

**CAMBODIA AND BULGARIA MFN TRADE STATUS;
RENEWAL OF THE GSP PROGRAM; AND TRADE
AGENCY FY 1996 BUDGETS**

HEARING
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED FOURTH CONGRESS
FIRST SESSION
—
AUGUST 1, 1995
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CAMBODIA AND BULGARIA MFN TRADE STATUS; RENEWAL OF THE GSP PROGRAM; AND TRADE AGENCY FY 1996 BUDGETS

TUESDAY, AUGUST 1, 1995

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

The hearing was convened, pursuant to notice, at 10:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the subcommittee) presiding.

Also present: Senators Baucus and Graham.

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

Senator GRASSLEY. Even though the vote is not over yet, since we were necessarily delayed, I think I will start.

Senator McCain is here. Senator McCain, as long as you have come, I have not given my opening statement.

Senator MCCAIN. We would be pleased to hear it, Mr. Chairman.

Senator GRASSLEY. No. I am going to go to you because I know you have a conflict. And I would like for you to have the opportunity to present your views.

STATEMENT OF HON. JOHN McCAIN, A U.S. SENATOR FROM ARIZONA

Senator MCCAIN. Thank you, Mr. Chairman.

I will be very brief. I know that the voting schedule has sort of interrupted the otherwise extremely efficient functions of the subcommittee. I do not want to take a lot of time because this is an issue that is not very complicated.

As you know, Mr. Chairman, Cambodia has lacked most-favored-nation status since the Khmer Rouge seized power in 1975. However, because of an anomaly in the United States law, it cannot be granted MFN under the procedures established in the 1974 Trade Act.

In short, the President wants to grant MFN status to Cambodia, but lacks the authority to do so. This leaves us with basically two options—either Congress grants most-favored-nation status to Cambodia outright, and requires no further action, or it applies Jackson-Vanik to Cambodia.

Mr. Chairman, I think it is now clearly preferable to proceed with the first option. I encourage the Committee to take advantage

of the opportunity before us, and pass the House bill without amendment.

Cambodia is no longer Communist, and it is not restricting the free emigration of its people. I believe that Congress should extend MFN without imposing new restrictions or applying conditions more appropriate in an earlier era.

Mr. Chairman, I would appreciate it if my entire statement could be made part of the record.

In summary, I do not know of a more tragic little country than Cambodia. After the Khmer Rouge took over, there happened to be a group of intellectuals who were educated in Paris, who decided that the best way to build a classless society was to destroy everything that came before it.

Frankly, they did a pretty good job of eliminating almost anyone who had any degree of education or sophistication, or anyone who had much talent. The very act of owning a pair of eyeglasses was sufficient for extermination under the Khmer Rouge.

Before the Khmer Rouge, this Nation, Buddhist primarily, was a nation composed of some of the most gentle and kind people on earth. They were subjected to a kind of ethnic cleansing of Holocaust proportions, where millions of people, we will never know how many millions of people, were killed in that country.

As you know, Mr. Chairman, a successful effort was made at the expense of some \$2 billion to hold a free and fair election. The result was clearly not a perfect election. And Cambodia still has some difficulties.

There are some rumors of corruption. There are some rumors of abuse of human rights, but the fact is that it is a functioning democracy, far different from what it was several years ago, and one that exceeded the expectations of practically every expert in the world for this poor little country.

I believe they need our help. I believe they are deserving of MFN status, and I would hope that we, in our wisdom, could help them in this very small way as they struggle towards a society which provides opportunity for all of its citizens.

I thank you, Mr. Chairman, for the opportunity to be here today. And I thank you for your consideration of this legislation.

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

Senator GRASSLEY. If you would, I would like to make one point, and ask you to comment.

I think everything you said about the situation in Cambodia, historically as well as present, is accurate. My visit there a few years ago would lead me to the same conclusion. And they have had a coalition government in the period of time since then. I guess maybe my feeling is that the coalition and the involvement towards their own government is still somewhat tenuous although, without a doubt, enough advancement to change their present status on MFN.

So I would give you just one example—and I suppose there are lots of others we should give—a former minister of finance, a duly elected member of Parliament, being expelled from the National Assembly. This is one example of true commitment to democratic reforms. What would your reaction be to conditional MFN? Might

that not be preferable, so that we would have some leverage to make sure that reforms move forward?

Senator MCCAIN. Mr. Chairman, I am very familiar with the case you cite. Mr. Sam Rainsy was deprived of his parliamentary membership and, in my view, not treated in accordance with the kind of system that we want to see in Cambodia.

I raised the issue of Sam Rainsy's safety a few months ago, when I was in Cambodia, with both Prince Ranariddh and Hun Sen. I guess the best way to describe them is that they are the co-prime ministers. Both of them assured me that his safety would be ensured. I did not approve of his being deprived of his membership in Parliament. And, as I said earlier, I think there are still problems in Cambodia.

I believe that there is still the Khmer Rouge situation. The Khmer Rouge also continues to do business with the Thai generals, both the gem trade and the stripping of their forests, which is a not only a crime on the Cambodian people, but an ecological crime, which I think may affect the climate in that part of the world over time.

I believe that there is some corruption, especially in the purchase of land and the setting up of business. My overall view is, however, that this country really has never known any democracy. Many people admire Prince Sihanouk, but he ruled that country with an iron hand. There was no semblance of democracy when he was in charge.

I think that various organizations, such as Amnesty International, Asia Watch, and others give them very high grades overall, as compared with other nations. In fact, they are on a par with Thailand.

I want to emphasize, Mr. Chairman, that most-favored-nation status is, as you know, what almost every nation has, including China, whose record is dramatically different from that of Cambodia.

If we view it as sort of a normal relations situation, then I would support it without strings. If we view it as some kind of special benefit that we only give to nations that are in keeping with our highest standards, then I obviously would agree with you.

I think it is a tough call, Mr. Chairman. What I worry about is a significant delay, if we do not go ahead and endorse the House bill. So I would come down in favor of supporting the House bill, although I think your concerns are extremely valid. And perhaps we should receive some assurances from the government of Cambodia, especially on the issue of Sam Rainsy, but also on the overall issue of protection of human rights.

I think you, Mr. Chairman. I am sorry that I gave you an equivocal answer because I am ambivalent on the very important question you raised regarding this issue.

Senator GRASSLEY. Senator Baucus? And then we will have opening statements after you finish.

Senator BAUCUS. I appreciate that.

Senator McCain, thank you very much.

Senator GRASSLEY. Senator McCain, thank you very much.

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

At this late date, before the August recess, I want to thank you very much for your consideration of this issue.

Senator GRASSLEY. Absolutely. Hopefully, we will move it along.

Now for opening statements. I want to say good morning to everybody, and thank you for coming. Most importantly, thank you for your patience during the vote that was cast.

We have an ambitious agenda to cover today. I am going to ask Members to limit their opening statements to 5 minutes, and witnesses to do the same.

We are going to have an exploration today of an interesting mix of topics. They range from granting most-favored-nation status to Cambodia and Bulgaria—we just heard from Senator McCain on Cambodia—to a discussion of renewal of the GSP program, the budget reauthorization for the USTR, the International Trade Commission and the U.S. Customs Service.

On the subject of granting most-favored-nation status to Cambodia and Bulgaria, I would make this observation. If, about 6 or 7 years ago, anybody had said to people that we would be sitting here today to discuss granting of MFN to these two countries, they would have said it was an impossibility. And I suppose, as we look back, we would say the same thing, without a doubt.

And yet, here we are today. Things change very dramatically, and I suppose we ought to be very thankful that we are at this point. I think it is a great tribute to our form of government that nations of the world are moving in our direction. By engaging these countries in trade, I think we are going to accelerate their movement towards economic reforms, by bringing them more within the global economy.

Clearly, the changes in Bulgaria warrant its receiving unconditional MFN status. The President has found Bulgaria to be in full compliance with the freedom of emigration requirements of Jackson-Vanik. Bulgaria has also instituted a constitutional republic, had democratic elected government, as well as basic market reform programs, including privatization of State-owned enterprises.

We have just discussed Cambodia. In addition to what Senator McCain has said, the administration has proposed granting MFN status as part of the bilateral agreement concluded in 1994 between the U.S. and Cambodia on trade relations and intellectual property.

As I indicated in my question to Senator McCain, the only question is whether to grant conditional MFN status or unconditional status, as contained in the House-passed bill.

I want to say that, given certain recent events in Cambodia, I think there is some responsibility of the United States to make sure that a country that says it is moving in the direction of democratic changes proceeds down that road. I look forward to hearing Ms. Barshefsky's views on that subject as well.

With regard to the GSP program, I strongly favor renewal, but I think we also have to look at exploring whether the program needs to be refined. Currently, we will find that less than 1 percent of the benefits of the programs go to the least developed countries. We want to make sure that the program is operating in such a way as to accomplish its primary objective.

As you all know, that objective is to promote economic development and raise the living standards of the beneficiary countries. Consequently, this may require changes in the criteria used for graduating countries from the program, as well as expanding the number of articles eligible for GSP treatment which are imported from the least developed countries.

Finally, we are going to hear this morning about the budget requests of the USTR, the ITC and the Customs Service, to see if the taxpayers' money is being spent wisely and, more importantly, to see the amount needed in the future.

Of course, we are in an era of downsizing Government. We have had hearings on the reorganization of the Commerce Department, to consolidate the international trade functions of the Government into one entity.

We have explored overlapping functions within the trade apparatus of our Government. And we are looking at what sort of combinations can be made to have the most efficient operation, and yet fit everything into the budget as adopted by the Congress.

So, if we are going to do this, it is our responsibility to take the steps necessary to produce savings, and yet have a very responsible approach to the administration of our trade policies.

Senator Baucus?

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

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

As I was listening to you and Senator McCain, I was thinking that, with all the storms raging in Congress today—Medicare, regulatory form, Bosnia—it is easy to forget that there are a good number of issues on which there is virtually unanimous agreement. The issues that are before us today in this subcommittee are fortunately in that latter category.

I am very pleased to be here to support the efforts for MFN status for Bulgaria and Cambodia, GSP renewal, funding for USTR, ITC and the Customs Service.

I would like to speak briefly on MFN status for Bulgaria and Cambodia. These two small nations have suffered more than their share of this century's wrongs and tragedies. Anyone who studies history knows that.

Both countries are trying to build up a democratic system and a free market economy out of the wreckage of Communist governments, a task which has been compared by some to making an aquarium out of fish soup.

It is an enormous task. It involves not only elections and technical economic reforms, but recreating a work ethic and a sense of accountability in government—very difficult. And almost nothing we can do will help more than granting these countries permanent MFN status.

First, look at Bulgaria. Not long ago, Bulgarians suffered under one of the most repressive regimes in Europe. In fact, the year I entered the Senate, the former Communist government head had exiled dissident Georgie Markoff, stabbed him to death with a poisoned umbrella.

Today, President Zhelev is one of Eastern Europe's truly inspirational democratic leaders. Bulgaria has done what one small country can to prevent a wider war in the former Yugoslavia. And, last April, we and Bulgaria concluded a strong bilateral agreement on intellectual property rights.

So, while building democracy is difficult, and problems remain, the progress to date is remarkable. In Senate bill S. 1081, Senator Simpson and I introduced a bill to remove Bulgaria from the Jackson-Vanik amendment process completely, and make its MFN status permanent. It should not be controversial. The House passed a similar measure last month, and I hope we can move it here quickly.

Then we are all familiar with the tragic recent history of Cambodia. Many facets of the past remain. Human Rights Watch believes human rights and tolerance for dissidents in Cambodia have eroded during the past year. They note that several independent members of Parliament have been expelled, journalists have been persecuted, and the government army continues to be suspected of human rights abuses. And the Khmer Rouge still carries out military operations in the western part of the country.

We need an active, comprehensive policy to help keep the peace and strengthen the country's hopes for a stable democracy. But, by providing Cambodia with MFN status, we also offer hope. For the whole country, we offer the hope of growth and integration with other nations of Southeast Asia. And for individual Cambodians, we offer hope of jobs and a better future.

So I warmly endorse both these efforts. I might say that I have somewhat of a personal interest in Cambodia because, in 1981 or 1982, Senator Danforth, Senator Sasser and I flew to Thailand to inspect the flood of refugees coming out of Cambodia into the refugee camps around the Thai border. Aranyaprathet and some other camps come to mind.

We also flew into Phnom Penh. I think we were the first American officials to do so in the somewhat post-Pol Pot regime. And I can say that it was very stunning. Phnom Penh is a city which we all know had a glorious past. When I arrived, there were only about 10,000 or 20,000 people. Normally, Phnom Penh had about 200,000 population—at one time, 2 million. When Pol Pot began his extermination program, pushing everybody out of Phnom Penh, it was down to about 10,000 or 20,000 by the time we arrived. It was a ghost town—a big, major city a ghost town.

There were cracked buildings, cracked streets, decaying buildings. You could tell from the grand Parisian French architecture of the boulevards and the hibiscus growing that it was once a beautiful city. And we were stunned by what we saw.

I met with Hun Sen, spent some time meeting with Hun Sen. He is a very cool, tough customer. And it is my hope that, by extending MFN to Cambodia, we can begin to accelerate some of the important transitions that have begun.

Just a word, Mr. Chairman, in support of our trade agencies. For a very small amount of money, I believe the USTR, the ITC and the Customs Service accomplish a lot for our country. During the past 6 months, the USTR has negotiated major agreements on intellectual property and market access for agriculture in China,

agreements in auto trade and air routes with Japan, and agreements on steel and beef with Korea.

On behalf of thousands of Montana stock growers, I want to thank USTR and, in particular, our lead negotiator, Christina Lund, for a job well done.

USTR has requested an essentially stable budget for next year; Customs the same. And ITC, anticipating a higher volume of cases, as the Uruguay Round phases in, asks for a modest increase. Obviously, every dollar is scarce. But I believe these agencies represent money very well spent. They make a real difference for American jobs, incomes, and for American prosperity.

I have the highest regard for these agencies. Because they are small agencies, I think they are very efficient, very focused, with almost laser-like intensity, particularly the USTR. I think they get the job done, and I want to compliment them. All Americans should know how hard these people and these agencies work. I can testify personally to the long hours, no sleep, tense negotiations. And they get the job done.

We have been much more aggressive in enforcing our rights as Americans, and knocking down other countries' trade barriers in these 2 or 3 years than we have ever been during my experience as a member of the United States Senate.

Again, I want to compliment these agencies for a job well done.

Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you, Senator Baucus.

Our first witness is Deputy U.S. Trade Representative Charlene Barshefsky. She is going to be appearing on this panel to discuss Bulgaria, Cambodia and GSP. Then, am I right, you are able to stay and participate in the last panel?

Ambassador BARSHEFSKY. Yes, sir. Thank you.

Senator BAUCUS. I might say, Mr. Chairman, when I was thinking about the intense, tough, long negotiations, I had Charlene Barshefsky in mind. She is one of the best.

Ambassador BARSHEFSKY. Thank you.

Senator GRASSLEY. So I would ask you to proceed then. Thank you very much for coming.

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

Ambassador BARSHEFSKY. Thank you, Mr. Chairman, Senator Baucus.

It is a pleasure to appear before you today on behalf of the administration, to testify on a range of issues, including MFN for Cambodia, graduation of Bulgaria from Title IV of the Trade Act of 1974, and reauthorization of the GSP program. Let me take each of these three issues in turn.

First, Cambodia. In September, 1993, after U.N.-supervised elections in May of that year, the United States established full diplomatic relations with Cambodia. Since then, the freely-elected Cambodian government has been eager to establish ties with other nations, and reenter the world economy.

In early 1994, negotiators from USTR went to Cambodia and concluded a comprehensive, bilateral trade agreement that established a framework for our relations. Before this agreement can

enter into force, the Congress must pass legislation extending MFN status to Cambodia.

The administration strongly supports legislation that would grant MFN to Cambodia, and let our bilateral trade agreement come into force. Extension of MFN status, which would lower U.S. tariffs to imports from Cambodia, will help spur the development of markets in Cambodia. The reciprocal market access and intellectual property rights protection provided for in the trade agreement would also work to promote U.S. exports and expand a U.S. commercial presence in Cambodia.

Closer trade ties with Cambodia should also encourage it to more rapidly adapt to world trading rules and principles. And it is our hope that expanded commercial ties will promote economic growth and political stability in Cambodia.

We look forward to working with you, Mr. Chairman, as well as with Senator McCain and Members of the Committee, to develop acceptable legislation, which would allow us to grant MFN status to Cambodia as quickly as possible.

Let me turn for a moment to Bulgaria. The administration strongly supports legislation that would allow the President to remove Bulgaria from Title IV of the Trade Act of 1974.

U.S. policy, since the end of the cold war, has been to normalize our trade relations with Central Europe. The criteria for Bulgaria's removal from Title IV have long been satisfied. Since June 3, 1993, the administration has certified, on a semi-annual basis, that Bulgaria fully complies with U.S. and international standards concerning emigration and human rights policies. The administration is not aware of any opposition in the U.S. for removing Bulgaria from Title IV.

Since Bulgaria has benefitted from MFN trading status and access to the U.S. Government credit and investment guarantee programs since 1991, graduation would not result in any decline in revenue for the United States. Current tariff levels on Bulgarian imports would remain the same after graduation.

The U.S. and Bulgaria have had a bilateral trade agreement since 1991, which provides not only for reciprocal MFN, but also strong commitments with respect to Bulgaria's intellectual property rights regime.

Allowing the President to graduate Bulgaria now also sends a positive signal to U.S. and Bulgarian traders and investors, at a time when our bilateral economic relations are expanding. Official statistics indicate that U.S. exports to Bulgaria in January and February of this year increased 54 percent over the same period last year.

U.S. investment in Bulgaria has also increased, and there are a number of Fortune 500 companies now operating in Bulgaria.

Finally, Bulgaria's compliance with U.N. sanctions against Serbia and Montenegro has resulted in high losses for the Bulgarian economy, approaching \$6 billion. Graduating Bulgaria would send to Sofia a signal that the West recognizes Bulgaria's sacrifice, and that the West also wants to expand relations in a context other than Serbian sanctions enforcement.

Last, Mr. Chairman, if I may, let me turn briefly to the GSP program. This hearing is particularly timely because the GSP program

expired yesterday. As of today, U.S. importers will have to begin paying duty on imported GSP products, many of which have been duty-free under the GSP program for 20 years.

This is, in fact, the third time in as many years that the GSP program has lapsed. In 1993, and again in 1994, a 2-month lapse was followed by a short-term extension.

Clearly, this situation creates uncertainty and undermines the critical objectives of the program. In particular is the burden placed on small- and medium-sized business in the U.S. that, in many cases, are unprepared to pay the import duty on their products for an undefined number of months.

Let me urge this Committee to consider renewing the program for a multi-year period. The administration is prepared to work with you, Mr. Chairman, in an effort to see that this is achieved.

Let me take a moment to describe the program briefly, and explain why the administration strongly favors a longer-term reauthorization.

The GSP program grants duty-free treatment to various products that are imported from developing countries. In 1994, there were \$18 billion in duty-free imports under the program, accounting for 18 percent of total U.S. imports from the beneficiary countries, and about 3 percent of total U.S. imports from all countries.

In 1994, Malaysia was the single largest beneficiary country, accounting for \$5 billion, or 28 percent, of the total. Other leading beneficiaries include Thailand, Brazil, the Philippines, Indonesia, India, Argentina, Venezuela, Russia, Chile and Turkey.

As you know, Mr. Chairman, the program has three broad goals: First, to promote economic development through increased trade rather than foreign aid; second, to help maintain U.S. competitiveness by lowering costs for U.S. business, and lowering prices for American consumers and; third, to promote our trade policy objectives by encouraging GSP countries to comply more fully with international trade rules, including intellectual property protection and internationally recognized worker rights.

By granting favorable access to our market, the program reflects the U.S. commitment to an open world trading system. But the administration believes that continued support for unilateral tariff concessions will depend in part on the extent to which beneficiary countries also assume responsibility for the world trading system, including adhering fully and promptly to all Uruguay Round commitments.

The administration strongly supports the GSP program. By eliminating import duties on raw materials and components that are used to manufacture good here, the program enhances global competitiveness of U.S. companies and their workers. And, by encouraging trade and development in beneficiary countries, including some of the fastest growing economies in the world, the program creates growing markets for American exports.

Earlier this year, the Chairman and Ranking Member of the Ways and Means Trade Subcommittee introduced a bill to renew the GSP program, H.R. 1654. That bill would make a number of desirable changes in the program.

The administration has carefully reviewed the three main provisions of the House bill. It will reduce the per-capita GNP limit in

its statute from about \$11,300 to about \$8,600. It will reduce the so-called competitive need limit from about \$108 million to \$75 million, and it will authorize additional benefits for the least developed developing countries. We fully support these changes.

In conclusion, the administration is prepared to work with you, Mr. Chairman, and Members of your Committee for the long-term renewal of the GSP program.

With that, let me stop my formal remarks. I would welcome any questions you may have, Mr. Chairman.

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

Senator GRASSLEY. You may not want to say this, but, if it would be appropriate for you to list a few of the countries that might be on the edge in regard to where you say the administration believes that such beneficiaries participate more fully in the framework of the rights and obligations of the multi-lateral trading system, I would give you that opportunity.

Ambassador BARSHEFSKY. Thank you, sir.

There is not any one particular country I would want to single out in that regard, but it is a point that merely underscores this administration's determination that there be no free riders. Even the extent to which the U.S. provides unilateral trade benefits, the U.S. expects in return full adherence to international agreements, and full adherence to bilateral trade agreements.

As you know, Mr. Chairman, the GSP program has been particularly valuable in furthering intellectual property rights, in furthering worker rights, and in furthering a more open investment regime in GSP beneficiary countries.

The kinds of commitments and obligations undertaken by those countries must be furthered and maintained, in order to retain support in the U.S. for these kinds of unilateral preference programs.

Senator GRASSLEY. Will the administration propose how to pay for the multi-year renewal of GSP? Obviously, I support renewal. But, without a doubt, we have to deal with the problems of the pay-go provisions.

Ambassador BARSHEFSKY. Mr. Chairman, we have had the pleasure of meeting with Senate Finance Committee staff on this issue. We are certainly determined to work with the Committee to find appropriate funding for the GSP program.

We are also mindful, of course, in this day of downsizing generally, that we need to look carefully at the program to determine if changes should be made to make the program more efficient, to determine whether there are ways to rechannel some of the benefits from the faster growing economies to the least developed countries.

I know you have a personal interest in this, and we agree with your views on this. So we will work with the Committee to attempt to find appropriate funding for the longer-term renewal of the program.

Senator GRASSLEY. I would like to ask you a question for Senator Dole.

There are currently section 301 investigations against two Latin countries, Costa Rica and Columbia, regarding their banana poli-

cies. Each of these countries is a beneficiary of the U.S. trade preference programs.

Is it true that one of the options for the administration is a section 301 case and a suspension or revocation of trade preferences?

Ambassador BARSHEFSKY. We have a great concern about the effect of the European Union's banana regime—so-called framework agreement on bananas—as well as underlying regulations, and their discriminatory impact on U.S. producers.

We also have a very significant concern with respect to Costa Rica's and Columbia's implementation in their countries of this EU banana regime. There are other Latin American countries who have refused to implement the regime, and we are very pleased with that. But Columbia and Costa Rica have gone ahead to implement what we view as a discriminatory regime.

We are in the process now of negotiating with the European Union, as well as Columbia and Costa Rica, for a significant alteration in their programs, so as to eliminate or sharply mitigate the discriminatory impact of the regime on U.S. banana producers.

Now certainly the administration has a number of options it can pursue, should negotiations fail. Among them are, for example, a WTO case against the European Union for its discriminatory regime, as well as unilateral measures under section 301 or other trade statutes, which could include removal of GSP benefits.

At present, we favor a negotiated solution with the European Union, with Columbia and Costa Rica. And this is the course we are pursuing at the present time.

Senator GRASSLEY. So, for Senator Dole's purposes then, suspension or revocation is one of the options, but it is not the priority approach you are using at this point?

Ambassador BARSHEFSKY. It is one of the options, but the priority approach we are using at the present time is negotiation.

Senator GRASSLEY. The administration is now preparing a comprehensive trade and development policy towards Africa. I think it was required in last year's Uruguay Round implementing legislation.

I think it is a fact that, just a few days ago, Ambassador Kantor announced the formation of a trade advisory committee on Africa.

How about the fact that less than 1 percent of GSP benefits go to the least developed countries? Does USTR then have a preliminary view on how the GSP will need to be revised to support the development of Africa?

Ambassador BARSHEFSKY. This is an issue that is very, very important. Sub-Saharan Africa, in particular, as you know, is desperately poor. The United States has an interest in doing what it can, within the bounds of our own budgetary limitations, to assist those countries to develop economically and, in turn, to lead to greater democracy and greater personal freedoms.

Less than 1 percent of GSP program benefits currently go to the least developed of the developing countries. This is also a concern.

We are looking at a number of ways in which to redirect the program benefits. First, as I indicated in my testimony, we would be very much in favor of reducing the per-capita GNP eligibility requirement for countries.

As you know, eligibility under GSP is not a mathematical formula, other than to say that under current law, when countries achieve a per-capita GNP level of \$11,300, they are automatically graduated. We would like to reduce that number quite significantly, in accord with new World Bank dictates, so as to make program benefits available to poorer countries than is currently available.

In that same regard, we are looking at the question of whether there are current beneficiaries that should be graduated, also freeing up program benefits for these countries.

Second, we are looking at ways to restrict the number of waivers to the GSP program that we currently allow, which provides for duty-free treatment beyond certain limits. We are also looking at that as a means to rechannel benefits to the poorer countries.

So we are looking at a number of ways in which to trim program costs, not so much because we are anxious for a sharply reduced overall program size, but because we would like to use the funds we do have available in a manner that is conducive to the development of the poorest nations.

Just as a historic note, I point out that some years ago, before Asian tigers in GSP were graduated—this is Hong Kong, Taiwan, Singapore, Korea—at the time, one of the arguments used for their graduation was that program benefits should be freed up to allow for the development of that second tier of countries, which were below the four tigers—for example, countries like Malaysia or Thailand.

Now we see a situation where, particularly Malaysia is highly competitive, and we are looking very carefully at their possible graduation. Much as the graduation of the four tigers led to benefits being available to Malaysia and others, perhaps the graduation now of some beneficiaries would allow for those program benefits to become available to these much poorer and more needy nations.

Senator GRASSLEY. You just mentioned a question about graduation in regard to Malaysia, as a country you are looking at.

If you were moving in that direction, what steps would you be taking in the case of Malaysia to allow business to adjust to the change in status?

Ambassador BARSHEFSKY. Mr. Chairman, we are looking at a number of issues here. We have consulted quite broadly with our private sector. Certainly, when graduation does occur, whether in the U.S. or Europe, which has a program just like our GSP program, we must give an appropriate amount of time so that U.S. importers and U.S. companies, who are dependent upon imported components and parts, have a reasonable period of time within which to adjust, with respect to alternative sourcing, or perhaps to simply adjust their own pricing policies.

So, while I cannot tell you with precision what the transition period would be for any country that we graduate, I can tell you with assurance that we would provide an appropriately long transition period to ensure the least disruptive impact on U.S. importers and U.S. business, who rely upon imported GSP products.

Senator GRASSLEY. My last question on this issue, you listed in your statement three changes in the House bill that you agree

with. Are there any major or minor changes in the House bill that you disagree with?

Ambassador BARSHEFSKY. Mr. Chairman, I cannot think of any offhand that rise to a major level. We may well have some technical points on the House bill. But, with your permission, we would be pleased to provide you with a letter that analyzes the House bill and any minor or technical changes that we would wish to see.

But, in the main, on major points, we are in agreement with the House bill.

Senator GRASSLEY. Generally speaking, was the position in the House bill taken by the House Ways and Means Committee, and you acceded to it, or did you ask the Ways and Means Committee to make those three changes that you mentioned?

Ambassador BARSHEFSKY. The changes that are in were largely drawn from an administration proposal the year before.

