That agreement does include labor and environmental provisions.

The United States-Cambodia textile agreement demonstrates that this can sometimes be done with incentives as well as with threatened sanctions. That is another way to do it.

The Canadian-Chile FTA demonstrates that there may be some additional alternatives to trade sanctions to advance labor and environmental issues.

So in order not to stifle debate or block discussion, I am not broadly endorsing any one of these concepts. I am simply pointing out that various models do exist, and they all hold considerable promise.

That said, I do disagree with those who take the position that these ideas simply cannot be addressed in trade negotiations, and who argue that they must be completely excluded from trade negotiating authority.

There is no doubt that these ideas are complex. They will take time, they will take effort to address, but they are plainly on the agenda. They are here for us today and we have to deal with them.

Those who simply ignore that reality, I think, are holding back the debate and they are stalling progress. Those who want to see Congress extend new fast track authority should get beyond iconoclastic positions and begin discussing specifics. This is the only way to break the trade log jam and move fast track negotiating authority forward.

Passing fast track negotiating authority requires mutual faith and confidence between Congress and the administration. The process of developing new fast track authority and negotiating and approving new trade agreements requires good faith from both the Congress and the administration.

One of the key steps to demonstrating good faith, is working together to complete the work already under way. On top of that list is the United States-Jordan FTA. Let me be absolutely clear on this point. There is no quicker and surer way to poison the well of compromise on trade than to try to scuttle the United States-Jordan FTA. It is simply not possible to destroy an existing trade agreement on the one hand, while with the other seeking authority to negotiate new trade agreements.

The United States-Jordan agreement is a sound agreement. It is an important partner in the Mid-East peace process. On most accounts, there is little disagreement about the desirability of the Jordan FTA. It has been endorsed by organization labor and by a number of leaders in the business community.

Still, the Bush administration has hesitated to endorse this agreement and some in Congress have argued that it should not be approved. In both cases, they have cited the provisions of the agreement on labor and the environment as the basis for their concerns.

These provisions do set a precedent because they do move labor rights and environmental issues into the core of a trade agreement. But they do not set a precedent as to the specifics in different trade agreements.

They do nothing more in Jordan FTA than require the United States and Jordan to enforce their current environmental and labor laws and not amend them with the goal of distorting trade. These should pose no threat to either country.

So if we want to move forward on trade in this Congress, the first step down the path is the approval of the United States-Jordan FTA.

I look forward to discussing these issues with all of the panelists. Others in the country are interested in all of this because I know we all want to get the ball moving. I think that honest resolution is necessary to precondition before we can get very far down that road.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you.

Our first witness today is going to be Secretary William Daley. He served as the Nation's 32nd Secretary of Commerce under President Bill Clinton, January 1997 through June 2000.

Secretary Daley, I know you are well known to all the members of this committee, and we look forward to hearing from you.

Our second witness will be Ambassador Carla Hills. Ambassador Hills served as U.S. Trade Representative from 1989 through 1993. She has broad trade policy expertise, and served on the Trade Deficit Review Commission.

She is currently chairman and chief executive officer of Hills & Company International Consultants. We welcome you back to this hearing and committee. Thank you for rearranging your schedule to be here with our distinguished witnesses.

The third witness, Robert Hormats, is also well known to members of the committee. He has a distinguished career in government, including holding the position of Assistant Secretary of State for Economic Affairs and Business Affairs, and Ambassador and

Deputy U.S. Trade Representative. He is currently vice chairman of Goldman Sachs International in New York.

Our last witness is Ambassador David Aaron, also most recently serving as Under Secretary of Commerce for International Trade, from 1997 to the year 2000. Ambassador Aaron is currently senior international advisor at Dorsey & Whitney. I welcome you to this committee, again, Ambassador Aaron.

So, we will go in that order: Secretary Daley, Ambassador Hills, then Ambassador Hormats, and Ambassador Aaron.

**STATEMENT OF HON. WILLIAM M. DALEY, FORMER  
SECRETARY OF COMMERCE, WASHINGTON, DC**

Mr. DALEY. Thank you very much, Mr. Chairman, Senator Baucus, members of the committee, and my distinguished fellow panelists.

First, let me say how important it is that this committee addresses the issue of trade and globalization right now. So, I congratulate you, Mr. Chairman, Senator Baucus, and the entire committee for moving so early in this year on this important, and at times very difficult, issue.

The significance of these discussions is going to be heightened as the economy slows and we will need much greater public support for opening markets now than we did when our economy seemed to be much stronger.

As you may know, as Commerce Secretary I conducted a national trade education tour, visiting many of your States and trying to build public support, in a discussion with the American people, about trade. This was not an easy sell and, many times during that tour, very difficult, to be frank with you.

So as the President is now doing with his tax cuts, he and all of us will need to sell trade to the American people in a much more direct and concerted effort. I hope that this hearing is the beginning of that process. Although the benefits of globalization are obvious, too many of us are not acknowledging the concerns of many of our fellow citizens who have fears or have outright opposition to globalization.

The most important thing that can be done by political leaders and business leaders who believe that globalization and free trade has been helpful to people all over the world is to engage our fellow citizens in a better understanding and appreciation of this new global world that we live in, and at the same time acknowledge the negatives so we can attempt to address these issues with creative, out-of-the-box solutions.

So what I would like to do today, Mr. Chairman, is to offer some opinions on free trade areas that President Clinton worked on with many of you, and now that President Bush has inherited. In my opinion, we can work on these issues in a very bipartisan way, and it is the only way that we will make any progress.

First, the most important thing is to address the concerns of Americans who are worried about issues of environment and labor conditions around the world. I remember in 1993 during the NAFTA debate I was a special counsel to the President for that passage of NAFTA. We talked about labor and environmental standards, and labor and environmental side deals.

A business leader at the time in one of the first meetings they had, after expressing his strong support for the North American Free Trade Agreement, did scold his fellow business leaders.

He said, we are all for NAFTA, but we all should understand that we are now putting social issues—that is the way it was described—into a trade agreement, even though there are side agreements. We are now going down a path that, in his opinion, was going to be ruinous to America.

Unfortunately, 8 years later, too many people are still stuck with that attitude. There are too many pro-traders who just see the positives of free trade, who may only be motivated by profit and who do not see that labor and environmental issues are not social issues only, they are economic issues.

Companies do look at labor costs when they make their decisions where to locate their plants, and companies do look at environmental costs or opportunities around the world.

These are economic issues that companies do not hide from when they look to see where to build a plant or locate some of their facilities. As a country, we should not hide from them when we open markets abroad and engage other countries in trade. In my experience, getting China's entry into the WTO through Congress was almost twice as hard as getting NAFTA through Congress. The reason was, in both parties—not just Democrats, but both parties—bigger and bigger constituent groups have organized around these issues, and the pace of change in globalization does concern many people in our country, and around the world.

Labor and environmental groups will not go away. We will not build the broad consensus we need on trade unless we work to reach a compromise. If President Bush wants to govern from the center, he has to compromise, in my opinion, on this issue. He has to get support from the business community behind him.

When I had the pleasure and honor of being Commerce Secretary, the business community said that they were open to supporting labor and environmental issues. But there has to be more than promises. They have to really do it and work to arrive at solutions. I do believe that many leaders in our business community do want to accomplish that.

Labor and environmental groups must also be prepared to compromise. They cannot make perfection, whatever that may be in their eyes, the enemy of the good or else their credibility and their motives will come into serious question by those of us who believe it is important to move forward on trade.

Second, our administration lay the groundwork for free trade in the hemisphere. As the new administration follows through, I strongly believe fast track authority, or the trade promotion authority as it is now called, is absolutely necessary.

Some think they can make progress without it. Some say we are so focused on tax cuts right now, we should forget this fight. In my opinion, it is not in our interests to have complicated negotiations with a region and then have to follow it up with 535 negotiations back here at home.

As some of you know, I had some experience last fall with the recount. I believe strongly it is better to vote once and count once.

To be frank with you, the most difficult negotiations are not necessarily with other countries, but seem to be with Congress.

So whether you consider giving the President fast track trade promotion authority this year or later in his term, the bottom line should be this, in my opinion. This authority has to be a product of a compromise so there is support for it, and therefore a greater likelihood of the trade agreement being passed with a comfortable majority, and therefore a greater support, amongst the American people.

Back to my first point. I do not believe American workers, especially in this economy, will put up with anything that continues to open our market and seemingly get nothing in return.

Third, is China. Obviously I hope to see China enter the WTO and have the commitments that it made lived up to. But the jury is still out. There is no question of the benefits that opening a market of a billion people may bring to the American business community and to the American economy.

But as I said last year, this will test China and our world trade system. We already have seen slower progress than we would like and some very serious backsliding on commitments that were made last year, especially in the agriculture field.

We knew when PNTR was passed that China's ability to live up to commitments would be difficult. But if we have the resources, we can make sure that this enormous opportunity is fulfilled and, therefore, the American people support us.

We cannot say this strongly enough, Mr. Chairman. Enforcement is absolutely essential. If it is not done right, my friend Don Evans will be before your committee and be asked the question, why has China not lived up to its commitments, and should we not have known this? It would be bad for our relationships, for our economy, and our ability to move forward in other areas of opening markets.

So, in my opinion, these are some of the trade issues Congress and the new administration will face. In the last 8 years, I think we did a lot of good. We opened new markets, cut world tariffs by more than a third.

But this is the 21st century, not the 20th century. We need to get out of the box and listen to American workers and people and build support for these most important trade efforts.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Secretary Daley.

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

The CHAIRMAN. Now, Ambassador Hills?

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

Ms. HILLS. Thank you, Mr. Chairman, Senator Baucus, Senator Rockefeller. I am pleased to be here to discuss globalization and trade policy.

Dramatic reductions in the cost of communications and transportation are pushing nations toward greater economic integration with the prospect of increased growth and prosperity.

Today, as in the past, open markets and rules-based trade and investment constitute the best engine we have to raise living standards and increase wealth worldwide. But to capture these benefits

requires a collaborative effort by the administration and members of Congress to put the United States back in a leadership role on the major initiatives to open global markets in this hemisphere, throughout the Pacific Rim, and in the World Trade Organization.

The fact is, we are no longer driving the major initiatives forward. Over the past 5 years, some 20 significant trade agreements have been negotiated in Asia, in Latin America, without our participation. As a result, we are losing billions of dollars of exports, to the detriment of our workers and our producers.

The reason is, the President does not have trade negotiating authority. For the past half-dozen years, we have had a sharp disagreement about trade policy here at home.

On the one hand, are those who believe that the United States must continue to lead the world in opening global markets and supporting the World Trade Organization, convinced that open markets and rules-based trade and investment raises standards of living and creates the wealth necessary to deal with important issues like labor and environment.

On the other hand, are labor unions, environmentalists, advocates for a variety of concerns who insist that trade negotiations address their specific issue, and believe that criticism of the WTO and globalization gives them visibility and advances their interests.

Now, we know that the three great drivers of our decade-long boom are a flexible economy, the information technology, and open markets, all key components of globalization.

We also know that globalization does not make everyone a winner. We need to find better ways to assist those who are left out. I believe that government, business, and labor could take three important steps.

One, each company should make their employees aware that trade creates far more jobs than it puts at risk, and that the jobs it creates pay higher wages, provide better benefits, and offer more security than others. Members of Congress should do the same thing with their constituents.

Second, in thinking about how to handle labor issues, I agree with Senator Moynihan. We should recognize that the World Trade Organization does not have the expertise or the credibility to enforce core labor standards, but the International Labor Organization does.

Unions worry that the International Labor Organization does not have teeth. Actually, the key difference between the two organizations is not teeth, but commitment.

Our government responds to WTO panel rulings against us not because we fear retaliation, but because we believe in the rules-based system that we helped to build and believe that it serves our interests. To disregard its rulings would undermine that system.

In contrast, our government has only ratified 13 of 182 conventions of the International Labor Organization, and only 2 of the 8 core labor standards. That means we do not have standing to complain about those conventions we have not ratified. Is it not time to support the work of the International Labor Organization?

Third, we should recognize that we could take more aggressive action to move people up the skills ladder, and thereby assure them of higher pay and better benefits.

Many companies have launched education programs for their employees. Our government could encourage those efforts by enacting the Affordable Education Act.

Finally, we should explore the concept of wage insurance to supplement the incomes of displaced workers who take an entry-level job in a different, more promising sector at lower starting pay. The Institute of International Economics has begun to do serious working in this area, and we should study it seriously.

In short, we have two key goals, it seems to me. One, we must defend our trade regime that generates wealth and prosperity for our citizens. Second, we must raise the skill level of our people so they can take advantage of the opportunities of the new knowledge-based economy.

Thank you.

The CHAIRMAN. Thank you, Ambassador Hills.

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

The CHAIRMAN. Now, Dr. Hormats?

**STATEMENT OF ROBERT D. HORMATS, PH.D., VICE CHAIRMAN,  
GOLDMAN SACHS INTERNATIONAL, NEW YORK, NY**

Dr. HORMATS. Thank you very much, Mr. Chairman and members of the committee.

I think I find myself very much in agreement with a number of the points that have already been made.

The first point I would like to make, is that the most urgent next step in American trade policy, as you and Senator Baucus have both indicated, is to develop the critical mass of domestic support necessary for the United States to advance its international economic interests in the decade ahead. There have been divisions over the last several years internally. A lot of the emphasis on opening markets has been watered down.

There has been a lot of distraction as a result of debates over environmental, labor, and other issues, a lot of criticism of the WTO. But somehow, if we do not get a consensus on these central issues internally, we are going to be at a disadvantage externally and we will not have the credibility to negotiate effectively.

The starting point, in my judgment, is that a lot of people in this country do not realize how beneficial expanded global trade and investment have been to this economy over the last 50 years.

They have been an extremely important part of America's prosperity and an extremely important part of the dynamism of many American companies, of America's farms, and American high technology businesses.

I think now it is a matter of great urgency, as Bill Daley indicated, to present more forcefully and to a broader range of our citizens the very compelling case that exists for sustaining freer trade and investment—and for the extension of market-oriented rules to a broader range of countries and sectors around the world.

It is also important to recognize—and there is a Business Round Table report that underscores this—that by sitting on the sidelines while other countries negotiate their own preferential bilateral and regional trade agreements, the United States is doing considerable damage not only to its economic interests, but also to its position as global leader.

It is undermining our markets around the world. It is also, as these countries negotiate their own agreements, watering down our ability to have influence on environmental, labor, and a whole host of other issues.

As the world continues to fragment with more and more regional agreements, America's role will diminish. We are no longer the indispensable power on trade; others negotiate around us. When we do not have fast track authority, we are in a weaker position to deal with the whole range of these issues.

I think it is also important to realize that there are a whole host of internal issues that need to be dealt with to strengthen our competitiveness. Education is certainly one of them. We do not have a competitive domestic educational system. By that I not only mean K-12, but adult training, literacy training, a whole range of things that people can use for their entire careers.

If we do not have that, and do not address this with a greater sense of urgency, we are going to be a far less competitive country down the road. Knowledge workers are critical, trained workers are critical to our competitiveness. No matter what else we do on trade, that is critical.

The question of fast track authority, you mentioned at the outset, Mr. Chairman, I think is extremely important. It is important not only legislatively, it is important because it is a demonstration of political support for the President's trade policy.

Without it, America's trade negotiators are weakened quite substantially and other countries use the absence of it as an excuse not to negotiate with us. If we have it, we deprive them of that excuse and we strengthen the hands of our negotiators.

The President will have an opportunity relatively soon, when he goes to Quebec City, to discuss trade for the first time in a major way. But it seems to me it is very important that he not only take that opportunity to support the Free Trade Area of the Americas, which I think is very important, but to put America's trade policy in a broader context.

That is, we not only want to expand trade in the region as a high priority, but we are a country with global interests and we want to expand opportunities in global markets for American agriculture, American services across the board.

It is an opportunity for him to go before the American people and explain the importance of trade policy as part, not only of our international economic efforts, but as a critical part of our own sustained domestic prosperity. Making that link, is particularly important, getting those who favor free trade and open markets off the defensive and taking the initiative.

It is also important to deal, in the interest of consensus, with the issues that have been touched on: labor, the environment, and concerns about developing countries. My concern in this respect is that we not develop a cookie cutter approach, or a one-size-fits-all approach, because there may be different ways of addressing this in different negotiations.

We do not have a consensus on this at this point, and that we should not try to make each individual negotiation be the same. As Senator Baucus has indicated, there may be different ways of dealing with this in different negotiations, but I hope that we do not



hold up fast track authority until we have a consensus on that. In my judgment, broad fast track authority is important.

Then let the negotiators, in consultation with the Congress, address this issue on an ad hoc basis, recognizing that to get the kind of consensus you need on trade policy, these issues need to be addressed.

Maybe they can be addressed in the ILO in some cases, maybe they can be addressed in the way the United States-Jordanian agreement has addressed the issue, but somehow there needs to be at least some consensus perhaps internally as to how to do it within the WTO, or not in the WTO, and it may differ from country to country and from time to time.

Let me make a couple of broad points, just to conclude. One, the question of the specific negotiations, which I have touched on particularly with respect to Jordan, that is important politically. It is important politically because, in the current environment in the Middle East, to withdraw that agreement or to fail to pass it, would be an extremely negative signal in the region.

Vietnam is not a big agreement when it comes to trade, but it is, I think, symbolically important. Two agreements coming down the road, Chile and Singapore, I think would be very helpful. These are very market-oriented countries, very dynamic countries, and I think moving ahead with an agreement with respect to both of those countries would be a step forward in freer trade.

It is also the case that, while we want to support and I think move ahead on the Free Trade Area of the Americas, it is going to take time. It is not going to happen before 2004, and maybe 2005.

To make progress on some of the bilateral deals in advance creates a certain amount of momentum and it creates a measure of confidence building which is, I think, extremely important.

Bringing China into the WTO in an orderly way is going to be an enormous test, a test for China, a test for this country, a big test for the WTO. It does strike me that that transition is going to be very difficult, because already we see resistance in China.

Bill has pointed out the importance of trying to make sure that China complies with the various provisions of the WTO. I would hope that this Congress, recognizing the panoply of issues that are going to arise over this period, puts together a working group to work with American officials, Chinese authorities, the business community, private sector experts, to monitor events, because there are going to be a whole slew of developments, some positive, some negative. I think it is important for the Congress to get on top of this and follow it on a fairly regular basis.

Let me conclude with a couple of broad points. One, going back to education and training. I think, unless we are able to do a better job on this, we will have a large portion of our citizens who regard trade and global competition as a negative rather than as an opportunity. Therefore, training and education is critical to our productivity and to our trade policy down the road.

The last point relates to the budget discussions, the tax issues, that are before this committee and this Congress. One of the critical issues down the road for this country, and others, is how we deal with our surplus. If you look around the world, many countries are not addressing their Social Security issues. Ten years

down the road, 15 years down the road, they are going to be in the unenviable position of having to put higher taxes on their citizens or increase government borrowing, which is going to make them far less competitive.

If we handle this issue now, if we can address our Social Security problems, our Medicare problems now, we will not only deal with those issues, we will be much more competitive down the road because we will have been prepared for this age wave that is going to hit us. Other countries that are not prepared will have to tax their workers more, borrow more, and will find themselves much less competitive in the decade ahead. So the budget issue, the tax issue, in addition to being a current financial issue, is a very long-term and very important competitiveness issue as well.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Dr. Hormats.

[The prepared statement of Dr. Hormats appears in the appendix.]

The CHAIRMAN. Now, Ambassador Aaron?

**STATEMENT OF HON. DAVID L. AARON, FORMER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE, WASHINGTON, DC**

Mr. AARON. Thank you, Mr. Chairman and Senator Baucus, for inviting me to testify at the committee's first trade hearing of the 107th Congress. I look forward to the discussion with you, with Senator Rockefeller, Senator Kyl, and Senator Snowe.

I hope my advice today to the new administration and the Congress does not come as ill grace from a recently-departed trade official of the previous administration. My only defense, is that my views were not always fashionable in the last administration either.

In the brief time that we have this morning, I would like to address our trade negotiating priorities, our strategy, the substance of what we want to accomplish, and the process for achieving these objectives.

I believe that our first and most immediate priority should be to resolve our bilateral trade problems with Europe. Second, we should reenergize our Free Trade Agreement efforts, both bilaterally and regionally, with the Free Trade for the Americas. Our third priority should be a broad effort at further global liberalization in the WTO.

My reasons for this order of priority, are these: multilateral liberalization in the WTO cannot go forward without the leadership of both Europe and the United States. Current bilateral trade disputes are poisoning that relationship and must be resolved.

It is difficult to imagine successfully negotiating further agreements in the WTO when we are at loggerheads over what we have already agreed upon in the WTO.

At the same time, progress on regional and bilateral free trade agreements can help maintain momentum for further global liberalization in the WTO, just as conclusion of NAFTA gave important stimulus to the successful conclusion of the Uruguay Round.

Free trade agreements can set higher standards and establish important precedents for broader multilateral measures. Too many

developing countries still do not see the merit of trade liberalization and have become obstructionist in Geneva.

Free trade agreements are a way of demonstrating the value of more economic openness. To pursue these priorities, I suggest that, first, the new administration undertake a high-level initiative to resolve the gamut of United States-EU trade difficulties.

Having battled in the trenches on many of these issues, I believe that only a comprehensive political-level effort is likely to break the current impasse on bananas, beef, FSK, Airbus, GMOs, and so forth.

This should be accompanied by acceleration of the Free Trade Area for the Americas' timetable, and the rapid conclusion of free trade agreements with Jordan, Chile, and Singapore, and the initiation of others.

In contrast, our approach to the WTO should be deliberate and cautious. The reality is that U.S. leverage is limited because we are already the most open major economy in the world.

As a result, other countries are focusing their demands on such things as our fair trade laws, which, in my view, should remain inviolate. We, therefore, must proceed with extreme caution and avoid premature concessions just to launch a new WTO round.

As for the substance of what we should seek in negotiations, liberalization in agriculture should be paramount, particularly an end to export and other trade-distorting subsidies.

Second, we need to greatly liberalize services, which are now the largest sector of the U.S. economy and the area in which we actually generate trade surpluses.

Third, we cannot ignore tariffs on goods. They are still too high in many parts of the world. They must be reduced and bound at a lower level.

Finally, we have to give appropriate consideration to the relationship between trade, the environment, and labor standards.

What do I mean by that? First, I believe that the self-evident link between these issues needs to be recognized and institutionalized by the WTO. A committee on trade and labor is an obvious step.

Together with a committee that already exists on Trade and the Environment, these bodies could examine and make proposals on key issues, such as how to prevent more open trade from creating a race to the bottom in labor and environmental standards.

They also could develop rules to encourage higher standards everywhere, while preventing such standards from becoming unwarranted obstacles to trade. Meanwhile, we should also be pursuing these issues in our bilateral and regional negotiations.

I am encouraged that the Business Round Table, and the National Association of Manufacturers, and other business groups are examining positive options with regard to trade, labor, and the environment.

I believe that this issue stands where human rights did 20 years ago, when human rights were considered tangential to foreign policy, and the United States was branded as naive and overbearing in pressing the matter. I hope it does not take 20 more years for environment and labor standards to take their rightful place in the pantheon of international trade law.

The process we follow in moving in this direction will be vital to our ultimate success. Our goal should be a broad, bipartisan consensus that will strengthen our negotiators' hand, not a narrowly supported mandate that could come unraveled by the next Congressional election.

Such a consensus should be the point of any fast track legislation. If we cannot achieve a broad consensus now, our negotiators, in my view, would be better off pursuing agreements to the point where concrete proposals can be put before the Congress as tangible justification for fast track authority.

Thank you, Mr. Chairman. I look forward to the committee's questions.

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

The CHAIRMAN. Thank you very much. We will take 5-minute turns for the members. This is the way it shakes out according to our rules: the Chairman, the Ranking Member, then Mr. Conrad, if he comes back, Mr. Rockefeller, Ms. Snowe, if she comes back, Mr. Kyl, and then Ms. Lincoln.

Ambassador Hills, do you think that launching a new round of multilateral trade negotiations this year is important in advancing free trade worldwide? Then whatever your answer is, what would be the consequences if we were not to have this new round?

Ms. HILLS. Mr. Chairman, I think it would be desirable to launch a round this year, if we could do so successfully. The worry that I have, is we cannot have a repeat of the disaster that occurred at Seattle. We do not have a consensus at home on some key issues. Here, we are talking about including labor, for example, in trade agreements.

The great, great majority of nations with whom we wish to negotiate have stated they would not come to the table to negotiate with us. Most of them are members of the International Labor Organization.

So it occurs to me that we could deal with our labor issues in that organization where they are members, if we would only ratify the convention which would give us standing to address labor issues.

I would very much like to see a round commenced, but the initiation of the round must be successful. The differences that exist with the rest of the world are extremely wide at the present time. Indeed, the director general, Mike Moore, will be here in this country, trying to determine whether he can develop a consensus and move forward. But November will come very, very rapidly.

If we cannot launch a round, I agree with Ambassador Zoellick. I would move to our next priority. That would be to get liberalization in the regions that would welcome it.

The Free Trade Area for the Americas is an obvious candidate. I would hope to energize liberalization in the Asia-Pacific Economic Cooperation forum (APEC). The President will be in Quebec City in April. He will be at APEC, hosted by China in Shanghai, in November. These are two instances where regional trade liberalization could be pressed.

I do agree with Ambassador Aaron, that it is important that we have a negotiating effort with Europe to bring down the level of

tension that exists on our commercial relationship. During the Cold War, we relied on security as the glue to hold us together.

Now we even have differences on some of our strategic issues with Europe. Generally, we look to the economic theater to bring our partners to the table. It is essential that we find ways to deal with these outstanding contentious issues.

It is not easy, because so many of our trade differences with our key trading partners cut into domestic policy; they no longer are simply border measures.

So we are telling another nation how they should deal with their labor policy, how they should deal with their environmental policy, their water policy, their airline policies. This is very, very difficult, for these issues intrude into domestic politics. We do need a negotiating effort on a diplomatic level with Europe, in my opinion.

The CHAIRMAN. Dr. Hormats, I want to ask you about what it might take to attain international consensus for new trade negotiations at a WTO ministerial this November.

But you may also want to address, as Ambassador Hills has, maybe the necessity of getting consensus in the United States before we get it worldwide. But I am interested, from your background, on the international consensus.

Dr. HORMATS. If you go back to the period of the debacle in Seattle, it is useful to, I think, recollect—and Secretary Daley and I were discussing this earlier with a colleague of ours. The failure at Seattle was not created by demonstrators in the streets, it was the result of the fact that we really did not have a consensus at home on some of these fundamental issues.

It was also the case that, in Europe, there was no consensus in favor of a real serious trade negotiation because they were not forthcoming on agriculture, and a whole range of issues. The Japanese certainly did not have a consensus, either.

So I think what is going to be important here is to work with these countries to ensure that each one of these countries or groupings creates a consensus internally among themselves.

The second broad point is that domestically in this country, to begin a big round as opposed to bilateral or even regional negotiations, we do need a much broader consensus on our priorities.

My view is that, while we as a global trading power should place greatest emphasis on a global negotiation, that is the one we are furthest from at the moment. My view is that we have got to have a series of confidence-building measures and successes that build up to that point.

The way I look at it, is while a global round is most important, regional FTAA is probably second most, and bilateral is the least important from a quantitative point of view because of the amount of trade involved.

But from a negotiation point of view, the best way to approach this, both internationally and domestically, is to start out with a few bilateral successes, the two that have already been negotiated and a couple more, in part because they build confidence at home, in part because we can, I think, perhaps find ways of dealing with some of these environmental and labor issues in a more consensus-oriented way.

Then you build up to regional negotiation, to build consensus on a Free Trade Area for the Americas, which I think the business community would support.

We are getting edged out of our own markets in our own hemisphere. The EU is negotiating with Mercosur. They have already reached an agreement with the Mexicans. They are going to reach an agreement with the Chileans, or at least try, and with the Caribbeans.

We are going to get edged out unless we take action to expand trade in the hemisphere and reduce some of the barriers which now are imposed against our products and not against the products of Mexico, Canada, the EU, and South America.

I think if you do that, if you make progress on the hemisphere, then other countries, the Asians and the Europeans, are going to have a greater sense of urgency about a broader negotiation, and we will have built up, hopefully, the domestic level of consensus and confidence required to launch a big round. So I would sort of build it up that way.

I do think that the EU negotiations and the APEC are important, but I think we are probably going to get most support domestically at this point, and the President, of course, supports it strongly, to move ahead on the FTAA. We have this meeting in Quebec City to launch the process.

But I just would conclude with one of the points I made in my testimony. We should not look at any one of these as isolated negotiations. They should be part of a broader whole.

To get support for that, we have got to go to the American people and explain how important expanding markets is. If we do not do that successfully, we are not going to make progress in any of these, unfortunately.

The CHAIRMAN. Thank you.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

This has been a very provocative discussion. Achieving our goal is going to be extremely difficult. I was reminded of a book written by Jeffrey Garten about CEOs and the problems they have in the world today. They are extraordinarily complex jobs they have, because the world has changed so much. They have to almost be statesmen as well as knowing everything else about their business.

As I listened to all this, I wondered if we were kind of dated in the way we approach trade, with fast track, trade agreements, and so forth. The world is just changing so quickly, and will continue to change so quickly. Governments are so slow to respond. But I have a solution to all that.

What I would like to do, is in the spirit of compromise, see if we can get some kind of consensus among you four panelists on how we get to approach labor and environmental issues.

Ambassador Hills, you talked a lot about the ILO, and others talk about maybe some flexibility, particularly, perhaps, in the context of the WTO, citing some of the Pantine agreements, and the different ways in which labor and environment have been treated.

How do we begin to solve this problem? There is not a lot of confidence in the ILO among a lot of people. It is a concept that might make good sense, but in practice people are not too certain. You,

yourself, Ambassador Hills, mentioned that major core principles are just not ratified.

I do not know enough about the ILO to know why they are not ratified or what those are, but I do know that there are not many who talk about the ILO. This leads me to conclude that there might be some problem with the ILO.

But I will stop talking and I will let somebody just jump out here, because you have heard what others have said, with the spirit of trying to find some consensus on how we begin to crack that nut, because that is going to be a tough one.

Mr. DALEY. I will take first crack at it. On the specifics, I just think, to be honest with you, Senator, Mr. Chairman, and members, I think there has to be—and I know President Bush has put trade as one of the top issues on his agenda—a serious attempt by the leadership of the executive branch to bring the parties in and begin to try to drive by throwing out creative ideas on the table.

I do not know enough about the ILO, and I keep hearing that it is a forum that we ought to be at, we ought to be doing things. Why have they not been ratified? I would assume that many of the people in the business community would probably be aghast at some of the possibilities of the ILO if we were to ratify those agreements.

So, they may have concerns that that would be more damaging maybe to our economy, with the possibilities of some action that may be worse than if they found some compromise in the trade agreements as we go forward.

But I think there is going to have to be some things actually put out. I think Chairman Roth and Chairman Archer last year, in their fast track bill, went a little further than most people would have ever thought, as Bob mentioned, we were talking earlier this morning with another colleague, and that bill was fairly forward-learning, in some people's opinions.

Senator BAUCUS. All right. I agree with you. I think it is going to take Presidential leadership to bring the parties together. All right.

Now, what advice would you give the administration on some of the things they might look at in bringing the sides together? It could be anybody. Not that we are abdicating our responsibility here, but there are 535 of us and there is only one of him. He has got the bully pulpit. He has got more juice than we have got on this subject.

Mr. AARON. Well, I think that Carla Hills had a very good point, in that we do need to move forward on the ILO. Indeed, I am impressed by the fact that the AFL-CIO is developing a new initiative to try to exploit the ILO in a way that will be more effective in supporting good labor standards.

But I think there are also things that the WTO can do. I think the creation of a Committee on Trade and Labor is not a crazy idea. There is obviously a relationship.

It would be a good first step for the members to be sitting down and discussing these issues candidly. I do not think you will get the consensus in the WTO that you need to go forward unless you have an environment in the WTO in which a discussion can take place.

Now, what could these people do? Is this simply going to lead to trade sanctions for poor labor practices, or something of that character? I do not think that would ever come out of such a committee. What might come out of such a committee is something like permission to have special preferences for countries that have high labor standards, for example. Or on the environmental side, particular reduction of tariffs and reduction of obstacles for environmental measures. I think there is a possibility of having a rule that says you cannot derogate from your existing labor or environmental laws in order to attract investment.

There is a whole series of things you can do, it seems to me, that do not get to the point of trade sanctions, but simply address the fact that there is a relationship and that neither trade nor environmental standards should be seen or used as an obstacle to trade, but on the other hand, there are ways to encourage it.

Senator BAUCUS. If I might, Ambassador Hills, in the spirit of compromise, how do we get from here to there?

Ms. HILLS. I agree with Ambassador Aaron that there is no harm to study. Were you able to show a clear nexus between trade and labor there would be less argument. For example, if a country that created a trade zone and said within that trade zone it would not enforce, indeed it would waive, its labor and environmental laws in order to attract trade and investment, that conduct would seem to be a possible candidate for inclusion in a trade agreement.

The way the models have been drafted thus far, is that if a country changes or violates its current labor laws and a panel finds that it has done so, that the contesting party may levy "appropriate and commensurate measures." Now, that means that a country could come to us and say that we did not enforce our labor laws, or that we amended our labor and environmental laws, and seek damages.

My recollection, from having served as U.S. Trade Representative, is that there is a very large sensitivity in this body to ceding sovereignty; we recoil where any nation can criticize or attack our laws or our means to enforce them. We are prepared to do that overseas, but not at all prepared to do it at home.

Senator BAUCUS. That is the problem. What is the solution?

Ms. HILLS. The solution, in my view, I come back to the International Labor Organization for labor issues. Both you and the Secretary said, "I do not know much about the International Labor Organization." The Secretary suggested that probably the business community would be opposed. The business community has not opposed the International Labor Organization.

In fact, labor unions and Chambers of Commerce, the International Chamber of Commerce, as well as governments, are members of the International Labor Organization. If you look back over the record, as I have, unions have brought very, very few actions in the last 20 years.

So when they are insisting that "core labor standards" the United States of America has not ratified be put into our charter of the World Trade Organization, which is already having enormous difficulty in enforcing the "new" political issues, you have to wonder, since they have not brought many actions, is their intent to somehow make it difficult for the WTO to function?



I think we need a vibrant trade organization in the World Trade Organization. I also think we need to deal with international labor norms. But to mix them up is a prescription for a very large problem in the future, both domestically and to persuade nations to deal with us.

Senator BAUCUS. This is a huge subject and I would love to spend much more time with you on it. But the red light has been shining for a little while here, and there are other Senators here.

Mr. DALEY. I just want to correct, if I could, one point that the Ambassador said.

Senator BAUCUS. Yes.

Mr. DALEY. I was not saying, I did not mean to say, that the business community is against the ILO. I think if the ILO became the sort of aggressive body that maybe some would want it to be, as the WTO is, that some of the business community could find that more disruptive to them and to their actions.

I was the first Commerce Secretary ever to attend an ILO joint business and labor meeting. So I think it's an important body, but I do not think we should kid ourselves, unless we give it real teeth, that it will ever address some of these issues.

The CHAIRMAN. Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman and thank you Senator Baucus. I certainly appreciate your holding up a hearing on such an incredibly important issue. We certainly have a distinguished panel here with us today. We appreciate your input as we focus on the issues that surround trade and globalization.

I grew up on a small farm in a rural area of Arkansas. My father always made sure that current events were an important part of our family's daily discussions.

He always used to tell us that the world is constantly a changing place. For the United States' economy to remain strong, we could not just circle our wagons and sell our widgets and gadgets to one another in Phillips County, Arkansas. We always need to be expanding. We were encouraged to understand how important trade was to us as a farm family, to our country, our State, our Nation, and to all of us.

Trade has become more prominent in as we look at the issues we face in the globalization of our economy, and certainly the position that we hope to take in the future in that global marketplace.

With the advent of technology, there is no doubt that the world is becoming a smaller place. It is important that we remain diligent in our pursuit of market expansion.