Senator GRASSLEY. Do you agree that Cambodia should be granted conditional MFN?

Ambassador BARSHEFSKY. Mr. Chairman, as Senator McCain indicated, this is perhaps something of a closed question. But, on balance, the administration would favor the unconditional provision of MFN to Cambodia.

We feel we have a window of opportunity here with Cambodia which, as you have indicated, one would never have expected to see in quite some time. This is a window of opportunity that is quite unique in the last 20 years.

Conditional MFN, of course, is not the norm. Rather, it is the exception, as was pointed out. Even China does receive MFN treatment, although that is reviewed annually on the human rights issue.

With respect to Cambodia, we believe that the maximum possible encouragement should be provided. We believe that our interests are protected, even with unconditional MFN. That is to say that Congress always retains the authority to take alternative action, should the situation radically change.

But we would like to see the greatest encouragement provided to the Cambodian regime now. They are very anxious for international recognition, anxious that democracy be supported, to the extent possible. Things there are certainly not perfect, but they are not perfect hardly anywhere in the world that I can think of. Yet the norm is unconditional MFN.

Senator GRASSLEY. Going beyond the immediate legislation, are there other countries to whom you are looking at granting MFN status? And I am particularly asking about Romania, and the determination that it is in full compliance with Jackson-Vanik. Would that country perhaps be next? If you do not have a policy, I will not ask you to declare one.

Ambassador BARSHEFSKY. Let me just say, Senator, that we have not come to the Committee to ask for graduation for Romania. We think that would be premature at the present time. But we certainly are looking at the situation.

Senator GRASSLEY. I thank you. And I will call the next panel then.

Ambassador BARSHEFSKY. Thank you so much, Mr. Chairman.

Senator GRASSLEY. The next panel will be testifying on the GSP program as well. It includes Mr. Ronald Parrish, vice president of corporate development, Tandy Corporation, Fort Worth; Mr. John Smith, president of Amsurco in Mendham, New Jersey; and Mr. William Cunningham, legislative representative, AFL-CIO, located here in Washington, D.C.

We will proceed in the order I introduced you. So that would be Mr. Parrish, Mr. Smith, and then Mr. Cunningham. When one is finished, the next one can start, without any intervening lapse of time.

STATEMENT OF RONALD L. PARRISH, VICE PRESIDENT, CORPORATE DEVELOPMENT, TANDY CORPORATION, FORT WORTH, TX

Mr. PARRISH. Good morning, Mr. Chairman, and members of the staff. My name is Ron Parrish, and I work for the Tandy Corporation, an American owned and operated consumer electronics and personal computer retailing company, headquartered in Fort Worth.

Tandy is the parent company of Radio Shack, America's most familiar consumer electronics company, with 6,700 U.S. retail stores, as well as two newer chains—Computer City Supercenters and the Incredible Universe.

Thank you for giving me the opportunity to testify today on behalf of the Coalition for GSP, in support of a long-term renewal of the U.S. Generalized System of Preferences program.

The Coalition consists of U.S. companies, large and small, and major trade organizations, including the EIA and the National Retail Federation. Tandy is a member of both organizations.

The Coalition represents American producers, importers, retailers, and their workers in key sectors of the economy, including electronics, chemicals, wood products, sporting goods, food processors and other consumer products.

GSP contributes significantly to Tandy's competitiveness in a very tough marketplace. Radio Shack has imported products from the Orient under the GSP program since its inception in 1976. The program helped Tandy establish valuable vendor relationships in Korea, Hong Kong, Taiwan and Singapore, all countries which were graduated from GSP in 1989.

Our annual imports from the GSP countries of Malaysia, Thailand, Philippines and Macao currently exceed \$150 million.

Tandy currently has on open order for the Christmas season over \$86 million from these GSP countries. If GSP is not renewed, retroactive to today, Tandy will directly lose \$4 million in duties on these current open orders, and at least that much again on the gross margin as these products sell through to our customers.

If the GSP program is terminated, our customers will see future price increases of 10 percent or more on a large selection of compact disc players, calculators, stereo speakers and other items.

GSP is a good program, with tangible benefits, not just to American companies and consumers, but also to the designated developing countries. It is an alternative to foreign aid that actually works. In the thin margin consumer electronics business, the GSP duty re-

lief alone has made the difference as to whether manufacturing in a developing country is economically viable.

The GSP program historically gave Tandy alternative source capability from Japan, and currently provides alternatives to China.

The central message I would like to convey to you, Mr. Chairman, is the fundamental need of American business for predictability. Of course, we realize that not very much in life is completely predictable. However, the renewal process for GSP in recent times, and even the implementation of the GSP program's graduation provision, frankly has been a real mess.

Yesterday, the GSP program expired for the third time in 25 months. Every time GSP expires, we are faced with a host of questions. Will GSP be renewed and, if so, when? Will renewal be retroactive? How should we price the goods featured in our catalogs? A wrong answer to any of these questions can be very costly.

Mr. Chairman, this is the 1996 Radio Shack catalog, which is going to press literally this week, as we appear here. Tandy has always honored its catalog pricing. Products and pricing for this catalog have in many cases been established since last fall.

As we have in past years, Tandy elected to anticipate renewal of GSP for the coming year, in order to avoid increasing prices to our customers. Thus, 10-month or 1-year renewals of GSP really do not help us that much.

Because we are committed to honoring the catalog prices, short-term renewal of GSP merely perpetuates our pricing risk. Therefore, we strongly urge you to renew it once and for all, for 5 years.

While I continue to have concerns, Mr. Chairman, I was gratified to hear Ms. Barshefsky state that there would be an adequate time period if the administration decides to graduate Malaysia. We continue to hear rumors about when this may happen, and business decisions based on rumors are very costly.

We would suggest some public process where American companies, and the public who are affected by these decisions, be established before the decision is final.

The fact is, Malaysia produces a significant percentage of compact disc players, calculators and loudspeakers. So loss of GSP in Malaysia will have a measurable effect on consumer prices.

Mr. Chairman, I can see that my time is about up. Before I close, I would like to share two quick examples of how GSP benefits flow through to our customers. It will just take a moment.

This all metal speaker is now known as the Optimus Pro-X5. It is the most popular loudspeaker ever produced. It was introduced in 1977, at the retail price of \$49.95. Radio Shack has sold well over 7 million of these speakers in the last 18 years. It was produced in Korea and Taiwan when they were GSP countries, and now it is produced in Malaysia.

While the Optimus Pro-X5 is now a half-inch slimmer all around than its great grandparent, it still produces great sound. And, of course, it is a little bit more expensive. It now sells for \$49.99, 4 cents more than it did in 1977.

This is a financial calculator that I bought in 1982 for \$369.00. Many company financial officers had to learn to use one of these calculators, with its backwards arithmetic input because it was just

about the only way to calculate yields, rates of return and present value.

This Radio Shack financial calculator, which is made in Thailand, now sells for less than one-tenth of what I paid in 1982. For under \$35, families can now have a scientific or financial calculator. This calculator is called a math tutor calculator, which is produced in Malaysia, and sells for under \$25.

These are just examples of how GSP benefits have helped produce such good values.

Thank you, Mr. Chairman, for the opportunity to visit with you, on behalf of Tandy and our 37,000 American employees, and the other companies across the U.S. who use the GSP program to increase their competitiveness.

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

**STATEMENT OF JOHN L. SMITH, PRESIDENT, AMSURCO, INC.,
MENDHAM, NJ**

Mr. SMITH. Good morning, Mr. Chairman. My name is John Smith. I am president of Amsurco, Inc., an importer of products used to make specialty inks and coatings in the United States.

We sell these products to customers that include Sun Chemical, BASF, J.M. Huber and other small varnish and ink makers. Amsurco is based in New Jersey, where we have five employees. We also have employees in Illinois and Ohio.

I am very pleased to appear before you today on behalf of the small businesses that are members of the Coalition for GSP. In addition to Amsurco, these members include companies that use GSP to supply auto parts to U.S. motor vehicle manufacturers, leather upholstery to U.S. furniture manufacturers, and bulk frozen vegetables to U.S. food processors.

The Generalized System of Preferences is the lifeblood of Amsurco. In 1986, we joined with Ascona S.A. of Argentina to establish an export opportunity for Ascona's environmentally protective specialty resin products.

The birth of this partnership is illustrative of the way GSP benefits both developing countries and American companies. So I would like to take just a moment to relate the story to you.

First, it is important to know that the resin derivatives we import from Ascona are not available in the United States. They are produced by the sap of a specific living variety of pine tree that is no longer grown in the United States.

U.S. manufacturers produce resin derivatives that are the product of grinding and cooking cut trees. And the result is a somewhat inferior product to the one manufactured directly from the pine sap of living trees.

On a visit to Ascona in 1983, I discovered that Ascona was collecting crude gum and making refined products, but not exporting much. I offered to take some samples back to the States to have them analyzed, and determine whether there might be an export opportunity for Ascona in the United States.

Initially, the U.S. market for Ascona's product was very limited. Basically, GSP duty benefits, which saved us tariffs ranging from

7 percent to 14 percent, offset our transportation costs and other related costs of getting the product into the United States.

But the GSP advantage gave us and Ascona the time we needed to improve quality of the Argentine product. Little by little, Ascona acquired the technology required to give us the edge we needed. Soon we were able to sell in the United States, not only at local competitive prices, but with some technological superiority.

We currently import between \$15 million and \$18 million from Ascona, and GSP saves us approximately \$1 million to \$2.5 million a year in duties.

We could not have gotten any foothold in the U.S. market if we had not had GSP to offset U.S. duties so that we could fund considerable up-front costs. GSP also gave Ascona a steady customer that enabled it to increase its employment to around 1,200.

This company takes very good care of its workers, providing many of them living in extreme rural areas, with food and housing, and requiring that their children be enrolled in school. Transportation is also provided for the children to these schools.

I think it is also important to point out that the ripple effect of GSP extends beyond Ascona, Amsurco and our customers. Ascona imports from the United States approximately 30 to 40 percent of the raw material used in the product that is re-exported to the United States. And I might add that the ink companies in the United States then re-export their product all over the world, including Japan and Europe.

Thus, GSP indirectly benefits U.S. flag carriers that bring the product from the United States to Argentina, and the product from Argentina to the United States, and the product that goes to the rest of the world.

It benefits our freight forwarder in Virginia. It benefits the inland shipping lines and warehouses that distribute our product to our customers.

GSP does all of this at no cost to American taxpayers, not even in the form of foregone duties. Without GSP, we would not import this product at all. Thus, GSP has become for our company, as well as others, a solid tool for creating new products, opening new markets and creating employment, not only in developing countries, but in the United States as well.

Today we were hit with an enormous tax due bill from the Customs Service. GSP expired yesterday and, from today on, we must post duties ranging from \$40,000 to \$60,000 a month on resin derivatives we import from Ascona.

I have to tell you that small companies like Amsurco do not have \$40,000 to \$60,000 to send to the U.S. Government every month, while we wait hopefully for GSP renewal.

Unlike much larger companies like Mr. Parrish's, we do not have the cash flow or credit lines available to absorb these sudden charges; we have to get a loan. And, let me tell you, it requires an act of God to convince a banker to give you money until GSP is renewed, especially when the banker finds out that renewal requires an act of Congress.

It does not matter to him that there is strong bipartisan support in Congress for renewing GSP. He wonders why, if support is so strong, GSP was renewed for only 10 months last time, and 12

months the time before that. He wonders if my company will fold before renewal comes, if at all. The only way we can get money is to use collateral, and that collateral, in this case, is my house.

It is a gross understatement to say that I am counting on renewal being retroactive today, August 1, 1995.

I join with Mr. Parrish today in asking you to renew GSP for another 5 years, and do it as soon as possible.

Mr. Chairman, I thank you for the opportunity to share with you today Amsurco's very happy experience with GSP, while it was in effect.

I urge you and the members of the subcommittee strongly to do everything you can to ensure that this important program is renewed for another 5 years.

I will be happy to answer any questions you may have.

Thank you very much.

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

STATEMENT OF WILLIAM J. CUNNINGHAM, LEGISLATIVE REPRESENTATIVE, AFL-CIO, WASHINGTON, DC

Mr. CUNNINGHAM. Thank you, Mr. Chairman.

The AFL-CIO appreciates the opportunity to present its views on the possible extension of GSP, and particularly on the worker rights conditionality contained in the statute.

The AFL-CIO supports extension of GSP, but we subject modest but substantive changes in the worker rights section.

We believe that GSP should be extended because of the worker rights provisions. More importantly, if worker rights are ignored, we are concerned that the program will continue to be essentially an expensive foreign aid program, and provide benefits to only U.S. and foreign multinational corporations.

Therefore, we believe that there should be changes in, and improvement of, the implementation of worker rights conditionality, a graduation of participant countries, the exclusion of import-sensitive items which affect U.S. manufacturers, the elimination of competitive need limits and a prohibition on extending GSP to China—a specific prohibition in that area.

As you remember, Mr. Chairman, this provision was enacted in 1974. But, in 1984, the Congress looked over the provision and found out that the benefits were going to privileged elites in the countries, and not the workers.

To remedy this situation, the Congress and the President established a new criteria, that a country must be taking steps to comply with internationally recognized worker rights.

This was an important step but, unfortunately, the experience under that formulation has not worked out very well. The AFL-CIO and other people have provided petitions to the administration to deny GSP in countries that are repressing their workers, and this has not been successful in many cases.

Therefore, we are suggesting a substantive legislative change in the area of international worker rights, which requires behavior on the part of those countries.

We would suggest that the "taking steps" language, which is essentially the ability of our Government to say that a country is doing its best effort, be changed to a behavioral requirement that

the country has adopted and is enforcing laws that protect internationally recognized worker rights.

We also have some suggestions for administrative review and changes. I think probably the most important is that GSP benefits should be allowed to be removed in areas where you find violations of worker rights.

If there is an economic section, for example, that is doing electronic components, and they are not allowing their workers to organize or collectively bargain, GSP benefits for those economic sectors in that country should be denied. We also suggest a 3-year annual review.

On your issue of the pay-go requirements, Mr. Chairman, this is probably the most important issue that you will face. This bill, if done, will be done in a reconciliation bill. I happen to be the budget guy, the tax guy and the trade guy.

A 5-year extension of GSP is a \$2.1 billion problem, from a budgetary point of view. We specifically recommend that you consider legislatively, or by formula, graduating Malaysia, Thailand and Brazil. They have almost half of the benefits of GSP. These are major exporting nations. The people in those countries do not have any problem getting into this market. If you do that, we believe that you will save \$870 million of a \$2.1 billion problem.

We also believe that the import-sensitive item provisions should remain in place.

And there is a provision in the law, which you are aware of, called competitive need limits, which allows domestic producers that can show that they are being impacted by GSP imports to get relief.

Unfortunately, there is also a waiver provision that is given to the President. Our experience with this waiver provision given to the President is that they grant the waivers almost systematically. So domestic producers who are impacted by GSP-reduced products do not get any relief under this provision. We would suggest you do it.

Finally, Mr. Chairman, last year, when the GSP language was sent up here, there was a specific definitional change that would have allowed China to get GSP.

It is not in this year's language, which passed the Ways and Means Committee. But we believe that, given China's behavior to date, China should be specifically prohibited from getting GSP benefits, because of their workers and human rights abuses. But, as importantly, it would probably increase the trade deficit between our two countries. As you well know, China will exceed the trade deficit we have with Japan within 2 years. Our concern here, however, is the issue of worker rights and GSP benefits.

If we get a substantive legislative change that requires countries to go beyond taking steps to enforce their own laws and protect their workers, we would support and work for an extension of GSP.

And we believe that you can probably get rid of part of your budget problem by graduating those countries who have no problem getting into this county.

Thank you, Mr. Chairman.

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

Senator GRASSLEY. Mr. Parrish, how will the graduation of Malaysia affect your sourcing decisions? How would you adjust to the loss of GSP benefits for Malaysia, assuming that it would happen?

Mr. PARRISH. Well, Mr. Chairman, nobody knows for sure in our company. But it appears most likely that we would be forced to source more from China if the vendors we have in Malaysia were not able to be competitive.

On a recent trip to Malaysia, none of them indicated that they felt they could be competitive with China, without GSP.

Senator GRASSLEY. Basically, you are concerned not about the change of status, but the timing of it, and how long a period of phase-in you would have, right?

Mr. PARRISH. I am concerned about the change in status, but I would have to say that the timing is more important to us because you cannot just close a factory in Malaysia and open it overnight somewhere else. It takes some time to get the infrastructure completed, and it just takes a fair amount of time to make these decisions.

Senator GRASSLEY. I would like to ask your opinion about something Mr. Cunningham brought up—whether the GSP program has had a positive effect on worker rights in the beneficiary countries, and if you have any specific examples.

Mr. PARRISH. Well, I have not personally been to most of these countries, but the experience that I have indicates that the electronics manufacturers that work in these countries are world class companies. I believe that they do exercise care about worker rights.

I am not familiar with all the industries, or all the concerns that may happen in the country, but I am not concerned about that in the field of electronics.

Mr. CUNNINGHAM. Mr. Chairman, could I just comment. We have submitted to the administration on a number of occasions specific examples, particularly in Malaysia in the electronics section, of systematic repression of worker rights. We would be glad to make that available to you and the Committee.

I respectfully disagree with the gentleman here, who said he has not been in that country. We have people on the ground in Malaysia, who have shown that there has been systematic repression of workers, and we would like to make that part of the record.

Mr. SMITH. Mr. Chairman, if I might add, Argentina is a highly unionized country. And the workers as Ascona certainly are unionized, so they do have collective bargaining protection.

Senator GRASSLEY. Of course, Mr. Cunningham, we would receive the list you wish to give us. Following up on what you just said, following up on Mr. Parrish's comment, I would ask you whether or not there would be any concession on your part whether the GSP program has had any beneficial effect on improving workers' rights in the beneficiary countries?

Mr. CUNNINGHAM. I think it has some, Mr. Chairman. But, as we pointed out, there is a deficiency in the language right now. Regarding the idea of taking steps, I think what happens in most cases is that a legislature passes legislation saying that there are worker rights, but there is no behavioral content behind it. In other words, people are not allowed to form unions and collectively bargain. They are prohibited from doing that in behavior.

So you have a statute that says they can do it; you have a behavior that says they cannot. There is systematic repression of workers, especially in these foreign trade zones within the countries, and there are problems there.

We hope that, by this modest change, this legislation will improve worker rights.

Remember, this program is designed not only to help U.S. companies get cheap products, but improve the livelihood of workers in those countries.

If I may just digress a minute, Mr. Chairman. One of the problems facing our Nation, on a bipartisan basis, is what we do about globalization of production. If we have workers around the world who are earning significantly less, but producing the same product that American workers can produce, the problem that we have with our trade program now, i.e., significant trade deficits will only increase. Therefore, production will not take place in Iowa; it will not take place in Michigan; it will take place overseas, and we will be importing products at the end of the process.

So worker rights is a way of lifting foreign workers up to get a reasonable wage. And, candidly, to make sure that there is not a significant difference between what U.S. middle-income workers can make and what foreign workers can make. And that is the basic concern that we have about our trade policy, that we are doing nothing in a systematic way to make sure that workers around the world get a living wage.

In large part, it is in our own self-interest because our concern is that, if you can produce overseas much more cheaply than you can produce here, they will not generate work for our people in this country.

As you know, Mr. Chairman, long-term, well-paying jobs is a concern of all Americans, irrespective of party or region.

Senator GRASSLEY. Do you see graduation of Malaysia from the program helping you encourage workers' rights there?

Mr. CUNNINGHAM. No. There is a logical inconsistency there. And this is a budgetary concern.

If we had the language we are suggesting, that there would essentially have to be a provision that requires them to implement their worker rights in a behavioral context, I think we would say that this is the case.

We understand what you are going through, because we worry about Medicare recipients, we worry about education programs, and all these things. And we know what kind of budget pressure you are under.

This program was designed to be a small program, to help certain specific countries and certain specific industries. It has grown like Topsy. You have to make those hard decisions.

In this area, I think it would be wrong. But, as was pointed out by my colleague on the panel here, they are moving out of Malaysia anyhow because they can get a cheaper price—with or without GSP—in China. So the question then becomes, how do you basically follow the production unit?

The straight-up answer to your question is, if you remove Malaysia from GSP, you are probably going to have less impact. Our ex-

perience today with Malaysia has been that we have had minimal impact under present law anyhow.

Senator GRASSLEY. My last question for this panel would be to you, Mr. Smith. Do you support the changes in the House Ways and Means bill, H.R. 1654? Or do you have any suggested changes in the bill?

Mr. SMITH. Mr. Chairman, personally, I have to be concerned because the House bill, H.R. 1654, calls for a per-capita income limit of \$8,000. That sounds like quite a bit of money. But when you consider that we consider the poverty line in the United States around \$14,000, that is really not a whole lot of money.

Second, it is almost the same as saying that the average per-capita income of the United States is, say, \$26,000 or \$31,000. Argentina is \$8,600, yet there are no Appalachias in the Argentina, there are no inner cities in the Argentina, and there are no low-income areas in Argentina.

The areas where Ascona operates are extremely poor areas, poor soil. They only grow things like pine trees. The workers who have lived in that area have not had any other jobs, other than subsistence. Now they have very good jobs that they stand to lose, and it is because of using a concept of an average per-capita for a country as a means of determining whether or not there is need.

That is my primary concern for H.R. 1654.

Senator GRASSLEY. Thank you all very much.

I call the next panel. Once again, Ms. Barshefsky will testify. She will be joined by Honorable Peter Watson, Chairman of the International Trade Commission, and Ms. Vincette Goerl, Chief Financial Officer of the U.S. Customs Service.

Ambassador Barshefsky, I think I will start with you again.

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

Ambassador BARSHEFSKY. Thank you, Mr. Chairman.

If I may ask that my full statement be accepted for the record, I will be pleased to summarize.

Senator GRASSLEY. Please do that. I am sorry that I did not announce to everyone, except to Senator McCain, that your entire statement would be printed in the record if that is each person's desire.

Ambassador BARSHEFSKY. Thank you, sir.

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

Ambassador BARSHEFSKY. Mr. Chairman, as Members of this Committee, you know that USTR has an enormous mission—to develop and coordinate U.S. international trade commodity and trade-related direct investment policy; to articulate trade policy for the administration; and to lead negotiations with other countries on these matters.

This is a mission that USTR tackles with a very small, very highly-motivated, very dedicated staff, whose sole mission it is to promote U.S. economic interests through the negotiation of trade agreements.

The 166 full-time employees proposed for fiscal year 1996 is complemented by personnel support from other Federal agencies, and

by students and interns. Together, these staff have helped to produce remarkable results.

Mr. Chairman, we are proposing a 2-year extension of USTR's authorization of appropriation for fiscal years 1996 and 1997.

The administration's request recommends a fiscal year 1996 authorization level of \$20,949,000, the same as the level originally appropriated for fiscal year 1995 and the amount requested in the President's budget for fiscal year 1996.

The authorization request for fiscal year 1997 is such sums as may be necessary. For each fiscal year, the representation fund authority would remain at \$98,000, and the amount available to be carried over from one fiscal year to the next would remain at \$2.5 million.

In short, Mr. Chairman, the administration is recommending straightforward extensions of existing authorizations.

Mr. Chairman, the administration and the Congress can take pride in what has been accomplished on trade since President Clinton took office some 30 months ago. The Clinton administration, in tandem with the bipartisan coalition in Congress, has achieved the broadest range of trade agreements, perhaps in this country's history.

Through July, USTR has completed over 150 trade agreements. That is slightly more than one agreement per week, every week, since January of 1993. That is also just about one agreement for every full-time person we have in the building, including our administrative staff and our secretarial staff.

These agreements include the North American Free Trade Agreement, the largest free trade area in the world, the Uruguay Round agreement, which is the largest multilateral trade agreement in history. It includes future trade expansion in Asia through the APEC agreements.

It includes our Latin America Free Trade for the Americas initiative, 17 agreements with Japan, which open that key market, 15 bilateral investment treaties, 13 intellectual property rights agreements, including with China, an agreement covering 80 percent of global shipbuilding, the largest procurement agreement in the world with the European Union, and so forth.

These agreements have already begun to promote growth and create jobs in this country. U.S. exports have grown by over 17 percent in the first 5 months of 1995, a rate over three times that of export growth when President Clinton was sworn into office.

Our work to tap the potential of ever-expanding world trade has just begun though, Mr. Chairman. Over the next decade, we confront quite literally a world of opportunities. A major priority for this administration, as we look to the next 2 years, is to continue to set the stage for future trade expansion with Asia and Latin America.

Traditional markets like Japan and Europe are critical, and will remain critical to America's export base. But the fastest growing economies in the world are in Asia and Latin America. Let me just touch on each briefly.

A major priority of this administration is to build on the Bogor Declaration, the commitment by the Asia-Pacific nations in APEC

to free and open trade in the Asia-Pacific region by the year 2010 and 2020.

This region is the fastest growing region in the world. Over the past three decades, Asia's share of the world GDP has grown from 8 percent to more than 25 percent. East Asia is the number one export market for the U.S. We are now in the process of working intensively with our APEC partners for the means by which free and open trade can be achieved.

Latin America is second priority for the administration. Latin America is the second fastest-growing economic region in the world. By 2010, the United States will sell more to Latin America than it does to Europe and Japan combined.

U.S. exports to this region have more than tripled in the past 10 years, creating 600,000 new U.S. jobs. Forty cents of every trade dollar in Latin America is spent on U.S. imports into Latin America—40 cents of every trade dollar.

This is a region which, by proximity and propinquity, likes and wants U.S. goods. We have a historic opportunity in Latin America. This administration, working with Congress, plans to pursue not only the Free Trade Area of the Americas, but also NAFTA expansion, initially through Chile's accession to the NAFTA.

Mr. Chairman, we have the World Trade Organization to take care of in the next 2 years. We must implement the Uruguay Round results. We are actively involved in the accession of 26 other countries to the WTO—China, Russia, Saudi Arabia, Taiwan, just to name four.

Those accessions must be on commercially sound terms. This requires months and months of intensive effort for every accession. In the case of China, we are on year number 8.

In addition, of course, we are completing negotiations in financial services, in maritime, and in basic telecommunications. We will begin negotiations on bribery, on competition policy, and a host of other issues in the WTO.

And last, of course, we will have other priorities: Continued bilateral intensive discussions with China on market access for goods and services and agriculture; intensive negotiation with Japan on deregulation, competition policy and a variety of sectoral issues; implementation of the NAFTA—as I have indicated, Chile's accession to the NAFTA; continued negotiation of bilateral investment treaties and intellectual property rights agreements; and, of course, using the tools Congress has given us under section 301, special 301, Title VII, section 1377 of the Trade Act, all of these tools used to open foreign markets to our competitive goods and services, as well as to enforce our trade agreements.

Mr. Chairman, we believe that our budget request for FY 1996 and fiscal year 1997 will support this extraordinary agenda of USTR.

Of course, we are efficient, have always been efficient, and intend to remain efficient. And we believe that USTR is probably the best bargain in Government—with apologies to my colleagues here.

Thank you, Mr. Chairman, for this opportunity to appear before you.

Senator GRASSLEY. Mr. Watson?

STATEMENT OF HON. PETER S. WATSON, CHAIRMAN, UNITED STATES INTERNATIONAL TRADE COMMISSION, WASHINGTON, DC

Mr. WATSON. Thank you very much, Mr. Chairman. It is always a tough act following the Ambassador on any panel.

Since the agency has not appeared before this subcommittee, I want to take the opportunity to personally congratulate the Chairman on his appointment, and his staff.

I would also like to welcome colleagues of mine from the Commission who are with us here today.

Mr. Chairman, I am indeed pleased to have this opportunity to meet with you today to discuss the activities of the U.S. International Trade Commission for FY 1996.

As with Ambassador Barshefsky, I would also like to submit my full written statement for the record, and just make a few points here.

The Commission greatly appreciates the subcommittee's previous support for the Commission's programs, and its continued strong interest in our work.