I would just like to echo some of what Senator Baucus said in terms of the labor and environment issues. They are not easy. We are not going to solve them overnight. But in Dr. Hormats' comments, addressing these issues it is apparent that we have to engage the American people in this issue. We have to have the American people engaged in this issue or we are not going to be able to be successful, I do not think, in the long run.

Without a doubt, launching more trade rounds, as Ambassador Hills has mentioned, really is only going to get us somewhere if we are successful in presenting a united front, if we do not then we will run up against those brick walls again as we did in Seattle, and other places.

Just a couple of questions. I am a supporter of biotechnology. Certainly from an agricultural background, I believe that agricultural biotechnology holds great promise for American agriculture, for consumers and for the health care industry around the world.

As a member of the Bipartisan Senate Biotech Caucus, I am concerned about foreign countries successfully establishing trade barriers for protectionist purposes and not using sound science.

I think this is going to be a very big issue for us in the future, especially for agriculture. We have got to engage the American people, the environmentalists, and everyone to recognize that we produce the safest, most abundant, and affordable food supply in the world. But we are not going to be able to continue to do that if we do no fight for our trade rights in the international marketplace.

If members of the panel would address the challenges and the potential solutions that we may see in the areas of biotechnology and trade.

Mr. AARON. I might say, I have had some dealings with the European Union on this subject. Of course, they have taken a leading role in trying to develop all sorts of rules, thresholds, standards, labeling requirements, traceability requirements, and all the rest.

Their most recent proposals on trade stability, I think, would effectively—and I am not alone, I think the industry believes—would really put them out of business as far as being able to ship agricultural goods that had any genetically modified aspects to them to Europe.

And not only the genetically modified ones, but even ones that were not genetically modified, because of the impossibility of the standards that they have established, which really are not scientific.

Now, what is the solution? Part of the solution, I think, in a way, and this is a long-term solution, as I suggested earlier, is we need to revitalize this Environment and Trade Committee in the WTO. This is a place where we ought to be talking about the use of environmental standards in an unacceptable, unscientific way to create trade obstacles.

We ought to work towards trying to deal with that. We also have to be very careful, in what is known as the Codex Alimentarius, that we do not accept any expansion of the so-called precautionary principle that goes beyond what science can support.

Senator LINCOLN. How willing do you think any of our U.S. trade negotiators are going to be in standing up to that lack of scientific standard and being able to really put the teeth in the negotiations and in the agreements that are going to require these nations to be able to open up to us?

Mr. AARON. Well, it may be unpopular with some of our trading partners, but we have to just say no.

Senator LINCOLN. Absolutely. All right. Ambassador Hills?

Ms. HILLS. Let me say that, as we build a consensus here at home, we have to work hard to build a consensus abroad. The issue you raise of genetically modified food is hugely sensitive, in Europe in particular, and in some Asian countries as well.

Europe has suffered from mad cow disease and has lost confidence in its governments to determine the safety of food. I believe that there is no sanction that Congress or your Trade Representative could apply that would cause, at this moment, Europe to change its views with respect to food where it has lost the peoples' confidence. That is because its body politic is frightened and would not permit a minister to so vote.

I visited with the commission a year ago on this very issue. I lamented the fact that, unlike the United States, where we have in one body the Food and Drug Administration, risk assessment and risk management, those issues are separated in Europe because Parliament has only given the commission the risk assessment function.

That means that the scientists in Europe can determine that they have a high degree of confidence in a particular food being risk-free, but when the consumers are marching outside the minister's house in the member states, the management of that risk falls to political worries.

I think we have to have conferences that deal with the issues and talk less about threatening and sanctions—which will not work, they will be ineffective—and talk more about how these nations will lose out in the knowledge age, for we will need to feed a growing number of people.

We are, in the next 25 to 50 years, going to run out of land on which to plant, so that we will be in the position, the unenviable position, of mowing down our forests and using more herbicides and pesticides, which will pollute our water. It is a vicious circle.

But this requires an education. So much connected with these new issues touch on political sensitivities unlike border measures. This is different from bringing down tariffs at the border or letting in a larger quota of something that is the same as domestically produced.

It requires dealing with political, domestic constituencies that have very strong views—political views. The United States, in the past, has exercised leadership to persuade nations of what is in their best interests, as well as ours. We have done that since 1947. We have fallen off the track since 1994.

Today, we do not have the ability to sit at the table—bringing people together to negotiate on things they want to talk about, whether it be marketing opening for them in one sector or market opening in another. We have lost that forum in which we could talk about more controversial areas. That is where we find ourselves today.

I think it is crucial, indeed, critical, that we get trade negotiating authority so we can deal with basic trade. Do not put on the back of trade mission impossibles. Go out and educate and sell in the course of negotiating basic trade issues the mission impossibles. We will get there, but we will not have a trade negotiation if we insist that our trading partners deal with labor issues up front. Already, a majority have said they will not. Deal with these other issues. We need to educate and persuade.

Senator LINCOLN. Well, I do not disagree with the Ambassador that education is probably first and foremost, the best avenue for

us to take, especially in this arena, both educating within our own borders, our own populace and consumers.

But I just have to say, when the EU is subsidizing their farmers at such high levels it is pretty hard when you put our farmers in a position where they're not competing with other farmers, but they're competing with other governments, and asked continually, year after year, to produce more and more with less and less support from the U.S. Government, and with more and more regulation.

So, without a doubt, you are right, we need to talk about that. But at some point we also have to know that our trade representatives are going to stand up for production agriculture, whether we choose as a Nation to move towards the use of more biotechnology which can help us be more productive in feeding the world, which we have year in and year out, but without a doubt being able to support our producers.

Ms. HILLS. Senator Lincoln, subsidies are the basic grist of a trade agreement. They are not the new issues, they are the old issues. We can very well negotiate on subsidies without hitting the sensitivities that I mentioned.

Senator LINCOLN. Thank you.

Senator MURKOWSKI. Thank you, Senator Lincoln.

On behalf of Senator Grassley, who will be back, there is going to be a second round. I wanted to make sure all the members knew that.

Let me share in welcoming our distinguished panel to this committee. I see old friends, Carla, Bill, David, Dr. Hormats.

Let me just share with you an observation that came up unsolicited today in my meeting with the Governor of the Virgin Islands, Charles Turnbull, a charming gentleman who is up against some tough realities associated with the realization that they have had devastating hurricanes down there over an extended period of time.

As a consequence, they are suffering under significant debt load, FEMA loans. They are looking for forgiveness. Their economy is tourist-related, to a large degree, but a significant portion of the population is involved in commercial fishing.

During the last few days of the former administration significant areas were withdrawn and made into monuments. These are offshore, not on land. This was done without any consultation with the Governor of the Virgin Islands. Now those that were dependent on the commercial fishing industry suddenly find themselves without a place to fish.

Now, as we address the larger picture, which is basically the responsibility you folks have, I would be interested to have you, from the standpoint of your interest and commitment, address the development in underdeveloped nations, and look at the accusations of a kind of a cultural or economic Calvinism by the United States in those countries.

Are we setting unrealistic limits without bringing them along in a transition? I am not going to argue the merits of whether we should have initiated these monuments in the Virgin Islands. But to simply do it without consultation with the Governor, without any effort to try and wean them off their livelihood, seems to me to be presumptuous, at best.

How can we do a dictate and still maintain their respect when, clearly, they are looking at the loss of their livelihood? This may not be what you were prepared to discuss, but I think it reflects attitudes toward underdeveloped nations and our ability to dictate terms and conditions, whether they be labor or environmental, even with our own territory.

We do not look at the territories much anymore because it is kind of *passé*. Hawaii and Alaska were territories, now we are States. But there are a few folks out there, Puerto Rico and the Virgin Islands, where we have an obligation.

So I do not know if this is a speech or an effort to communicate sensitivity, but I think charity begins at home. Here we have the Virgin Islands. Suddenly their livelihood is taken away, from the standpoint of the commercial fishing, by just a stroke of a pen with no consultation or input.

Anybody that would care to try this one on?

Mr. DALEY. I will try some reaction to you, Senator. As Secretary of Commerce, as you know, NOAA is under the Secretary's office.

Senator MURKOWSKI. Right.

Mr. DALEY. So the sensitivity and the feeling about the fish industry by those who are in it who have seen a depletion and the emotion that it generates, decisions that the government makes, not commenting specifically on the one that was made late in the last administration.

But I think Ambassador Hills, in her comments earlier, no question about it, said we have to educate. We have to be out there trying to convince the world on a whole host of issues around trade—and labor and environment, in my opinion, are two of them—that these are important issues that have to be looked at differently.

We have to lead in that discussion. We have to be the ones who drive that, whether we drive it with a stick or drive it with a carrot, on a whole host of these issues.

I think we have to do that. It is an obligation of ours. It is a responsibility. But it also gives us an opportunity as the premier market that most of the rest of the world wants to get into, that we should view that as an obligation, but also an opportunity for us.

I would not be surprised at the depth of the emotion of the Governor, because it is an important piece of their livelihood, as it is in a lot of parts—obviously, you know it from your State—of the country. Most Americans do not understand the importance of the fishing industry to the viability of communities along our coast.

Senator MURKOWSKI. Well, I appreciate your answer. I guess my frustration is theirs. You would think there would have been some consultation.

Carla?

Ms. HILLS. I think that the United States makes a mistake when it acts in an abrupt, unilateral fashion with large and small nations. It takes not too much time to have a consultation. I have longed believed that in the area of the environment.

The norms that we seek to impose in the environment are generally very worthwhile, but often very difficult for poor nations. I have long thought that, where we had that very difficult tuna and dolphin dispute, of course we did not want unnecessary slaughter

of the dolphins. But Ecuador, a poor nation, did not have the means to deal with buying the nets that would permit the dolphins to be extruded.

The better notion, it seems to me, to get Ecuador to agree to use the nets, and then sit down with the World Bank, which deals with microeconomic policy, namely the eradication to provide funds to assist Ecuador obtain the needed nets. The GATT was to deal with trade.

I agree with you. I think that we ought not to move forward and impose unilaterally with out consultation on our neighbors. I think that we would get the same result with far better response, and generate a kind of support for all the things we want to accomplish worldwide.

Senator MURKOWSKI. Well, I certainly agree with you. As you know, in this particular case, there was a concern with the coral reefs. That is the emotional argument. Obviously we want to protect and save the coral reefs. But the effect of banning commercial fishing in the Virgin Islands has put a burden on the Governor, and the ability to transfer these people if, indeed, there is going to be enforcement. I assume there has to be.

Or look at the other alternative, and that is to try and unwind this. Since printing it in the Federal Register, it is going to take legislation to do it. Then you are going to take on the whole environmental community who is going to say, well, you are risking the coral reef by unwinding the situation in the Virgin Islands that really was not given much thought as to the transition, and so forth.

I would suggest that we all share, if you will, in the responsibility that we have let down our own American citizens here by not consulting them.

Dr. HORMATS. Can I add one additional thought, a follow up on what Ambassador Hills mentioned a moment ago? That is, that imposing or attempting to impose on a lot of these countries policies—

Senator MURKOWSKI. This is our own people.

Dr. HORMATS. I know. But I am making a broader point. Your point, I agree with entirely. I am trying to develop a broader point on the basis of what you said.

One of the things I think is very important is to work with groups in these countries to help develop the domestic consensus needed to address some of these issues. In this case, there was no consultation, to my knowledge, as you have indicated, at all, which is really a tragedy.

Senator MURKOWSKI. Do you think it is appropriate to respond to the environmental community and say, hey, we have got a situation where the reef might be affected and we are going to—

Dr. HORMATS. No. I accept that. I take that point. But it seems to me, the broader point is in other countries, not territories of the United States. One thing that is very important is to work with domestic groups in those countries that have similar interests if we have an environmental concern. You try to develop within those countries a sensible arrangement, which has domestic support in those countries. That is part of the problem.

We have learned this in the International Monetary Fund financial negotiations. If you try to superimpose on countries economic policies in general, not just environmental policies but other kinds of policies, and there is not domestic support for them, they may go along nominally, but they do not really go along in fact.

Senator MURKOWSKI. That is right.

Dr. HORMATS. Therefore, it is a building process of building consensus, not only here but in many of these countries. To use an example, we did not have a Central Bank in this country until the early part of the last century.

If the British, who were making us a lot of money, had said, you Americans ought to have a Central Bank, you are not going to get any more money if you do not, imagine the reaction. We might have had one, but there would have been so much resistance to it at the time that it would not have had any credibility and public support.

It seems to me our own history is a lesson to how we should deal with institutional problems in those countries. I think this goes to Senator Lincoln's point. That is, part of the problem in these countries is they do not trust their own institutions.

We have, as Ambassador Hills indicated, the FDA, which is very credible. They have a history where their governments have told them things that are not credible, that turn out to be wrong in food, AIDs contaminated blood, a whole range of things. They have had a dreadful history of lack of credibility.

Part of what we need to do on the question of GMOs and biotech, is to work with credible institutions in these countries to deal with the science and make very public the scientific evidence to avoid those issues in trade being used as our proteitant excuses. That is different from the subsidy issue, where we ought to go at it head on.

Let me make one last point on the subsidy issue. You can make a very small point that excessive subsidies on agriculture are an environmental problem, because in effect they create a distortion which misuses land. So, in a way, there is a consistency between what we want to do environmentally and what we want to do on trade.

If you subsidize a whole lot of production that is economically inefficient, as in the case of Europe, it does seem to me, as in other countries, that you have both an environmental and a very strong economic argument against some of these subsidies.

Senator MURKOWSKI. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Murkowski.

I have got at least two questions I want to ask Secretary Daley and Ambassador Aaron. This is based on the last administration's experience, not just yours, of not having a successful round of WTO in Seattle. So, based on that experience, what would be your advice to the Bush Administration, to those of us in Congress, to avoid the problems experienced at that time?

Mr. DALEY. I think I would agree strongly with the comment that Bob made earlier, that the debacle in Seattle, the failure of launching the round, was obviously not as a result of what happened in the streets. That was a lot of good TV and good drama,

and was a terrible situation for our colleagues from around the world who came to the United States and felt that they were under siege.

But the fact of the matter is, the decisions have not been made in Geneva, and too many decisions were left on the plate when we got to Seattle, because the political leaders in Europe and the United States had not dealt with them. It was a recipe for failure.

I would just reiterate strongly to this administration what Ambassador Hills said, and also Dr. Hormats. That is, do not begin this round and do not raise expectations of a round unless there is a clear consensus.

Right now I think it would be very difficult—this is my own personal opinion, obviously—to expect that by the end of this year, Europe will be willing to make some serious commitments in the agricultural area, which is the heart of why we did not really get close to even launching something last time. I do not think it was about labor or environment.

Those were issues that we raised, obviously, and had been raised by not only people on the streets, but in other forums. But I would move very slowly in raising expectations of a new round.

I think the loss of the FTAA in 1995, with a schedule to be completed in 2005—I think there has been more progress made in the FTAA than most people know. I think there has been real progress.

I do believe, if the President gets fast track authority and there is a commitment with the political leadership here to move forward, then I think it can be done by 2005, which was the original schedule. It would be a dramatic statement of the United States in this century that we would be laying the marker down in this hemisphere in a very aggressive way. I think it would be a tremendous accomplishment.

I think there is no question in my mind it can be done if we move quickly on fast track and the administration says this is our priority. When you and the rest of the world gets your act together, come with us and try to convince us why we should launch a new round.

We should not be there being used as a whipping boy as we were, in some ways, in Seattle, for those other countries, Asian countries and Europe that really did not want to begin a round, and pointed the finger at us for a host of reasons.

The other issue about launching a new round will be really where China is and whether China is in the tent or still out of the tent. If they are still out of the tent, I think that has a serious impact on the viability of a new round.

The CHAIRMAN. Ambassador Aaron, I am taking off on a comment you made—I hope I characterize it right—that agricultural trade liberalization ought to go on in the form that it is in Geneva now.

I do not dispute that we ought to move forward in that direction, but I think I got the impression that it was more important to do it there than in an all-encompassing round that you would have.

I guess my feeling is that we do not get much progress for agricultural liberalization of trade unless there is a very comprehensive round where there is a lot of non-agricultural issues that could be negotiated for the benefit of agriculture.



Mr. AARON. I think that judgment is correct. It is not my view that you can negotiate agriculture separately. The real issue, is how broad does the round have to be? In our conversations with the Europeans on this very delicate issue, it was never clear to us whether they were looking for something that would simply give them political cover or they were looking for real trade-offs here.

For example, they had positions on such things as competition policy, which they wanted to put in a new round. They wanted to put investment issues into the new round.

Now, our concern was at the time that, in effect, all of these were to be linked, so that all you could have was a negotiation that, until all of these issues had come to some resolution, you could not have an outcome.

Therefore, you would have issues that really were going to be extremely difficult, and maybe even impossible—like the competition policy among 100-some countries—holding up the conclusion of a round.

So it was not clear to us whether they just needed a whole bunch of cover to get going at all on agriculture or start a round, or whether they really were going to hold these other issues that are very difficult, conceptually difficult, politically difficult, as cards that would have to be played in order for agriculture agreements ever to be reached.

Let me just make one point about the European agricultural situation. I think it is very difficult for the Europeans to get into much of the negotiation until they sort out their own agricultural policy. Some people believe that is going to happen because they are going to be admitting new states into the European Union. The timetable for that looks closer now than it did maybe a year ago during Seattle.

But I would be careful about this assumption because it is not clear to me that these states are going to come into the European Union on terms like the rest of the current membership, and therefore force a change in their agricultural policy.

I think France and several other countries are going to work very hard to protect the system they have got now and have a different system for Poland, Hungary, and the rest. So, we may not get as much encouragement as we think.

The other point I would make, is that I think it is going to be difficult to get a real negotiation on agriculture until we have the exploration of the so-called peace clause. That is the agreement, which I believe expires in 2003?

Ms. HILLS. 2003.

Mr. AARON. 2003. In which we have agreed not to take cases on subsidies to the WTO on agriculture. Once that peace clause expires, we will be free to take such subsidy cases to the WTO and there will be a lot more pressure from the Europeans to show us some flexibility.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. It is very interesting, Ambassador Aaron, what you said about the few subjects that Europe might really cover, or whether they really wanted to make a deal. How are we going to find out? What do we have to do in order to answer that question? Or what do we do to make progress on agriculture?

You mentioned we might have to wait until the peace clause has expired. That is soon. That is next year. The farm program. Congress writes a new farm bill next year. That would be an opportunity.

Mr. AARON. Yes. I think that is an opportunity to perhaps create some incentives for going forward with the actual elimination of the kinds of distorting subsidies that we have seen in the European situation.

I think that when the Europeans are really ready to negotiate, some of these tangential issues will sort of slide away. I think I agree with my former boss here, that they are not really ready yet. Therefore, we ought to focus our energies really much more on solving some of our bilateral issues and in proceeding with more bilateral and regional trade agreements.

Senator BAUCUS. Right. They are not ready. But sometimes a little encouragement can help them get more ready, more quickly. It is always a delicate question just how far to push and how much to let them find their own solutions. But sometimes I think it is helpful probing a little bit.

Dr. HORMATS. I think if you make progress, real progress, on FTAA, they will be readier quicker in the sense that they are now trying to get a foothold in this hemisphere on a whole range of issues.

As long as we sit on the sidelines, they have the field open to themselves. If we get off the sidelines, start negotiating seriously, and in a way preempt them, then they may become a little more serious about a global round.

Senator BAUCUS. Good point. That is a good point.

Changing subjects, I was a bit shocked by recent reports that the administration plans to reduce funding for the Commerce Department's trade compliance efforts for 2002. I hope those reports are inaccurate. I am very concerned about compliance with China and other countries. I would just like, perhaps, Mr. Daley, you to respond.

Mr. DALEY. I saw the same report, Senator. As I mentioned in my remarks, I think my friend Don Evans will be under enormous pressure.

I think we have got, in building this consensus and this support for trade, to convince the American people, because I do believe, whether it is justified or not, there is a strong feeling out there that we seem to get taken advantage of in all these agreements. Nobody else lives up to them. We live up to them, and we are always at the disadvantage of other countries.

Specifically, we requested a substantial increase in Commerce last year, which had a lot to do with the China situation and the need. That will be an enormous challenge for us, and I think we have got to get much more aggressive.

The Trade Representative's office, as you know, and obviously as the Ambassador knows, is a small group of people who are overworked and overburdened, especially if they move forward on an aggressive agenda as the President seems to indicate on trade, a lot of that enforcement does fall on the Commerce Department. I think it would be very unfortunate.

Senator BAUCUS. I might say, too, I am sure with most American industry but I know that the high tech industry, in particular, the computer industry, this is one of their three top concerns, that is, compliance of China. They are very worried. There is, in fact, debate among some of them on the degree of which it should be in Commerce, USTR, or what.

The main thing is, they just want to make sure that we have much, much more beefed up monitoring and compliance regime working with business and appropriate others to make sure that we are not taken advantage of, assuming that China does become a member of the WTO, and I think hopefully will quite soon.

Mr. DALEY. If I could just add one more point. If they do not become a member of the WTO, then it is more important maybe to even have those resources.

Senator BAUCUS. That is right. I agree. WTO has its own enforcement mechanisms, which help a little bit.

Back to the ILO, if I could, because it's an interesting subject, and we certainly want to find some common ground in environmental and labor issues.

I noticed the ILO recently suggested that ILO members consider employing sanctions on Burma for various violations. My real question is, is that a good idea to create sanctions in the context of ILO?

Then the second question would be, how do we address the conflict that these sanctions might have within the ILO, in the context of ILO? It seems to me we are going to get sanctions regardless. I am not sure whether ILO is as simple a solution as some hoped it might be.

Ms. HILLS. Senator, as I mentioned in my opening remarks, when you read the charter of the World Trade Organization and the International Labor Organization, they are remarkably similar.

The World Trade Organization has a panel to determine whether a given nation has violated commitments made. The International Labor Organization has a commission of inquiry to determine whether a violation has occurred.

I have always argued that it is possible for the 176—I think I am right on that figure—members of the ILO to impose economic sanctions in the appropriate case.

That was the initial concept when we formed the international organizations to deal with different labor functions. You are right to point out that there could be at least an overlapping jurisdiction. I have always thought that it would be quite possible to have sanctions levied by the members of the International Labor Organization.

Can you imagine then Myanmar, or Burma, coming up and saying, my goodness, they applied a sanction against us for violating a core labor principle, that the World Trade Organization's members would not give due consideration to a finding and determination of the International Labor Organization?

Ideally, I think that a closer relationship should exist between the World Bank in matters of the environment and in helping poor nations deal with challenges where they do not have the resources to address. Similarly I think that the International Labor Organi-

zation and the World Trade Organization should have an ability to work together.

Senator BAUCUS. But in this case do you support imposing sanctions the ILO has recommended against Myanmar? Do you support them?

Ms. HILLS. Certainly, I think that I have not looked at the basic file of that particular sanction, but abstractly, yes. Absolutely. If a nation commits in a convention to observe certain core labor standards and violates them, and the membership, after exhaustive review, painful sunlight, where they expose the grievance, and—

Senator BAUCUS. What am I missing? Trade sanctions should be imposed for violation of core labor principles in one context. Why not trade sanctions for violating core labor principles in the other context?

Ms. HILLS. The key difference, Senator, is the International Labor Organization was formed in 1919. It has a history of labor expertise and credibility in the field.

Labor law is a complicated and controversial subject and deserves, and requires, the credibility and expertise that labor lawyers and labor practitioners can bring to the subject. The World Trade Organization has no such expertise or credibility.

Just ask yourself, on a simple issue like the protection of children from work, should the standard be different in rich and poor countries? Is there a line that you draw between light work and heavy work? Where is that line?

Is there a difference in the kinds of health and general OSHA-type standards, and what are they? This is not the stuff that trade practitioners know, but this is the grist for the mill of the International Labor Organization.

Why would you take a responsibility that we placed in 1919 in one organization and try to put it in the lap of another? Why would we take, for example, our Labor Department's responsibilities and put them over at USTR?

We have two separate organizations, each have their own expertise and credibility. My suggestion is, simply, if we believe that we want international labor norms enforced, then we should put our confirmation behind it. The United States has not ratified but two of the eight core labor standards.

I am less concerned about the rest that may have a problem, but I think when we talk about putting the core labor standards in the World Trade Organization, we ought to ask ourselves, first, why not ratify the core labor standards in the International Labor Organization?

Senator BAUCUS. I hear you saying that you do support trade sanctions to enforce violations of core labor principles, but in the context of ILO. But you do support trade sanctions to enforce the violation of core labor principles.

Ms. HILLS. Trade sanctions are one of many economic sanctions.

Senator BAUCUS. But yet you do not oppose that. That is on the list of measures that you do think should be supported.

Ms. HILLS. The International Labor Organization can apply, in given circumstances, economic sanctions.

Senator BAUCUS. All right.

Now, let us say that the ILO recommends a trade sanction to enforce a core labor principle of the ILO. What happens when that sanction violates the WTO rules against the sanction? Then what do you do?

Ms. HILLS. First of all, the ILO does not recommend anything, just like the World Trade Organization does not recommend anything.

The ILO will determine that a member has violated a convention, and another member or group of members that are aggrieved address the harm that that member or group of members believes has occurred. That is very similar to what happens in the World Trade Organization.

Senator BAUCUS. Similar, but not the same. There is a panel in WTO which is more formalized, or of more enforcement than what I hear you say of the ILO, where countries can cite whether they want to follow the recommendation or not.

Ms. HILLS. Let me suggest to you that the World Trade Organization does not order any sanction either. The World Trade Organization finds that a member nation has violated a commitment, like an accord on subsidies.

Senator BAUCUS. Right.

Ms. HILLS. The grieving party or group of grieving parties, just like in the International Labor Organization, can decide to apply sanctions. It or they need not, it may not, but it can.

When there is a subsidiary dispute about the amount of sanctions, then there is a determination of what is appropriate.

Senator BAUCUS. The main point here is to find some way to get fast track passed. [Laughter.] That is what we are trying to do here. I just strongly urge all of us just to maybe back off, myself included, and not argue, but look to try to find a solution here. That is the only way we are going to solve this thing.

I think all of you have some very good points and good thoughts. This is not going to be easy by any stretch of the imagination. In fact, I think it would be much more difficult than a lot of us are even saying, because of the complexities of the world, the complexities of this country.

This is not the same as 1919, or whatever year it was. This is 2001. It is a whole different world and it is going to keep getting different as the years go by.

The CHAIRMAN. Senator Lincoln, are you done?

Senator LINCOLN. May I ask just one more question, please?

The CHAIRMAN. Yes.

Senator LINCOLN. Thank you.

Just, also, to follow up on what Secretary Daley mentioned in terms of perceptions of us being taken advantage of.

I think oftentimes that perception comes out of the fact that we drag our feet in implementing our own laws, whether it is steel or softwood lumber, both of which are very important to Arkansas. We have not seen the results we would like from our trading agency in upholding some of the current laws we have on our books.

But to all of you, if you could just comment briefly. We have a number of U.S. retail companies that would like to expand internationally.

The CHAIRMAN. Not Wal-Mart.

Senator LINCOLN. That is exactly right. You may know who I wanted to mention. Wal-Mart in Arkansas is a good example. It is certainly in our National interest that we expand. Retail growth will open up new markets for U.S.-made products, there is no doubt.

Up until now, access to our foreign retail market has not been a high priority, for U.S. trade negotiators. I think it is vitally important that that change. Retail market access should become a core objective of our trade negotiators.

But just as some countries erect trade barriers to keep U.S.-made products and agriculture out of their markets, many of these countries have established laws, such as limiting the size of retail establishments, to keep some of the super stores from establishing a presence, or a distribution center, or a system in their country.

Many of us believe that we should discourage countries from doing so. I have voiced my concern over Argentina's recent legislative action. So do you have any suggestions as to how we can prevent more countries from establishing barriers that really hamper our retail market access?

Mr. DALEY. If I could, just briefly. We had some success in Japan in trying to push them for repeal of legislation that was prohibiting the large retail stores. There has been success in Japan, which was a very tough market.

I think also, as the Ambassador said earlier, there are cultural differences. As we saw in many parts when large retailers came into parts of America early on, the small stores, the small owners, fought that. I think many parts of the world are beginning to see that shift and the benefits that the larger stores can bring to the consumers.

It is a learning process, it is education. I think it is working. As I said, we did see, in Japan, success. There was a little bit of a stick, a little bit of the carrot. But it is a very tough issue in many parts of the world.

Dr. HORMATS. Just a couple of thoughts. One, Secretary Daley made an interesting point. At the turn of the last century, we had actual legislation that prevented chain stores from emerging. J.C. Penney, for example. But other countries have their own. They have hypermarkets, and they have things. They just do not want ours, they want theirs.

One of the things that I think is interesting in the China agreement, there is an opportunity for broader distribution. That will present an opportunity, if that is ratified and implemented, for much more effective distribution systems in which American companies that would have the experience here could perhaps take it into China, as they are beginning to do in Japan and other parts of Southeast Asia.

The other point that I think is interesting has to do with a broader point that relates to your point, Senator Lincoln, and that is regulatory transparency. It is an issue in the financial services area, it is an issue in many other areas.

The way regulations are done in many of these countries is, shall we say, somewhat less than transparent, certainly less transparent than it is here, more opaque.

Therefore, it seems to me that one of the things, as a matter of principle, in a variety of negotiations, is to have a much more transparent regulatory environment so regulations are open, they are common regulations.

What happens in many of these circumstances, is it is sort of insider business. The small businesses that do not want big supermarkets or Wal-Mart's to come in work out deals in advance.

The big company is really for the consumers, and those who would benefit do not have a chance to come in. So an open, transparent regulatory environment, I think, is a very important principle, and it is very important for this sector in particular.

Mr. AARON. Senator, I was just going to say one final thing. This example, I think, underlays the whole issue that we are trying to grapple with here today. It is the question of globalization and how it causes societies to interpenetrate with one another.

So the issues that were once simply a local issue of whether you are going to have big stores or small stores, it suddenly becomes an international trade issue. The issue about how you are going to regulate your food becomes an international issue.

I think we are not fully aware of how we deal with issues like that. Things that used to be local, used to be national, are now international. I think that the Congress, in particular, needs to give some attention to its own institutional arrangements for dealing with that question.

In particular, I think it would be very important that the Congress find ways to have more legislature to legislate your dialogue. For example, particularly with the European Union and the European Parliament, where there issues start, get rolling, and you cannot get them stopped and you cannot get consideration of the international implications.

I would strongly urge the Congress to give some very serious considerations as to how it can structure relationships with other parliaments whose actions are extremely important to us.

The CHAIRMAN. One last question for me, and I think then I think we are done. Senator Baucus said he was. You have been very good to give us 2 hours of your time, so I will not take much time.

There is one issue, and this deals with the machinery of the WTO. It is one of the things that both right-wing and left-wing extremists have kind of united on, that somehow this WTO is some international organization, not responsible to anybody, kind of subversive.

There is all this mystery about it. That has gotten some attention by people that want to use that, so you do not have any more trade negotiations, and all that.

I remember, Pat Buchanan had one 30-second commercial when he was running for President on WHO radio in Iowa, that he had four lies about the International Labor Organization, all in a 30-second commercial.

Anyway, there is this mystery out there. I think it causes us problems with fast track trading authority, trade negotiating authority for the President, that we have to answer.

That is, the transparency or lack of transparency and the mystery about it. Do each of you see that as a problem, and what can

be done about it? Is that a significant thing that we ought to be dealing with?

Mr. DALEY. We, Mr. Chairman, in President Clinton's administration, felt that reform of the WTO and an opening of the WTO processes was most important. We strongly urge our fellow members to take steps to open it up to get away from this club.

Most people do not realize that the members are the government, obviously the elected government, representatives. This is a meeting of governmental representatives, not secret business people, or whatever. It is a serious problem. There has got to be more reform. But I will be honest with you. Even since the debacle in Seattle, I do not think the WTO has taken steps to show a greater opening that they probably should have. We pushed them. We tried to get them to make their records open.

But many of our colleagues disagree with us, as we thought they would. I think the leadership of the WTO has got to realize that this creates an enormous, back to the credibility support problem of the organizations.

I think they have got to improve the membership on these panels to make them less political and more technical, experts as opposed to political representatives, maybe. WTO is a consensus organization. It is very hard to get consensus with the number of members now that are in the WTO.

Ms. HILLS. Mr. Chairman, I would say that we need to get information out about the World Trade Organization. It is not anti-democratic. The members nations are represented by the appointees of democratically-elected governments, that is who is sitting at the bargaining table.

And, it does not override our laws. If the WTO comes down with a panel report that Congress feels is contrary to our laws, we can ignore it. If a trading partner, on the basis of that ruling, applies a sanction against us, without the WTO they could have taken that action. Without the WTO we could have a trade wars. We could go back to the law of the jungle.

The WTO is a very valuable organization. But I agree that, having now been in existence 6 years, it needs to be upgraded, a little bit of this, a little bit of that. One of the big things it needs is greater transparency. It needs to open up its proceedings, and it would not put in jeopardy those proceedings.

It needs rules to permit the filing of amicus briefs in the panels by those who have a real interest in the dispute—just as our Supreme Court has rules that govern the filing of amicus briefs by people who have a real interest in their cases.

So, there are a number of things that can be done that would improve the World Trade Organization, and I think give the public greater confidence.

Senator BAUCUS. Mr. Chairman, we all agree with all that. I remember, I was in Seattle for that debacle. I was quite surprised, frankly, to find Europeans intransigence to a dispute settlement mechanism. They were opposed to it, and strongly.

If they are opposed to it, Europeans are strongly, how are we going to make progress? That is a rhetorical question, because I am late to where I am supposed to go. It is a huge problem. It has not been easy.



Dr. HORMATS. Just one follow-up on that. Earlier, there was a British prime minister who said the objective of sending British troops to a distant country about which we know nothing, and that is, it seems to me, a little bit what is going on here.

First of all, with respect to Europe, they have a tendency of non-transparency in many of their own institutions.

Senator BAUCUS. Right. That is the reason.

Dr. HORMATS. So that is part of it, and not to mention Japan. Part of it is the cultural direction that they have. The other part of it, though, is it is true with all multilateral institutions today, they have been sort of used to running this sort of rarified kind of dialogue distant from the people in the industrialized or developing countries who are even more resentful.

There does seem to be a lot more information that is important, and that should be provided not just by the WTO. Member governments have to do a great deal more to explain to their people what these institutions do and do not do.

That is a process that we are going to have to spearhead, because it will not happen. No one else is going to take the initiative. That is the point we made. It is a different world, with the Internet and a whole lot of other devices for communicating. We have got to use a lot more like that.

Senator BAUCUS. Mr. Chairman, I have got to go. I thank you very, very much.

The CHAIRMAN. Thank you very much. We appreciate you being here with us. Thank you very much.

[Whereupon, at 12:09 p.m., the hearing was concluded.]



## APPENDIX

### ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

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PREPARED STATEMENT OF DAVID L. AARON

Thank you Mr. Chairman and Senator Baucus for inviting me to testify today at the Committee's first trade hearing of the 107th Congress.

I hope my advice today does not come as ill grace from a recently departed trade official of the previous Administration. My only defense is that my views were not entirely fashionable in the last Administration either.

In the brief time that we have this morning I would like to address our trade negotiating priorities, our strategy, the substance of what we want to accomplish, and the process for achieving these objectives.

*Priorities.* I believe that our first, and most immediate priority, should be to resolve our bilateral trade problems with Europe. Second, we should re-energize our free trade agreement efforts both bilaterally and regionally with the FTAA. Our Third priority should be a broad effort at further global liberalization in the WTO.

My reasons for this order of priority are these: Multilateral liberalization in the WTO cannot go forward without the leadership of both Europe and the United States. Current bilateral trade disputes are poisoning that relationship and must be resolved. It is difficult to imagine successfully negotiating further agreements in the WTO when the current ones are not being observed.

At the same time, progress on regional and bilateral free trade agreements can help maintain momentum for further global liberalization in the WTO, just as the conclusion of NAFTA gave important stimulus to the successful conclusion of the Uruguay Round. FTAs can set higher standards and establish important precedents for broader multilateral measures. Too many developing countries still do not see the merit of trade liberalization and have become obstructionist in Geneva. FTAs are a way of demonstrating the value of more economic openness.