As the subcommittee is aware of the functions of the ITC and our activities, I will not dwell on these, except to speak to some recent and upcoming developments in our activities. And, following this, I will very quickly address the related budget issues.

Mr. Chairman, with the passage of the Uruguay Round, we at the Commission are pleased to play our part in the administration of the new codes, and we do anticipate the Uruguay Rounds Agreements Act will involve the assumption of substantial new responsibilities by the ITC, which will increase over several years, as various additional responsibilities devolve to the agency.

For example, on January 1, 1995, the ITC became responsible for conducting a new class of injury review investigations, known somewhat incongruously as the "black hole" cases of certain industries benefiting from countervailing duty orders, with the first cases likely to be conducted during the second half of fiscal year 1995.

Other expected new responsibilities included assisting Commerce and USTR in the pursuit of remedies in the WTO, in regard to certain subsidies, increased litigation as a result of the new legislative language, and providing USTR with advisory opinions in connection with the WTO dispute settlement process.

During a transition period, beginning in 1998, the Commission will be faced with conducting an injury review of all our standing antidumping and countervailing duty orders, in which the protected domestic industry expresses interest. Then, beginning in the year 2000, the Commission will be required to conduct a review of all 5-year-old orders.

In order to perform these new responsibilities, Mr. Chairman, the ITC will likely have to increase its professional staff by mid-1998.

Let me quickly address the related budget issues. Let me first say, most emphatically, that one does not enjoy coming before any committee of Congress suggesting that one wanted support in asking for, or seeming to lobby for, an increase in funds over last year, no matter how minimal.

We do want to assume our share of the reduction in Government and bureaucratic expense, and clearly we will operate at whatever level the Congress funds us. However, the record for our fiscal year 1996 request really should be clear to the subcommittee.

As the Committee will see, the budget request of the ITC for fiscal year 1996 is for \$47,100,000. At first blush, this appears to be a not insignificant increase over the designated appropriation of \$42,500,000 received by the ITC for fiscal year 1995.

But, for completeness, let me clarify for the record that the real appropriation was actually \$44,500,000, as it is the Commission's understanding that the conference committee factored into its final allocation a \$2 million carryover that the ITC had at that time.

We currently project annual expenditures of approximately \$44,500,000 for fiscal year 1995, and do not expect any carryover for use fiscal year 1996.

Indeed, at the risk of the appearance of special pleading, Mr. Chairman, I would like to emphasize that our fiscal year 1996 budget request is extremely moderate, when one considers that the fiscal year 1996 request, if met, would essentially allow the Commission to function as it is currently structured fiscal year 1995 levels, despite the fact that we anticipate a 10 to 15 percent increase in our workload, due to the Uruguay implementation responsibilities.

Despite no decline in its workload, the Commission has accomplished a significant amount of downsizing during the last 4 years. Notably, we have been successful in reducing our FTE levels from 487 at the end fiscal year 1992 to a projected level of 455 in fiscal year 1995.

Should the Commission not receive its full FY 96 requested appropriation from Congress, we will make appropriate adjustments, that may include a possible reduction in the work force--significant changes in the manner in which the Commission currently conducts all of its studies and investigations, and possible elimination of all agency details. Such adjustments, if necessary, will likely impact on the Commission's work product to some extent.

As you are aware, Mr. Chairman, the House Appropriations Subcommittee has recently recommended an appropriation of \$42,500,000 for the ITC in 1996, while our House Ways and Means authorizing subcommittee authorized \$44.5 million for fiscal year 1996.

The Commission has done its best to prepare for the possibility of a reduction by continuing to reduce its staffing levels in fiscal year 1995, with the help of a voluntary early retirement program and a hiring freeze.

By the end of fiscal year 1995, the Commission projects that it will have approximately 425 full-time permanent employees. This is down from the 447 that the Commission allocated for the beginning of fiscal year 1995.

However, a funding level of \$42,500,000, Mr. Chairman, would not leave the Commission with sufficient resources to fund 425 full-time positions, and the Commission would have to make a significant adjustment, both in regard to personnel and non-personnel expenditures.

While the Commission would likely make significant reductions to non-personnel expenses from current levels, it is currently estimated that a shortfall of approximately \$1,500,000 would still result.

As a result, the Commission expects to be forced to consider an agency-wide furlough of some duration, as well as a reduction in force.

In closing, Mr. Chairman, let me just say that the majority of the Commission's principal activities—as I know you and your staff are well aware—are controlled by legislation, and there are very real limits to the structural changes the Commission can make, without corresponding changes to our controlling statutes.

New fiscal realities present an opportunity to reexamine what our agency does, and how it does it. We do want to work with your subcommittee to examine seriously if there are ways to reduce our expenditures, and maintain the high quality of work that you have come to expect.

Mr. Chairman, I share the belief in the need to rethink and restructure Government, and fundamentally change the way it operates. I know that the leadership and yourself, Mr. Chairman, are also advocates of downsizing the bureaucracy, to create a more efficient and responsible Government for the people. In furtherance of these efforts, we will continue to actively participate to accomplish these initiatives, and keep the subcommittee fully apprised of our review.

Mr. Chairman, I want to thank you and the staff for the opportunity to appear here today, particularly in this distinguished company.

At this point, I would be happy to take my turn, and answer any questions you may have.

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

Senator GRASSLEY. Ms. Goerl?

STATEMENT OF VINCETTE L. GOERL, CHIEF FINANCIAL OFFICER, ACCOMPANIED BY JOHN DURANT, DIRECTOR, COMMERCIAL RULINGS DIVISION, OFFICE OF REGULATIONS AND RULINGS, U.S. CUSTOMS SERVICE, WASHINGTON, DC

Ms. GOERL. Good morning.

Senator GRAHAM. Mr. Chairman, I apologize, but I am going to have to leave shortly. Will we be able to submit some questions in writing for members of this panel?

Senator GRASSLEY. Yes—with answers expected within a week.

Senator GRAHAM. Thank you, Mr. Chairman.

Senator GRASSLEY. All right. Ms. Goerl?

Ms. GOERL. Mr. Chairman, and Members of the Committee, it is indeed a pleasure to be here this morning to discuss the activities of the Customs Service, and to present our authorization request.

I, too, have a longer statement that I would like to be included for the record, but I have a few short comments that I would like to present now.

Senator GRASSLEY. Yes.

Ms. GOERL. Customs fiscal year 1996 budget request totals \$1.4 billion and 17,133 FTE. Our budget request focuses on trade en-

forcement, drug interdiction and customer services, while recognizing the need for a Government that works smarter and costs less.

In this time of shrinking budgets, Customs cannot expect to receive regular additions to enhance operations, despite the likelihood of substantial annual increases in international trade, travel and tourism.

Instead, the agency is using innovative technological and organizational approaches, such as the Automated Commercial Environment and the reinvestment of resources freed up by restructuring our operations, to meet the substantial challenges of its mission.

Customs processed over 450 million passengers, and over 132 million carriers in fiscal year 1994. Our inspectors processed nearly 12 million formal commercial entries, and conducted 365,000 intensive exams of merchandise.

The work of inspectors and agents yielded narcotics seizures in the hundreds of thousands of pounds, and prevented the illegal export of currency, munitions, arms and sensitive technologies.

In all, Customs collected nearly \$22.9 billion in revenue, making the agency the second largest revenue producer in the Federal Government.

We expect that our workload will continue to increase in 1995 and 1996, essentially doubling by the year 2000.

As I mentioned at the outset, Customs Automated Commercial Environment, or ACE, will help Customs meet the increasingly complex workload challenges of its mission. This overall redesign of Customs automated processes is structured to be the next generation for commercial processing. When fully implemented, ACE will establish a seamless, interactive automated process for imports and exports, providing information sharing among all Government participants.

The investment represented by the development of ACE will enhance the quality of virtually every area of Customs processing, and benefit Government as a whole through the establishment of an international trade data base, that will allow a wide range of trade information generated or collected by Customs to be accessed by numerous other Federal agencies.

Significant quality improvements will include improved international trade controls, greater precision in revenue collection, greater facilitation for legitimate international business, full implementation of the automation initiatives of the Modernization Act, the facilitation of adherence to the provisions of the Chief Financial Officers Act, and improved internal controls and core financial operations.

But technology alone will not be enough. Basic organizational and managerial change will be needed too. The reorganization and reinvestment plan now being undertaken by Customs will allow the agency to keep its commitments to the nation and to the American people in the face of record workload levels and the prospect of relatively static, and even probably lower, budgetary resources.

The heart of our reorganization efforts involves fundamental change in the management and culture of the Customs Service. Critical to this cultural change are the goals of the National Performance Review and the clear direction from the Department of

the Treasury focusing on more efficient operations and improved service for customers.

These concepts are embodied in the slogan, "People, Processes and Partnerships." By this we mean an organization characterized by greater attention to our people, management by essential core processes and the formation of partnerships with our many customers as a means of improving our mission performance.

Customs has existed as an agency for over 205 years. During this time, it has developed a rich, and sometimes complicated, culture. Changing an institution that has developed over more than two centuries is no easy task.

With the help of this Committee, we can restructure our core processes and reinvest in field operations to meet the challenges of the 21st century.

We are well aware that changing the culture of the Customs Service will require a long-term effort, but this is one of the most important and lasting changes which we can hope to make.

We know that achieving our vision will not come easily, and we face many difficult challenges. But we are guided by a simple goal—to leave the Customs Service a better agency than when we found it. We welcome this Committee's assistance in making this goal a reality.

Mr. Chairman, I would be happy to answer any questions you may have.

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

Senator GRASSLEY. I would like to thank each of you on this panel.

If Senator Graham would like to go ahead of me, I will step out for a couple of minutes then.

Senator GRAHAM. Thank you, Mr. Chairman.

I would like to direct some questions to Ms. Goerl, relative to the development of some automated procedures within the bonding procedures of the Customs Service.

In 1994, Congress endorsed in the Customs Modernization Act some proposals for enhanced procedural changes and automation within the Customs Service, particularly to provide a procedure for the electronic verification of bonds, with surety, prior to the release of goods.

I understand that in March of this year, Customs stated that it did not feel that it had sufficient statutory authority to implement that procedure. Is this a correct recitation of the facts? If so, what are the absence of authority that the Customs Service feels that it faces?

Ms. GOERL. First, I will broadly answer your question. Mr. Durant, from our Rules and Regulations Office, is also here. With the permission of the Chairman, he could probably answer your questions.

The Modernization Act does provide for electronic bonding in the future. And we are very interested in this, as we should be, because we see the benefits of automation in our processes.

We have been working with the surety industry through a joint working group, to work through the different issues that present themselves in an electronic bond. Some time ago, we looked at an automated surety interface that would provide this. But, in the in-

terim, based on comments on the regulation and other information, we have had to look closely at the disclosure of confidential business information.

If it is all right with you, I would like to have John Durant address the specificity of that particular activity.

Mr. DURANT. Thank you, Senator. My name is John Durant. I am Director of the Commercial Rulings Division in Customs.

We have seen a draft, on the House side, of the legislative language, involving the legal issue that is being discussed. The issue is our ability to provide entry information to someone who may not ultimately be a party to the entry. The key thing focuses on a 15-minute turnaround, whereby we would notify the assurer, who would have the right to either accept or decline being the surety.

The point is that, if they declined being the surety, we would have provided what is generally confidential information to someone who then is not a party to the entry.

The administration has not taken a position on the legislation. It is currently under review. In general, we are strongly supportive of going to total electronic bond processing. That is the authority that was given to us under the Mod Act, and we do intend to go forward with that. But the specific provision of this 15-minute turnaround time is the issue that has raised some controversy.

Senator GRAHAM. Will you make a formal set of comments on the proposed legislation?

Mr. DURANT. We certainly will, when asked to. It will come from the administration. We have not to date, because there is nothing really moving yet. We have seen drafts of it, but there is no official administration position on it, as of this date.

Senator GRAHAM. I might submit some additional questions, subsequent to the hearing this morning.

Let me move to a different subject. I note that you are proposing in the Customs budget a reduction of approximately 90 persons in your staff, and approximately \$40 million in your budget for fiscal year 1996, as opposed to fiscal year 1995.

There has been a history of concern, particularly in the areas of the country which are experiencing rapid growth in their international commerce, of keeping the border agencies, such as Customs, up to staff to be able to meet the increased service demands of the import-export community.

Do you feel that, with these reductions in staff and budget, you will be able to maintain levels of service, especially in those ports of entry that are expanding rapidly?

Ms. GOERL. Senator, I do believe that we are working very rigorously through our reorganization, and looking very closely at where the activities in our ports of entry are occurring, and what is driving those changes, either in international trade or other issues of enforcement, to reallocate and provide with precision the best service we can to fulfill our responsibilities, both in enforcement and facilitation of trade.

Of course, that was one of the driving reasons for our reorganization, which we are within a couple of months of implementing. And a lot of that also has to do with the automation initiatives that we have been developing, especially with our Automated Commercial Environment.

We believe that we can continue to provide for our responsibilities with the budget as presented in the 1996 President's budget. We, of course, recognize the severity of the budgetary climate that is surrounding us, and we are doing our very best to think ahead to the future. By using technology and different approaches to mobilizing our resources, we can achieve what we need to in the face of climbing international trade, smuggling and illegal narcotics.

Senator GRAHAM. Well, I would just comment, before asking a final question.

I recognize that this is a period of constriction of budgets and downsizing. Your agency carries out some extremely important functions. How well you function has a lot to do with the success of literally tens of thousands of American enterprises, which depend upon a fluid movement of goods and services across international boundaries.

The fact that you are over 200 years—the Service that you represent is over 200 years old—is indicative of the fact that the Customs Service was one of the early revenue collectors for the Federal Government. Thus, we have an interest in your being able to carry out that important revenue function.

Finally, you alluded to the distressing fact that our international borders are a major contact point for illicit activity, such as the importation of illegal drugs.

So it is important, even in this environment of reduction of Government, that your agency be able to carry out its task of assisting commerce, collecting revenue, and enforcing our laws.

With that statement, I know that the Customs Service has been developing a staffing pattern which would determine how many personnel were required to meet its responsibilities at different points of entry into the United States, based on the number of tons of material that had to be inspected, or other objective criteria.

As part of your overall review of the Service, is that staffing pattern being reviewed, and will that be part of the changes implemented in a couple of months?

Ms. GOERL. I think we are constantly looking at data and information about trade, passengers, vessels, cargo, and so forth. We build models to look at how our workload is affected by what happens in international trade, by what happens to tourism, and by what happens to many other variables.

We are gathering even more information with our various automated tools, to help us model staffing patterns, to give us some indication about what might be in the future, so that we can reallocate resources appropriately, in an efficient and effective way.

So, yes, I would say that we are doing that. If anything, we are gathering more sophisticated automated ways in which to use that information to help us make the best judgment about that. Of course, mobilizing resources, especially people if you have to move them, is not a simple, overnight task.

Senator GRAHAM. But, for an agency that has been at this business for over two centuries, this is not a unique or unusually intellectually challenging task.

I think, for instance, in the context of a large State university system, in which there are changes in student choice and enrollment, there has to be some formula by which the university system

decides how many faculty members each of its constituent members will receive, based upon objective factors such as student enrollment.

It is a more sophisticated process than that, but that is essentially what you are trying to accomplish, is to put your resources where your demand is, with demand being based on some external set of indicators.

It seems to me that ought to be the goal of the Customs Service, particularly in a time of downsizing, to be able to assure that it is putting its personnel where the needs are, with those needs determined by some standards of utilization.

So I hope that, as part of this overall reorganization, and particularly the downsizing, that will be a significant part of your effort. Frankly, the history that we have seen in the past, if that is not done, then what tends to happen is that you ratify the status quo in the areas of the country that are experiencing growth in their international economics end up getting further and further behind in the level of services available, and all of the negative consequences from too many illicit substances getting into the country, to too little tax revenue being collected, as a consequence of that failure to stay current.

So I would encourage you to give priority to developing that model of staffing, and to see that it is aggressively implemented.

Ms. GOERL. I appreciate your comments, and I assure you that we are looking at that, especially in my area of responsibility. It seems that I am always looking at better ways to maximize the use of the resources we have, and giving advice to the Commissioner and everyone else on ways to improve that.

I would just add one thing. One of the aspects of the reorganization is the Strategic Trade Centers, which focus strategically on trade in the future. The Strategic Trade Centers will help us look at where changing conditions internationally occur, so that we can mobilize problem solving and other kinds of interdiction efforts in the future, quickly.

In the process of doing that, we are able to mobilize resources even more quickly for changing patterns of trade or trade enforcement.

So there are a number of things that we are working on in Customs to provide even more sophistication to these allocation methodologies.

Senator GRAHAM. Thank you, Mr. Chairman.

Senator GRASSLEY. Thank you, Senator Graham.

I will start with USTR. First of all, I think your concern about being a small agency and doing well, I think that is recognized on the Hill, and I hope that you feel good about that, and I think Congress feels good about it. As far as your budget request is concerned, I think it is very close to a ballpark figure that we can support. When I said budget request, I mean the reauthorization figures.

So, instead of going into just budget matters, I would ask you some other questions. There are a number of plans to reorganize the trade apparatus of our Government. I would like to know what USTR's position on bringing all the disparate trade functions of Commerce, the Ex-Im Bank, OPEC, and injury determination func-

tions of the ITC. I suppose I might have left some out, but anyway, bring them all together into one trade organization or agency.

May I have your comments on that, Madam Ambassador?

Ambassador BARSHEFSKY. Yes, sir. USTR does not favor the proposals that would, in particular, dismantle the Commerce Department and add functions to USTR.

As you know, perhaps better than anyone here, USTR was created by the Congress as a focal point for trade policy, coordination and for trade agreement negotiation.

Prior to the creation of USTR, trade was as it remains today, the product of many different agencies and many different jurisdictions. I am afraid that is quite unavoidable. It is inevitable that the Department of Transportation, the Department of State, the Department of Treasury and others will carry on international discussions to some extent, because of the nature of their jurisdiction and their particular expertise.

It was felt by Congress that overall policy coordination, and the negotiation of most of the major trade agreements should reside in one agency, and that the agency should reside in the Executive Branch. It should have the ear and attention of the President of the United States, and it should be accountable to the Congress of the United States, and it should be headed by a Cabinet-level official whose sole job it was to look at trade policy and negotiate agreements.

Because of its focus, and the intensity with which it can focus, USTR has, from almost the point of its inception, been viewed as an agency that has very successfully carried out its mission.

If we look at the record of the last 30 months, as I have pointed out, it is really quite astounding what a bipartisan Congress, and an administration committed to trade, can do together.

To the extent USTR is augmented, what we see is not a more positive benefit in terms of trade policy or trade agreements negotiation. What we see instead is a diffusion of function, a diffusion of mission, a diffusion of goals. And adding personnel really will not alter that situation.

International trade is 30 percent of our gross product—30 percent—by the end of this year. It certainly deserves at least several Cabinet-level officials whose functions are complementary, and yet distinct.

That is the situation we have now, with USTR as the policy coordinator and negotiator, and the Commerce Department as the trade promoter and the voice of American business abroad.

This has worked remarkably well, and we see no reason to change it. In fact, we think a change would be detrimental, and indeed would leave Congress to recreate USTR as it has been.

Senator GRASSLEY. On another point, dealing with bi-national panels, several years ago—I suppose it goes back 8 years—when we had the Canadian-U.S. free trade agreement up, I expressed concern during our Judiciary Committee hearings with a bi-national panel dispute resolution system.

We were told at that time that the system would be temporary, and would be replaced. Nevertheless, as you know, the Chapter 19 dispute resolution system now seems to be pretty much a perma-

ment part of NAFTA, and will be extended to Chile and any other country that becomes a NAFTA member in the future.

I heard a representative of the Chilean-American Chamber of Commerce tell the ITC recently that the Chilean industry has great concerns about Chapter 19. Several of our own industries have expressed serious objections to this process. Will the administration review this issue carefully before it comes up in the current negotiations with Chile?

Ambassador BARSHEFSKY. Mr. Chairman, as you know, President Clinton and his NAFTA counterparts, as well as President Frei of Chile, have indicated that Chile will accede to the NAFTA.

In that regard, of course, we have under review all of the chapters of the NAFTA, as well as the labor and environmental side agreements, the supplemental agreements to the NAFTA, to determine how close Chile's regime is, as it relates to each of those provisions and chapters.

We know that in some areas the Chilean regime is very close, and can meet NAFTA disciplines. In other areas, more negotiation will be required.

With respect to Chapter 19, we have had one session focusing on this issue with the Chileans. Our desire, before doing anything, is to get some sense of the Chilean judicial system, some sense of the administrative law system in Chile.

This is very important, Mr. Chairman, for the following reason. Many countries have antidumping, countervailing duty, and other trade laws that are of concern to U.S. business as the U.S. exports increasingly more goods.

The question, can U.S. exporters who are faced with these cases receive due process, receive an open and impartial hearing examiner, receive rights of appeal, receive some confidence that their matter will be taken up in a fair, transparent and impartial manner is extremely important for the future of our export potential and the comfort of our exporters—particularly small- or medium-sized business, who can ill afford unmeritorious claims and suits?

In that regard, Chapter 19 is a very important tool and protective device for U.S. exporters, who may be concerned about the equities that exist in foreign countries.

From our point of view at this stage, we have focused on the Chilean judicial and administrative law systems, and we would like to make an assessment following the discussion on a range of information that we have requested from Chile.

Senator GRASSLEY. I think your concern about the fairness is legitimate in almost any environment. I do not know whether it is included in your reference to Chapter 19 that the present process, thus far, has given us that fairness. Is that what you are trying to imply?

Ambassador BARSHEFSKY. The administration believes that Chapter 19 has worked very very well. There have been some cases, as you know, of challenge—extraordinary challenge it is called in Chapter 19—to panel findings. Those challenges which have been heard by retired judges have not been successful.

On the whole, we believe Chapter 19 has worked well. We are, however, looking at ways in which the process might be improved. There is a NAFTA working group now, among the three NAFTA

partners, on improvements to the Chapter 19 process, including tighter ethical restrictions with respect to panelists. Certainly the administration will be actively pursuing those changes that would be desirable in Chapter 19.

Senator GRASSLEY. Well, would the new WTO agreement provide an appropriate mechanism for deciding the cases as true international disputes?

Ambassador BARSHEFSKY. The WTO mechanism, with respect to dumping and countervailing duty cases, is very very limited, and panels have very limited review over those decisions. That is of great concern to a number of U.S. exporters that feel that the panels will simply rubber stamp decisions made by foreign countries.

Senator GRASSLEY. As far as countries involved with the free trade agreements are concerned, then I think you are saying that maybe our concerns about whether or not American industry has any objections to the Chapter 19 process, they would have more concerns with WTO process?

Ambassador BARSHEFSKY. Well, I think there is no monolithic view on the part of U.S. industry. Those companies that tend to export more are concerned that they have access to adequate rights of redress, if their exports are blocked or impeded in any way.

Those companies that tend not to export may have somewhat different views with respect to alternatives to our and other countries' judicial processes.

From the point of view of the administration and Chile's accession to the NAFTA, our first task is to determine whether the range of concerns companies have had with respect to some foreign countries also exist with respect to Chile.

Senator GRASSLEY. Mr. Watson, you invited us to offer some suggestions. I have some questions. I am not sure that they should be considered in the form of suggestions, but these are reasonable points of view that I think can be raised, and I would like to hear your response. And they are fairly budget-oriented.

We have heard from some parties appearing before the Commission that the costs associated with bringing antidumping and countervailing duty cases to the Commission have steadily increased. What specifically has the Commission done to reduce the regulatory and paperwork burden for the parties involved? And what is the Commission doing with regard to the recommendations of the Inspector General for reducing these costs?

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

We do, in fact, share the very real concern of business, of the increasing cost of bringing cases before the ITC.

I should perhaps add a caveat, that we have not had an official Commission position on this, but I know a number of my colleagues over the years have expressed very profound concern about the additional costs of bringing and maintaining of these actions.

One way that we have attempted to assist particularly smaller businesses in bringing and maintaining these actions is with our Trade Remedies Assistance Office (TRAO), which is a separate unit of the Commission, established solely to facilitate and assist smaller companies that may otherwise not have the financial wherewithal to bring and prosecute one of these cases.

In terms of paperwork reduction and other expenses, the Inspector General has indeed identified a number of ways for us to reduce our internal costs. Although, with respect to such initiatives as document imaging, mailing lists and the like, I am not quite sure how they will translate to any particular reduction in the cost of bringing and maintaining an action before the Commission. I believe that is a separate issue.

But we have certainly taken very seriously the opportunities to review, for example, mailing list reductions, the document imaging system that we are looking at to move to an electronic document imaging system, which will significantly reduce expenses for photocopying, and the filing of documents. Perhaps that might provide some efficiencies and savings.

In terms of the mailing list, I fully concur that we do in fact need to do better on that, although we have already initiated a number of efficiencies that has reduced our mailing costs.

The IG has got some other outstanding, issues that she is currently reviewing. As I understand it, there are currently six investigations that she has ongoing at the present time, which I am of course unable to speak to. But suffice to say that we are trying to identify opportunities of reducing costs in any way we can.

Senator GRASSLEY. You have two SES vacancies, which I understand pay more than commissioners get. Would this be an opportunity for you, as Chairman, to save the Commission some money?

Particularly in the light of budget constraints, have you considered filling these positions at a lower level, or maybe even eliminating them?

Mr. WATSON. I was profoundly disturbed to learn that a number of our SES people earn more than commissioners, Mr. Chairman. It disturbs me greatly. But, in fact, I think it is probably a correct reflection of the respect which the Federal Government has for specialized personnel. It is perhaps more of a commendation on the qualities of the Commission, rather than the staff.

I do take your point though. The fact is that we have been attempting to review the pay of the two SES positions you are referring to. We are trying to staff these at the lowest possible rate commensurate with the practical pay setting considerations, many of which are mandated by law and reflect reference to qualifications, expertise and the like. But we are trying to fill those at the lowest possible SES rate, and we are trying to get the best people for those positions, Mr. Chairman.

Senator GRASSLEY. So you are considering filling at a lower level?

Mr. WATSON. We are examining ways of doing that. But I am obliged to say that it is very difficult to get the best people you can in those senior positions at less than what they are being paid right now, in one instance that we are facing.

Senator GRASSLEY. On another matter, have you given any thought to combining several of the offices that might report directly to the Chairman, such as Congressional Affairs, Executive and International Liaison, and Public Affairs?

Mr. WATSON. That is a suggestion that has received some consideration over the years. It has not received immediate consideration

before the Commission. That would need to be a decision that the Commission as a whole would need to take.

There may well be some opportunities for some savings in that area. And I think that is an efficiency that we should and will be giving additional consideration to.

Senator GRASSLEY. How much do you spend on outside consultants and counsels? What percentage of the budget might it be?

Mr. WATSON. I would be happy, of course, to provide the actual number for recent years, but it is extraordinarily low. The fact is, Mr. Chairman, that 85 percent of our overall budget is accounted for both by internal salaries and rent, and the balance by administrative actions.

The agency has been very reticent to make significant expenditures on outside consultants, and we really do not do so on a regular basis.

Senator GRASSLEY. Ms. Goerl, how have you been trying to address, if you have, any of the concerns that have been raised about the automated export system?

Ms. GOERL. From our perspective, the automated export system, the AES, has been very important for us to develop good partnerships with the trade and our fellow agencies that would work with us on it.

In fact, implementation of Phase I of AES has begun in July in the vessel ports of Baltimore, Norfolk, Houston, Charleston and L.A.-Long Beach. We have partnerships with three other agencies—the Bureau of Census, the Bureau of Export Administration in the Department of Commerce, and the Office of Defense Trade Controls with the Department of State.

We have also asked for volunteer organizations from the trade to join in this pilot. And we have had a very good amount of them join in with us in this particular phase, which is focused on the ocean or vessel part of export trade.

The phase is associated with verification, harbor maintenance fee calculation and statement, license validation and census extracts of statistical data.

We have been working through a trade partnership, working through the original design, and getting extensive comments and participation by the trade. So we hope that it will allay some of the concerns that were felt early on. We will continue to want to do that in the succeeding phases of the project.

Senator GRASSLEY. On another matter, assuming that you are familiar with the Bond Sufficiency Task Force report, dated April, 1994, I would like to read from page 4, and then ask you a question.

“Bond insufficiency does plague Customs financial activity. We can still experience significant defaults that are not adequately secured. And, further, GAO has justifiably criticized our oversight and management of bonds. The inability to easily determine the extent of the problem is in itself a significant management problem.”

So Customs did propose the automated surety interface in 1993, which I am told would address both these concerns, plus eliminate over \$20 million that you wrote off in 1992.

So the question is, why have you not protected the revenue? Why has ASI not been implemented?

Ms. GOERL. There are a number of initiatives that are going on in bond sufficiency, one of which is the automated surety interface. A number of issues in bond sufficiency have been addressed, primarily because it a serious weakness that we have to address to get a clean audit on our CFO audit statements, financial statements.

A number of those issues have been addressed over the last year with that task force, and an additional study is being made to look at our risk that we are exposed to with our bond program.

That study we are doing now with options is about to be completed, and would provide us with some additional controls and some review points to make in determining our exposure of bonds in the agency, and provide sufficient coverage where we need it.

I would say a couple of things. One, we put in place a program through our automated commercial system that provides us with a better opportunity to look at our bond sufficiency at the time we agree to a bond coverage, to ensure that we have it nationwide. That particular program has improved our ability to provide, or at least give assurances to me on bond sufficiency this past year.

As we said earlier, in response to Senator Graham, we are also working with sureties to look at the automated surety interface as part of our redesign of the ACS with the new automated commercial environment, to look at an electronic bond that would even provide more ability for us to have sufficient coverage for this particular area.

There is an issue with respect to confidential business information that we are working through in a number of meetings with the different sureties.

I do believe that we will be able to address all those issues in that progress.

Senator GRASSLEY. I thank each of you very much. I appreciate your participation, and look forward to continuing to work with you.

The meeting is adjourned.

[Whereupon, at 12:32 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF AMBASSADOR CHARLENE BARSHEFSKY

Thank you, Mr. Chairman and Members of the committee. It is a pleasure to appear before you today on behalf of the Administration to testify on a range of issues, including Most Favored Nation status for Cambodia, graduation of Bulgaria from Title IV of the Trade Act of 1974, reauthorization of the Generalized System of Preferences, or "GSP", program and reauthorization of the Office of the United States Trade Representative.

Cambodia

In September 1993, after UN-supervised elections in May of that year, the United States established full diplomatic relations with Cambodia. Since then, the freely elected Cambodian government has been eager to establish ties with other nations and re-enter the world economy. After 20 years of strife and civil war, Cambodia has begun building a market economy.

In early 1994, negotiators from USTR went to Cambodia and concluded a bilateral trade agreement with Cambodia that established a framework for bilateral trade relations. It includes a model agreement providing for the protection of intellectual property and calls for a reciprocal granting of Most Favored Nation (MFN) status. However, before this agreement can enter into force, the Congress must pass legislation extending MFN status to Cambodia.

The Administration strongly supports legislation that would allow Cambodia to be granted MFN status and let our bilateral trade agreement come into force. Extension of MFN status, which would lower U.S. tariffs to imports from Cambodia significantly, will help spur the development of markets in Cambodia. The reciprocal market access and intellectual property rights protection provided for in the trade agreement would also work to promote U.S. exports and expand the U.S. commercial presence in Cambodia. Located in the midst of rapidly growing Southeast Asia, it is a market the United States should not ignore.

Closer trade ties with Cambodia should also encourage it to more rapidly adopt world trading rules and principles. As I stated earlier, the bilateral trade agreement in itself would dramatically improve Cambodia's commitments in accordance with international standards. Finally, it is our hope that expanded commercial ties, by promoting economic expansion in Cambodia, would contribute to political stability.

On July 11, the House of Representatives passed legislation that would grant permanent MFN status to Cambodia. The Administration supported that legislation. I would like to commend Senator McCain and Chairman Grassley for their leadership in moving this issue forward in the Senate. We look forward to working with Senator McCain and the Committee to develop acceptable legislation that will allow us to grant MFN status to Cambodia as quickly as possible.

Bulgaria

The Administration strongly supports legislation that would allow the President to remove Bulgaria from Title IV of the Trade Act of 1974. U.S. policy since the end of the Cold War has been to normalize our trade relations with Central Europe. Most of the other countries in the region, such as Hungary, Poland, the Czech Republic, the Slovak Republic, Latvia, Lithuania and Estonia all already enjoy unconditional MFN treatment

The objective criteria for Bulgaria's removal from Title IV have long been satisfied. Since June 3, 1993, the Administration has certified on a semi-annual basis that Bulgaria fully complies with U.S. and international standards concerning emigration and human rights policy. The Administration is not aware of any opposition in the U.S. against removing Bulgaria from Title IV.

Bulgaria has benefitted from MFN trading status and access to USG credit and investment guarantee programs since 1991. Graduation would therefore not result in any decline in revenue for the United States. Current tariff levels on Bulgarian imports would remain the same after graduation. The United States and Bulgaria have had a bilateral Trade Agreement since 1991, which provides for not only reciprocal MFN, but also contains strong commitments with respect to Bulgaria's intellectual property rights regime.

Allowing the President to graduate Bulgaria now also sends a positive signal to U.S. and Bulgarian traders and investors at a time when our bilateral economic relations are expanding. Official statistics indicate U.S. exports to Bulgaria totaled \$110 million in 1994, but the actual figure may be up to four times that amount, given that a large proportion of U.S. products in Bulgaria are produced by European subsidiaries of U.S. companies and do not appear in U.S. trade statistics. U.S. exports to Bulgaria in January-February this year increased 54% over the same period last year.

U.S. investment in Bulgaria has also increased. There are now some 90 U.S. companies operating in Bulgaria, with investments totaling \$110 million. These U.S. companies run the gamut in terms of size and type, and include major companies such as Kodak, IBM and American Standard, as well as small manufacturers. With the implementation of the U.S.-Bulgaria Bilateral Investment Treaty in May 1994, U.S. investment in Bulgaria is expected to grow even more.

Graduation of Bulgaria from Title IV will also enhance our bilateral relations under the World Trade Organization (WTO). Bulgaria is currently well along in its accession negotiations for WTO membership. In order to have full WTO relations with Bulgaria, the U.S. must be able to extend unconditional MFN, which it can only do if Bulgaria is no longer subject to Title IV. This in turn will enable the U.S. to avail itself of all WTO rights vis-a-vis Bulgaria.

In addition, Bulgaria's compliance with UN sanctions against Serbia and Montenegro has resulted in high losses for the Bulgarian economy. Bulgaria's direct trade routes to Western European markets have also been cut off. The Bulgarian government estimates that direct and indirect trade losses due to the sanctions now approach \$6 billion. Graduating Bulgaria would signal to Sofia that the West recognizes Bulgaria's sacrifice and also wants to expand relations in a context other than Serbia sanctions enforcement.

Generalized System of Preferences

This hearing is particularly timely because the GSP program expired just yesterday. As of today, U.S. importers will have to begin paying duty on imported GSP products, many of which have been duty-free under the GSP program for 20 years. In fact, this is the third time in as many years that the GSP program has lapsed. In 1993 and again in 1994, a two-month lapse was followed by a short-term extension.

Clearly, this situation creates uncertainty and undermines the critical objectives of the GSP program. In particular, I would like to highlight the burden that is placed on small businesses in the United States that are, in many cases, unprepared to pay the import duty on their products for one or two months. Let me, therefore, urge this committee to consider renewing the program for a multi-year period. The Administration is prepared to work with you, Mr. Chairman, in an effort to see that this is achieved.

Now, let me briefly describe the GSP program and explain why the Administration strongly supports its longer-term reauthorization.

The GSP program grants duty-free treatment to various products that are imported from developing countries. In 1994, there were \$18 billion in duty-free imports under the GSP program, accounting for 18 percent of total U.S. imports from GSP beneficiary countries and 3 percent of total U.S. imports from all countries. Some of the leading product categories are consumer electronics, computers and auto parts. In 1994, Malaysia was the single largest beneficiary country, accounting for \$5 billion, or 28 percent, of the total. Other leading GSP beneficiaries include Thailand, Brazil, the Philippines, Indonesia, India, Argentina, Venezuela, Russia, Chile and Turkey.

The GSP program has three broad goals:

- (1) to promote economic development through increased trade, rather than foreign aid;
- (2) to help maintain U.S. competitiveness by lowering costs for U.S. business, and lowering prices for American consumers; and
- (3) to promote our trade policy objectives by encouraging GSP beneficiaries to comply more fully with international rules, including on intellectual property rights protection and internationally recognized worker rights.

By granting favorable access to our market, the GSP program reflects the U.S. commitment to an open world trading system. However, the Administration believes that continued support for unilateral tariff concessions will depend, in part, on the extent to which GSP beneficiary countries are assuming responsibility for the world trading system by adhering fully and promptly to the Uruguay Round and other trade agreements.

This is particularly important for the most advanced GSP beneficiary countries. The Administration believes that such beneficiaries must participate more fully in the framework of rights and obligations of the multilateral trading system. In administering the GSP program, we will continue to consider the extent to which the benefits of the GSP program are accruing to these countries and will monitor their advancement in economic development and trade competitiveness.

In short, the Administration strongly supports the GSP program because it lowers costs for U.S. business and lowers prices for U.S. consumers. By eliminating import duties-- that is, cutting "taxes"-- on raw materials, parts and components that are used to manufacture goods in the United States, the GSP program enhances the global competitiveness of many U.S. companies and their workers. By encouraging trade and development in beneficiary countries, including some of the fastest-growing economies in the world, the GSP program creates growing markets for American exports and American workers.

Let me now briefly describe our efforts to have the GSP program reauthorized. In 1994, the Administration sought to have the GSP program reauthorized as part of the Uruguay Round implementing bill. The Administration's proposal, which was modified and approved by the House Ways and Means Committee before being dropped in conference, would have made some modest reforms to the GSP program.

Earlier this year, the Chairman and Ranking Member of the Ways and Means Trade Subcommittee introduced a bill to renew the GSP program (H.R. 1654). That bill, which includes the principal reforms that were included in the Administration's proposal last year, would make a number of desirable changes in the GSP program. The Administration has carefully reviewed the three main provisions of the House bill: It will

reduce the per capita GNP limit in the GSP statute from about \$11,000 to about \$7,000; reduce the so-called Competitive Need Limit (CNL) from about \$108 million to \$75 million, but will retain the authority to waive the CNLs under certain circumstances; and authorize additional GSP benefits for the least-developed developing countries. We support it fully.

In conclusion, the Administration supports the GSP program and we are prepared to work with you, Mr. Chairman, and the Members of this committee to secure the longer-term renewal of the GSP program.

USTR Authorization

As members of the Committee know, the Office of the United States Trade Representative has an enormous mission: to develop and coordinate U.S. international trade, commodity, and trade-related direct investment policy, to articulate trade policy for the Administration, and to lead negotiations with other countries on these matters.

This is a mission that USTR tackles with unquestioned expertise. The agency gets the job done with a small, but highly motivated, professional staff that is dedicated to promoting U.S. economic interests. The 166 FTEs proposed for FY 1996 is complemented by personnel support from other Federal agencies and by students and interns. Together, these staff have helped produce remarkable results, and will continue to be challenged in carrying out the tasks that lie ahead.

Two-Year Authorization

We are proposing a two-year extension of USTR's authorization of appropriations, for fiscal years 1996 and 1997. The Administration's request recommends an FY 1996 authorization level of \$20,949,000, the same as the level originally appropriated for FY 1995 and the amount requested in the President's Budget for FY 1996. The authorization request for FY 1997 is such sums as may be necessary. For each fiscal year, the Representation fund authority would remain at \$98,000, and the amount available to be carried over from one fiscal year to the next would remain at \$2,500,000.

In short, Mr. Chairman, the Administration is recommending straightforward extensions of existing authorizations.

Recent Accomplishments

The Administration and the Congress can take pride in what has been accomplished on trade since President Clinton took office thirty months ago. The Clinton Administration, in tandem with a bipartisan coalition in Congress, has achieved the most important period in the history of trade initiatives. Through July, USTR has completed over 150 trade agreements, which is slightly more than one agreement a week, every week, since

January 1993.

These agreements include the North American Free Trade Agreement, and the Uruguay Round -- the broadest trade agreement in history. We have set the stage for trade expansion in Asia through the Asia Pacific Economic Cooperation forum with the Bogor Declaration; and announced creation of a Free Trade Area of the Americas by 2005 at the historic Summit of the Americas.

We have concluded seventeen agreements with Japan to open that key market. In just the last month, we concluded a historic accord with Japan on autos and auto parts which an industry leader described as "the most significant trade agreement with Japan ever." Just last week we reached an agreement to open civil aviation routes to U.S. companies such as FedEx.

In addition, we concluded the largest procurement agreement in history with the European Union, an agreement covering 80 percent of global shipbuilding, and scores of other bilateral trade agreements such as thirteen agreements covering intellectual property rights and fourteen bilateral investment treaties. In March, we signed a ground breaking agreement to protect American intellectual property rights in China.

These agreements have already begun to promote growth and create jobs in this country. U.S. exports have grown by over 17 percent in the first five months of 1995 -- a rate over three times that of export growth when President Clinton was sworn into office.

Full Agenda for the Future

Our work to tap the potential of ever expanding world trade has just begun. Over the next decade, we confront -- quite literally -- a world of opportunities.

A major priority for this Administration is to continue to set the stage for future trade expansion with Asia and Latin America. Traditional markets like Japan and Europe are critical and will remain critical to America's export base. But the fastest growing economies in the world are in Asia and Latin America. In the next 15 years, we estimate annual U.S. exports to Europe will increase above current levels by \$33 billion, and to Japan by \$36 billion. In the same period, our annual exports to the rest of Asia will increase an incredible \$154 billion, and to Latin America by \$144 billion.

Asia. A major priority of this Administration is to build on the Bogor Declaration, the commitment by the Asia Pacific nations to eliminate barriers to trade: by 2010 or 2020, depending on each country's level of development. The Asia Pacific region is critical to future U.S. prospects for trade expansion. It has the fastest growth in the world -- three times the rate of the established industrial countries. Over the past three decades, Asia's share of the world's GDP has grown from eight percent to more than 25 percent. By the year 2000, the East Asian economies will form the largest market in the world, surpassing

Western Europe and North America.

This growth has led to an explosion of trade with the United States. East Asia is the number one export market for U.S. products. US merchandise exports to Asia have grown nearly 60 percent over the last five years. U.S. trans-Pacific trade was 50 percent more than our trans-Atlantic trade in 1992. Our exports to Asia account for over two million jobs in the United States. One projection shows that Asia, excluding Japan, will be our largest export market by the year 2010, amounting to \$248 billion.

We are now in the process of meeting with our APEC partners to identify the means by which we can achieve free and open trade in the Asia-Pacific region. This fall, the APEC Leaders will meet in Osaka to review progress made toward a blueprint and discuss future steps toward achieving open and free trade and investment throughout the region.

Latin America. An issue of great importance for this administration is to build on the commitments of the Summit of the Americas and expand trade in this hemisphere. The second fastest growing economic region in the world is Latin America. By 2010 we estimate that the United States will send more U.S. goods and provide more services to Latin America than to Europe and Japan combined.

Latin America and the Caribbean is now the second fastest growing region in the world. U.S. exports to this region exploded from nearly \$31 billion in 1985 to nearly \$93 billion in 1994, creating over 600,000 new U.S. jobs. Latin Americans spend 40 cents of every trade dollar on U.S. goods. We supply over 70 percent of some Latin countries' imports and often three to four times as much as a country's next largest trading partner.

We have an historic opportunity now to take major steps toward hemispheric prosperity -- and expand U.S. economic opportunities. Strengthening the economic ties among the nations of the Americas will cement recent economic reforms, foster growth, build the middle classes and strengthen democracy, while creating jobs in this country. This is not time to sit back and hope for the best, or lose sight of the need to act on our hemispheric objectives.

The Summit of the Americas was a watershed in hemispheric relations. It placed the United States squarely in the center of the hemisphere's economic integration and renewed our leadership position. Our economic fortunes, and our leadership in this hemisphere, however, will be determined in large part by the success we have in implementing the Summit trade and integration action plan. This Administration is determined to move forward to begin building the Free Trade Area of the Americas (FTAA). The June 1995 Denver Trade Ministerial adopted a declaration establishing seven Working Groups, with four more Working Groups to follow in March 1996. These Groups represent a real commitment to achieve the goal of the FTAA.

The negotiation of Chile's accession to the NAFTA is an important first step in this endeavor. It is important for the United States to forge a partnership with the leader of economic reform in Latin America and its most dynamic economy over the last 10 years. Chile is one of our fastest growing export markets in Latin America. U.S. exports have grown from \$682 million in 1985 to \$2.8 billion in 1994 -- quadrupling.

We are extremely pleased with the progress we are making in each of these initiatives, and APEC and FTAA will remain high USTR priorities into the future.

World Trade Organization. After eight years of negotiations, the Uruguay Round, creating the World Trade Organization, was completed last year and approved by a bipartisan vote in Congress last year. But our work is just beginning. We must implement the Uruguay Round, and ensure that WTO works as conceived, with all countries living up to their commitments.

The Uruguay Round is a single undertaking. Before the Uruguay Round, between 27 to 45 countries were signatories to the five codes in the General Agreement on Tariffs and Trade. Countries could pick and choose which agreements to sign. Non-signatories were allowed to enjoy the benefits of more open markets without corresponding responsibilities. Under the Uruguay Round, we insisted that all 123 countries that signed the agreement, signed all five codes. Now, everyone will, in a comparatively short time, play by the same rules. This includes the developing countries, where potential growth is so great, who are now all bound to international trade rules for the first time.

It is important that we make sure that these new nations, and all signatory nations under the Uruguay Round, adhere to the rules of international trade established by that agreement.

In addition, we must move forward to complete extended negotiations in areas in several areas of importance to the U.S. economy. We now have talks underway in the WTO to open markets around the world in basic telecommunications services. We also expect to negotiate a further lowering of trade barriers in the agriculture sector, where the United States leads the world; in investment; and to establish new, universally applicable rules of origin to streamline customs procedures world-wide.

At the same time we are moving forward to establish consensus on ways to address several new issues. These policies include, but are not limited to, a nation's actions -- or inactions -- regarding anticompetitive business practices; lack of regulatory transparency; corrupt practices such as bribery; environmental protection; and adherence to internationally recognized labor standards.

Other priorities. There are several other priorities USTR will face in the coming months. We continue to negotiate with China on market access. We will negotiate with Japan on deregulation of their economy and competition policy. We will continue to implement the NAFTA. We will continue to negotiate bilateral investment treaties and agreements

ensuring protection of U.S. intellectual property rights. Most importantly, we will monitor and enforce the trade agreements we have reached, both in this Administration and those from previous Administrations.

Our trade agreements are mere pieces of paper unless we pursue their dictates in a vigorous manner. Enforcement of both international trade agreements and U.S. trade laws will also remain high on USTR's work agenda in the next two years. We will use every enforcement mechanism available to us to make sure that others live up to trade agreements. These enforcement mechanisms include: Section 301, our principal tool for addressing foreign unfair trade practices; Special 301 used for enforcing violations of intellectual property agreements; the Antidumping and Countervailing Duty laws, which we will use under both NAFTA and the Uruguay Round; Title VII for enforcement of procurement agreements; and Section 1377 of the Omnibus Trade and Competitiveness of 1988 for enforcement of telecommunications agreements.

Mr. Chairman, you can see that the work that lies ahead through fiscal year 1997 will be every bit as important as what has been accomplished in the last two- and-one-half years. We have a diverse array of challenges facing us, but our goal is straightforward: We will monitor and enforce the agreements we have reached; we will negotiate new multilateral, regional and bilateral agreements; and we will lay the groundwork for future opportunities to open markets, expand trade and create jobs here at home.

FY 1996 Budget Request

The FY 1996 budget request for USTR will support USTR's work agenda for that year. This request represents the right resource level to allow USTR to carry out the ambitious work agenda that lies ahead, and to ensure that we do our small part in the President's broader effort to reduce the size of Government and to make it work more efficiently.

Our request for FY 1996 provides the same funding level as FY 1995, and reduces employment by 2 FTEs. USTR will need to absorb nearly \$500,000 during FY 1996 from the rising cost of doing business. We plan to achieve budgetary savings by phasing out the Canadian Free Trade Agreement Dispute Resolution Expenses, by saving on office space expenses, by using technology wisely and by reducing printing and another administrative costs. I am confident that we can sustain the current level of operations at the President's budget request level.

Thank you again, Mr. Chairman, for the opportunity to appear today. I will be happy to answer any questions you may have.

SUBMITTED STATEMENT OF WILLIAM J. CUNNINGHAM

The AFL-CIO appreciates the opportunity to present its views on the possible extension of the Generalized System of Preferences (GSP) and particularly on the worker rights conditionality contained in the statute.

The linkage of worker rights to trade benefits under the GSP can be a powerful instrument to encourage the adoption of internationally recognized labor rights and standards, and thus support the basic premise of this government program to promote equitable economic growth and social progress in the less developed world. We are concerned however, that the program is often operated as an expensive foreign aid program to support short-term foreign policy objectives and to provide financial benefits for U.S. and foreign multinational corporations through the granting of zero tariffs for their products entering the U.S. market.

Any extension of GSP should include improvements in the implementation of worker rights conditionality, the graduation of participant countries that are successful exporters, the exclusion of import sensitive items, the elimination of competitive need limit waivers, and a prohibition on the addition of China to the program.

The Generalized System of Preferences, enacted by Congress in 1974, provides duty-free treatment for eligible articles exported to the U.S. from "beneficiary developing countries" ("BDCs"). The guiding principle of the program, reflected in the original legislative history, is that giving BDCs a temporary trading advantage through duty-free treatment of exports would encourage long-term, sustainable development, thereby reducing the need for unilateral U.S. aid and increasing demand for U.S. products. The initial program failed to accomplish any measurable development goals. As Congress expressed in the legislative history to the first renewal of GSP in 1984, the benefits of the program were largely restricted to the "privileged elites" in the developing countries. To solve this problem, Congress amended GSP in 1984 by adding a new requirement for eligibility as a BDC -- now a country must be "taking steps" to comply with "internationally recognized worker rights." This provision was designed to improve the situation for workers in BDCs, who could be expected to gain a greater share of the economic benefits flowing from the GSP program. In addition, Congress was concerned that the lack of worker rights acted as an inducement for U.S.-based firms to transfer production to BDCs, thereby displacing U.S. workers.

The AFL-CIO believes that the 1984 amendments have not been as effective as intended in achieving the development goals of GSP. Since 1985, there have been a total of 98 petitions concerning worker right's eligibility under GSP. Of this number, 34 were summarily rejected by the Administration, and therefore not subject to any review. Thirty-nine were accepted for review and the other 22 were petitions on cases already accepted but continued over multiple petition periods. A decision should be made soon by the Administration on the remaining three.

As a result of nine years of activity, eight countries experienced a withdrawal of benefits on worker rights grounds. Another three saw these benefits withdrawn as a result of the Executive Branch's general review in 1987. Today only six countries--Burma, Maldives, Mauritania, Liberia, Sudan, and Syria continue to be denied preferential access.

The AFL-CIO believes that a far greater number of countries are not adhering to internationally recognized worker rights and their continued eligibility is due to a failure to apply clear standards, and a review process that is opaque and inconsistent.

Amendments are necessary to ensure appropriate enforcement of the worker rights provision and to implement the intent of Congress in passing the original GSP program.

Clarifying the Standard of "Internationally Recognized Worker Rights."

The discretion to determine whether a country has been "taking steps" has been used by the Executive Branch to avoid implementation of the worker rights provision. This has allowed countries who abuse worker rights to continue receiving millions of dollars in GSP benefits without fulfilling the requirements of the statute. For example, two countries--Indonesia and Malaysia--currently subject to worker rights petitions--have been found over the years to be "taking steps," while still denying workers their basic rights.

The worker rights provision is the only condition to GSP eligibility that includes the "taking steps" language. The "taking steps" language should be deleted and the phrase, "has adopted and is enforcing laws" that protect internationally recognized worker rights be substituted. This change will provide a clear standard upon which judgements can be made, and still leave the President with discretion to continue GSP benefits, notwithstanding a country's failure to meet the requirements, after the President reports to the Congress his determination that it is in the economic interests of the U.S. to do so.

Improving the Procedures of the GSP Review Process

There is general agreement that the present GSP review has suffered from arbitrary determinations, largely due to the lack of clear rules. The AFL-CIO believes that new regulations are needed to make the review process more transparent, predictable and consistent. We are particularly concerned that more than one-third of the worker rights petitions submitted over the last eight years were not even reviewed.

At minimum, new regulations should include the following elements:

- * Any petition filed shall be accepted for review unless there is a specific finding that the petition is frivolous.
- * Any person may file a petition seeking the withdrawal of the designation as a beneficiary developing country for failing to meet the worker rights criteria of the statute.
- * Failure to meet the worker rights criteria in specific sectors can result in a partial withdrawal of benefits.

This last point is particularly important. The U.S. should be able to address specific problem areas without penalizing the entire country.

General Review

The best way to judge whether any nation meets or fails to meet the eligibility requirements of this statute is through continued review. Most nations which are currently judged to be eligible to receive GSP benefits have not been subject to a comprehensive review. The AFL-CIO believes that a review of conditions in beneficiary developing countries should be required every three years.

Country Graduation

One intention of GSP was to improve the economic condition of developing countries by temporarily helping them to increase exports to the U.S. Today, the majority of GSP duty-free imports are accounted for by just three of the more than 120 BDC's. Those countries, Malaysia, Thailand, and Brazil are successful and substantial exporters, and are no longer in need of preferential treatment. All enjoy bilateral trade surpluses with the U.S. Their graduation would reallocate GSP benefits to countries that have greater need. Such a decision would save over \$870 million over 5 years.

There is ample precedent for such an action. President Reagan, when he announced in 1988 his intention to graduate Singapore, Korea, Taiwan, and Hong Kong from the GSP program, stated that these countries had "achieved an impressive level of economic development and competitiveness, which can be sustained without the preferences provided by the program." The same, particularly with regard to their international competitiveness, can be said for Malaysia, Thailand, and Brazil. Finally, graduation would also substantially reduce the cost to the federal budget of this program, and make a multi-year extension feasible.

Import Sensitive Products

Current statute excludes from duty-free treatment certain import sensitive items, including textile and apparel articles, watches, footwear, handbags, luggage, flat goods, work gloves, leather apparel, and certain electronics, steel, and glass products. The AFL-CIO believes these exclusions must be maintained. At a time when the U.S. is experiencing record merchandise trade deficits, the country can ill afford to further harm those domestic industries and workers that have been negatively impacted by imports.

Competitive Need Limits

Competitive need limits were originally legislated to spread GSP benefits among beneficiary developing countries and to prevent undue harm to domestic industries from competitive products receiving duty-free treatment. Under competitive need limits, if imports of a product from a BDC exceed a certain dollar amount, or represent more than half of total U.S. imports of that product in a calendar year period, GSP treatment must be removed and the normal rate of duty restored. Under certain circumstances, however, the President can waive the dollar and import share competitive need limits, thereby continuing duty-free treatment.

The AFL-CIO believes that the waiver authority has been abused in the past, and should be eliminated.

CHINA AND GSP

Under current law, the President is prohibited from designating as a BDC a country which is communist, unless its goods receive MFN treatment, is a GATT contracting Party and a member of the IMF, and is not controlled by international communism. It is possible that China may soon fulfill these criteria and therefore be eligible for GSP designation. To ensure that this possibility does not occur, the AFL-CIO urges that China be added to the list of GSP ineligible countries found in Sec. 502.

The GSP continues to hold out the promise of promoting equitable social and economic development. These needed changes will bring us closer to realizing that goal.