*Strategy.* To pursue these priorities, I suggest that first the new Administration undertake a high level initiative to resolve the gamut of US-EU trade difficulties. Only a comprehensive, political level effort is likely to break the current impasse on bananas, beef, FSC, Airbus, GMO's and so forth. This should be accompanied by acceleration of the Free Trade Area for the Americas timetable and the rapid conclusion of FTA's with Jordan, Chile and Singapore.

In contrast, our approach to the WTO should be deliberate and cautious. The reality is that US leverage is limited, because we are already the most open major economy in the world.

As a result other countries are focusing their demands on such things as our fair trade laws which should remain inviolate. We therefore must proceed with extreme caution and avoid premature concessions just to launch a round.

*Substance.* As for the substance of what we should seek in negotiations, liberalization in agriculture should be paramount—particularly an end to export, and other trade distorting subsidies. Second, we need to greatly liberalize services which are now the largest sector of the US economy and the area in which we actually generate trade surpluses. Third, we cannot ignore tariffs on goods. They are still too high in many parts of the world. They must be reduced and bound at a lower level. Finally, we have to give appropriate consideration to the relationship between trade, the environment, and labor standards.

What do I mean by that?

First I believe the self-evident link between these issues needs to be recognized and institutionalized by the WTO. A committee on trade and labor, is an obvious step. Together with the committee that already exists on trade and environment, these bodies could examine and make proposals on key issues such as how to pre-

vent more open trade from creating a race to the bottom in labor and environmental standards. They also could develop rules to encourage higher standards everywhere while preventing such standards from becoming unwarranted obstacles to trade. Meanwhile we should also be pursuing these issues in our bilateral and regional negotiations.

I am encouraged that the Business Roundtable and the National Association of Manufacturers and other business groups are examining positive options with regard to trade labor and the environment. I believe that this issue stands where Human Rights did 20 years ago when Human Rights were considered tangential to foreign policy and the United States branded as naive and overbearing in pressing the matter. I hope it does not take 20 years for environment and labor standards to take their rightful place in the pantheon of international trade law.

*Process.* The process we follow in moving in this direction will be vital to our ultimate success. Our goal should be a broad consensus that will strengthen our negotiators hand, not a narrowly supported mandate that could come unraveled by the next Congressional election. Such a consensus should be the point of any "fast track" legislation. If we cannot achieve a broad consensus now, our negotiators would be better off pursuing agreements to the point where concrete proposals can be put before the Congress as tangible justification for fast track.

Thank you Mr. Chairman. I look forward to the Committees' questions.

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PREPARED STATEMENT OF HON. JEFF BINGAMAN

Thank you Mr. Chairman, and let me welcome the distinguished group of individuals who join us today. I look forward to your testimony, so let me make a few remarks that I hope will frame the discussion.

First, let me make a distinction right off between internationalization and globalization, as I think this matters as we move forward. Internationalization is simply a process by which governments choose to get together and negotiate how they are going to move forward on specific issues. We do this all the time, and it is significant that nation-states and governments are the primary actors involved. Over the years, this process may have grown more intensive as a result of common and collective concerns, dramatic changes in technology and communication, and, of course, the onset of economic interdependence. But the fact is, internationalization—an increased and more intensive interaction between nation-states, governments, and peoples on issues of importance, be it trade or security or the environment—has existed for hundreds of years.

Globalization, on the other hand, has not, and as such it represents an entirely different challenge for us today. While internationalization had a vertical look to it, with countries having defined borders and governments having authority to make definite decisions, globalization has a horizontal look to it, in that borders are becoming more blurred and governments less powerful. Globalization is, in fact, about the elimination of borders and the weakening of governments as a result of a variety of new and very significant factors: the flow of information, the integration of technologies, the liberalization and deregulation of economies, the free movement of people, the rise in power of non-governmental organizations, the increased complexity of allegiances, and, in many cases, even the collapse of communities. What we have in our world now, like it or not, is a complex matrix of problems, interests, values, norms, rules, and approaches, all of which must somehow be made compatible.

And here, I think, is the problem. Because as globalization increases, our sense of individual and national vulnerability intensifies. This means people turn to their governments for creative, alternative solutions to their problems. Governments are being asked to limit the impact of the international system and do more for their people, yet they are increasingly limited in their ability to do so because of the factors that I have mentioned previously. Governments are being asked to negotiate concrete solutions to the problems we collectively face at a time when they are being confronted with complexities and pressures that we have never seen before in our history. Governments are being asked to protect their people from market failure at a time when they are being told markets operate best and serve more when they operate without interference. In short, governments are being asked to use their power and influence at the same time as they being forced to relinquish it to both individuals and organizations who feel governments do not necessarily represent their best interests. So we have a collision between the old model and the new model of international governance. This is the paradox we face today.

But make no mistake, we must find a way to confront this paradox. In very basic terms, a good many people in my state and Americans in general are worried that

globalization offers absolutely nothing for them except further economic insecurity. This fear has concrete implications for all of us. The concerns over labor and the environment, the arguments for revised trade adjustment assistance legislation, the questions concerning the expansion of NAFTA and the initiation of a new WTO round, the introduction of bills focusing on trade remedy and compliance mechanisms—all of these issues and others equally serious emanate from anxiety among Americans that globalization means little more than a downward spiral of living standards and conditions.

Because of the inequities and inconsistencies involved in globalization, we have the potential to lose what Fred Bergsten has called our “outward orientation” which, in my view, is necessary if we are going to guarantee and enhance our national economic welfare, both now and into the future. We must be very careful not to fall victim to an intellectual isolationism that inhibits our ability to create coherent, forward-looking policy. But we must be equally careful that we do not pursue policies that harm our national economic security interests.

As someone who is convinced that globalization can offer real advantages to our citizens and is ultimately in the national interest, we must find a way to develop a new consensus among Americans that the benefits of globalization outweigh its costs. Globalization will not end. The key is to adopt and pursue policies that make it sustainable and workable for all Americans and the rest of the world as well. As a group, those of us in this room must imagine and then develop institutional mechanisms that temper market outcomes in socially acceptable ways. We must find a way to maintain the dynamism and fluidity of the market economy, but simultaneously ease the fluctuations and failures that cause social, political, and economic distress.

Although some would say otherwise, I do not consider this idealism, but pragmatism simply because the so-called “upward leveling” of the international political economy will ultimately benefit everyone. Without it, we will inevitably face crisis after crisis, and we will not have the political stability necessary for economic growth.

Furthermore, I am convinced it is essential that the United States take the lead in this process. We, as a nation, must develop a broader, more long-term vision of where we are going in terms of international and domestic economic policy. It is our responsibility to create the framework so a negotiated convergence between countries can occur in a mutually-advantageous manner. If we have learned anything after Seattle, it is that there is a human purpose to global economic activity, and it is up to us to recognize this as we take the next step in our trade policy. This is the issue we must address today, and I look forward to your thoughts on this matter.

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PREPARED STATEMENT OF HON. WILLIAM M. DALEY

First, let me say how important it is that the committee address the issues of trade and globalization right now. I congratulate you for moving so early in the year. The significance of these discussions is going to be heightened as the economy slows, and we will need much greater public support for opening markets now than we did when we felt much better about our economy.

As you may know, as Commerce Secretary, I conducted a national trade education tour, visiting many of your states, trying to build public support. It was not an easy sell. So, as the President is now doing with his tax cuts, he and all of us will need to sell trade to the American public in a much more direct way. And I hope that this hearing is the beginning of that process.

Although the benefits of globalization are obvious, too many of us are not acknowledging the concerns of the many Americans who have fears or outright opposition to the globalization which.

The most important thing that can be done by political leaders and business leaders who believe that globalization and free trade has been helpful to people all over the world is to engage our fellow citizens in a better understanding and appreciation and, at the same time, acknowledge the negatives and being honest attempts to address these issues with creative “out of the box” solutions.

So, what I would like to do today is to offer opinions on three trade areas that President Clinton worked on with many of you, and that President Bush has now inherited. In my opinion, we can work on these in a bi-partisan way:

First, the most important thing is to address the concerns of Americans worried about environment and labor conditions around the world.

I remember in 1993 during the NAFTA debate when we talked about labor and environmental standards, a business leader told me: what's all this about putting social issues into trade discussions?

Unfortunately, eight years later, too many people are still stuck with this attitude. There are too many pro-traders who just see the positives . . . who are motivated by profit . . . and who do not see that labor and the environment aren't just social issues. They are economic issues.

Companies do look at labor costs. Companies do look at environmental costs. These are economic issues that companies do not hide from when they look to see where to build a plant—and as a country we should not hide from them when we open markets abroad.

In my experience, getting China's entry into the WTO through Congress was twice as hard as getting NAFTA through. And the reason was in both parties—not just Democrats, but in both parties—bigger and bigger constituent groups have organized around these issues.

Labor and environmental groups will not go away. We will not build the broad consensus we need on trade unless we work to reach a compromise with them. If President Bush wants to govern from the center, he has to compromise on this, and he has to get support of the business community behind this.

When I was Commerce Secretary, the business community said they were open to supporting labor and environmental issues. But it has to be more than promises—they have to really do it and work hard to arrive at solutions. I believe many leaders in the business community want to. And labor and environmental groups must compromise as well. They cannot make perfection, whatever it is in their eyes, the enemy of the good.

Second, our Administration laid the groundwork for free trade in this hemisphere. And as the new Administration follows through, I strongly believe fast track authority would help them.

Some think they can make progress without it. Some say we are so focused on tax cuts, forget this right now.

In my opinion, it is not in our interest to have complicated negotiations with a region, and then have to follow it up with 535 negotiations at home. I have experienced recounts, and it is better to vote once.

To be frank with you, the most difficult negotiations are not necessarily with other countries . . . often they are with Congress.

And so whether you consider giving the President fast track authority this year, or later in his term, the bottom line should be this: fast track has to be a product of compromise so there is support for it and therefore a greater likelihood of a trade agreement being passed with a comfortable majority.

Back to my first point, I do not believe American workers, especially in this economy, will put up with anything that continues to open our market and gets nothing in return.

Third, is China. Obviously I hope to see China enter the WTO and to have the commitments it made lived up to.

But the jury is still out. There is no question of the benefits that opening a market of a billion people will bring to American businesses. But as I said last year, this will test China and the world trade system.

We have already seen slower progress than we would like and some serious backsliding on agriculture and other commitments. We knew when PNTR was passed that China's ability to live up to its commitments was difficult but if we have the resources, we can make sure this enormous opportunity is fulfilled and the American people support us.

I cannot say this strong enough. Enforcement is absolutely essential, because if it is not done right, my friend, Don Evans, will be before this Committee being asked: why is China not living up to the agreement? And should we have not known this? It would be bad for our relationship, our economy and the ability to move forward in other areas.

So, in my opinion, these are some of the trade issues Congress and the new Administration will face.

In the last eight years, I think we did a lot of good. We opened new markets and cut world tariffs by more than a third. But this is the 21st century, not the 20th. And we need to get out of the box, and listen to American workers, and build support for our trade efforts.

Thank you.

## PREPARED STATEMENT OF HON. CARLA A. HILLS

Mr. Chairman and members of the Committee, I am pleased to be here today to discuss globalization and trade policy.

As we move into the new century, dramatic reductions in the cost of communications and transportation are pushing nations toward greater and greater economic integration, with the prospect of increased growth and prosperity. But what is possible is not inevitable. Globalization is a choice, not a destiny. To ensure that the United States secures the benefits from globalization, we need to continue to open markets abroad and to provide our citizens with the tools and training to take advantage of emerging opportunities.

## PAST U.S. LEADERSHIP IN THE GLOBAL ECONOMY

For the past half century, the United States has led the world in opening global markets. Democrat and Republican Administrations recognized that economic interdependence encouraged political stability, and to that end worked to establish a series of international organizations, including the General Agreement on Tariffs and Trade—the GATT—to promote global trade and economic growth.

The results were spectacular. During this period of “globalization”—defined as the free flow of goods, services, capital and ideas—millions of people were lifted out of poverty and standards of living raised worldwide, including in the United States.

In the 80s, when protectionism began to hinder world growth, the United States pressed for a new round of trade talks.

In the 90s, our leadership in the Uruguay Round and the North American Free Trade Agreement locked in market reforms and encouraged further economic liberalization.

These two trade negotiations spurred the change that was occurring in economic thinking worldwide. Governments began to understand that competition and market forces—not state controls—were the best tools to stimulate growth and raise standards of living.

This remarkable shift in national economic policies created an explosion of new opportunities for the United States—in Asia, Latin America, Eastern Europe, and the former Soviet Union.

Our gains went beyond the strictly commercial. In the wake of increased prosperity came widespread political reform. Without U.S. leadership, the world would look very different today.

Self-interest requires us to continue to exercise leadership with respect to global economic issues—building on our past success and moving forward.

## TRADE RAISES STANDARDS OF LIVING

Today, open markets and rules-based trade and investment still constitute the best engine we have to raise living standards, increase prosperity worldwide, and create the wealth to raise labor and environmental standards. We must develop a broader domestic understanding of this basic fact.

The economic arguments for free trade are clear. Consumers gain through access to the best goods and services at the lowest prices, and manufacturers through access to inputs and equipment that make them more competitive. The economy gains from increased competition, which encourages innovation and technological development. In short, open markets create a more efficient and productive economy that grows more rapidly, generating greater prosperity for our people.

The United States is the world’s largest exporter, importer, and investor, with a major interest in ensuring that global markets are open. Roughly 80 percent of world economic consumption takes place outside of the United States. Overseas customers buy more than half our computers, cotton, aircraft, and soybeans; more than one-third of our construction machinery, semiconductors, and machine tools, and over a quarter of our farm machinery, flat glass, and corn. We need access to foreign markets to sell the goods we produce.

Economic studies conclude that trade creates far more jobs than it puts at risk and that the jobs that it creates pay better wages, provide greater benefits, and offer more security than jobs unconnected to trade.

We need to remember that trade means not only exports, but also imports. Both are necessary to our economic well-being. Although about 90 percent of what Americans consume is produced here at home, we need some foreign goods, like oil, to keep our economic engine running at full speed.

As others nations sell us their goods and services, they earn foreign exchange with which to buy our goods and services. If we stopped trading tomorrow, companies big and small that depend on foreign markets or imported inputs or technology

would shrink or vanish, jobs would disappear at those companies and at the firms that service those companies, and our workers, who are also consumers, would pay more for a narrower range of goods and services.

Because our barriers to trade and investment generally are lower than those of most other countries, it is in our interest to persuade our trading partners to lower their barriers. As they remove their trade restrictions, we gain disproportionately in terms of new opportunity.

#### FUTURE CHALLENGES ARE HUGE

To capture the benefits that flow from open global markets will require a collaborative effort by the Administration and the Congress to:

- Put the United States back in a leadership role on the broad initiatives to open world markets—in this hemisphere, throughout the Pacific Rim and in the World Trade Organization (WTO).
- Deal creatively with a number of complex, pending trade disputes with key trading partners;
- Decide how to complete the negotiation or approval of trade agreements previously completed or commenced, including those with Vietnam, Jordan, Singapore, and Chile; and
- Address a variety of other issues, from China's entry into the WTO to a series of bills such as the Iran-Libya Sanctions Act and the Export Administration Act that expire this year.

In April, President Bush will join the hemisphere's other 33 democratically elected leaders at the Quebec City Summit. In January, Vice Ministers could not agree on when to start the negotiations on the Free Trade Agreement for the Americas, or how to proceed.

During the campaign, President Bush spoke eloquently of his desire to promote a fully democratic Western hemisphere bound together by free trade. To revive these negotiations the President will need to make clear that the United States is willing to make concessions in our import-sensitive areas, and that securing trade-negotiating authority is a top priority.

The entire world will study what is said at this meeting in an effort to assess the new Administration's commitment to international trade and economics.

In June, the President will travel to Italy for the G-7 meeting of leaders of industrialized nations where he will want to have a bipartisan strategy with respect to restarting the WTO negotiations that collapsed in Seattle at the end of 1999.

In November, the President will attend the Asia Pacific Economic Cooperation (APEC) forum hosted by China in Shanghai, bringing together leaders of the 21 economies, including Taiwan, that ring the Pacific. Negotiations over trade liberalization in the region have stalled. A move to revive them could give these economies a much-needed boost and help our exporters.

#### CURRENT U.S. LEADERSHIP WANING

The agenda is very full. Yet while the importance of the global economy to the United States has grown, our leadership in that economy has waned. The United States is no longer driving the big initiatives to open markets—in this hemisphere, throughout the Pacific Rim, or in the WTO.

Over the past 5 years, some 20 significant trade agreements have been negotiated in Asia and Latin America without our participation.

Other countries are signing deals opening markets for their products, but not for ours. As a result, we are losing billions of dollars of exports to the detriment of our workers and producers. Today, a Canadian farmer can ship wheat to Chile on better terms than our farmers. And, increasingly, U.S. manufacturers are forced to relocate to the Southern Cone of South America to sell to the MERCOSUR countries (Argentina, Brazil, Paraguay and Uruguay) or to a country that has a free trade agreement with MERCOSUR to avoid the higher tariffs imposed on U.S. exports.

#### NEED FOR TRADE NEGOTIATING AUTHORITY

We need to reassert our position of leadership in trade. The benefits we could derive from these multilateral and regional initiatives are huge. But so are the obstacles.

The biggest one is the President's lack of trade negotiating authority. For the past six years the United States has been sidelined by the lack of trade negotiating authority because of a disagreement about trade policy here at home.

On the one side are those who believe that the United States must continue to lead the world in opening global markets and supporting the WTO. They are con-



vinced that open markets and rules-based trade and investment raise standards of living and create the wealth necessary to deal with important social issues.

On the other are labor unions, environmentalists, and advocates for religious freedom, human rights and various social concerns who insist that trade negotiations address their specific issue and believe that attacks on the WTO and globalization will advance their interests.

The Administration needs to build a new consensus in support of trade. But members of Congress who care about the future economic well-being of our nation must help build that consensus. Our nation cannot afford to continue to permit trade to be held hostage to a growing list of non-trade issues.