PREPARED STATEMENT OF VINCETTE L. GOERL

Mr. Chairman and Members of the Committee, it is indeed a pleasure to be here this morning to discuss the activities of the Customs Service and to present our authorization request.

On behalf of the Customs Service, I want to express our appreciation to the Committee for its guidance and leadership, which continue to help Customs achieve its vision and full potential for service to the Nation and to U.S. industry.

On this occasion, I would like to summarize the role of the Customs Service and our contributions to this Nation and to the Executive Branch of Government, and to articulate Customs approach to its mission. Finally, I will outline Customs strategy for handling increased workload in an efficient, effective manner.

Customs Budget Request for FY 1996

Customs FY 1996 budget request, which totals \$1.4 billion and 17,133 FTE, is a net reduction of \$39 million and 116 FTE from FY 1995. Our budget request for FY 1996 recognizes the need for a Government that works smarter and costs less. In this time of shrinking resources and budgets, Customs cannot expect to receive continuous additions to enhance operations, despite the likelihood of substantial annual increases in international trade, travel, and tourism. Instead, the Agency is using innovative technological and organizational approaches, such as the Automated Commercial Environment and the reinvestment of resources freed up by restructuring our operations, to meet the substantial challenges of its mission.

The Mission of the Customs Service

As the Nation's primary border agency, the Customs Service has a complex and varied mission, with tremendous responsibilities in both revenue collection and law enforcement. This means Customs must:

- Enforce U.S. laws intended to prevent illegal trade practices;
- Protect the American public from the introduction of illegal drugs, other contraband, and prohibited hazardous products;
- Assess and collect revenues in the form of duties, taxes, and fees on imported merchandise;
- Regulate the movement of persons, carriers, merchandise, and commodities between the United States and other nations, while facilitating the movement of all legitimate cargo, carriers, travelers, and mail; and
- Enforce certain provisions of the export control laws of the United States.

Workload

To carry out this mission, Customs processes an incredible workload. Two statistics provide a general indication of Customs work: we processed over 450 million passengers in FY 1994, and collected \$22.9 billion in revenue, making us the second largest revenue producer in the Federal Government.

In FY 1994, our inspectors processed 389 million land passengers, over 58 million air passengers and over 7 million sea passengers. In addition, they processed 131 million vehicles, 807,000 aircraft and 277,000 vessels. We expect that these numbers will continue to rise as we approach the year 2000. Our inspectors also carried out 223,200 intensive examinations on passengers in FY 1994.

The work of inspectors and agents yielded narcotics seizures amounting to 204,000 pounds of cocaine, 2,600 pounds of heroin and 559,000 pounds of marijuana. In addition, our increased focus on outbound passengers and merchandise prevented \$50 million in illegal currency exports, which are often associated with laundering the profits from illegal narcotics transactions. We also made 507 seizures of illegally exported arms and munitions and 77 seizures of sensitive technology. Customs has helped to enforce the sanctions which the Administration has increasingly been using as a foreign policy tool. To that end, we made 57 seizures of material under sanctions administered by the Office of Foreign Assets Control.

In FY 1994, Customs processed nearly 12 million formal commercial entries. Our inspectors carried out 365,000 intensive exams of merchandise, resulting in \$213 million worth of merchandise seizures and collection of \$10.5 million penalties on merchandise which violated Customs regulations.

Customs enforcement of hundreds of laws, while processing passengers, carriers, and merchandise, results in investigative cases in a number of different areas, including trade fraud, narcotics smuggling, money laundering and outbound enforcement. Our investigative activity in FY 1994 involved over 40,000 cases, resulting in 4,340 Class I arrests and 3,040 Class I convictions. (Class I cases are defined as those involving criminal or civil financial violations of Title 18 USC, exceeding \$250,000 or violations of the Bank Secrecy Act.)

Enforcing Laws Covering Carriers, Cargo, and Persons Entering and Departing the United States

Customs enforces laws and regulations covering carriers, cargo, and persons entering and departing the United States, concentrating on improving levels of compliance through detection and interception in areas such as trade agreement violations, public health and safety issues, intellectual property rights, narcotics trafficking, unreported currency transactions, national security concerns, and child pornography. Customs is dedicated to the concept of informed compliance through education and outreach programs to ensure that violations are not committed through ignorance or a lack of understanding of the law.

Through its national strategies for trade enforcement, narcotics, outbound, and money laundering, Customs has placed a particular emphasis on improving targeting efforts at the Nation's airports, seaports, and land borders to ensure optimum enforcement and facilitation results. Expanded use of automated systems, selectivity, compliance measurement, and innovative processing and inspection techniques have replaced traditional labor-intensive processes and have improved overall efficiency. Major inspectional methods are: a) use of automation and refined observational and questioning techniques which allow Customs to focus its attention on high-risk passengers and flights, as outlined in the Air Passenger Master Plan for the 1990's; b) ACS selectivity, which allows for low-risk merchandise shipments to be identified for expeditious release and high-risk shipments to be selected for intensive examination; and c) compliance measurement, which uses statistically valid sampling techniques to select shipments for intensive inspection in order to measure the trade community's compliance with laws and regulations.

Investigating Violations of Laws and Trade Regulations

Customs investigates violations of U.S. laws and trade regulations, including violations of currency, neutrality, fraud, smuggling, exports of arms and critical technology, cargo theft, and child pornography laws. These investigations support our priority enforcement efforts against narcotics smuggling, economic crime, and other domestic violations.

Major enforcement investigative areas currently emphasized include:

- Smuggling (focused on investigations and interdiction of narcotics smuggling, international trafficking in stolen motor vehicles, and child pornography);
- Financial (focused on the identification, disruption, and dismantlement of the systems and organizations that launder the proceeds generated by smuggling, trade fraud and export violations).
- Trade fraud (focused on violations that are most critical to the protection of U.S. health and safety, as well as the economic and industrial viability of the United States, including the under-valuation of goods, dumping, intellectual property rights infringement, and quota restrictions);
- Strategic (focused on illegal export of material and technology which threaten U.S. national and economic security and U.S. foreign policy);
- Special (focused on aggressive undercover and special operations programs supporting all major investigative and interdiction priorities, in which special agents establish covert "business enterprises" sought by felons and criminal organizations to give the appearance of legitimacy for their criminal enterprises);
- Foreign (focused on management of investigations worldwide through foreign Customs offices); and
- Air and marine (focused on narcotics interdiction and support functions, with an emphasis on narcotics smuggling by private aircraft and vessels from South America to staging areas and/or U.S. landfalls).

Two priority areas merit special mention: narcotics smuggling and trade fraud.

Narcotics Smuggling

Customs maintains a deterrent to narcotics smuggling between ports of entry through its air and marine interdiction program and active investigative activity aimed at disrupting the criminal organizations that smuggle narcotics. Customs approach to enforcement at and between the ports continues to be the targeting of complex and sophisticated commercial drug smuggling, distribution, and money laundering organizations in air, land, and sea Southwest border environments. This strategy combines all-source intelligence and technology, such as aerostats and other detection and surveillance technologies, with pre- and post-seizure intelligence, analysis, and investigations with a determined focus to disrupt and dismantle smuggling organizations through prosecution and asset removal.

During FY 1994, Customs agents worked 14,705 active narcotics cases. The most important of these are "impact" cases, investigations focused on the highest levels of the smuggling organization. The execution of these cases has the greatest debili-

tating effect on the criminal organization. Customs investigated 260 active "impact" narcotics cases in FY 1994.

Operation HARD LINE

Current estimates are that 70 percent of the cocaine smuggled into the United States crosses our common border with Mexico. In addition to the terrible toll the use of cocaine takes on our country, this illegal activity has generated a number of related problems, including disturbing trends of escalating violence at ports of entry which jeopardize the safety of Customs personnel and endanger the public.

In response to the massive narcotics threat, the Customs Service is implementing Operation HARD LINE to focus on permanently hardening our anti-smuggling efforts at the ports of entry. HARD LINE will build upon the successful United States Border Patrol operations between the ports of entry, including HOLD THE LINE and GATEKEEPER, and the successful efforts of Customs Air Program, in the air space above the border, to create a comprehensive and unified Southwest border enforcement system.

In order to enhance port enforcement and officer safety, Customs has identified various capital improvements, such as barriers and bollards, to greatly diminish, or totally eliminate, the problem of port running. The problem of narcotics smuggled in commercial conveyances and cargo will also be addressed through improved targeting and interdiction procedures, expanded use of full-container x-ray equipment, proactive investigative support by means of intense source development, and intelligence gathering and assessment.

This operation is a high priority of the Customs Service. We believe that it is important to build on the present success of our work force and continue to focus on the critical problems of border violence, port running, smuggling in commercial conveyances and cargo through the development and implementation of Operation HARD LINE.

Trade Fraud

Our efforts against trade fraud become increasingly important as international trade grows more complex and new technologies are developed. Customs multidisciplinary teams investigate cases in which laws that regulate the importation of merchandise are violated. Through ongoing interaction with the Department of Justice, Customs aids in the prosecution of those who willfully violate U.S. trade laws. Customs supports its enforcement efforts by the collection of commercial intelligence from members of the intelligence community, as well as improved interaction with domestic industry to obtain all available enforcement information.

The continued emphasis on trade enforcement priorities, issues, and threats will aid trade enforcement investigations and help increase prosecutions and major penalty collections.

Serving the Nation and the Trade Community/Protecting Domestic Industry

Customs implements U.S. trade policy by collecting duties, taxes and fees; enforcing international codes and agreements; ensuring uniformity in trade procedures; accurately collecting and reporting import/export statistics; and providing efficient commercial services to the trade community. The dramatic growth in international trade and in sophisticated trade programs has complicated the implementation of the Nation's trade policy. Currently, Customs enforces a long list of agreements covering specific countries and products. These agreements and other programs include:

- Textile visa agreements with 40 countries.
- Uruguay Round tariff rate quotas on a variety of agricultural products.
- The International Sugar Agreement.
- The European Community (EC) Pasta Agreement.
- Trade embargoes and sanctions such as the China munitions embargo, yellowfin tuna embargo, and the embargoes on most imports/exports to Cuba, Iran, and Iraq.
- Trade restrictions on Canada, the European Community, and Japan, as well as individual companies.
- Monitoring of semiconductor companies coming from Japan.

The Customs Service also effectively and efficiently administers trade enhancement programs. These consist of the Automotive Products Trade Act, the Agreement on Civil Aircraft, the Caribbean Basin Economic Recovery Act, the United States-Israel Free Trade Area, and the Andean Trade Preference Act.

NAFTA

Of the trade agreements that Customs helps to administer, the North American Free Trade Agreement (NAFTA) is probably the most well known. Because NAFTA

is a preferential trade agreement, not a free trade agreement, only those goods that satisfy the NAFTA rules of origin are entitled to preferential benefits. Because of the benefits the agreement provides, there is substantial motivation to claim NAFTA preferential treatment when there is none. The strategic approach now being coordinated by Customs Office of Strategic Trade is to ensure that the rules are being followed and that a level playing field is being maintained. Customs is conducting research and analyzing trends to anticipate potential problems before they become significant.

Customs intends to:

- Conduct complex regulatory audits that focus on multinational corporations,
- Increase the resources devoted to registering intellectual property rights (IPR) merchandise and tracking IPR violations,
- Increase the resources devoted to laboratory, intelligence, and trend analyses; and
- Emphasize the use of Jump Teams to identify transshipment, verify country of origin, and assure compliance with respect to textile and apparel articles for which NAFTA preference is claimed.

GATT

The Uruguay Round Tariff Reductions and related agreements will, along with NAFTA, have a number of effects on Customs. Extensive new requirements are being placed on Customs to support more refined international trade programs. New systems of determining origin, substitution of tariff-rate for absolute quotas, various snap-back provisions and increased use of unfair trade practice cases will require a much more sophisticated approach. Because of these changes and the demands of NAFTA, we believe that our reorganization plan to emphasize strategic trade has been created just in time.

Also, changes in Intellectual Property Rights (IPR) legislation will tighten up enforcement procedures. Shorter deadlines for liquidation and administrative reviews of anti-dumping and countervailing duty cases will have a significant operational impact. Changes will occur in origin rules internationally, especially for Congressionally-mandated textile rules of origin.

Trade Compliance

To coordinate Customs activities in the face of the increasing volume and complexity of international trade over the last decade, and in anticipation of the changes from NAFTA and GATT, Customs developed its Trade Enforcement Strategy to better confront the major requirements in the enforcement of trade laws, trade agreements, and trade sanctions. While trade compliance has always been an essential part of Customs effort to protect domestic industry from predatory trade practices and unfair competition, the rapid growth of these practices has required constant improvements to maintain a unified, comprehensive strategy. Customs Trade Enforcement Strategy coordinates the full range of Customs expertise to address a variety of trade problems. It attacks such illegal trade practices as false valuation and misdescription, transshipment, dumping, forced labor, infringements of intellectual property rights and attempted importation of goods which do not meet U.S. health and safety standards.

Customs seeks the trade community's "informed compliance" with all Federal laws and regulations relating to importation of goods. The Modernization Act has imposed greater responsibilities on the importing community for record keeping and for filing accurate entries. Our view of the future calls for shifting our resource allocation away from the current heavy emphasis on the verification of entries through inspection and review of importation paperwork toward greater emphasis on working with major importers so that we can rely on their internal control processes. In this way, we will minimize the costly and time-consuming inspection of individual transactions. This is essential for Customs to keep up with expected growth in trade.

Assuring compliance is the role of Customs regulatory audit function. This extremely effective program is a key element in Customs multi-disciplined approach to controlling commercial activities. The Customs Service has professional auditors located in 30 cities nationwide. In the coming months, regulatory audit will focus on NAFTA audits, increased scrutiny of transfer pricing, and heightened interest in priority industries. Our Trade Enforcement Strategy will depend heavily not only on staff with unique skills, such as auditors, but also on new automated technology, which will improve productivity and effectiveness.

The Automated Commercial Environment (ACE)

Using innovative technological approaches for trade compliance purposes—as well as in many other areas of Customs work—is crucial to maintaining Customs capa-

bility to absorb projected workload increases without proportionate increases in resources. As I mentioned at the outset, Customs Automated Commercial Environment will help us meet the increasingly complex challenges of our mission. The Automated Commercial Environment is our name for an overall redesign of Customs automated processes. This redesign is structured to be the "next generation" for commercial processing, using many current systems, as well as off-the-shelf software, as feasible. When fully implemented, ACE will establish a seamless, interactive automated process providing information sharing among all Government participants. The investment represented by the development of ACE will enhance the quality of virtually every area of Customs processing and benefit the Government as a whole.

One of the most beneficial enhancements provided by ACE will be the establishment of an international trade database, as advocated by the National Performance Review (NPR), that will allow a wide range of trade information generated or collected by Customs to be accessed by numerous other Federal agencies. The information in the database will provide accurate information for trade negotiations and monitoring compliance with international trade agreements. The database will be expanded to include both import and export information invaluable to many public and private sector entities. Users will be provided with more flexible data retrieval and greater analysis and reporting capabilities.

Significant quality improvements will be manifested through improved international trade controls, greater precision in revenue collections, and greater facilitation for legitimate international business. The Automated Commercial Environment strongly bolsters Customs trade enforcement and financial enforcement strategies through more sophisticated targeting techniques.

ACE will fully implement the automation initiatives of the Modernization Act such as importer activity summary statements (IASS), remote filing, reconciliation entries, and periodic filing. Also, it will include concepts such as account-based processing.

ACE will facilitate adherence to the provisions of the Chief Financial Officers (CFO) Act, and will address Congressional and Executive Branch recommendations for system improvements to internal controls and core financial operations. The selectivity improvements promoted by ACE include an updated targeting system and compliance measurement utilities that will help foster voluntary compliance with established regulations.

Since Customs is taking a comprehensive, integrated approach with ACE, it will take some time to do it right. The ACE Development Team completed its first deliverable, the Strategic Information Management Plan, in December 1994. Currently, the Team is developing requirements for the system in coordination with the Trade Compliance Process Improvement Teams and the trade community. This phase is scheduled to be completed this fiscal year. In FY 1996, the ACE Team will do system design, with development and testing to follow in FY 1997 and FY 1998. We plan to have ACE fully implemented in FY 1999.

Restructuring the Customs Service

Technology alone will not be enough. Basic organizational and managerial change will be needed too. Customs reorganization and reinvestment plan will allow the Agency to keep its commitments to the Nation and to the American people in the face of record workload levels and the prospect of relatively static budgetary resources.

Twenty-one months ago, with a mandate to work smarter and cost less, and with the freedom from prohibitions on studying a restructuring, Customs set about to re-examine the way it did business. A 20-person inter-disciplinary reorganization study team, which included representatives from the National Treasury Employees Union (NTEU) and a representative from the Immigration and Naturalization Service (INS), was assembled to determine if and how the Customs Service should change. Given a simple but broad mandate—design an organizational structure for the Customs Service that would prepare it to meet the challenges of the Nation at our borders in the 21st century—the team received extensive support and information from persons within the Customs Service, the Treasury Department, the Customs Operations Advisory Committee, the trade community, other Federal agencies, and congressional committees.

People, Processes, and Partnerships

While many of the resulting proposals are directed at Customs organizational structure, the real heart of our effort involves fundamental change in the management culture of the Customs Service. Critical to this culture change were the goals of the National Performance Review and the clear direction from former Secretary

Bentsen for all Treasury agencies to focus on more efficient operations and improved service for customers. These concepts are all embodied in the slogan "People, Processes, and Partnerships." By this we mean an organization characterized by:

- Greater attention to our people,
- Managing essential core processes, and
- Forming partnerships with our many customers as a means of improving our mission performance.

The Promise of Our Vision

The study team's analysis resulted in a set of recommendations providing specific benefits to the American public. These recommendations fell within four broad categories:

- Restructured Operations,
- Enhanced Customer Service,
- Informed Compliance, and
- More Integrated, Coordinated Operations.

Customs has existed as an agency for over 205 years. During that time it has developed a rich and sometimes complicated culture. Changing an institution that has developed over more than two centuries is no easy task. With the help of this Committee, we can restructure our core processes and reinvest in field operations to meet the challenges of the 21st century. We are well aware that changing the culture of the Customs Service will require a long-term effort, but this is one of the most important and lasting changes which we can hope to make.

Conclusion

With the leadership and support of the President, the Vice President, Secretary Rubin, and this Committee, we at the Customs Service are proceeding in the right direction. We know that achieving our vision will not come easily, and we face many difficult challenges. But we are guided by a simple goal: to leave the Customs Service a better agency than when we found it. We welcome this Committee's assistance in making this goal a reality.

Mr. Chairman, we would be happy to answer any questions you may have.

STATEMENT BY

SENATOR ORRIN G. HATCH

UNITED STATES SENATE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE

August 1, 1995

Mr. Chairman, I would like to welcome the representatives of the trade agencies before this panel. As I have said often, our trade activity is outpacing our ability to enact statutes and derivative regulations for its proper management. We our learning by example, evolving regulations as we go along, and only writing statutes as deficiencies are identified. So far, this management-by-exception method seems to be working. But our trade activity, while among the fastest growing of industrialized countries, represents a very small share of our GDP - unlike such other countries as England, Germany, Japan, and even Australia.

But our trading economy is becoming more like that of these countries. This is the effect of a well-known, underlying principle of trade called diminishing marginal productivity. Take the case of agriculture, one of our strongest trade suits. As we add more capital to production on a fixed amount of land - actually a diminishing amount of land - prices initially decrease, level off, and then climb. This is because we reach a level of maximum output. No addition of resources can change it.

Europe, especially, has reached this level. As prices rise along with diminishing marginal productivity, subsidies are needed to remain competitive. President Bush, for one, was willing to give up U.S. export subsidies. He believed that Europe's diminished productivity matched with the opposite effect in the United States would give us a clear advantage. I believe he was right. Trade can provide what a country can no longer produce efficiently.

The same principle applies to U.S. computer software, or aviation goods. The U.S. has an infrastructure with inherent productivity advantages. Only a few other countries can compete with us. Where they do, as in the case of Europe's Airbus, massive state subsidies, again, offset marginal productivity deficiencies. Or, they may pirate - which is to say "steal" - our technology to avoid adding factors of production to a sector. This has been the unfortunate case with so many U.S. software manufacturers whose products are being pirated, counterfeited and then sold throughout the world by the wrongdoers.

Mr. Chairman, I provide these prefatory remarks to today's hearing. And I direct them to the ITC study on dumping. The study missed the essential point that the U.S., still the world's most open economy, is a big target for dumping advocates. Major targets are often those whose marginal productivity makes them only barely price-competitive. For example, the dumping of steel products in the 1970s and 1980s had a predatory goal. In fact, without the voluntary trade restraint agreements of the 1980s, the U.S. steel industry would probably have succumbed.

The ITC study provides no conceptual guidance, or even a working hypothesis as to the ripple effect on the U.S. economy when dumping is tolerated. The full costs of such universally unacceptable trade distortions are therefore never captured. Dumping is as much an unfair trade practice as subsidies, and nations, like the United States, inherent rights to adopt, and to enforce domestic laws against them.

I agree with the House and Senate appropriations panels that ITC spending should be frozen and the current budget year level. It is evident to me that the ITC needs not more, but better analysts.

Turning to another controversial matter before our panel today, extending the General System of Preferences, or "GSP," I also agree with the consensus findings of the House, and with the Clinton Administration, that economies entering into periods of prosperity should not expect unfair trade advantages that come from trade preferential systems like GSP. Accordingly, I endorse the proposal to graduate Malaysia from the US GSP program.

Malaysia has earned its trading spurs well. It has good trade laws, especially those relating to intellectual property, which have been singled out by the Business Software Alliance for commendation. Its real growth, at 8.5 percent, is well reflected in the robust nature of its stock exchange. Not surprisingly, Malaysia is today a leading investment target. Per capita income steadily rises, while the country's inflation is under control, and its currency its stable as it approaches full employment. It is a showcase in the very competitive Southeast Asian sector.

Finally, Mr. Chairman, I want to return to my earlier theme of trade activity outpacing our ability to manage it. Perhaps the most active trade policy implementation agency in our country is the Customs Service. Its function is to code and control every item that crosses our borders. As reported in today's statement by the Customs Service, the agency also enforces the laws and regulations covering the carriers and persons engaged in trade, as well as the cargoes they ship and receive.

Like the U.S. Trade Representative, which negotiates the fundamentals of the trade-related laws that Congress writes, the Customs Service stands on the front lines of the greatest commercial revolution in human history. I would hope that my colleagues would join me in congratulating these two agencies.

Statement of Senator John McCain
Senate Finance Subcommittee on International Trade
August 1, 1995

I want to thank the Chairman for including in today's hearing the topic of Most Favored Nation status for Cambodia, and for giving me an opportunity to offer my own thoughts on the issue. I also want to thank the Chairman of the full Committee, Senator Packwood. It is thanks to his leadership and his personal interest that Cambodia MFN is finally receiving the attention it deserves.

Cambodia has lacked MFN status since the Khmer Rouge seized power in 1975. However, because of an anomaly in U.S. law, it cannot be granted MFN under the procedures established in the 1974 Trade Act. In short, the President wants to grant MFN to Cambodia, but lacks the authority to do so. This leaves us with basically two options. Either Congress grants Most Favored Nation Status to Cambodia outright and requires no further action, or it applies Jackson-Vanik to Cambodia.

In my estimation, it is now clearly preferable to proceed with the first option. I encourage the Committee to take advantage of the opportunity before us and pass the House bill without amendment. Cambodia is no longer communist and it is not restricting the free emigration of its people. Congress should extend MFN without imposing new restrictions or applying conditions more appropriate for an earlier era.

Cambodia has come a long way from the dire situation it faced just two short years ago. Many thought the 1993 elections would be marred by violence, irregularities or an unwillingness on the part of the ruling party, if defeated, to relinquish power. Following the elections, it was feared that the new government would lose the war with the Khmer Rouge.

None of these predictions came to pass. Despite threats from the Khmer Rouge, Cambodians turned out in droves to vote in the national elections. 95% of eligible voters registered to vote, and 90% of those actually voted. The ruling party entered into a power sharing agreement with its challenger. And the Royal Cambodian Armed Forces are winning the war against the Khmer Rouge -- albeit with some setbacks.

Following the elections, the Cambodian government created a single military force out of a collection of guerrilla movements and troops loyal to the Vietnamese-installed government and has begun to significantly reform its new military.

In the Spring of 1993, few expected the future Cambodian government to demonstrate this level of strength. But Cambodia defied our expectations.

The U.S. has helped achieve these successes -- as has much of the international community -- but we must give credit where credit is due. That Cambodia has managed to defy the odds for two years is a tribute to the spirit of the Cambodian people. Their efforts to create a free political society and forge prosperity from chaos and tragedy will rise or fall as a result of this spirit.

There are continuing problems in Cambodia. The Khmer Rouge, unable to mount a decisive military challenge, have increasingly turned to banditry and terrorism. It is difficult to predict with any degree of certainty when the government will be able to defeat the Khmer Rouge once and for all. In the dense jungles of Northwestern Cambodia, where guerilla forces can operate virtually undetected, the Khmer Rouge may stay active for a number of years to come.

There has been some success in isolating the Khmer Rouge from its external sources of support, but more remains to be done. Both the State Department and independent sources report a significant decrease in the amount of support offered the Khmer Rouge from Thailand. I have often spoken out about this support, and now that there has been some progress I feel obliged to commend the Thai government for its efforts. Cross border trade between individual Thais and Khmer Rouge guerrillas -- trade which helps to finance the Khmer war effort -- continues, but there has been progress.

Another troubling concern is the fear which prominent dissidents have for their safety and their freedom to speak their minds. Without the right to free speech, no nation can create a viable democracy. To date I have resisted becoming engaged in efforts to micromanage Cambodian democracy. It is their democracy. But I do encourage my friends in Cambodia to respect the right of dissent. Sam Rainsy, Kem Sokha and others deserve to be heard. Cambodian democracy will be better for the competition of ideas these men, and many lesser known citizens, engender.

I suspect that the Cambodians will surprise us once again in addressing these problems. The record they have established for defying the worst predictions should give outsiders reason to pause before constructing elaborate scenarios of failure.

We can help Cambodia overcome the many challenges it faces. But we will be best able to help Cambodia by empowering Cambodia to help itself. This is what makes MPN such an important issue. An economically developed, prosperous Cambodia will be able to create a firmer foundation for democracy. It will be able to better provide for its soldiers. A Cambodia that it is able to attract foreign investment through access to the American market will address the misery that the Khmer Rouge exploits. Nothing will prove more effective in defeating terror than the creation of an economy strong enough to bind the Cambodian people to its new democracy.

Cambodia's fragile democracy is situated in a region of the world where many would have us believe the people are not suited for freedom. Cambodians have the opportunity to prove, like the Japanese and Koreans, that "Asian values" do not preclude a reverence for political freedom. We should help them make their case. I encourage the Committee to act on the legislation before it at the earliest possible opportunity.

Written Testimony of

Ronald L. Parrish
Vice President of Corporate Development
Tandy Corporation

Good morning, Mr. Chairman. My name is Ron Parrish. I am Vice President of Corporate Development for Tandy Corporation, an American-owned and -operated consumer electronics and personal computer retail company, headquartered in Fort Worth. Tandy is the parent company of Radio Shack, America's most familiar consumer electronics company, with 6,700 U.S. retail stores, as well as Computer City Supercenters and the Incredible Universe, two of the fastest growing retail chains in America. Tandy has over 37,000 U.S. employees at the present time.

Thank you for giving me the opportunity to testify before you today on behalf of the Coalition for GSP and in support of a long-term renewal of the U.S. Generalized System of Preferences program. The Coalition is a group of individual U.S. companies, both large and small, and several major trade associations, including the Electronics Industries Association and the National Retail Federation. Tandy is a member of both Associations. The Coalition represents a wide variety of American producers, importers, retailers and their workers. It covers the key sectors of the economy that benefit the most from GSP: electronics, chemicals, wood products, sporting goods, food processors, and other consumer product companies.