To protect our nation's economic interests, we must deal with labor and environmental issues without damaging the prospects for our economy. The United States has enjoyed a decade-long boom fueled in part by globalization. The three great drivers of our record prosperity are a flexible economy, information technology—and an open market.

#### ANGST OVER GLOBALIZATION

Having said that, globalization does not make everyone a winner. Polls show that most Americans recognize that globalization benefits the overall economy. But they are split as to whether it creates jobs.

When a company responding to competitive pressures shrinks or shifts employment to a distant facility, those fearing or experiencing displacement care little that domestic not foreign competition was the likely cause or that the overall economy experienced a net job gain.

Americans' anxiety about job stability is running very high, particularly considering the current environment where unemployment is hovering just over 4 percent. In 1981, when we were in the midst of a recession, International Survey Research found that 12 percent of workers were fearful of losing their job. Today, the same organization reports that fear of job loss has more than tripled.

Unless we can convince our people that trade is the best tool we have to create good jobs and better assist those who are hurt, we risk eroding the consensus favoring open markets that is the bedrock of our prosperity.

#### REMEDIES

The question is how to accomplish this. I believe that government, business and labor need to take action in three areas—right now!

##### *Trade and the WTO*

First, every company—large and small—ought to take the time to make their employees aware that trade creates far more jobs than it puts at risk and that the jobs it creates pay better wages, provide greater benefits, and offer more security than others. This effort should command the CEO's attention, ranking right up there with efforts to enhance productivity.

At the same time, Members of Congress and the Administration should use every occasion possible to explain these benefits to their constituencies.

These efforts should include education about the WTO—explaining that it plays a vital role in establishing and enforcing the trade rules that keep our economy humming.

The misunderstandings about the WTO are widespread. For example, it is not true, as suggested by the congressionally appointed Commission on International Financial Institutions, that the WTO has the power to override our domestic laws. It has neither the power nor the authority to impose sanctions or change laws.

If a WTO member chooses not to implement a WTO panel ruling against it, the aggrieved country may, in accordance with agreed WTO rules, withdraw trade concessions in an amount equal to the damage found. But without the WTO, the aggrieved party could do that, and much more.

##### *International Labor Organization*

Second, business and government must respond to labor's insistence that the WTO is the appropriate body to enforce "core labor standards." Many are asking, "Why not?"

The right answer is that the WTO has no labor expertise and no credibility in the field. Labor issues are complex and often controversial. Even the so-called core standards require a specific knowledge.

Take minimum age for child labor. What age should be set? Should the standard be different for rich and poor nations? Should there be a difference between light work and heavy or dangerous work? What constitutes the minimum health and safety standards that should be mandatory? I could go on.

The International Labor Organization (ILO), which has been in existence since 1919, is competent to deal with these issues.

My union friends say that the ILO does not have teeth. Actually, the two organizations have quite similar legal authority. Like the WTO, the International Labor Organization authorizes enforcement measures of an economic character against another member refusing to come into compliance with a report issued by an ILO Commission of Inquiry—very much like a WTO panel.

The key difference between the WTO and the ILO is not teeth but commitment—which is based on the extent to which members see the organization as serving their interests.

Our government responds to WTO panel rulings against us not because we fear retaliation from Costa Rica or Venezuela, but because we believe that the rules-based system that we helped to build serves our interests and that to disregard its rulings would undermine that system.

The ILO has not received the same attention. Our government has ratified only 13 of the 182 conventions of the ILO, and only 2 of its 8 core labor standards. That limits the government's ability to initiate complaints.

Although our unions are also members of the ILO, and thus authorized to bring complaints, they have initiated very few.

On this record, it is not surprising that some suggest that those who insist that the WTO enforce labor standards are more interested in crippling the WTO than in obtaining enforcement of labor rules internationally.

At least it raises a legitimate question of the wisdom of adding labor to the already complicated agenda of the WTO, when with a little effort, we could support the ILO, which has the competence and the background to deal with labor issues.

To continue to hold trade captive on the canard that otherwise we have no way to deal with serious international labor issues harms our workers and producers.

Here again, companies, as well as labor and government, need to get vigorously involved. Through their trade associations they can support and help shape the work of the ILO.

#### *Education and Training*

Third, we should take more aggressive action to move people up the skill ladder and thereby assure them higher pay and better benefits.

Displacements that result from globalization can cause serious pain, but protecting lower skill jobs is not the answer. Nor is putting a hold on new trade agreements.

In the 1970s, Glenn Watts, President of the Communications Workers of America, spoke eloquently about the need for every worker to engage in a "lifetime of learning." The need is more critical today.

#### *Company Programs*

Many companies have launched education programs for their employees. One of the best I have heard of was described in a speech by George David, CEO of United Technologies (UTC). Currently, his company pays the costs and gives paid time off for its employees worldwide to attend accredited colleges and universities, whether or not the course selected is job-related.

And it awards \$10,000 worth of UTC stock if the employee obtains a degree. Chairman David says that 16 percent of his domestic workforce is upgrading its education (that is 3 times the national average) and 5000 have obtained degrees over the past 4 years.

He also has announced that his company was extending the program to 4 years for all employees displaced because of work relocated to a 50-mile distant domestic or a foreign facility. As he put it, "if you lose your UTC job to work relocation to China, India, or Texas, we will pay for four years of college, period."

#### *Affordable Education Act*

Our government could encourage such efforts by enacting the Affordable Education Act, which has passed the Senate, but no bill has been introduced in the House. This Act exempts tuition reimbursements from the employees' taxable income, even for courses not directly work related, and extends the exemption to graduate level courses.

#### *Wage Insurance*

Finally, we should explore the concept of wage insurance to supplement the incomes of displaced workers—whatever the cause—who take an entry-level job in a different, more promising sector at lower pay. This would respond to workers' anxiety over near-term wage loss, encourage them to stay productive in the work force, and obtain the training that has proven most effective—which is training on the job.

## CONCLUSION

As we look to our future, our dual goals should be to educate and motivate more Americans to stand up in defense of open markets, lest we lose the benefits that come from the free flow of ideas, capital, and goods and to raise the skill level of our citizens so that they can take full advantage of the expanding opportunities in the new “knowledge-based” economy.

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 PREPARED STATEMENT OF ROBERT D. HORMATS

Mr. Chairman and members of the Finance Committee,

I appreciate the opportunity to appear before you again to discuss American trade policy and to share some thoughts on the key issues before this Congress and this country in the period ahead.

The most urgent next step in American trade policy is to develop the critical mass of support necessary for the US to advance its international economic interests in the decade ahead.

Expanded global trade and investment over the last 50 years have provided enormous benefits for American workers, consumers and, businesses. We tend to take it for granted today, but this experience is in sharp contrast to the horrible economic mess the US and world got themselves into after World War I—when American leadership faltered. Protectionist measures and international financial instability were among the major factors that led to the depression. We should not forget the lessons of this period—or let our leadership of the global economy be derailed by internal divisions or complacency that the world economy will work just fine whether the US is an effective leader or not!

Access to growing foreign markets was a vital factor in America’s economic growth in the 1990s, especially for its most productive sectors such as high technology, agriculture, entertainment and financial services. And competitive imports have reinforced the dynamism of our economy and broadened consumer choice, holding down the prices of many products to the benefit of millions of households. America’s leadership in promoting trade liberalization and a robust global economic system have been essential to secure these benefits for the American people and to this country’s ability to remain a strong and effective leader on global political and security matters for the last 50 plus years.

However, in recent years advocates of open, rules-based, transparent and non-discriminatory trade—and supporters of American leadership in the world economy—have been on the defensive. The benefits of expanding trade are too often neglected while vocal criticism of US trade policy, the WTO and globalization tend to get more attention. The role of a strong global economy in maintaining a strong American economy is too often ignored.

It is now a matter of great urgency to present more forcefully, and to a broader range of our citizens, the very compelling case that exists for sustaining freer trade and investment and for the extension of market-oriented rules to a broader range of countries and sectors.

It is also time to explain in clear terms to the American people that the central international economic institutions, while far from perfect, are important to the sound structure of the global economy.

And it is critical at this moment to recognize that by sitting on the sidelines while other countries negotiate their own preferential bilateral and regional trade agreements, the US is doing considerable damage to its economic interests and to its position as global leader.

In making the case for expanding trade and for improving the rules of the trading system it is important to address concerns that have been raised in recent years about the impact of globalization on jobs in our country, on the environment and on economic development in the poorer nations of the world—and to address head on the charge that the WTO and global trade agreements are simply designed to benefit big corporations at the expense of large groups of citizens and are inherently undemocratic. Unless these concerns can be successfully addressed, distrust of trade institutions and resistance to further global trade liberalization is likely to grow.

However effective American trade policy is, America cannot remain a world-class trading power without a world-class system of K–12 education and adult training. For a multitude of economic and social reasons this country needs to do a far better job of educating and training our own citizens so that larger and larger numbers of them can thrive in the competitive, knowledge-driven global economy of the 21st century—and see trade as an opportunity rather than a threat.

The US needs a coherent and compelling trade agenda that Americans perceive as serving this country's interests. It must pull together and prioritize a wide range of trade issues. The April meeting of the Summit of the Americas in Quebec City will be the first major opportunity for President Bush to address trade issues. That meeting will offer an opportunity to convey strong political support for negotiation of a Free Trade Area of the Americas agreement. But rather than treat this as an isolated—albeit highly important—event, the president should use it as opportunity to present to the American people and the world—in a major address—a comprehensive and forward looking US approach to trade and investment and spell out the leadership role that this country will take in the global economy during his presidency.

That approach should underscore as a first step the goal of freer trade in this hemisphere—a bold and comprehensive FTAA—but also support a broader set of WTO-centered negotiations that reform agriculture and services worldwide and lead to a larger trade Round. “Fast track authority,” or “trade promotion authority,” is critical to this country's ability to execute such a strategy—not simply because it is legislatively important but also because it *provides political support for the president's trade policy and America's negotiators, strengthening their credibility in international negotiations*. The absence of such authority puts our negotiators at a significant disadvantage.

The president must also address—as a broader international economic issue—the growing moral and economic problem of grinding poverty and disease among hundreds of millions of people in the world's poorest countries. These people will become a growing source of economic, social and political instability if their lives are not improved.

Let me now address these subjects in greater detail.

#### REINVIGORATING AMERICAN LEADERSHIP OF THE TRADING SYSTEM

Notwithstanding considerable progress in many areas in the 1990s—NAFTA, agreements on telecommunications and financial services, PNTR and the prospect of Chinese membership in the WTO and numerous enforcement agreements, to name but a few—and despite the best efforts of many political leaders and officials in both parties and on both ends of Pennsylvania Ave, as we enter this decade *the US is now on the sidelines when it comes to major trade negotiations and significant regional or bilateral trade expansion activities*. We are on the sidelines due to divisions at home over our trade objectives and lack of “fast track” legislation that would make us a more credible negotiator and leader—as in the past—of the trade liberalization effort worldwide. During this period, according to a report recently released by the Business Roundtable, other nations have concluded roughly 130 preferential trade agreements. The US has concluded only three—although one, of course, was the highly significant NAFTA, whose trade consequences were far greater than any of the others by a considerable margin.

Nonetheless, the proliferation of agreements by other nations—including major US trading partners such as Mexico, Canada and the EU—is harmful to US trade interests. These agreements provide their members with preferential access to one another's markets—while disadvantaging American agricultural products, manufactured goods and services. Some American companies can overcome such barriers by producing abroad, but many (particularly small and medium-sized companies) cannot. American workers and farmers are at a particular disadvantage because they cannot easily relocate across borders. Moreover, those people concerned with the rights of workers and the environment abroad surely cannot take pleasure in knowing that negotiations are taking place in which American influence on these subjects—however inadequate they may deem such influence to be—is non-existent because the US is not even at the table.

There are currently more than 20 sub-regional and bilateral trade pacts in Latin America and the Caribbean alone. Many more are being planned. Since 1997, when the Clinton administration failed to obtain “fast track authority,” Chile has negotiated preferential deals with Mercosur, Canada and Peru. The EU has recently signed a free trade agreement with Mexico and is in talks with Mercosur, Caribbean nations and Chile. To cite the consequences for but one of these agreements—in the Canada-Chile FTA Chile has eliminated its across the board 11% tariff for Canadian goods while US exporters continue to pay that duty. Extrapolate from this example the many other agreements of a similar nature around the world and you see the complexity, and kind, of impediments American exporters face.

The Business Roundtable Report correctly warns that these FTAs in which the US is not a member are harmful to American interests not only because of higher tariffs but also because they “provide fertile ground for preferences” in such areas

as telecommunications and financial services, permit other nations to “embed their national or regional design and engineering technologies in the standards and regulations adapted by other countries” and set dangerous precedents by, for instance, adapting agreed rules on e-commerce that are inconsistent with US interests.

Were this process to continue and broaden American, exporters and workers would suffer even more discrimination with respect to tariffs, non-tariff barriers, and services—and be vulnerable to even more discriminatory product standards, regulations, investment requirements etc. Moreover, if the US does not enjoy the benefits of special trade access, its products and services are more vulnerable to the imposition of new barriers abroad. Under NAFTA, Mexico kept its markets open to US goods following the peso crisis earlier in this decade, in contrast to its imposition of restrictions against US exports during the peso crises of earlier decades. In contrast also new barriers were imposed on imports from the US by other countries in this hemisphere, with which the US had no bilateral trade agreements, during the financial instability in the late 1990s.

The broader point, however, is that in addition to the need to take the initiative on trade liberalization to avoid growing discrimination against American products, there are a broader set of benefits from trade expansion to be realized. Many of these tend to be overshadowed or drowned out by critics of US trade policy and globalization. Great progress was made on trade in the last half century to the benefit of large numbers of Americans and citizens of many other nations as well. Since 1992 alone, world tariffs have been cut by one third, industrial goods quotas have been eliminated and there have been tighter rules imposed on subsidies. American exports have risen by 75 percent during this period. Trade rules have been broadened to reduce distortions on a wide range of agricultural goods, services and intellectual property. A growing number of developing nations, and those in transition from socialism to the market, now see participation in the global trading system and the WTO as enhancing their domestic reforms.

There has been a tendency on the part of some detractors to blame global competition and technological change for disrupting economies and costing jobs—for harming the environment and undermining workplace standards. The facts however tell a different story. Foreign trade and investment are playing an instrumental role in helping large numbers of people in this country and others to enjoy higher standards of living and providing consumers with a wide range of competitive products from which to choose. From our farms to our factories, from our insurance companies to our software producers, exports have been vital to the growth in high-value-added jobs, increasing corporate profits and creating incentives to invest in new technologies and to adopt competitive new business models.

For the one-half of American households who own stock, exports have been an important source of strength for many companies in which they have invested. For those who are concerned by the recent drop in the stock market, imagine how much worse it would be if this country were to accept the notion that trade expansion and open markets were harmful to our interests and retreat from our global role as leader in negotiating trade expansion. We know from the experience of the world after World War I how dangerous to stockholders and to the entire economy—most especially American workers—such a strategy is.

Those who argue that trade and investment have hindered development in the world's poorer nations ignore the fact that large Asian countries such as China and South Korea, poorer African nations such as South Africa and Mauritius and modernizing Latin American nations such as Chile and Mexico have harnessed the benefits of trade and investment to lift large numbers of their citizens out of poverty. Former Mexican President Zedillo and his successor President Fox are both strong advocates of harnessing the competitive forces of international trade to their country's advantage. As President Zedillo put it, “In every case where a poor nation has significantly overcome its poverty, this has been achieved while engaging in production for export markets and opening itself to the influx of foreign goods, investment and technology—that is by participating in globalization. Truly progressive minds sincerely committed to the advancement of poor people in developing countries should be converted into firm allies, not enemies, of globalization.”

In most cases foreign factories have raised workplace and environmental standards in developing nations—and those countries that have experienced rapid growth due to trade have more resources to devote to social and environmental problems. It is the most closed economies—those behind the old Iron Curtain, Burma and North Korea for instance—that have demonstrated the lowest regard for workers' rights, the environment and other social considerations. The more closed the economy the greater the likelihood that very large numbers of its citizens suffer from poverty—and are deprived of access to the flow of communications, commerce, visitors and ideas that enhance human liberty and creativity. The vast majority of envi-

ronmental problems, child labor abuses and poor workplace standards would exist even if there were no foreign trade or investment, because they reflect the stage of development of the country in question or the type of domestic policy it pursues. More, not less, trade and investment have proved to be the best way to improve workplace and environmental standards and reduce poverty.

But those who have seen and experienced the benefits of expanding trade and investment opportunities have not made a strong enough case to a broad enough group of citizens for trade liberalization, harmonious regulatory practices and the need for effective multilateral rules for the global trading system. Whatever its imperfections, the rules based, market-oriented system we have today is far better than one based on arbitrary decisions of governments—or a system that fails to promote open, non-discriminatory commerce. If the current system breaks down into discriminatory regionalism or aggressive beggar-thy-neighbor policies, prosperity and political cooperation around the world will suffer.

The argument that the WTO-centered system is undemocratic is also a misperception. That system is the creation of governments the large majority of which are democratic. In formulating their positions, they take into account a wide range of worker, environmental and consumer—as well as corporate—interests. They hear from and interact with NGOs and other interested groups on a regular basis. Doubtless some could do it better—but this is part of the domestic democratic process through which positions in the WTO are arrived at.

Others fear that globalization—and the WTO—will lead to a new race to the bottom in so far as labor rights and environmental standards are concerned. One common argument is that the WTO, and the trading system in general, should be harnessed to press nations to improve labor and environmental policies—with penalties if they do not. But it also is argued by some that the WTO is too powerful and can impose its will on the US to compromise domestic environmental policies and goals.

The WTO cannot be a source of leverage in behalf of every good cause or desired improvement—however meritorious—in areas outside of trade policy. So for the most part other means of achieving such goals will have to be employed. But where domestic measures in areas other than trade do have an effect on trade flows—for instance environmental or health standards that discrimination against imports or subsidies that both distort trade and lead to wasteful use of natural resources—the WTO's rules can play a role. Government officials would clear up a lot of misimpressions by better explaining the limits of the WTO's influence in pressing governments to take actions that are not linked closely to trade as well as the areas of domestic policy in which it has a legitimate role because they are linked closely to trade.

How such issues are dealt with in coming years will play a critical role in determining how effective US trade policy will be. Some in this country are concerned that tying market access to the achievement of improved environmental standards or workers rights—with trade penalties imposed for violations—will lead to a spate of new import restrictions. And many developing country leaders see them as a subterfuge to justify the imposition of new barriers against their goods. At home labor unions are concerned about competing imports and investment moving abroad to take advantage of countries with low labor and environmental standards. And environmentalists fear some countries will lower standards to maintain competitiveness or attract investment—or that some kinds of production and exports degrade the environment. In some cases there is a feeling that the system serves corporate interests at the expense of others.

This longstanding set of issues and tensions is not likely to be resolved soon. But it is not in the interest of this country, or those favoring improved environmental or labor standards, to hold up progress in resolving a wider range of trade and investment matters because of an impasse on these controversial issues. Even the most ardent advocates of improvements in labor and environmental standards should recognize that as other nations reach agreement on Free Trade Areas among themselves, and develop strategic trade alliances that do not include the US, American influence in the trading system will diminish. So the US will have less and less ability to achieve even modest progress in these areas. Specifically, the more trade alliances reached among emerging economies that resist many of the things unions and environmentalists want, the weaker the US influence will ultimately be.

The key point now, it seems to me, is to avoid a “cookie cutter approach”—which calls for one formula on these issues, or one set of criteria for judging progress, to be used in every trade negotiation and with every country. These issues were covered differently in NAFTA and in the US-Jordan Free Trade Agreement. Other constructive proposals have included eliminating environmentally damaging subsidies in areas such as agriculture and removing barriers to trade in environmental goods and services. Some of these formulas, or others, might be tried in the FTAA. Con-

gress should give US negotiators the flexibility to come up with arrangements to address these issues without ex ante tying them to any particular formula. An ongoing consultative process between Congress and US negotiators is preferable to putting negotiators in a legislative straightjacket.

In the meantime efforts to develop a consensus should be undertaken in the Congress. Congress should also recognize—as I know many in this Committee do—that in a substantial number of cases countries with which the US is negotiating will refuse to include toughly worded, or in many cases any, provisions that relate their performance on such issues to market access in the US, or any other nation, if such provisions make them vulnerable to trade restrictions. In such cases other means will be needed to advance labor and environmental goals.

The US should be prepared to use its market and its influence to try to achieve improvements in other ways. Giving consumers more information about environmental and labor practices—utilizing private sector monitoring groups or voluntary standards—could harness the force of the market to improve conditions. Consumers could incorporate their view of a country's or companies labor, human rights or environmental practices in their purchasing decisions. The transparency provided by the Internet is increasingly being utilized to convey information on such practices. The challenge is to address these legitimate issues without imposing new barriers on the international trade and investment that will help reduce poverty and improve living standards in developing nations. Trade agreements could in some circumstance promote US objectives in these areas. Other institutions like the ILO and the multilateral/regional development banks can be very useful in improving both labor and environmental standards.

#### NEXT STEPS IN US TRADE POLICY

President Bush has signaled his intention to make negotiation of an FTAA a top priority. That makes great sense. Americans will find it easier to rally around the more concrete goal of hemispheric trade liberalization at this time than the less tangible goal of a new global trade round—although in the longer run America's global trade interests create a compelling case for not being satisfied only with regional liberalization and improved regional rules, as important as they are. Achieving similar progress on a global scale should be our ultimate goal. But for the moment further opening markets in this hemisphere and advancing the goal of regional harmonization on a variety of product standards, investment rules, etc., will be a big step forward. It will reduce barriers to US goods in markets where such barriers are still high, simplify the now very complex mosaic of preferential trade agreements that have sprung up within the hemisphere—and ultimately put in place a more unified set of tariffs and other trade and investment measures. And it could create a strong incentive for other regions—fearing discrimination in the hemisphere against their products—to be more forthcoming in the launching of new multilateral trade negotiations centered on the WTO.

The latter point will require the US to achieve a fine balance. If other countries or regions perceive that the new FTAA is restrictive and discriminatory, they might be inclined to strengthen their own regional groupings as a counter measure—or as a way to enhance their strategic advantage in negotiations with the US and the FTAA. There are those in the EU and Asia who would like to reduce their trade dependence on the US and America's trade influence in their regions. A discriminatory FTAA would play right into their hands. To counter this, as a recent paper by the Democratic Leadership Council argues, participants in the FTAA talks should embrace the goal of “open regionalism”—whereby non-members in other parts of the world that open their markets and reduce barriers in a comparable way to those agreed in the FTAA would receive the same market access to the FTAA as members themselves. And throughout the FTAA negotiations, work should proceed to lay the basis for broader global negotiations.

It is important that progress be made in the FTAA in the very near future. Delay invites countries suffering from internal problems of low growth or financial market instability to impose new barriers. Building momentum in the FTAA process can be a counterweight to that. Delay also tempts groups like the EU to seek deals with other countries in the region in advance of the US doing so. This would place American exports at a disadvantage in the region and increase the incentives for Latin American nations to buy from the EU rather than the US in such areas as capital equipment and agricultural products. The EU has recently signed a Free Trade Agreement with Mexico and is in negotiations with Mercosur, the Caribbean and Chile. If successful the trade benefits for the EU in the region would be substantial.

These considerations and others present a compelling argument for not holding up progress on the FTAA until there is a consensus at home and in this hemisphere

on labor and environmental issues. At the same time these issues cannot be ignored. Ways of addressing them through creation at a hemispheric level the kind of institutions for dealing with environmental issues that were created by NAFTA, plus other approaches perhaps centered on the Inter-American Development Bank, should be discussed either in or along side the FTAA talks.

There is also a busy agenda of issues handed off from the last administration. The Jordan and Vietnam bilateral agreements represent important progress, as much for political as for economic reasons. Passage of both would be a positive signal about the US commitment to further liberalization and the role good trade ties play in advancing positive political objectives. Reaching agreements with Chile and Singapore would do likewise. Both are important US trading partners, vigorous economies and strong proponents of free markets—and trade agreements with them would have both economic and symbolic value.

The very complicated work of bringing China into the WTO and ensuring a smooth transition deserve high priority. Close US government cooperation and consultation with Chinese authorities and US companies in monitoring compliance and resolving the inevitable differences that will emerge in the transition period will be essential. They are needed to support the reform process in China and the objectives of US companies in increasing their market access there based on the more open and market-oriented China that will emerge as it adheres to WTO rules.

The task of orderly Chinese accession to the WTO and smooth integration into its system of rules, procedures and obligations will be an enormous challenge for the WTO as it will be for China. This is by far the largest country—1.2 billion people—to have been brought into the trading system since World War II. Many sectors of its economy will be facing real foreign competition for the first time. There is growing concern about unemployment and its effects on social stability. And it faces major changes in top leadership next year (due to “age-limits”). Close inter-governmental cooperation to manage the panoply of issues that will inevitably arise will be vital to managing overall relations between the two countries and reinforcing China’s market reforms. In this set of circumstances, I encourage the Congress to form a working group that would meet on a regular basis with members of the administration, Chinese officials and private sector experts to monitor, and be helpful in guiding, events.

APEC—in whose summit President Bush will participate in November in Shanghai—presents another opportunity for progress. As host to the Summit, China will play a key role in shaping its agenda. This presents a good subject for productive cooperation between Beijing and Washington. Countries of the region have a strong interest in expanding opportunities for trade in high-technology goods and services. They have done so in the past, by taking the initiative that led to the Information Technology Agreement. While APEC suffered a setback during the regions’ recent financial crisis, it still contains many of the world’s most dynamic economies. The administration has an opportunity to revitalize and reshape this potentially usefully group. Like progress in the FTAA, it can induce members and non-members alike to be more energized in the pursuit of global negotiations.

In the final analysis, it is global trade liberalization that the US should ultimately seek. This country is the world’s biggest trading nation—and must tap as many markets around the world as possible. Whether a full fledged new Round is justified, or even possible, in the near future remains an open question at this point. It might well be that there is no international consensus likely in the foreseeable future on a broad Round and that instead there should be a series of sectoral negotiations—as was done in much of the 1990s. In this case agriculture and services are top priorities.

#### TWO LONGER TERM ISSUES

Before concluding, I would like to make two broad points.

First, the challenge of finding ways to finance the social security pensions of the large number of “baby boomer” retirees in the US and abroad will be the most important economic issue facing government around the world in the first part of this century. Countries that fail to prepare in this decade for the enormous financial impact on their social security system in the next are vulnerable to a major crisis. Those countries that are funding their national pension funds, or have the ability to finance their future benefits without significantly raising taxes, sharply cutting promised benefits or engaging in extensive new borrowing, will be in the best competitive position in coming years.

In contrast, countries that are poorly prepared will be forced to raise payroll or income taxes or borrow heavily to pay for future social security benefits—unless they are willing to default on obligations to retirees (who will have so much power



in view of their numbers that they can prevent this from happening). In either case, they will be at a major competitive advantage. They will find it harder to attract and retain high quality knowledge-workers—who will want to work in a lower tax environment. They will also be burdened by a very poor fiscal environment—an environment characterized by higher interest rates and government borrowing that crowds out private sector investment and other government programs. On both counts generating the new private sector investment that is key to boosting productivity—and thus to sustaining, non-inflationary growth—will be a lot more difficult. Trade competitiveness will suffer.

In this respect the outcome of the current debate in this country over tax cuts will have a major impact on trade policy. Relatively little attention has been devoted to the long-term financial consequences of an aging society in which larger and larger numbers of retirees will live longer and longer and demand more and more government services. Although this country enjoys large budget surpluses now, it will begin drawing down its Social Security and Medicare Trust Funds in the next decade and beyond. We can afford a tax cut now—and properly structured this can provide useful stimulus—although most of the burden is on the shoulders of the Fed. But this is also the time, in this decade, to generate substantial surpluses not so much for their own sake but—importantly—because paying down the debt and accumulating assets for the future will put the country in a better condition to withstand the substantial additional costs and borrowing requirements of an aging population in coming decades—which will be the inexorable result of this country's demographics. Managing the Social Security/Medicare issue will strengthen the US economy and US competitiveness for decades to come.

Second, the key to a future American competitiveness lies in strong productivity—and that depends heavily on a robust education system, involving dramatic improvements in K–12 education and programs for updating adult skills. The question of education reform is beyond the scope of these hearings, but it is critical. The better educated and better trained Americans are, the more likely they will be to thrive in the face of competitive challenges. US society will be less divided over economic issues—including on international trade and investment.

If a foreign power destroyed a third of US factories, it would lead to war. If a corporation caused an environmental disaster that destroyed a third of America's trees, it would produce mass demonstrations. Yet the US is losing a far greater resource when thirty percent of American adults read at or below a fifth grade level—and there is little sense of urgency to correct this.

In the 19th century, Britain was at the peak of its power, having pioneered the industrial revolution. It squandered its advantage by not educating large numbers of children of low-income groups for the technically demanding jobs of the 20th century. That should be a powerful lesson to the US.

Early in the 20th century a mass, grass roots effort known as the “high school movement” built new schools and recruited teachers in communities throughout the US. The communities that launched this effort did so to prepare their sons and daughters for the new industrial jobs that were being created in this country at the beginning of the 20th century. High school enrollment rose from 10% to 75% between 1910 and 1940.

Today America's communities need a similar awakening. A recent study conducted by Harvard and Northwestern found that fully one third of Massachusetts 3.2 million workers lack the basic skills necessary for success in the new economy. Roughly one fifth lacked the literacy skills for basic functioning in new economy jobs. This is in a state with a strong tradition of education. Their Report, entitled “New Skills for a New Economy,” recommended, *inter alia*, partnerships between community colleges and employers to meet this challenge. It also endorsed tax credits for employers who provide or pay for basic skills education.

A poor system of education and training could—as for Britain in the 1800s—be the Achilles Heel of the America economy in the decade ahead. Correcting this must be a matter of great urgency for our country—a high economic and trade policy priority for government at all levels and the private sector (already desperate for skilled workers). However good US trade policy might be, and however effective our negotiators are in opening markets around the world, the future trade prospects and competitiveness of the US economy will be put at risk if we fail to educate and train a far greater portion of our citizens for the knowledge-driven jobs of the 21st century.

#### CONCLUSION

The US needs to get off the sidelines and back into its accustomed role of leader of the global economy—again spearheading the process of trade liberalization and

championing improvement of the institutions of the global economy. The longer we wait the more harm will be done to our economic and political interests. The more effective our leadership, the greater the potential benefits to millions of American workers, consumers and businesses. New legislative authority is needed. So is broader public support and understanding of this country's central objectives in the global economy and of our limited ability to use trade to obtain other worthy objectives. And we need to address longer-term economic issues, such as effectively preparing for the demographic changes that will dramatically boost the number of Social Security and Medicare beneficiaries in coming decades and better educating and training a larger portion of our citizens. Both are vital to the success of the US economy in coming years.

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PREPARED STATEMENT OF HON. JOHN D. ROCKEFELLER IV

Thank you. I'm pleased the Committee has the opportunity to speak on this important topic, and I'd like to thank our distinguished panelists for coming here to share their views with us. I hope our discussions of "globalization and U.S. trade policy" today might shed some light on these issues and help guide the new Administration.

Globalization is, of course, a notoriously imprecise term. Sometimes I think that everyone who uses the term has a different definition in mind. But for me, there are two principal meanings or definitions we encounter in everyday usage beyond that it's largely a matter of nuance.

The first meaning of globalization is essentially: the global spread of American-style capitalism and free markets. This theory suggests that as the U.S. economy powered forward in the 1990's, propelled by dramatic improvements in telecommunications, transportation and technology, other countries realized the best way to increase their own economic growth would be to emulate the U.S. approach of free markets and deregulation. The result has been significantly freer flows of trade, investment and information, leading to more rapid economic growth in those countries participating.

This theory of globalization is very popular here in Washington, where people are very comfortable with abstractions. Its advocates suggest that because our ideas on economic management appear to have won the ideological battle, the United States can now sit back and reap the rewards. The only job remaining is for us to ensure that globalization is spread to those few areas of the world economy it has not yet touched. That and explaining it to those who aren't yet convinced that globalization is good for them.

But it's clear that when you get away from Washington, this sanguine view of globalization isn't shared by many American citizens. For most American citizens, globalization has another meaning. For them, globalization means that the rest of the world will try to get richer by targeting their exports at the U.S. market often dumping them without offering U.S. products equal access to their own markets. Globalization means that other countries will try to support their companies through subsidies and other assistance programs, while we sit by and watch American companies weakened as they struggle to compete by market rules. Globalization means foreign companies are free to come in to acquire U.S. businesses while U.S. businesses are often denied similar opportunities overseas. Globalization means the United States scrupulously observes all the global trading rules and sometimes we don't even use tools that we are permitted under U.S. law and our international agreements while other countries have no compunction about ignoring WTO rulings that go against them.

In sum, for many Americans and a good number of West Virginians globalization has come to mean the institutionalization of a global economic system that is based on an uneven playing field for U.S. businesses and workers. You won't be surprised to learn that I think what our steel industry has suffered due to massive global overcapacity, subsidization, dumping and the consequences of the U.S. being the country of last resorts for imports is a prime example of this problem. And rather than fight this situation, the United States seems to have acquiesced, as if it is somehow inappropriate for the United States to give our businesses and workers the same support that other countries give to theirs. I cannot explain that to the people I represent and I shouldn't have to try. When it comes to globalization, I am delighted that there is, say, McDonalds in China, or Yahoo in India. But I cannot tell West Virginians that because of that, we need to ignore the legitimate defense of American economic interests, or turn a blind eye to unfair, illegal or damaging behavior by our trading partners.

We are now told the Bush Administration, as one of its international economic priorities, plans to negotiate agreements to extend the effects of globalization into those few regions of the world and those few sectors of the world economy still unaffected. When Ambassador Zoellick came to speak to this committee last month, he indicated that one of the Administration's highest trade priorities would be to obtain fast-track negotiating authority he called it "trade promotion authority" so that the Administration could embark upon a series of negotiations for new bilateral, regional and global free trade agreements.

I believe that as long as there exists such a profound gap between perceptions of globalization here in Washington and what the people we represent in West Virginia, and Iowa, and Montana perceive it, it will be very difficult for the Administration to get support for its ambitious trade liberalizing agenda. Indeed, unless the Administration takes steps to address the concerns over globalization, public support for even the existing system of trade agreements already in place will erode further. But clearly, if the Administration is serious about wanting to move forward on new international agreements, it will have to find some way to reconcile these two perceptions of globalization, between the abstract projections of benefits being bandied about here in Washington and the cold, hard reality of people's experiences out in our states.

Fortunately, I think there is a way to reconcile this. The key lies in the second part of today's topic: trade policy. There seems to be a misconception that in an era of globalization, there is no role for trade policy, except to complete the process of globalization. That is a dangerous misconception. As globalization has led to greater economic integration among nations, so has it expanded the scope for unfair practices in one country to have a quick and devastating impact on the economy of others. Furthermore, to fail to respond to one unfair or detrimental trade practice is in fact to encourage its repetition or escalation. An active and vigilant U.S. trade policy can and must ensure that this does not happen.

Only by actively availing ourselves of all the tools in our trade policy arsenal can the United States ensure that the promised benefits of globalization actually materialize for U.S. businesses and workers. Only then will our citizens and our economic competitors too understand that the United States will offer the same support to U.S. businesses and workers that others countries do to theirs. And only then will the Administration be able to build the support for further trade liberalization that it wants to be a cornerstone of its international economic policy.



## COMMUNICATIONS

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STATEMENT OF THE FLORIDA DEPARTMENT OF AGRICULTURE & CONSUMER SERVICES,  
TALLAHASSEE, FL

[SUBMITTED BY TERRY L. RHODES, COMMISSIONER]

The Florida Department of Agriculture and Consumer Services follows with great interest developments involving international trade. Florida is a major agricultural state, and approximately 19 percent of its agricultural production is exported. Florida recognizes the benefits that its farmers and ranchers can obtain from increased liberalization of international trade. At the same time, however, Florida is concerned that the United States has negotiated away many of the minimal protections formerly available to its farmers and ranchers—while agricultural producers in other countries remain relatively more protected.