GSP contributes significantly to Tandy's competitiveness in a very tough marketplace. Radio Shack has imported products from the Orient under the GSP program since its inception in 1976. The program has helped Tandy establish valuable vendor relationships in Korea, Hong Kong, Taiwan and Singapore, all countries which were graduated from the GSP program in 1989. We currently buy in excess of \$150 million on an annual basis from the GSP countries of Malaysia, Thailand, the Philippines and Macao.

As of yesterday, Tandy had open orders for the Christmas season of over \$86 million from these GSP countries. If GSP is not renewed, retroactive to today, Tandy will directly lose \$4 million in duties on our open orders, and at least that much again on gross margin as these products sell through to our customers. If the GSP program is terminated, our customers will see future price increases of 10 percent or more on a large selection of compact disc players, calculators and loudspeakers, among other items.

GSP is a good program with tangible, long-standing benefits not just to Tandy, but also to the developing countries designated as beneficiaries. It is an alternative to aid that actually works. In the very thin-margin consumer electronics business, the GSP duty relief alone has made the difference as to whether manufacturing in developing countries is economically viable. The GSP program historically gave Tandy alternate sourcing capability from Japan, and currently provides alternatives to China.

I'd like to share two examples of how GSP benefits flow through to our customers. This speaker, now known as the "Optimus Pro 7," is the most popular loudspeaker ever produced. In 1977, it sold for \$49.95, and was rated at 40 watts capacity. Radio Shack is not sure how many of these have been sold in the last 18 years, but they know it's over 7 million, but probably less than 10

million. Today, thanks to GSP, the speaker, redesigned several times and now beefed up to 100 watts per channel capacity, retails for only \$59.95. It has been produced in Japan, Korea, Taiwan and now Malaysia.

This is a financial calculator I bought in 1982 and still use. At the time, it cost \$369. I venture to say that nearly every large company chief financial officer in the country learned to use one of these, because it was just about the only way to compute yields, rates of return and present value. Here are two Radio Shack calculators which perform nearly all of the functions of this model. This one is made in Thailand and this one is made in Malaysia. The retail selling price of both calculators is under \$35, about one-tenth of what I paid in 1982. GSP has been an important factor in making such values possible. Now, most families can afford to have a scientific or math calculator for their children.

The central message I want to convey to you today is the fundamental need of American business for predictability. Now, of course I realize that very little in life -- and business -- can ever be expected with total certainty. However, the renewal process for GSP, and even the implementation of the GSP program's graduation provisions, are injecting undue uncertainty into business planning -- uncertainty that is disruptive and expensive, and wholly unnecessary.

Yesterday, the GSP program expired. This was not its first expiration. GSP expired last September 30, as well, and was not until December 8 for another 10 months, retroactive to October 1, 1994. And before that, GSP expired July 3, 1993, with an eventual renewal through September 30, 1994. Every time GSP expires, we are faced with a host of questions and decisions that must be made that could prove to be very expensive, depending on how we answer those questions. Will GSP be renewed? If so, when? Will renewal be retroactive to the expiration date? Will there be any major changes made to the program? Should we place orders now expecting GSP to be renewed, or expecting it to expire completely? How should we price the goods featured in our catalogs? Will the countries with whom we place our orders be graduated at any time in the near future?

For a company like Tandy, and many others that source a lot of goods under GSP, an incorrect answer to any of these questions will be very costly. Mr. Chairman, this is a copy of the 1996 Radio Shack catalog, which is going to press literally as we speak. Tandy has always honored its catalog pricing, and it will be good until the 1997 catalog is published next August. Products and pricing for this catalog have been established in many cases since last fall. As we have for the past few years, Tandy elected to anticipate renewal of GSP for the coming year in order to avoid increasing prices to our customers. Thus, 10-month, one-year or even 18-month renewals of GSP do not help us all that much. Because we are committed to honoring the prices in our catalog, a short-term renewal of GSP merely perpetuates the uncertainty and risk. Therefore, we strongly urge you to renew it once and for all, for five years and ending on December 31 of the final year.

I would like to say just a word about the Administration's recent effort to graduate one major supplier from GSP benefits. I believe that the process used also engendered unnecessary uncertainty and needs repair. A few months ago, the Administration decided, unbeknownst to the U.S. business community generally, that Malaysia had "developed" and ought to lose its status as a beneficiary developing country. The decision has apparently been made to graduate Malaysia, despite the fact that Malaysia has yet to reach the per capita income level specified in the statute that triggers automatic graduation. I say "apparently" because so far the decision has not been formally announced, and the business community must continue to rely on rumors and "leaks" to get any information about what is likely to happen, and when. Business decisions made on the basis of rumors and "leaks" are costly.

While we can predict which countries might be graduated using the formal graduation criteria in the statute, we cannot predict when the President will use his discretionary authority to decide that a particular country has "developed." Therefore, the Coalition strongly believes that a process needs to be established for future discretionary decisions that allows the American companies, their workers and their customers who will be affected by any such decisions to provide advice and to be consulted before the decision is final. The fact is, Malaysia produces a significant percentage of the world's supply of compact disc players and calculators, so loss of GSP will have a measurable effect on consumer prices. We suggest that the legislation to renew GSP include provisions that any graduation decisions taken in the future use the same procedures for public comment as those the Administration now uses for annual reviews.

I want to thank you again for the opportunity to tell you about the importance of GSP to Tandy. I speak not just for Tandy, but for thousands of other companies across the United States who have built markets for their goods in the United States using this program to improve their competitiveness, and to pass on lower prices to consumers. Failure to renew GSP for another five years will be a significant blow to us, and to them. Tandy and the other members of the Coalition for GSP look forward to working with you to ensure that GSP is renewed as soon as possible.

STATEMENT OF SENATOR ALAN K. SIMPSON

Mr. Chairman, I do greatly regret not being able to attend the hearing today, but I appreciate your giving me this opportunity to express my thoughts. I fully support extending unconditional MFN status to Bulgaria. It is an important step in the progress of our bilateral relations and it is essential to opening up the doors of trade within the structure of the World Trade Organization (WTO).

My principal focus on Bulgaria's efforts to strengthen economic and political ties with the United States is the result of my close friendship with a former member of the Bulgarian Parliament, Mr. Ilko Eskenazy. He was a marvelous fellow, who sadly and tragically died last fall. I greatly admired his love of country and his commitment to a prosperous, democratic and free Bulgaria. He had a heartfelt interest in helping to wrestle with the issues and solve the problems that confronted the world. He had a great sense of morality and gracious good humor. He knew how to use laughter to lighten the burdens of political life. Just as it is for me, humor was his sword and his shield.

It was through our thoughtful exchanges that I became interested in Bulgaria. For twenty years, Bulgaria maintained its status simply as an observer to the GATT. Since 1986, however, Bulgaria has actively sought full membership in the world trade body. At the time, even though economic reforms were underway, Bulgaria still retained many of the classic features of a non-market economy, including non-convertible currency, central planning, state-managed enterprises and a state foreign trade monopoly. In general, any realistic discussion of Bulgaria's actual accession to the GATT was not considered as being

"appropriate" until the early 1990s when we began to see sweeping political and economic reforms.

From the starting point in 1986, Bulgaria's transition to a market economy was characterized by deep overall imbalances, disruptions of the internal market, increasing internal and external debt, severe deterioration of trade, a breakdown of traditional markets and uncertainty of future oil prices. Then, in 1991, we saw the new Bulgarian Government launch a comprehensive economic and social reform program. The changes included the introduction of foreign trade mechanisms, an elimination of the state foreign trade monopoly and an installation of basic democratic principles. Since then, in spite of several sweeping governmental changes, Bulgaria has remained committed to steady economic and political reform under the most challenging of circumstances.

Bulgaria's desire to become a full member of the World Trade Organization has been an essential ingredient of their market reform process. The country has achieved agreements with the European Union and with the EFTA countries. In addition, Bulgaria's reforms have brought about greatly increased political freedom. That accomplishment has enabled our President to approve MFN status for Bulgaria, on an annual basis, for the past several years. It is now time to extend permanent MFN to Bulgaria by removing all vestiges of the application of Jackson-Vanik requirements. The United States maintains unconditional MFN relations with other Eastern European nations such as Hungary, the Czech Republic, the Slovak Republic, Poland and the Baltic States. It is time to recognize the vast improvements that Bulgaria has achieved and confidently add that country to the list.

Written Testimony of

John Smith
President
Amsurco, Incorporated

Good morning, Mr. Chairman. My name is John Smith. I am President of Amsurco Incorporated, an importer of products used to make specialty inks and coatings in the United States. We sell these products to customers that include Sun Chemical, BASF, J. M. Huber, and other smaller varnish and ink makers. Mr. Parrish indirectly is a customer of ours, as we provide resins for solder flux used to make circuit boards.

Amsurco is based in New Jersey, where we have five employees. We also have employees in Illinois and Ohio. I am very pleased to appear before you today on behalf of the small businesses that are members of the Coalition for GSP. In addition to Amsurco, these members include companies that use GSP to supply auto parts to U.S. motor vehicle manufacturers, leather upholstery to U.S. furniture manufacturers, and bulk frozen vegetables to U.S. food processors.

The Generalized System of Preferences is the lifeblood of Amsurco. In 1966, we joined with Ascona S.A. of Argentina to establish an export opportunity for Ascona's environmentally protective, specialty resin products. The birth of this partnership is illustrative of the way GSP benefits both developing countries and American companies and so I would like to take just a minute to relate the story to you. First, it is important to know that the rosin derivatives we import from Ascona are not available in the United States. They are produced by the sap of a specific variety of living pine tree that is no longer grown in the United States. To the extent that U.S. manufacturers produce the rosin derivatives that are the end-product of the chemical contained in the sap, they do so indirectly from grinding and cooling cut trees, and the result is an inferior product to one manufactured directly from the pine sap of living trees. On a visit to Ascona in 1983, I discovered that Ascona was collecting crude gum and making refined products, but not exporting very much of it. I offered to take some samples back to the States to have them analyzed and determine whether there might be an export opportunity for Ascona in the United States.

Initially, the U.S. market for the Ascona product was very limited. Basically, GSP duty benefits, which saved us tariffs ranging from 7 to 14 percent, offset our transportation costs and other related costs of getting the product into the United States. But the GSP advantage gave us and Ascona the time we needed to improve the quality of the Argentine product. Little by little Ascona acquired the technology required to give us the edge we needed. Soon, we were able to sell in the United States not only at competitive prices, but also with technological superiority. Today we currently import between \$15 million and \$18 million from Ascona, and GSP saves us \$1 million to \$2.5 million. We could not have gotten any foothold in the U.S. market if we had not had GSP to offset U.S. duties so that we could fund considerable upfront costs. GSP also gave Ascona a steady customer that enabled it to increase employment to about 1,200. This company takes very good care of its workers, providing many of them living in extreme rural areas with food and housing and requiring that their children be enrolled in school. Transportation is provided for the children to the schools.

I think it is also important to point out that the ripple effects of GSP extend beyond Ascona, Amsurco and our customers. They also include U.S. chemical producers. Amsurco exports U.S. specialty phenols and chemicals to Ascona.

which uses them with the chemicals extracted from the sap to produce the rosin derivatives we import. About 30 to 40 percent of the raw material used by Ascona is U.S. product. In addition, GSP indirectly benefits the U.S. flag carriers that bring the rosin derivatives to the United States, our freight forwarder in Virginia, the inland shipping lines that distribute the product to our warehouses and customers. GSP does all this at no cost to American taxpayers -- not even in the form of foregone duties. Without GSP, we would not import this product at all. Thus, GSP has become, for our company as well as others, a solid tool for creating new products, opening new markets, and creating employment not only in developing countries but in the United States as well. Contrary to the opinion of some, GSP is not a "give away" to foreigners. Far from it. It matters to us. Without GSP, our costs jump by as much as 14 percent, and we have to increase our prices. Without GSP, we lose our customers, who will not pay the higher prices. The companies we work with lose our business, because we must stop importing from Ascona.

Today, we were hit with an enormous "tax due" bill from the Customs Service. Yesterday, GSP expired, and from today on, we must post duties ranging from \$40,000 to \$60,000 a month on the rosin derivatives we import from Ascona. I have to tell you that small companies like Amsurco do not have \$40,000 to \$60,000 to send to the U.S. Government every month while we wait hopefully for GSP to be renewed. Unlike much larger companies like Mr. Parrish's, we don't have the cash flow and credit lines available to absorb this sudden charge. We have to get a loan, and let me tell you it requires an "act of God" to convince a banker to give you money until GSP is renewed, especially when the banker finds out that renewal requires an "act of Congress." It doesn't matter to him that there is strong bipartisan support in Congress for renewing GSP. He wonders why, if support is so strong, was GSP renewed for only 10 months the last time? He wonders if my company will fold before renewal comes, if it comes at all. The only way Amsurco can obtain money is with collateral, and in this case, that collateral is my house. Thus, in hopes of your positive response, I incur unnecessary interest costs, stretch out creditors while besmirching Amsurco's credit rating, and fear for my home. It is a gross understatement to say that I am counting on renewal being retroactive to today, August 1, 1995.

So I join with Mr. Parrish today in asking you to renew GSP for another five years, and to do it as soon as possible. We need predictability as much as the big companies. We care about this program as much as they do -- maybe even more, because some of us will be out of business without it. We, too, agree that procedures need to be established that will prevent -- or at least lessen the likelihood -- that we will be blindsided by future decisions to graduate countries from GSP. Not all of us have access to law firms or consulting firms who send us memos reporting the latest rumor to emerge from the Administration. Not all of us read press clips from the major U.S. and foreign papers to pick up such rumors from those sources. By the time a Federal Register notice is published announcing a decision, it may be too late for us.

Mr. Chairman, thank you for the opportunity to share Amsurco's very happy experience with GSP (when in effect) with you today. I strongly urge you and the members of the Subcommittee to do everything you can to ensure that this very important program is renewed for another five years. The clock is ticking for us, every month that passes brings with it another heavy financial burden and greater uncertainty about Amsurco's long-term viability. I join with the Coalition for GSP in offering whatever assistance we can to move the process forward. I would be happy to answer any questions you may have.

UNITED STATES INTERNATIONAL TRADE COMMISSION**STATEMENT OF PETER S. WATSON, CHAIRMAN
BEFORE THE SENATE COMMITTEE ON FINANCE,
SUBCOMMITTEE ON INTERNATIONAL TRADE****August 1, 1995**

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to meet with you today to discuss the budget request of the United States International Trade Commission for fiscal year (FY) 1996. The Commission appreciates the Subcommittee's previous support for the Commission's programs, and its continued strong interest in our work.

Overview of the Commission's role in U.S. International Affairs

The U.S. International Trade Commission is an independent, nonpartisan, quasi-judicial agency created by an Act of Congress. Its six Commissioners are appointed by the President and confirmed by the Senate for terms of nine years. As provided by statute, the ITC has unique independent budget authority. 19 U.S.C. section 2232 provides that the Commission's proposed allocations be "transmitted to the President . . . and included by him in the Budget without revision . . ." Each year, the Chairman appears before the Congress on behalf of the Commission to justify its budget request for the preceding year.

The Commission plays an important role in assisting U.S. trade policy. In its adjudicative role, the ITC determines whether certain imports injure or threaten to injure U.S. industry (Title VII - antidumping and countervailing duty investigations); and whether unfair methods of competition or unfair acts are occurring in the importation of articles into the United States (section 337 - unfair practices in import trade such as patent infringement). The Commission also makes recommendations to the President regarding whether domestic industries are being seriously injured by increasing imports (section 201 - escape clause investigations); whether agricultural imports are interfering with USDA farm programs (section 22 investigations)¹; and whether imports from Communist countries are causing market disruption in the United States (section 406 investigations).

¹ The Uruguay Round Agreements Act amended section 22 to prohibit the application of quantitative import limitations or fees on products from World Trade Organization member countries.

At the request of the President or the Congress, the Commission undertakes comprehensive studies on key issues relating to international trade and economic policy matters. Detailed reports on its factfinding investigations (section 332 investigations) are provided to the President and Congress and become part of the information upon which U.S. trade policy is based. The Commission, upon request, also monitors import levels and provides other information and technical advice to the President and Congress on tariff and trade matters and proposed legislation.

Other responsibilities of the ITC include providing the Congress and the President with independent, expert technical advice to assist in the development and implementation of U.S. trade policy; responding to requests for information from the Congress and the President on various matters affecting international trade; and maintaining the Harmonized Tariff Schedule of the United States. To carry out these responsibilities, the Commission has to maintain a high degree of expertise and readiness in its work force.

The Commission's Projected Future Workload

The Commission projects a future workload increase of 10-15% in FY 96. The Commission anticipates that the Uruguay Round Agreements Act will impose substantial new burdens on the Commission which will increase over several years as various additional responsibilities devolve on the agency. For example, on January 1, 1995, the Commission became responsible for conducting a new class of injury review investigations ("black hole" cases) of certain industries benefitting from countervailing duty orders, although the first cases are not likely to be conducted before the last quarter of FY 1995. If consolidated, there are approximately 27 of those cases that may be brought by petitioners beginning in FY 95.

The Uruguay Round implementing legislation made a number of changes in laws which the Commission administers. As these changes in the trade relief laws take effect, the Commission anticipates an increase in court litigation and WTO dispute settlement as parties and countries seek clarification of new statutory terms and international obligations, respectively.

The Commission also expects to receive requests to evaluate expansion of and various aspects of trade under the North American Free Trade Agreement (NAFTA), or to provide advice as to the probable economic effect of immediate or accelerated elimination of duties on imports from Mexico under NAFTA.

The Commission's workload is not expected to increase again substantially until mid-1998 when the Commission will have to begin handling sunset review cases called

for by the new GATT implementing legislation. During a transition period beginning in 1998, the Commission will be faced with conducting an injury review of all outstanding antidumping and countervailing duty orders as to which the domestic industry expresses interest. There are approximately 400 outstanding orders eligible for review in the transition period. To put this in perspective, the amount of work involved in each of these reviews will roughly correspond to that in a final injury investigation. In FY 94, the Commission completed approximately 130 final injury investigations, each being approximately one year in length. Beginning in the year 2000, the Commission will be required to conduct a review of all five year old orders. To perform these new responsibilities, the Commission will likely have to increase its Full-Time Equivalent (FTE) base and non-personnel expenditures substantially by mid-1998.

The Commission's FY 96 Budget Request

The budget request of the Commission for fiscal year (FY) 1996 is for \$47,177,000. The Commission is requesting a funding level of 458 FTEs for FY 1996. The FY 96 staffing plan (449.5 full time permanent positions) does show an increase of two full time permanent positions as compared to the Commission's allocated FY 95 staffing levels (447.5 full time permanent positions) which are needed to handle the projected increased workload as a result of the passage of the Uruguay Round legislation. The total number of positions allocated by the Commission in its FY 96 budget request is, however, 6.5 positions below the number of positions allocated by the Commission in FY 94.

The proposed budget for FY 1996 reflects the beginning of a very modest buildup in resources in order to allow the Commission to assume the substantial new obligations imposed by the Uruguay Round legislation. I believe that the Commission's FY 96 request is moderate for a number of reasons.

First, our requested appropriation is tailored to allow the Commission, as it is currently structured, to continue to operate at FY 95 levels. Although the Commission's FY 96 budget request of \$47,177,000 is approximately \$2,500,000 or 5.7% above net projected expenditures in FY 95, approximately 85% of that amount is accounted for by mandatory increases in salary levels and an increase in the Commission's rent.²

Second, in contrast to previous years, the Commission does not expect to have the benefit of a carryover. In FY 94, the Commission spent less than its appropriation and had a sizable carryover of funds for use in FY 95 (approximately \$2,000,000). The

² In FY 95 and FY 96 the Commission expects to expend approximately 70% of its available resources on personnel compensation and benefits.

Commission's FY 95 appropriation, however, was far less than expected.³ In order for the Commission to continue to operate at FY 94 levels in FY 95 and meet mandatory increases to base pay, all FY 94 carryover funds are expected to be expended in FY 95. It is the Commission's understanding that last year's Conference Committee was aware that the Commission had the FY 94 carryover available for use in FY 95. Finally, as part of the FY 95 rescission bill, the Commission has returned to the Treasury some \$143,000 from unexpended travel funds and administrative overhead.

Third, although there have been some fluctuations in the Commission's workload (i.e., flat-rolled steel cases) in recent years, the Commission's workload has remained relatively flat from 1991 on. Nonetheless, the Commission has already accomplished a significant amount of streamlining and downsizing. For example, in FY 93 the Commission expended funds for 470 FTEs, however, our FY 96 request anticipates only 458 FTEs. In that regard, the Commission has achieved or surpassed OMB's recommended staffing levels for FY 96. I remain committed to continue the Commission's streamlining process as well as to examine all options for downsizing the agency.

Fourth, as discussed above, the Commission expects to see an immediate 10% to 15% increase in its workload in FY 96 as a result of the Uruguay Round Agreements Act. The Commission has not, however, asked for a corresponding increase in resources. The Commission's requested FY 96 appropriation is merely sufficient to keep the Commission operating at FY 95 levels.

The Impact of a Reduction in our Requested Appropriation

Let me say most emphatically that I do not enjoy coming before this Subcommittee suggesting that I want its support in asking for an increase in funds over last year. We do want to assume our share of the reduction to government and bureaucratic expense and we will operate at whatever level the Congress funds us.

Should the Commission not receive its full FY 96 requested appropriation from Congress, we will make appropriate adjustments. That may include a possible reduction in work force, significant changes to the manner in which the Commission currently

³ The Commission's revised FY 95 budget request was \$44,657,000. The House Appropriations Committee recommended that the ITC's FY 95 funding level be set at \$44,200,000 and the Senate Appropriations Committee recommended \$43,500,000. Ultimately, the appropriation received by the Commission was \$42,500,000, the amount recommended by the conference committee.

conducts all of its studies and investigations, and an elimination of all agency details.⁴ Such adjustments, if necessary, will likely impact on the Commission's work product. The majority of the Commission's principal activities are, however, controlled by legislation and there are limits to the structural changes the Commission can make without corresponding changes to our controlling statutes.

As you are aware, our House Appropriations Committee has recently recommended an appropriation of \$42,500,000 for the Commission in FY 96, and our Ways and Means authorizing Subcommittee has authorized \$44,500,000 for FY 96. Should the 42.5 figure ultimately become the Commission's FY 96 appropriation, the Commission will have to make significant operational changes despite having implemented cost cutting initiatives throughout FY 95.

In anticipation of the likelihood of budget reductions in FY 96, the Commission has continued to reduce its staffing levels in FY 95 with the help of a recently instituted voluntary early retirement program and a hiring freeze. By the end of FY 95, the Commission projects it will have approximately 425 full time permanent employees.

This is down from the 447.5 that the Commission allocated for at the beginning of FY 95. A funding level of \$42,500,000, however, would not leave the Commission with sufficient resources to fund 425 full time positions and the Commission would have to make significant adjustments both in regard to personnel and non-personnel expenditures. While the Commission would likely make significant reductions to non-personnel expenses from current levels, it is estimated that a shortfall of approximately \$1,500,000 would still result. As a result, the Commission would be forced to consider an agency-wide furlough of some duration as well as a reduction-in-force (RIF).

Since the Commission's rent comprises approximately 17% of its FY 95 funding level, the Commission is also currently reviewing the possibility of reducing the Commission's rent with the return of space to GSA. Any savings obtained from this action would not be realized until the third quarter of FY 96.

Section 332 Studies

The Conference Report accompanying the Act which reports the Commission's FY 95 appropriation indicates that "(t)he conferees agree that any program reductions should

⁴ Currently, the Commission provides 6 FTEs to USTR each year pursuant to a Memorandum of Understanding.

be taken from the amounts requested for section 332 studies".⁵ In response, the Commission has already begun to take steps to identify ways of further streamlining the section 332 process, including an audit of the 332 process by the Commission's Inspector General. In addition, the Commission is reviewing its recurring reports and other services to determine if reductions can be made in these areas.

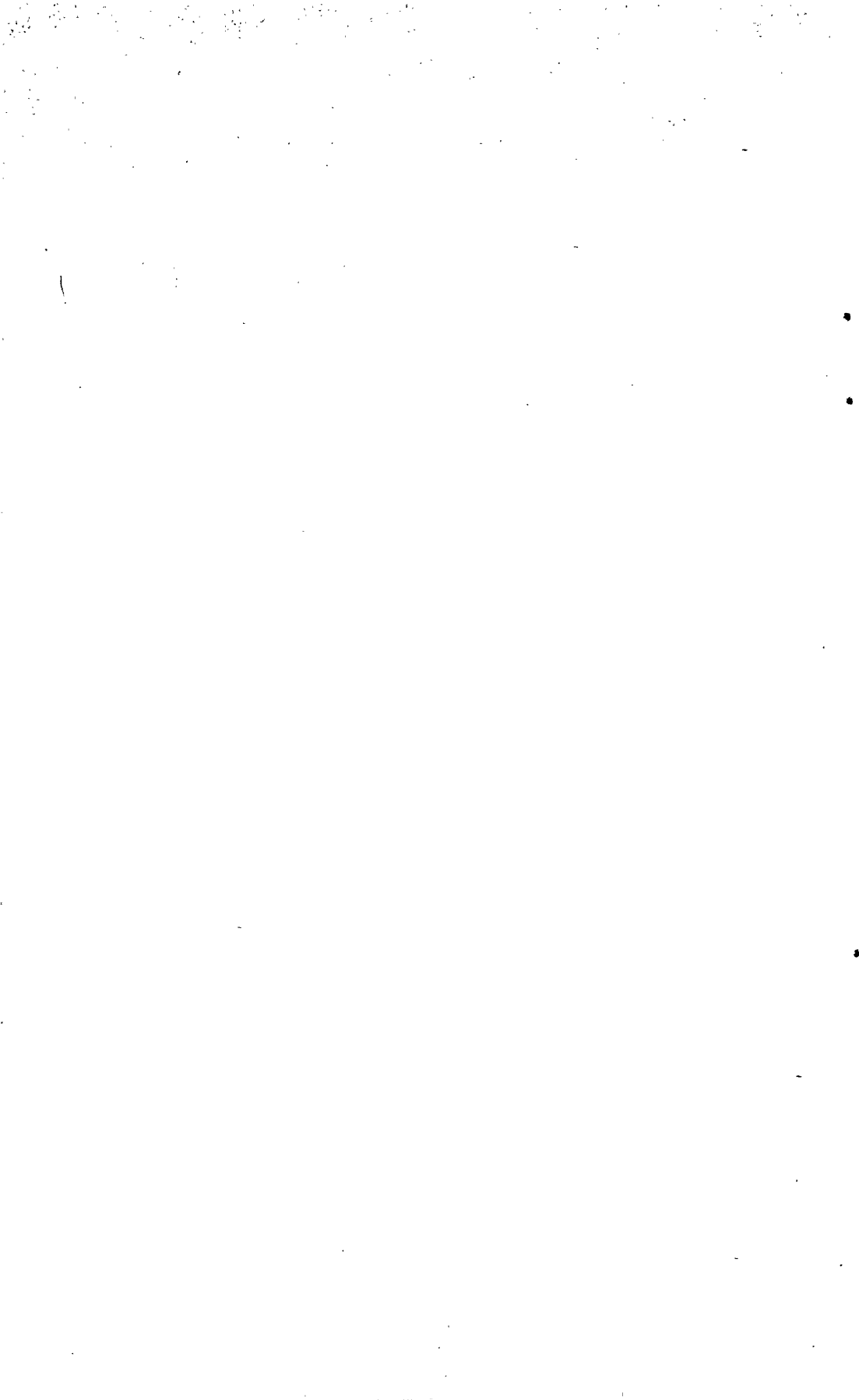
In that regard, it is important to note that when the Commission receives a request for a section 332 investigation from the Congress or the President, we must respond to the request. Over the past three years the Commission has instituted 41 section 332 investigations, 21 requested by the Congress and 18 requested by the President. The Commission has only instituted 2 on its own motion and these were in anticipation of probable economic effect studies requested by USTR.

While we believe that there are real savings to be made in this area, I would note that the conduct of 332 studies allows the Commission to develop needed expertise and maintain our ability to be responsive in providing objective and in-depth analysis both in support of trade policy initiatives and in the conduct of unfair trade investigations. In addition, the conduct of 332 studies enables the development of core competencies and expertise that enable the Commission to be responsive in addressing inquiries from the Office of the President, the Congress, and executive agencies related to emerging and complex trade and economic issues. This multi-disciplinary knowledge related to industry/commodity expertise; geographic developments; economic, financial, and legal analysis; and environmental and other competitive issues is maintained by undertaking 332 studies for which there usually are no investigative precedents. Moreover, the work of individual staff members is of a multi-dimensional nature; there are no offices or staff assigned exclusively to 332 investigations.

Conclusion

Mr. Chairman and members of the Subcommittee, new fiscal realities present an opportunity to reexamine what our organization does and how we do it. We will be happy to work with you to examine if there are additional ways to reduce our expenditures.

⁵ Currently, it is estimated that the Commission commits approximately 15% to 20% of its resources to conducting 332 studies each year.



COMMUNICATIONS

Albemarle Corporation appreciates this opportunity provided by the Senate Finance Committee to comment on the renewal of the Generalized System of Preferences (GSP). GSP has made a very important contribution to the economic development of the world's less developed countries. Over the twenty years that GSP has been a part of U.S. trade policy it has helped several countries become competitive in key sectors in worldwide markets. In this process, GSP has made an important contribution to the U.S. economy as well, fostering U.S. exports and investment abroad.

Albemarle feels that successive Administrations have done a commendable job in implementing the Generalized System of Preferences. Albemarle urges the Finance Committee on this twentieth anniversary of GSP to adopt the relatively minor, but very important, additions suggested below to the version of the GSP reauthorizing statute now pending in the House Ways and Means Committee with two important goals in mind:

- Incorporating into the statute language which updates the critical link between GSP benefits and the U.S. government's overall trade policy.
- Incorporating into the statute language which encourages a more open and in some cases, automatic administrative process with respect to decisions surrounding the addition or withdrawal of GSP benefits.

In addition, Albemarle urges the Finance Committee to approve legislation, such as that reported by the House Ways and Means Subcommittee on Trade, H.R. 1654, which reauthorizes the Generalized System of Preferences for a period of five years. Short renewals are extremely disruptive for the business community for both short and long term planning purposes. The longer renewal period will also further facilitate the implementation of the appropriate safeguards and administrative changes suggested in this submission.

The specific changes proposed to H.R. 1654 by Albemarle are outlined below:

Designation of Beneficiary Developing Countries

Mandatory Eligibility Requirements. The current GSP statute includes a number of mandatory eligibility requirements for designation as a beneficiary developing country. However, two important elements of U.S. trade policy in other investigations are not taken into account:

- Compliance with World Trade Organization and GATT Obligations. We urge the Committee to adopt language in Section 502(b) that would make such compliance a

factor in decisions to either make a country eligible for GSP benefits or to remove it from eligibility.

We recommend that a new item (H) be added to the list contained in Section 502(b)(2) of H.R. 1654: "(H) Such country has not taken or is not taking the necessary steps to implement its GATT/World Trade Organization obligations and commitments according to the applicable timetables outlined in the Agreements."

- Compliance with Other Trade Agreements. In addition, we would recommend that Presidential determinations of violations of other trade agreements that are made in Section 301 unfair trade practices cases be a factor in the addition or withdrawal of GSP benefits.

We recommend that an additional item (I) also be added to Section 502(b)(2): "(I) Such country has been found as a result of an investigation under Section 301 of the Trade Act of 1974, as amended, to maintain an act, policy or practice in violation of a trade agreement with the United States."

Factors Affecting Country Designation. Section 502(c) includes a number of practices which the President shall consider when making decisions to limit or expand GSP benefits. Since the Generalized System of Preferences was first implemented, there have been a number of remarkable changes in the international trading system, and fair market access with a level playing field has become a much higher priority for the business community, Congress and the Executive Branch. Three amendments to Section 502(c) would take into account this change in priority:

- Emphasis on Importance of the Listed Factors. This reauthorization is a key opportunity to stress that the Administration must look closely at the factors listed when making decisions with respect to individual countries, particularly when deliberating the approval of petitions in annual reviews.

To emphasize the importance of these factors, we recommend inserting the phrase "and give great weight to:" after the phrase in the first sentence "the President shall take into account:

- Market Access. As noted above, market access issues have become a heightened focus of bilateral and multilateral negotiations. One of the key references on market access issues is the National Trade Estimates annual report on trade barriers facing U.S. exporters abroad. When making decisions on particular countries, the findings in this report should be carefully reviewed.

We recommend that this report be referenced in the GSP statute specifically by inserting "including those cited in the annual National Trade Estimates report required by Section 181 of the Trade Act of 1974 as amended:" after the phrase "unreasonable export practices" in Section 502(c)(4).

- Reverse Preferences. The Office of the U.S. Trade Representative has just completed a review of the impact on U.S. business of the tariff preferences offered by many GSP

beneficiaries to our competitors in developed countries, but not to the U.S. These preferences are growing at a rapid pace with the end of the Cold War and the trade agreements that have been or are being negotiated principally between the European Union and countries in the former Eastern Bloc.

As required by the Statement of Administrative Action (SAA) accompanying the Uruguay Round Agreements Act of 1994, USTR reviewed the impact of these preferences, and decided that while there was not enough evidence that the impact was severe enough to consider denying all GSP benefits for any country, that the issue would be a factor in both decisions made in the course of regular GSP reviews, such as the annual review, as well as would be pursued in other bilateral fora.

While there is language elsewhere in the statute on reverse preferences, it is not in Section 502(c) which is a key list of factors employed when making decisions to limit GSP benefits. We recommend that an additional item (8) be added to Section 502(c): "(8) the extent to which such country affords preferential treatment to the products of a developed country that have or are likely to have an adverse effect on U.S. commerce."

Designation of Eligible Articles

Import Sensitivities. The Congress and the Administration have traditionally looked very closely at the impact of GSP imports on the U.S. industry. However, the current statute and Section 503(b) of the legislation endorsed by the House Ways and Means Subcommittee on Trade could be improved by two amendments regarding consideration of future injury and whether a product is subject to antidumping or countervailing duty assessments.

- Threat of Injury. We recommend that the Finance Committee adopt an amendment inserting the phrase "or likely to be" after the phrase "President determines to be" in Section 503(b)(1)(G).
- Antidumping/Countervailing Duty Actions. We also recommend that articles subject to antidumping or countervailing duty orders be made ineligible for GSP to the extent practicable. We urge adoption of an additional item to Section 503(b)(2): "(H) any article for which there are outstanding countervailing or antidumping duty orders under Title VII of the Tariff Act of 1930, amended."

Competitive Need Limitations. We are concerned that the competitive need limit provisions are framed much too loosely and provide too much discretion to the Administration. The existing statute does not provide for timely removal of products that exceed the limits, provides opportunities for companies to stockpile imports for products that could be redesignated, and the process for granting de minimus waivers may not take all input from the business community into account.

- Removal of Products from Eligibility. GSP benefits should be withdrawn much sooner than after the sixth month period following any calendar year. We recommend amending Section 503 (c) (2) (A) to require withdrawal of benefits within thirty days of receipt of import data confirming that competitive need limits have been exceeded

by striking the phrase "not later than July 1 of the next year" and inserting in its place "within thirty days of receipt of statistics from the U.S. Census Bureau confirming that competitive need limits have been exceeded."

- **Redesignation.** The current GSP program allows for the granting of a competitive need waiver without consideration of the most recent import patterns, with the result that companies can avoid competitive need limit restrictions in alternate year by carefully planned stockpiling of imports.

We recommend amending Section 503(c)(2)(C) by inserting after "during the preceding calendar year" language that would require USTR to review data through May preceding the July changes. If the data showed that imports of the product considered for redesignation were entering at an annualized rate over the cap, they could not automatically be redesignated.

De Minimus Waivers. It has been the practice of recent Administrations to almost automatically grant "de minimus" waivers for products where, although the value of imports is relatively low, one exporter dominates the import market share. We are concerned that not enough attention is given to petitions from industry that such waivers be denied.

To alleviate industry concerns, we recommend amending Section 503(F) to insure that opposition from U.S. firms is taken into account by inserting after "each year after 1995" the phrase "giving great weight to petitions received from U.S. industry to deny such waiver."

For More Information Contact:

Max Turnipseed
 Director, International Trade & Regulatory Affairs
 451 Florida Street
 Baton Rouge, LA 70801
 Phone: (504) 388-7293
 Fax: (504) 388-7942



American Association of
**Exporters and
 Importers**

11 West 42nd Street, New York, NY 10036 (212) 944-2230

Introduction

AAEI is a national organization of approximately 1,200 U.S. firms active in importing and exporting a broad range of products, including chemicals, machinery, electronics, footwear, foodstuffs, and textiles and apparel. The Association's members also include customhouse brokers, freight forwarders, banks, attorneys and insurance carriers.

AAEI appreciates the opportunity to address the need to renew the GSP program which is due to expire on July 31, 1995. For nearly twenty years, GSP has given developing countries access to the world marketplace by allowing exportations to industrialized countries at preferential rates of duty. Its philosophy of promoting trade is clearly a more effective, cost-efficient means of fostering sustained economic growth than direct foreign aid. For this reason, AAEI has consistently supported a strong GSP program and continues to do so. The imminent expiration of the U.S. GSP program is of great concern to AAEI and its members. It is difficult to plan an import strategy with the knowledge that a program on which importers rely is going to expire on July 31 of this year.

AAEI Supports Renewal of the Generalized System of Preferences

1. GSP is Important to Beneficiary Developing Countries and to U.S. Producers and Consumers.

AAEI urges Congress to renew the U.S. Generalized System of Preferences for a minimum of ten years. The GSP program is currently due to expire on July 31, 1995. For nearly twenty years, GSP has given developing countries access to the world marketplace by allowing them to export products to the many industrialized countries which have adopted such a program. Over twenty other industrialized countries have adopted the GSP concept and continue to import goods at preferential rates of duty from developing countries. The United States must continue this program to remain competitive in international trade and to foster development in the Third World.

Additionally, duty-free sourcing of materials and components is important to U.S. industries which use them in the production of finished products. If U.S. manufacturers can only obtain these materials and components at prices which include the payment of duty, increases in the price of finished products will inevitably be passed to U.S. consumers. For example, a substantial volume of electrical products, such as outlets and switches, are imported from Beneficiary Developing Countries under GSP to be used in the housing industry. If such products are not available at prices which do not include duty, whatever increased costs are involved will be paid by purchasers of new homes.

Finally, some people have the perception that the GSP program is not important now that Mexico and Israel are no longer Beneficiary Developing Countries. Nothing could be further from the truth. Countries like the Philippines, Malaysia, Indonesia and Thailand are heavily dependent on the GSP program, and numerous U.S. importers depend on sourcing duty-free products from such countries in order to remain competitive. Moreover, in the future, GSP can and should play an important role in assisting the economies of and fostering democracy in countries such as Russia, where trade and not aid should be the first order of business.

2. Continuation of the GSP Program will Result in the Protection or Improvement of Intellectual Property Rights in Beneficiary Developing Countries and Other Important Objectives.

In the past, the existence of the GSP program has resulted in Beneficiary Developing Countries either protecting or improving intellectual property rights and living up to other international obligations. It is obvious that if the GSP program is not renewed, countries which have previously protected or improved these rights will have no further incentive for doing so.

3. The Generalized System of Preferences is One of the Most Cost-Effective and Efficient Foreign Aid or Trade Programs Administered by the United States.

It is estimated that the renewal of the GSP program will cost the U.S. approximately \$500 million per year. This cost is relatively minor when compared with the cost of the other trade and foreign aid programs, such as NAFTA, the Uruguay Round, etc. Moreover, the GSP has a proven track record of helping Beneficiary Developing Countries improve their economies, after which they have been graduated. Congress need only look to such countries as South Korea, Hong Kong, Singapore and Taiwan as examples.

AAEI Supports Improvements in the GSP Program

AAEI supports the current Presidential authority to waive statutory limits on a particular GSP import commodity from any beneficiary country when the President receives advice from the International Trade Commission [ITC] that no United States industry is likely to be adversely affected by such a waiver, and he determines that such a waiver is in the national economic interest of the United States. [19 U.S.C. 2464(c)(3)(A)]. This general waiver authority has allowed the Administration to conduct the review process in an intelligent manner, without subjecting the flow of trade to otherwise potentially disruptive automatic mechanisms which would deny duty-free benefits to products needed for U.S. domestic production.

The Annual Review process has also enabled the U.S. to use the waiver for gaining leverage in negotiations to assure market and commodity access and to enforce intellectual property rights. [19 U.S.C. 2464(c)(3)(B)].

AAEI also proposes a redefinition of the rules of origin under the GSP program. The existing rules of origin require, *inter alia*, that eligible articles be imported directly from beneficiary countries to the United States and that the sum of the cost or value of the materials produced in beneficiary countries plus the direct costs of processing operations performed therein must equal at least the thirty-five percent of the appraised value of eligible articles upon their entry into the United States. [19 U.S.C. 2464(b)(1)].

AAEI proposes allowing U.S. component input to count toward the 35% minimum value rule for GSP. While rewarding U.S. value content input would not adhere to the express purpose of GSP, allowing such input to count toward the 35% would be a boon to U.S. domestic manufacturers, importers and consumers. It should be noted that other countries, including Canada and Japan, make a similar allowance in their GSP programs. The inclusion of U.S. value content input would also be consistent with other trade programs which allow a donor country content rule, such as the Caribbean Basin Initiative Act. [19 U.S.C. 2702].

Strengthening of American competitiveness abroad necessitates GSP renewal since more than twenty other industrialized countries grant duty-free benefits to developing countries. Because a considerable amount of duty-free goods are being used as components in U.S. manufacturing, loss of GSP would be a severe blow to these sectors of the U.S. economy, as well as the economies of developing nations.

Adoption of the above changes would enhance realization of the purpose of the GSP program, benefitting not only developing countries, but also U.S. economic interests.

In summary, AAEI strongly supports renewal of the GSP program for at least ten years. The GSP program has historically encouraged trade with underdeveloped nations and has led to substantial economic gains for both these countries and the United States.

American Automobile Manufacturers Association



ANDREW N. CARD, Jr.
President and Chief Executive Officer

August 18, 1995

The Honorable Bob Packwood
Chairman
Committee on Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

The American Automobile Manufacturers Association and its members, Chrysler Corporation, Ford Motor Company, and General Motors Corporation, strongly support renewing the Generalized System of Preferences (GSP) program.

By encouraging trade with developing countries, the GSP program has provided benefits to the U.S. that far outweigh the costs. American consumers are the principal beneficiaries of the lower tariffs on automotive components manufactured or purchased under the GSP program. Moreover, the GSP program helps to provide new export markets and new customers for American cars, trucks, and parts by strengthening the economies in participating countries.

Conversely, the sudden withdrawal of GSP benefits from these countries would have a detrimental impact on our trading relationships. Failure to renew GSP could disrupt the availability and cost of certain components and might invite those countries to erect new barriers to U.S. products.

For these reasons, AAMA and its member companies believe the GSP program is in the national interest and recommend that it be renewed. We would be pleased to provide additional information to the Committee regarding the program's impact on auto manufacturing in the U.S. Please contact me if we may be of assistance.

Sincerely,

Jeffrey Bibeck
Senior Congressional Liaison

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1401 H Street, N.W. Suite 900, Washington, D.C. 20005	7430 Second Avenue, Suite 300, Detroit, MI 48202
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August 18, 1995

**STATEMENT BEFORE THE INTERNATIONAL TRADE SUBCOMMITTEE OF
THE SENATE COMMITTEE ON FINANCE REGARDING THE
GENERALIZED SYSTEM OF PREFERENCES ("GSP") PROGRAM,
FILED ON BEHALF OF AMERICAN NATURAL SODA ASH COMPANY
("ANSAC")**

I. INTRODUCTION

This statement is filed on behalf of the American Natural Soda Ash Company ("ANSAC") headquartered in Westport, Connecticut, in response to the July 26, 1995 Senate Committee on Finance invitation for public comments on various trade issues, including renewal of the Generalized System of Preferences ("GSP").

ANSAC's interest in the GSP program is confined to implementation by the Office of the US Trade Representative ("USTR") of the so-called GSP "Reverse Preferences" criteria set forth in the Statement of Administrative Action ("SAA") implementing the Uruguay Round multilateral trade agreement (See Attachment A). In summary, the GSP Reverse Preference provisions address the situation where GSP beneficiary countries afford preferential tariff treatment to the products of a developed country as a result of an economic Association or Free Trade Agreement and such agreement has an adverse effect on US exports.

As a result of the Association Agreement negotiated between the European Union ("EU") and the governments of Poland, Turkey and Bulgaria, ANSAC's major global competitor in the EU will receive significant tariff preferences. By 1996, these preferences will afford ANSAC's EU competitors (1) a 6 percent *ad valorem* differential in Poland's tariff; (2) an 8.2 percent differential in Turkey; and (3) an 8 percent differential in Bulgaria. Since a tariff differential on soda ash of 0.5 percent may be enough to ensure a sale, the tariff preferences granted European suppliers threatens 35,000 metric tons (MT) of US soda ash exports valued at \$6.5 million to Poland, Turkey and Bulgaria.

Of even greater concern to ANSAC is the possibility that the EU and Russia will execute a similar Association Agreement to those negotiated with Poland and other countries. Such an agreement which discriminates against US soda ash exports in favor of EU suppliers *could result in the loss of nearly \$900 million in exports by the turn of the century.*

ANSAC is the sole authorized exporter of US soda ash. ANSAC is a Webb-Pomerene Association wholly-owned by the six US producers of soda ash; namely, General Chemical Corporation; FMC Corporation; North American Chemical Corp.; Rhone-Poulenc Basic Chemicals Co.; Solvay Minerals Corporation; and Texasgulf Chemical Company. These companies produce 100 percent of US soda ash. Generally, soda ash accounts for one half of the raw material cost of glass production.

II. THE US SODA ASH INDUSTRY

Soda ash (disodium carbonate) is the principal raw material for making glass. Mixing six parts sand to one part soda ash and heating it 2800 degrees yields molten glass which can be formed into any common application. The United States is blessed with a unique natural deposit of a raw material (trona) for soda ash located in Green River, Wyoming, from which this country could supply world demand for 1300 years (See Attachment B). Most other countries -- including Poland, Bulgaria, Turkey and Russia, produce soda ash through a synthetic process at costs many times higher and with major environmental pollution.

The US industry is responsible for over 20,000 workers. ANSAC's exports have grown from 1.3 million MT in 1984 to 3.2 million MT valued at approximately \$575 million in 1994.

III. EUROPEAN UNION TARIFF PREFERENCES GRANTED POLAND, TURKEY AND BULGARIA

A. Poland

In the past, Poland has purchased its soda ash needs from local sources. However, Poland is constructing two float glass production facilities that will require high-quality soda ash that is not available from local producers. Thus, Poland will have to turn to foreign suppliers to meet this demand for soda ash. "Float glass" plants are high-technology state-of-the-art plants for manufacturing flat glass. The soda ash market for these two plants alone is worth \$11 million. In addition, Poland will be modernizing much of its currently outdated glass, chemical and detergents industry. This will create further demand for high-quality imported soda ash.

In accordance with the EU-Poland Association Agreement, EU competitors will have a decided advantage over US exports beginning in 1995. The current 15 percent rate applied to US and EU soda ash will decrease by three percent per annum for EU exports, with complete duty elimination scheduled for 1999. As soda ash is a basic chemical commodity, even a 0.5 percent preference for EU suppliers will make a difference between a sale, even though US soda ash is the most competitive in the world. US soda ash exports will be increasingly hurt as the tariff on EU exports is incrementally phased out and Polish demand for imported soda ash expands.

EU-POLISH ASSOCIATION AGREEMENT TARIFF DISPARITY FOR SODA ASH HTS 2836.20		
Year	Tariff Applied to EC Suppliers	Tariff Applied to US Suppliers
1994	15%	15%
1995	12%	15%
1996	9%	15%
1997	6%	15%
1998	3%	15%
1999	free	15%

B. Turkey

In 1995, EU soda ash exporters pay a 1.2 percent tariff while US exporters face a 9.1 percent tariff. Effective January 1, 1996, when Turkey joins the EU Customs Union, EU exports will enter duty-free while the US will pay 8.2 percent. The Turkish tariff as it applies to US exports will be reduced (pursuant to the Chemical Harmonization Agreement) in equal annual installments of 0.9 percent to 5.5 percent by January 1, 1999.

A tariff disparity of this magnitude makes US soda ash uncompetitive with its European competitors. While ANSAC currently exports little to Turkey since a local producer fills most of its market demand, Turkish production facilities are not reliable and periodic requirements for imported soda ash do arise. Just a few years ago this amounted to 54,000 MT worth \$10 million. In the past ANSAC has enjoyed this business, but with tariff differentials this will be more difficult in the future. These import requirements arise every two to three years.

C. Bulgaria

Bulgaria maintains an inordinately high 40 percent tariff on soda ash imports. Under the terms of EU-Bulgarian Association Agreement the Bulgarian tariff on soda ash imports will be eliminated for EU suppliers by 2002. A 20 percent preference (resulting in an eight percent *ad valorem* differential) on the 40 percent MFN duty will be granted to EU suppliers effective January 1, 1996, with subsequent tariff reductions to be undertaken as outlined in the table below. Because of high tariffs, Bulgaria's soda ash needs are currently satisfied by local production. However, as the Bulgarian tariff on EU soda ash imports is steadily lowered, the Europeans will eventually capture the entire Bulgarian market by the year 2002. The Bulgarian market amounts to 173,000 MT valued at \$32 million.

EU-BULGARIA ASSOCIATION AGREEMENT TARIFF DISPARITY FOR SODA ASH		
HTS 2836.20		
Year	Tariff Applied to EC Suppliers	Tariff Applied to US Suppliers
1995	40%	40%
1996	32%	40%
1997	32%	40%
1998	24%	40%
1999	18%	40%
2000	12%	40%
2001	6%	40%
2002	free	40%

**D. USTR Bilateral Negotiations with Poland, Turkey and Bulgaria to Remove
Discriminatory Tariffs Facing US Soda Ash Exports**

In accordance with the SAA, on December 20, 1994 USTR published a *Federal Register* notice (59 Fed. Reg. 65547) soliciting public comments relevant to the GSP Reverse Preferences initiative. A small number of US companies and associations, including ANSAC, filed comments with USTR in response to the notice. On April 20, 1995, Ambassador Kantor informed the Finance Committee that "the adverse effects of reverse preferences on US commerce is limited to a few products in a few countries, primarily Poland." While USTR has committed to addressing cases of reverse preferences identified by US industry, ANSAC is unaware of any bilateral negotiations being undertaken with Poland, Turkey, Bulgaria or other GSP beneficiary countries to remove the discriminatory tariffs facing US soda ash exports. Moreover, the SAA includes specific reference to the right of private parties to file petitions in future years for review of reverse preferences criterion. ANSAC believes it would be useful at some point for USTR to promulgate rules or regulations covering future reverse preferences reviews.

**IV. POTENTIAL TARIFF PREFERENCES AS A RESULT OF AN EU-RUSSIA
ASSOCIATION AGREEMENT**

A. Tariff Increases and/or EU-Russia Association Agreement

ANSAC has no reason to believe Russia is considering an increase of its 5 percent soda ash tariff. However, recent reports are very disturbing that the country will introduce new, prohibitively high tariffs on a number of imports in order to protect domestic industries. As

indicated below, an effort to close-off this enormously large potential market to US exports would be unacceptable to the US industry.

Of particular concern to ANSAC is the possibility of an EU-Russia Association Agreement which would provide EU soda ash suppliers a tariff preference similar to that afforded them by the EU-Polish Association Agreement.¹

The EU has already begun the process of moving towards a free trade agreement with Russia. Earlier this year, the two countries entered into (and were about to sign) a Trade and Partnership Agreement which will grant reciprocal MFN treatment for products from each country. In the spring of 1993, Sir Leon Brittan and Hans Van der Broek issued a joint communiqué announcing that the EU would propose a new mandate for its new cooperation agreement with Russia that would include "an eventual free trade agreement".²

For ANSAC, any tariff disparity in favor of EU suppliers would result in the loss of the Russian market to the United States. There are several reasons for this.

The Belgian company, Solvay, with nine plants throughout Europe, is ANSAC's largest competitor in the world marketplace. Unlike ANSAC, Solvay is obviously closer to the Russian market, is able to ship by rail (which is cheaper than by boat) and does not have to establish major warehouses to store the imports. Further, as soda ash is a basic chemical commodity required to make another commodity, even a three percent *ad valorem* preference for EU suppliers would result in the loss of the Russian market for US suppliers, though US soda ash is the most competitive in the world.

B. Russia's Soda Ash Market

There are the following four state-run soda ash producing facilities in Russia: (1) Sterlitamak, (2) Berezniki, (3) Achinsk, and (4) Pikalevo. Total Russian soda ash production in 1993 was 2.1 million MT making Russia the third largest producer in the world, only behind the United States and China. Current Russian consumption is about 2.4 million MT with Bulgarian, German and Polish imports making up the difference between local supply and demand. Reflecting the extent to which the Russian market has plummeted, only four years ago Russian soda ash demand was 4 million MT.

The future of Russia's soda ash industry is dim at best. Most production involves turn-of-the-century technology resulting in major production inefficiencies. To produce synthetic soda ash, energy comprises roughly one-third of the cost of the product. In Russia, energy consumption for producing soda ash is twice that of Western levels. Russia's facilities also face major pollution problems with no apparent solution in sight. For example, adjacent to the massive Sterlitamak facility is a mountain of calcium chloride (a byproduct of soda ash) covering over 1,600 acres and

¹ The EU-Polish Association Agreement provides EU suppliers a 15 percent *ad valorem* tariff preference by 1999.

² European Community News, Office of Press and Public Affairs, EC Delegation, March 24, 1993.

known as the "white sea". Calcium chloride has few viable industrial uses and is highly irritating to the eyes and skin. Finally, Russia produces mostly light (as opposed to dense) soda ash which has not been used by the glass industry other than the centrally-planned economies (e.g., China, Cuba and the former Eastern Bloc countries) since the 1930s.

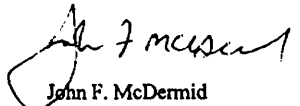
C. Russia is the Largest Potential US Export Market in the World

Russia has the potential for being the largest export soda ash market in the world. In 1990, Russian soda ash consumption was 5.6 million MT. By the year 2,000 it is conceivable Russian consumption could be 8 million MT. For the United States, the Russian market could exceed 6 million MT in new US exports worth nearly \$900 million. To put the significance of these numbers in perspective, this would represent a tripling of US soda ash exports. Placed in a different perspective, 6 million MT would be 24 times that which was exported to Japan in 1993.

CONCLUSION

We appreciate the opportunity to submit these comments to the Committee on Finance. It is respectfully requested that the Committee consult with USTR to determine the status of bilateral consultations with various GSP beneficiaries -- e.g., Poland, Turkey and Bulgaria -- to identify progress-to-date and the outlook for elimination of discriminatory tariffs that are an impediment to US soda ash and other exports. It is also respectfully requested that the Committee consult with USTR to ensure that an annual review will be initiated of the reverse preferences criterion.

Respectfully submitted on behalf of
ANSAC,


John F. McDermid
President

The President will transmit the ITC report to the Finance and Ways and Means Committees.

c. GSP Program

The Administration intends to submit legislation early in 1995 to further renew the GSP program. The Administration will also revise the regulations describing the administrative review process to make it more transparent, predictable, and consistent. The Administration will continue to apply the current rule in 15 CFR Part 2007.0, that if an article is formally considered for eligibility and denied such designation, such article cannot be reconsidered for three years from the date on which the review was initiated.