In keeping with the theme of the Finance Committee hearing's topic, Globalization and American Trade Policy, the Florida Department of Agriculture is pleased to submit the following suggestions regarding ongoing, and future, international trade negotiations. While a number of trade agreements will likely be debated during the 107th Congress, the Florida Department of Agriculture is most concerned with World Trade Organization (WTO) and Free Trade Area of the Americas (FTAA) negotiations. In addition, these comments will address possible changes in U.S. trade laws outside the context of international trade negotiations.

### SPECIAL RULES FOR PERISHABLE AND SEASONAL AGRICULTURE PRODUCTS

The Florida Department of Agriculture suggests that the United States advance in trade negotiations special rules for perishable and seasonal agricultural products. Rules should be developed that reflect the commercial realities of these products. The Florida Department of Agriculture is not the only entity seeking the development of such rules. For example, the National Association of State Departments of Agriculture (NASDA) and the New Mexico, Florida, Arizona, California, and Texas (NFACT) Agricultural Coalition—which is composed of the agricultural commissioners of those five states—have over the past several years advocated the inclusion of special rules on perishable and seasonal agricultural products in trade negotiations. In addition, agricultural groups in Mexico and Canada have requested that their governments support the development of such rules for future trade agreements as well.

### HARMONIZATION

Given the disparate laws of various countries regulating agricultural chemicals, such as pesticides, herbicides, and fungicides, as well as the differing food safety laws of countries, Florida supports efforts to harmonize internationally such laws. Florida producers do not advocate the lowering of U.S. environmental and food safety standards. Rather, they seek to ensure that farmers and ranchers in other countries also adhere to laws that provide adequate protections for human health and the environment. At the present time, as Florida producers are subject to some of the strictest environmental and food safety laws in the world, they are placed at a cost disadvantage in relation to their counterparts in other countries. Harmonization of food safety and agricultural chemical laws would benefit Florida's farmers and ranchers as well as the citizens of other countries.

### ANTIDUMPING AND COUNTERVAILING DUTY LAWS

The Florida Department of Agriculture strongly opposes any efforts to weaken the U.S. antidumping and countervailing duty laws, or the ability to use such laws.

These laws are essential in permitting Florida's agricultural producers to counter unfair trade practices.

#### SANITARY AND PHYTOSANITARY MEASURES

The Florida Department of Agriculture believes strongly that sanitary and phytosanitary (SPS) measures should be transparent and based upon science. Any SPS rules of possible future trade agreements, such as the FTAA, should follow the general guidelines of the SPS Agreement of the WTO.

Florida has been subjected to numerous pest infestations in recent years. Many in the state are concerned that these crises have been caused, at least in part, by the fact that the budgets and staffs of the border inspection personnel of the Customs Service, the Department of Agriculture, and the Food and Drug Administration have not kept pace with increased volumes of trade across U.S. borders that have resulted from new trade agreements. The Florida Department of Agriculture urges that Congress provide sufficient funds to provide for adequate inspections of imported products.

#### EXPORT SUBSIDIES

The use of export subsidies distorts the international market for agricultural products. These subsidies provide some of our competitors with an unfair advantage over U.S. agricultural producers. The Florida Department of Agriculture favors the global elimination of export subsidies.

#### STATE TRADING ENTERPRISES

State trading enterprises (STEs), like export subsidies, are trade distorting. Their practices harm U.S. farmers and ranchers. The Florida Department of Agriculture would support the elimination of STEs through international negotiations.

#### TARIFFS

Florida producers are concerned that past trade agreements have reduced or eliminated tariffs on U.S. agricultural products while, at the same time, the tariffs of our trading partners have remained higher in comparison with U.S. tariffs. The Florida Department of Agriculture urges U.S. negotiators to seek tariff parity with our trading partners. In any case, further reductions in U.S. duties on orange juice, sugar, and fresh winter vegetables beyond the agreements achieved during the Uruguay Round are unacceptable.

#### INTERNATIONAL COOPERATIVES AND MARKETING ORDERS

Due to the growing internationalization of the produce industry, as well as other sectors of the agricultural economy, cooperation among growers in different countries is becoming more essential. Florida requests that U.S. trade negotiators discuss with our trading partners the possible establishment of rules regarding the use of international marketing agreements and international cooperatives. Such mechanisms would better enable U.S. farmers and ranchers, and their counterparts in other countries, to address the problem of major price fluctuations in the international market.

#### TARIFF RATE QUOTAS

Tariff rate quotas (TRQs) provide a modicum of protection for producers of import-sensitive agricultural products who must compete in world markets characterized by price distortions. As such, Florida supports the continued ability of the United States to use TRQ mechanisms. Namely, Florida would strongly oppose any efforts to dismantle, or to widen available quotas of, the U.S. TRQs on sugar and beef.

Florida has significant reservations about the effectiveness of TRQs established under NAFTA for fresh market produce. Under NAFTA, safeguard seasonal tariff rate quotas were negotiated for several of Florida's vegetable products, including tomatoes, onions, and chili peppers. For these seasonal and perishable products, the TRQ mechanism alone has not provided adequate import protection.

Moreover, the mechanism used under NAFTA to liberalize TRQs—duty-free access for an in-quota amount with the over-quota tariffs eliminated over a negotiated phase-out period—has not provided adequate protection for the most import sensitive products. While the Florida Department of Agriculture is strongly supportive of the ability of the United States to impose TRQs, the NAFTA TRQs should not serve as a model for future negotiations in the FTAA context or other free trade agreement negotiations.

## CONCLUSION

The Florida Department of Agriculture appreciates the opportunity to submit comments to the Finance Committee on globalization and American trade policy. We would be pleased to provide further information on Florida's views on this subject upon request.

## PREPARED STATEMENT OF RANCHERS-CATTLEMEN ACTION LEGAL FUND (R-CALF)

The Ranchers-Cattlemen Action Legal Fund (R-CALF) is a non-profit association of U.S. cattle producers with membership in 32 states. R-CALF has local and state affiliates including Farm Bureaus, Farmers Unions, and stockgrower organizations and associate membership from many main street businesses. R-CALF monitors international trade issues that affect U.S. cattle producers. R-CALF supports efforts to liberalize international trade as long as such efforts benefit all participating countries and agricultural sectors.

R-CALF notes that the health of the U.S. cattle industry has a substantial effect on the overall rural economy of the United States. The cattle industry is the single largest component of U.S. agriculture with more than one million cattle operators who generate over \$30 million in agricultural revenues annually. For most of this past decade, this vitally important industry has been in a state of significant decline.

The United States has among the most open markets in the world for imports of live cattle and beef. Unfortunately, while recent trade agreements have opened the United States even further to imports, the barriers to entry into the markets of too many of our trading partners remain relatively closed, or off limits altogether, to U.S. cattle and beef. In upcoming trade negotiations, R-CALF suggests that the United States advance policies that will maintain and strengthen fair trading rules, eliminate distortions in the marketplace, and maintain market stability. Also, given recent cattle disease outbreaks around the world, R-CALF strongly urges that the United States not act too hastily in permitting imports of cattle and beef from areas in which debilitating cattle diseases are present.

## TARIFFS

Tariff negotiations must distinguish between tariffs on cattle and on beef and beef products. U.S. tariffs on imports are either "free," *e.g.*, for purebred breeding cattle and cows imported for dairy purposes, or 1.4 cents per kilogram, *e.g.*, for live cattle for slaughter.<sup>1</sup> R-CALF endorses expedited duty reductions to zero for imports of live cattle as long as such duty reductions are simultaneous with those of our trading partners, so, consequently, already low U.S. tariffs will not be reduced to zero before those of other countries.

With respect to beef, both in-quota and out-quota U.S. tariffs are low, especially when compared to tariffs of some of our major trading partners. For example, Brazil, which like the United States is both a major producer and consumer of beef, has a bound rate for fresh and frozen beef of 55 percent.<sup>2</sup> In contrast, the U.S. in-quota rates are 4.4 cents/kg., or 4 to 10 percent *ad valorem*, depending upon the specific item, and 27.2 percent for out-quota product.<sup>3</sup>

R-CALF requests that the United States not agree to lower U.S. tariffs on either cattle or beef unless our trading partners also lower their tariffs to the same levels simultaneously.

## STATE TRADING ENTERPRISES

The impact of state trading enterprises (STEs) such as the Canadian Wheat Board (CWB) is not limited to the commodity markets in which they specifically operate, but also other markets for which these commodities are an input. For example, the CWB's export restrictions on feed barley distort conditions of trade in cattle; Canadian ranchers and feedlots effectively receive a subsidy for feeding their cattle. Ideally, R-CALF would like to see STEs eliminated. If this is not possible, R-CALF would like, at a minimum, for international trade negotiations to develop disciplines for the operation of STEs.

<sup>1</sup>See HTS 0102.10.00.10-0102.90.40.84.

<sup>2</sup>Based on information provided by the Foreign Agricultural Service of the U.S. Department of Agriculture.

<sup>3</sup>See HTS 0201-0202.

## SUBSIDIES

R-CALF is concerned about subsidies provided to cattle and beef producers by foreign governments. R-CALF asks that trade distorting subsidies that harm the cattle industry be eliminated, including subsidies currently permitted under the World Trade Organization (WTO). R-CALF suggests that U.S. negotiators refer to the *Subsidies Enforcement Annual Report to the Congress*, which was last issued by the Office of the U.S. Trade Representative and the Department of Commerce in February 2001, for guidance when preparing for negotiations. This report discusses subsidies for cattle and beef producers provided by some of our major trading partners and competitors.

## RULES OF ORIGIN

R-CALF requests that the United States advocate in trade negotiations that the country of origin of cattle be the country in which the cattle were born. Likewise, the country of origin of beef should be the country of birth of the cattle from which the beef was derived.

## U.S. TARIFF RATE QUOTA

The U.S. cattle industry has relatively few mechanisms in place to help it weather periods of economic difficulty. One such mechanism is a system of tariff rate quotas (TRQs) which became operative upon the implementation of the Uruguay Round Agreements Act of 1995.

As imports from other countries might grow as a result of trade negotiations, the importance of TRQs in promoting stability in the price sensitive beef sector will be heightened. Thus, a major goal of the United States in trade negotiations should be to maintain the right of the United States to impose TRQs. Given the supply-price sensitivity of the cattle industry, the November 1999 report by then Chairman of the International Trade Commission Lynn Bragg that packers can and do use imports to suppress domestic cattle prices, and the length of the expansion phase of the recent cattle cycle which in part has been due to increasing imports, R-CALF finds it imperative that TRQs be maintained.

## U.S. SPECIAL SAFEGUARD

A second mechanism of the United States to address periods of difficulty in the cattle sector is a special provision for imports of certain beef products, which went into effect in 1995 and operates in accord with Article 5 of the WTO Agreement on Agriculture. Namely, Article 5 of the WTO Agreement on Agriculture includes a special safeguard provision that permits countries to resort to additional duties in the event that the volume of imports of a particular product exceeds a threshold or "trigger" level, or if the price of those imports falls below a trigger price level. The special safeguard provision provides an important remedy in the event of a sudden surge in imports of beef. The United States should ensure that the special safeguard mechanism for beef remains intact.

## ANTIDUMPING AND COUNTERVAILING DUTY LAWS

R-CALF strongly supports the continued availability of antidumping and countervailing duty laws as internationally recognized trade remedies to economic harm caused by unfairly priced or subsidized imports. It is important to recognize that new trade agreements will not necessarily eliminate opportunities and incentives for producers in certain countries to dump their products or to obtain unfair subsidies. Therefore, antidumping and countervailing laws must be maintained and strengthened.

Also, antidumping and countervailing duty investigations are historically too often conducted "after the fact," and in many cases irreparable damage has already been done. A more accelerated process is needed.

## SANITARY MEASURES

R-CALF believes that the sanitary standards of countries must be based upon science. Accordingly, R-CALF supports the intent of the Sanitary and Phytosanitary Agreement of the WTO, to require that sanitary and phytosanitary measures have a scientific basis.

R-CALF is concerned, however, that the U.S. Department of Agriculture (USDA) may be too willing to open the U.S. market to imported cattle and beef in instances in which evidence of the lack of threat of imported products is far from clear. As demonstrated by recent outbreaks of foot and mouth disease (FMD) in the United



Kingdom and other countries, as well as the continuing bovine spongiform encephalopathy (BSE) crisis in Europe, diseased imported cattle can pose a very real threat to the United States.

At the present time, R-CALF believes that the United States may be acting imprudently in permitting the importation of beef and cattle from certain countries, *e.g.*, Argentina, whose products are likely infected with FMD and indeed pose a real threat to U.S. cattle. R-CALF notes that Brazil has banned the importation of beef on the bone due to reports of FMD outbreaks in Argentina. The United States has been free of FMD since 1929. Given the grave threat that FMD poses to the U.S. cattle industry, as well as to other livestock producers, R-CALF would like to emphasize to Finance Committee members its concerns with USDA's policy. R-CALF strongly supports the call by Finance Committee member Senator Tom Daschle for an immediate import ban pending resolution of the need for appropriate safeguards.

Also, with the accelerated expansion of FMD, and based on the recurrence of FMD in countries or regions in the process of being certified as "FMD-free" or already certified, R-CALF requests that following certification countries maintain a "disease-free" status for a minimum of three to five years before imports are accepted into the United States.

As a general matter, R-CALF would like to see strong rules implemented by the United States that would ensure the continued FMD-free status of the United States.

#### COUNTRY OF ORIGIN LABELING

In an issue related to rules of origin, R-CALF strongly supports country of origin labeling of meat. Consumers have the right to know from where the beef they consume was derived. R-CALF believes that beef labeled as a product of the United States should be beef from cattle born, raised, and slaughtered in the United States. R-CALF is supportive of S. 280, sponsored by Senator Tim Johnson, which requires country of origin labeling.

Again, the current international spread of cattle diseases has only heightened the need for country of origin labeling and tracking.

Also, it is important to note that U.S. cattle producers since 1987 have been mandated by the federal government to contribute nearly \$1 billion for research and promotion. Yet they have been unable as an industry to differentiate their product from imported product for the U.S. consumer.

#### THE EU AND BEEF HORMONES

R-CALF remains concerned about the refusal of the European Union to open its market to beef derived from cattle treated with growth promoting hormones. The outcome of the beef hormone dispute at the WTO has resulted in U.S. cattle producers having limited faith in the ability of the WTO dispute settlement process to open foreign markets to U.S. products. R-CALF encourages the United States to continue to attempt to open the European market to American beef.

#### INSTRUMENTS TO PROMOTE STABILITY IN INTERNATIONAL MARKETS

Due to the peculiar nature of the agricultural industry and the small amount of revenue that is returned to producers, it is critical that ranchers have some ability to maintain minimum prices and be able to control the quality and quantity of their products in the market. For most of this century, the U.S. government has provided such mechanisms to U.S. farmers. These mechanisms have lessened the impact of adverse temporary market conditions that would otherwise have driven producers out of business.

Recognizing the special circumstances faced by the agricultural sector, the United States provides a limited antitrust exemption for agricultural cooperatives, including cooperatives composed of ranchers, from antitrust laws. Courts have held that cooperatives may set minimum floor prices for agricultural products under this law.<sup>4</sup> The United States should work in international trade negotiations to extend the coverage of Capper-Volstead to include international cooperatives composed of agricultural producers.

Likewise, U.S. laws permits certain groups of agricultural producers to set quality and grade standards through marketing orders. These measures can be used to promote stability in the marketplace. R-CALF suggests that the United States advo-

<sup>4</sup>See *Northern California Supermarkets, Inc. v. Central California Lettuce Producers Cooperative*, 413 F.Supp. 984 (N.D. Cal. 1976), *aff'd* 580 F.2d 369 (9th Cir. 1978), cert. denied, 439 U.S. 1090 (1979).

cate in international trade negotiations the development of international instruments that will function in the same manner as marketing orders.

#### MANDATORY PRICE REPORTING

R-CALF's members and other primary agricultural producers in the United States are consistently at a distinct disadvantage in negotiations with buyers. In the livestock sector, a limited number of meat packers very often control prices for regions and indeed the entire country. Rather than buy in open cash markets, packers can feed their own animals or use private marketing arrangements—such as forward contracts, formula pricing, and exclusive purchase agreements—for which prices and terms of sale are not publicly disclosed. This makes it difficult for producers, particularly smaller ones and those that would like to utilize open cash markets, to determine a “fair” market price.

In 1999, the United States passed legislation providing for the mandatory reporting of prices paid by packers for cattle. Such legislation allows producers access to the data needed to compare quickly and easily bids from different packers and to negotiate the best possible price for their livestock. R-CALF encourages the United States to encourage our trading partners to enact or strengthen laws on mandatory price reporting. Such laws would benefit U.S. producers when selling in foreign markets.

#### EXCHANGE RATE MANIPULATIONS

Currency exchange rates can have major impacts on trade flows, including the trade flows of agricultural products. Indeed, some countries have used exchange rate controls as a method of altering trade flows in agricultural products. Such manipulations can create serious harm in the international marketplace. R-CALF urges the United States to consider this problem and to attempt to craft a proposal to address it through international negotiations. Indeed, R-CALF proposes that international trade rules prohibit such manipulations.

#### PRICE COLLAPSES

Various commodities, including cattle, have experienced major international price collapses during the past decade. These price collapses have adversely impacted not only individual producers, but also rural economies throughout the world. R-CALF requests that the United States work with our trading partners to develop a mechanism to remedy the devastating effects of collapses in commodity prices.

Further, on a subject not directly linked to the activities of the Finance Committee, R-CALF is concerned that recent price collapses for cattle have been caused in large part by concentration in the U.S. meatpacking industry. R-CALF would like to express its gratitude to Chairman Grassley, as well as other members of the Finance Committee, including Senator Daschle, for advocating more effective enforcement of U.S. laws addressing concentration in agriculture, such as the Packers and Stockyards Act. R-CALF would also like to thank Chairman Grassley, Senator Daschle, and other senators for their support of legislation that would prohibit packer ownership of cattle.

#### CONCLUSION

R-CALF appreciates the opportunity to provide comments for the Finance Committee's hearing on globalization and American trade policy. R-CALF will continue to monitor trade negotiations closely. R-CALF would be pleased to provide further information to Finance Committee members upon request concerning R-CALF's views on trade negotiations.