(1) Reverse Preferences

The Administration intends to implement section 502(b)(3) of the Trade Act of 1974 -- which prohibits designation of any country that affords preferential treatment to the products of a developed country, other than the United States, that has, or is likely to have, a significant adverse effect on U.S. commerce -- in the following manner:

- On enactment of the implementing bill, the interagency committee chaired by the Trade Representative, the Trade Policy Staff Committee (TPSC), will initiate a review to determine whether any GSP beneficiary affords such preferential treatment, as a result of an economic association agreement or otherwise. As part of that review, the Trade Representative will solicit public comments over a 30-day period and request input from U.S. embassies as appropriate.
- Within 90 days after initiating the review, the TPSC will determine whether any country merits further review based on information received from private sector and U.S. Government sources that indicates the likelihood of an adverse effect on U.S. commerce.
- the Trade Representative will enter into bilateral consultations with those countries meriting further review.
- Nine months after the TPSC determines that further review is warranted, it will make a determination of whether the preferential treatment has, or is likely to have, a significant adverse effect on U.S. commerce. If the TPSC makes an affirmative determination, the country's status as a beneficiary developing country will be withdrawn or suspended, unless the

country has agreed to eliminate that effect. The review will terminate if the determination is negative.

Interested parties will continue to have the right to petition for a review of beneficiary status based on preferential treatment practices during any annual review process. Interested parties may seek to have future economic association agreements reviewed if such agreements afford preferential treatment to other developed countries that may have an adverse effect on U.S. commerce.

This provision reflects the Administration's commitment to ensuring that economic association agreements do not significantly prejudice U.S. commercial interests.

(2) Unreasonable Export Practices

Section 502(c)(4) of the Trade Act of 1974 directs the President to take into account the extent to which a GSP beneficiary country has assured the United States that it will refrain from engaging in unreasonable export practices. The Administration interprets "unreasonable export practices" to include the provision of export subsidies.

If the Department of Commerce and the ITC made affirmative final determinations in an antidumping or countervailing duty investigation on a GSP article from a beneficiary country, the TPSC will review the eligibility of imports of that article from the beneficiary country under GSP. The review will be completed within 120 days.

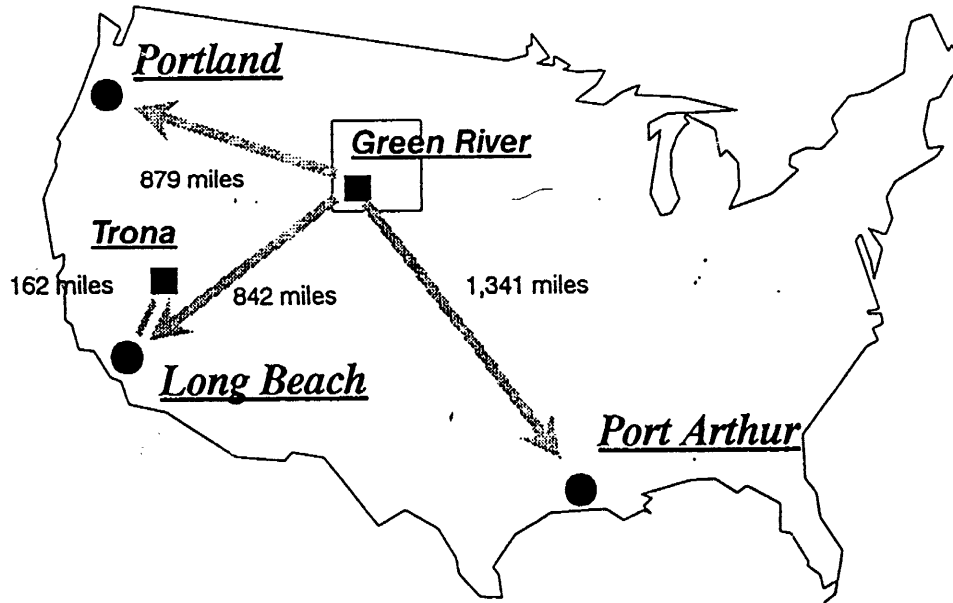
The Administration will conduct negotiations with South Africa with the aim of eliminating the General Export Incentive Scheme and other export bounties or other subsidies defined in Articles 1 and 3 of the WTO Agreement on Subsidies and Countervailing Measures. The Administration will periodically inform the Ways and Means and Finance Committees of progress in such negotiations.

(3) Innersprings from South Africa

On receipt of a petition filed on behalf of the domestic innerspring industry, the TPSC will conduct an expedited review for purposes of determining whether innersprings from South Africa should be removed as GSP eligible items. In conducting the review, the TPSC will consider, among other factors, the competitiveness, capacity, and capacity utilization of the innerspring industry in South Africa; the level of imports; the impact of imports on the domestic industry; the possibility of a surge in imports of duty-free innersprings; and any evidence of lost business or lost revenues by the domestic industry. The review will be completed within 90 days of the Administration's receipt of a petition containing information responsive to the above factors.

Six Plants at Two Production Locations, Three Ports

ATTACHMENT B



August 18, 1995

The Honorable Charles E. Grassley
Chairman, Subcommittee on International Trade
Committee on Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

In conjunction with the Subcommittee on International Trade's August 1 hearing and request for written comments on an extension of the U.S. Generalized System of Preferences (GSP), Apple Computer, Inc. wishes to express its strong support for legislation to renew the program retroactive to its recent July 31 expiration date. In particular, Apple urges the Subcommittee to ensure that the GSP is renewed on a long-term basis.

Headquartered in Cupertino, California, Apple is one of the world's largest personal computer manufacturers with sales of \$9.2 billion in 1994 and employment of 15,000. Approximately 8 percent of Apple's total worldwide revenues are reinvested in its research and development base, 90 percent of which is located here in the United States. In addition, Apple's two largest manufacturing facilities worldwide are located in Sacramento, California, and Fountain, Colorado.

Apple relies on the GSP program to import personal computers and components from Malaysia free of duty. A failure by Congress to renew the GSP automatically would result in the imposition of a 3.5 percent duty to these products, forcing Apple to bear substantial additional duty costs annually.

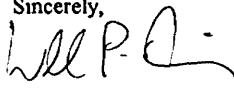
The GSP, by helping Apple contain costs, makes an important contribution to our U.S. operations and workers. The GSP's duty savings apply both to finished personal computers and to the logic boards we import from Malaysia for further processing and incorporation into our U.S.-made computers. Holding down the cost of this key component strengthens the competitiveness of the finished product, and directly benefits the Apple workers engaged in related manufacturing and assembly operations in our U.S. facilities.

Apple Computer, Inc.
Apple Government Affairs
1667 K Street, N.W.
Suite 410
Washington, D.C. 20006
(202) 466-7080
(202) 466-7095 FAX

We wish to stress the importance of extending GSP benefits with respect to Malaysia in particular. Apple and most other major U.S. electronics manufacturers maintain strong manufacturing interrelationships with Malaysia, with duty-free GSP treatment undergirding much of this activity. A continuation of Malaysia's GSP status for a suitable period is warranted by Malaysia's still modest level of economic development and is necessitated by U.S. manufacturers' strong reliance on Malaysian sourcing.

In conclusion, Apple strongly supports legislation renewing the GSP program on a long-term basis.

Sincerely,



William P. Fasig
Corporate Manager, International
Government Affairs

**Before the
Committee on Finance
United States Senate**

Statement of

**Asociación Dominicana de Zonas Francas
- ADOZONA -
Dominican Association of Free Zones**

on

Extension of the GSP Program

The Dominican private sector¹ has been an enthusiastic supporter of the GSP program since its inception in 1975, and strongly urges the Finance Committee to vote for a ten year extension of the program with the changes recommended below.

Suggested Changes

The Dominican private sector believes that certain changes are needed to improve the administration of the program and enhance its effectiveness in achieving the desired foreign policy and economic development goals and other objectives. In particular, the Dominican private sector supports the adoption of the following:

¹ The private sector consists of companies operating in the Dominican Republic and its free zones (zonas francas) as well as the umbrella organizations representing private sector companies and individuals. These organizations are the Dominican Association of Free Zones (Asociación Dominicana de Zonas Francas, Inc. or ADOZONA), the National Council of Businessmen (Consejo Nacional de Hombres de Empresas, or CNHE), and the U.S. Chamber of Commerce of the Dominican Republic (AmCham). (Hereinafter these companies and organizations will be referred to collectively as "the Dominican private sector".)

- a five-year "safe harbor" rule for countries whose worker rights or intellectual property protection practices have been investigated and covered by a favorable decision, and
- the replacement of the "substantial new information" test with a stricter standard, a "compelling new information" test during the safe harbor period.

These two elements will serve to protect a beneficiary country against harmful premature reinvestigations after thorough GSP investigations have produced favorable decisions concerning a country's worker rights or intellectual property practices.

In addition, the Dominican private sector submits that the Committee should forcefully reject the recommendations put forward by the AFL-CIO at the August 1 public hearing. Those suggestions, while advanced as technical corrections, are really designed to make it easier for the AFL-CIO to intimidate U.S. international business operations abroad, and would, in effect, undermine the integrity of the GSP program.

Background

For the last twenty years, the GSP program has been of immense importance to the economy of the Dominican Republic. The Dominican Republic was designated a "beneficiary developing country" (BDC) for purposes of eligibility for duty-free treatment under GSP on March 26, 1975 (Executive Order No. 11844, 40 F.R. 13295). This eligibility has continued without interruption since that time. According to U.S. International Trade Commission (USITC) statistics, imports of GSP articles from the Dominican Republic totalled \$135,168,000 in 1994 (Customs valuation basis). GSP imports in 1993 were \$119,196,000. CBI imports for 1994 totalled \$751,028,000 and \$657,673,000 in 1993.

To understand the importance of the GSP program for the Dominican Republic, it is essential to keep in mind that the Dominican Republic is a poor country slowly emerging from its dependence on the sugar industry.

1. Political/Economic Setting. The Dominican Republic is a small tropical nation, about the size of Vermont and New Hampshire combined. It occupies the eastern two-thirds of the island of Hispaniola, which it shares with Haiti. It is a functioning democracy and is the largest democracy in the Caribbean, with a population estimated at approximately 7.5 million people. The Dominican Republic has a mixed economy based primarily on agriculture, services, and light manufacturing. Sugar has been a cornerstone of the economy of the Dominican Republic and remains so today. Historically ten percent of the population of the Dominican Republic has been dependent on the sugar industry for its livelihood and over the last decade sugar exports have accounted for thirty percent of the country's total export earnings.

Over the last few years, however, the importance of the sugar industry has decreased and tourism, free trade zones, and remittances from Dominicans living abroad now generate more foreign exchange than sugar. The Government of the Dominican Republic accounts for nearly twenty-five percent of the domestic product and controls several major industries, including sugar, electricity, and the national airline, among others.

2. CBI Benefits. Various Dominican products are excluded from duty-free treatment under GSP, but are eligible for duty-free entry under the CBI.² The most important of these products is sugar. Due to duty-free treatment under CBI, Dominican sugar is spared duties of \$13.78/metric ton. The Dominican Republic's sugar quota for FY 1996 is currently 185,897 metric tons. Thus Dominican sugar exporters save \$3 million per year at existing quota levels. In addition, CBI eligibility makes Dominican textiles and apparel eligible for increased access to the U.S. market under the Guaranteed Access Program. CBI eligibility permits the investment of Internal Revenue Code Section 936 funds in the Dominican Republic, a feature which is just beginning to take hold in the Dominican Republic.

3. Importance of Free Zones to the Dominican Economy. The free trade zones are extremely important to the Dominican Republic. They are the fastest growing sector of the Dominican economy. At present, 476 companies operate in the country's thirty-two free trade zones, and they employ roughly 175,000 workers. Most of the businesses are either subsidiaries of U.S. companies, or affiliated with U.S. companies in one way or another.

Dominican law encourages companies to establish operations in free zones and provides significant tax and other benefits for doing so. Likewise, there are a number of tax and tariff benefits available under U.S. law for U.S. companies that set up "production-sharing" operations in the Dominican Republic. In addition to the duty-free treatment available under the GSP and CBI programs, U.S. companies are attracted by the duty-savings available under HTS heading 9802 (formerly TSUS items 806 and 807); the ability to use tax-deferred Section 936 funds for investment; and the ability to use U.S.-origin materials toward meeting the thirty-five percent "value added" test for duty-free treatment under the CBI. (Materials or components produced in the United States may be applied toward meeting fifteen percent of the thirty-five percent CBI local content requirement.) The benefits described above, the Guaranteed Access Level Program for textiles, and the significant investments made by the Dominican Government, and, since 1984, by Dominican entrepreneurs,³ have combined to develop the facilities in the free zones and have brought about the huge increase in light manufacturing operations in Dominican free zones over the last decade.

² Except for small quota years, Dominican sugar imports exceed the "competitive need" limitations for duty-free entry under GSP.

³ About one-half of the industrial parks where the free zones operate are Government-owned. The rest are private.

Now free zone companies account for approximately one-third of the Dominican Republic's exports, ninety-six percent of which go to the United States. The Dominican private sector views free zones, particularly privately financed free zones, as an important vehicle for attracting foreign investment and creating new employment and foreign exchange. Moreover, increased development in free zones will only work to create and preserve more export-related jobs in the United States because of the "production-sharing" aspects of companies' operations in the Dominican free zones.⁴

4. U.S.-Dominican Trade Relations. The Dominican Republic is now the United States' biggest trading partner among the thirty-six countries of the Caribbean and Central American region. In 1994 the Dominican Republic imported almost \$2.8 billion from the United States; bilateral trade reached approximately \$6 billion, or twenty-six percent of the region's trade with the United States. Of the forty-seven nations in Latin America and the Caribbean, the Dominican Republic is the sixth largest U.S. trading partner, behind only Mexico, Venezuela, Brazil, Colombia, and Argentina.⁵

Foreign Policy and Other Benefits of the GSP Program

Over the years the GSP program has proven its effectiveness as a tool to achieve significant results in foreign policy and economic development, and in furthering social advancement in beneficiary countries. Starting in 1975, statistics prove beyond doubt that the GSP program has accelerated economic growth and development in the less-developed countries that are beneficiaries of the program, by enabling them to increase their exports and foreign exchange earnings needed to diversify their economies and reduce dependence on foreign aid. At the same time, through the annual review process and associated mechanisms, the United States has been able to influence beneficiary countries' attitudes and actions toward improving social conditions in the countries such as improvements in worker rights.

This aspect of the program has been somewhat controversial because assorted interest groups in the United States have, on occasion, used the petition process to target selected countries and assail their qualifications as beneficiary countries under the various eligibility criteria. Nevertheless, the program has worked remarkably well overall to spur economic development in beneficiary countries, and at the same time, to protect import-sensitive U.S.

⁴ For an analysis of the benefits of "production-sharing" to the United States, See "Production Sharing: U.S. Imports under Harmonized Tariff Schedule Subheadings 9802.00.60 and 9802.00.80, 1986-1989, 1987-1990, 1988-1991, and 1989-1992," USITC Publications 2365, 2469, 2592, and 2729, March and December 1991, February 1993, and February 1994 respectively, and "Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Units, 1990-1993, (February 1995).

⁵ Source: 1994 U.S. Department of Commerce statistics.

industries and particular industry sectors. In addition, the program has shown itself to be extremely flexible, able to adjust to changing international market conditions through the "graduation" and "competitive need" mechanisms.

On the other hand, a failure to continue the GSP program at the very time the United States is in the early stages of implementing NAFTA could be interpreted by many of the other BDCs, particularly in the Northern Hemisphere; as a discriminatory decision. This action could not only adversely affect future efforts to carry out positive foreign policy, but also could erode any benefits gained as a result of the use of GSP in the past.

Program Administration

As private sector representatives testified to the GSP Subcommittee at its 1993 hearings, the Dominican free zones and individual companies have made significant efforts to be "corporate good citizens" in the Dominican Republic, and have made many efforts to improve working conditions at plants in the various free zones and to improve living conditions and health and educational levels in the neighboring communities.

Over the past six years since 1989, the Dominican Republic's eligibility to participate in the GSP program has been investigated three separate times with respect to worker rights and intellectual property protection practices. In fact, the only time when the Dominican Republic was not being investigated during this period was from mid-1991 to mid-1993. All of these investigations were ultimately resolved favorably for the Dominican Republic.

These investigations have been a tremendous disincentive to increased investment in the Dominican Republic. Therefore, the Dominican private sector urges the Committee to consider carefully whether the criteria used by USTR to accept petitions calling for the revocation of a country's GSP (and CBI) eligibility should not be made more stringent when a country has already been investigated and a favorable decision has previously been made on the same subject.

For example, the Dominican Republic's worker rights practices, including those related to unionization in its free zones were investigated and cleared in April 1991. Two years later, in the spring of 1993, the AFL-CIO filed a complaint on the same subject, in spite of the numerous positive steps taken by the Dominican Government since the 1991 favorable decision to enhance the protections afforded to workers in the free zones, especially workers engaged in unionization activities.

According to the AFL-CIO's petition, even though the Dominican Government had enacted a new Labor Code, promulgated implementing regulations, and adopted a new system of Labor Courts, the country was not enforcing its labor laws vigorously enough allegedly because there were not enough "functioning" unions or not enough collective

bargaining agreements. Surely, these are not valid *indicia* of how well a country is affording internationally recognized worker rights to workers in the country as specified in the GSP statute. After all, barely 12 percent of American workers are unionized (a figure comparable to the number of union workers in the Dominican Republic). Does this mean that only 12 percent of American workers have their rights protected? Obviously not. In any case, this complaint was withdrawn by the AFL-CIO and the Administration issued a favorable decision on December 20, 1994.

The problem is that it is entirely too easy for an interest group to get USTR immediately to reinvestigate a country's worker rights practices after the country has been investigated once and cleared. Early reinvestigations discourage investment in a beneficiary country and thwart the country's efforts at economic development, self-sufficiency, and social change.

It must be recognized that the fact a country is under investigation and could lose its GSP or CBI benefits has a tremendous chilling effect on increased investment in the country, and while the investigation is underway, it is almost a total bar to investment.

Since mid-1989 the Dominican Republic has been subjected to three full investigations into its worker rights and intellectual property protection practices. These investigations and the attendant publicity have had measurable adverse effects on investment, and trade and tourism as well. While the Dominican private sector does not wish to address the merits of the 1989 Americas Watch petition or the 1992 MPEAA intellectual property petition, it does believe strongly that the 1993 AFL-CIO worker rights petition was designed by the AFL-CIO as a "sword" to hinder the further establishment of production-sharing operations by U.S. companies in the free zones in the Dominican Republic and elsewhere, rather than to be used as a "shield" to protect worker rights as contemplated by Congress.

The basis of this belief is that the AFL-CIO's petition presented a distorted picture of working conditions in the free zones as well as failing to describe accurately the progress of unionization in the Dominican Republic and neglecting to point out the significant steps taken by the Government of the Dominican Republic, in concert with business and labor, to ensure that the Dominican system of labor laws and regulations is modern and progressive in its outlook, and is enforced effectively and fairly throughout the country, including in the country's free zones. The significant steps taken since the previous worker rights investigation included:

- the adoption of a New Labor Code in June 1993 (and implementing regulations in October 1993),
- the establishment of significant new protections for union organizers (fuero sindical),
- the formation of new Labor Courts,

- the formation of a tripartite (Government, business, and labor) Oversight Commission for the free zones, and
- the appointment of a new, reform-minded Minister of Labor.

The Dominican private sector believes that Dominican free zones have been specifically targeted by the AFL-CIO because of their importance in production-sharing operations rather than for any unfair or wrongful opposition to unionization activities. On this point, it is important to keep in mind that the Dominican free zones are the most important in the region except for Mexico's. There are a number of reasons for this, including the Dominican Republic's proximity to Puerto Rico and its ability to engage in "twin plant" operations.⁶

It seems then that the 1993 AFL-CIO petition was designed to pressure the Administration into revoking the Dominican Republic's GSP and CBI eligibility merely to recapture jobs generated in the free zones in the Dominican Republic. This is a wrong-headed approach because production-sharing operations benefit U.S. workers. For example, in the textile and apparel industry, it is estimated that for every 100 jobs created in apparel manufacturing operations off-shore in free zones such as those in the Dominican Republic, 15 jobs are generated in the United States and thousands more are maintained in the United States, in the textile, transportation, and other industries.⁷ In any event, if GSP and CBI eligibility were to be removed, the jobs in Dominican free zones would not go to the United States; they would go to Mexico and the Far East.

⁶ "An unusual feature of free zone exports is the large proportion that are shipped to Puerto Rico instead of the United States mainland. This reflects the existence of numerous twin plants, or more appropriately, 'complementary plants,' established in the Dominican Republic and Puerto Rico to take advantage of section 936 of the U.S. Internal Revenue Code. This section effectively exempts corporations from taxes on income from their Puerto Rican operations. They retain this exemption even if part of the processing of a good is carried out in an approved Caribbean Basin country. A minimum of 65% of the product's labor value must be added in Puerto Rico; this condition is easy to fulfill as labor in Puerto Rico is subject to the U.S. minimum wage legislation, thus relatively expensive.

The free zones of the Dominican Republic, because of their proximity to Puerto Rico, are the location of choice for establishing twin plants. More than forty U.S. companies including Westinghouse, Bristol-Myers, Hanes, and Timberland have established production sharing arrangements in the Dominican Republic for such products as electrical components, pharmaceutical products, clothing, and shoes. In the clothing industry alone, eight corporations operate twin plants that employ a total of 297 persons in Puerto Rico and 2,895 in the Dominican Republic. In this industry, however, the goods are not re-exported to Puerto Rico; the cloth is cut in Puerto Rico, then shipped to the Dominican Republic for sewing, finishing, and export directly to the United States." Larry Willmore, "Export Processing in the Dominican Republic: Ownership, Linkages, and Transfer of Technology". United Nations Economic Commission for Latin America and the Caribbean, Subregional Headquarters for the Caribbean, September 14, 1993, at p. 8.

⁷ Source: American Apparel Manufacturers Association.

Suggested Corrections

Why then did USTR accept the AFL-CIO's June 1, 1993, petition? Since the petition was ultimately withdrawn and since the Government of the Dominican Republic and its Ambassador were both specifically cited in USTR's press release of July 24, 1995, for their positive efforts during the investigation, we will not speculate that the petition was originally accepted by the Administration to ingratiate itself with the AFL-CIO during the debate on the North American Free Trade Agreement. Rather, the purpose of this statement is to suggest technical corrections that would protect against the very real harm to foreign countries caused by ill-founded or premature investigations.

The Dominican private sector submits that changes need to be made regarding when a country's worker rights or intellectual property protection practices can be reinvestigated after a favorable decision has been made in a previous investigation on the same subject matter.

The problem of ill-founded or premature petitions is a result of the criteria set out in the implementing regulations. As stated above, the pertinent provisions are found in 15 C.F.R. 2007.0(b) which provides:

If the subject matter of the request has been reviewed pursuant to a previous request, the request must include substantial new information warranting further consideration of the issue. [Emphasis added]

While the language of the regulation appears to be well-drawn at first glance, it is open to abuse where a petition is politically motivated or otherwise designed to omit or obscure critical facts that would become apparent during the course of the investigation. Of course, investment, trade, and tourism with the investigated country will be harmed during the investigation--which sometimes is the main intent of the petitioning group. This motive may be difficult to discern with an initial petition, but a second petition into the same subject matter should be carefully vetted before acceptance.

The Dominican private sector believes that the "substantial new information" test needs to be changed to afford more protections to beneficiary countries that have already been investigated and cleared.

The Dominican private sector has two recommendations in this area.

1. Safe Harbor. The regulations should be changed to provide a five-year "safe harbor" for countries whose worker rights or intellectual property protection practices have been investigated and a favorable decision has been made. Not only is this "safe harbor" needed for obvious reasons of fairness, it is also necessary to allow remedial measures that a country may have taken during a previous investigation, or thereafter, to develop and mature.

For example, after the first investigation that covered unionization issues, the Dominican Republic developed a new Labor Code, adopted implementing regulations, and set up a completely new system of Labor Courts with specific jurisdiction over labor disputes, including unionization matters. The operation of this system should not be judged too soon after it has gone into effect. It needs a reasonable time to develop and function smoothly before being investigated. A five-year "safe harbor" would give remedial measures and new laws sufficient time to work and also allow new investment which can only have salutary effects.

2. Criteria During Safe Harbor Period. The test for instituting an investigation during the five-year "safe harbor" period should be the existence of "compelling new information," a stricter standard than "substantial new information." That is, there should be no reinvestigation on the same issue for at least five years from the date of a prior favorable decision, absent "compelling new information." Under this new test, there would have to be "new" information, but it would also have to be more than "substantial." It would have to be "compelling," and of such a nature that an investigation would seem imperative to any reasonable person. Failure of a foreign country to fulfill commitments made to resolve a prior investigation would satisfy the "compelling new information" test.

Rejection of AFL-CIO Recommendations

In its August 1 testimony, the AFL-CIO offered a number of suggestions to the Committee designed ostensibly to improve "the worker rights conditionality" in the GSP statute. The AFL-CIO suggested, *inter alia*, changing the discretion given to the Executive Branch to determine whether a country affords internationally recognized worker rights to its workers, or is "taking steps" to do so, to a determination whether the country "has adopted and is enforcing laws" that protect internationally recognized worker rights. In addition, the AFL-CIO wants USTR to be required to investigate countries "unless there is a specific finding that the petition is frivolous," and it wants the statute amended to permit the partial withdrawal of GSP benefits in order to sanction a particular section of a beneficiary country's economy.

These suggestions, if adopted, would make it easier to start a worker rights investigation, easier to obtain sanctions, and harder for a beneficiary country to defend itself. The elimination of the "taking steps" criterion would discourage a country from taking remedial measures to address the problems underlying the complaint. This cynical suggestion, in itself, demonstrates that the AFL-CIO's goal is to make it easier to file worker rights petitions as a weapon to harass and intimidate international business operations rather than to encourage a beneficiary country to take steps to improve worker rights protections.

If the AFL-CIO's suggestions were to be adopted, it would have *carte blanche* to file petitions against any beneficiary country which was successful in increasing its production

sharing operations. Thus the Dominican private sector urges the Committee to reject all of the AFL-CIO's disingenuous recommendations.

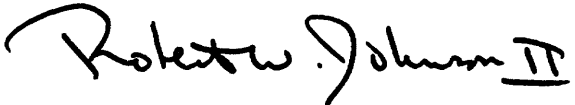
Conclusion

The Dominican private sector believes that the program should be continued for a ten year period as was initially structured in Title V of the Trade Act of 1974. An extension this long is needed to give businesses certainty and stability in planning the continuation of their operations in BDCs. If a shorter extension is dictated by budgetary considerations, the Administration and Congress should make a clear declaration of their intent to extend the program for an extended period--ten years--at the earliest possible time so that investment in beneficiary countries will not be harmed by the uncertainty over the program's future.

The Dominican private sector strongly urges the Committee to recommend or mandate the adoption of the "safe harbor" and "compelling new information" changes to the regulations for the GSP program. These changes would prevent abusive or ill-conceived petitions that have a chilling effect on investment in beneficiary countries--either deliberately or inadvertently--and thwart the very intention of Congress to foster economic development in designated beneficiary countries and thereby increase their ability to purchase U.S.-made products.

Finally, although not addressed here, the Dominican private sector supports allowing the value of U.S.-origin components to count toward the thirty-five percent "value added" requirements.

Respectfully submitted,

A handwritten signature in black ink that reads "Robert W. Johnson II". The signature is written in a cursive style with a large, sweeping initial "R".

Robert W. Johnson II
For ADOZONA



**Czech and Slovak -
United States
Economic Council**

Chamber of Commerce
of the United States
1615 H Street, N.W.
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August 16, 1995

Chairman
Martin M. Pollak
NPD Trading, Inc.

Executive Committee:
Anheuser Busch Companies
Procter & Gamble
Westinghouse Electric

The Honorable Charles E. Grassley
Chairman, Subcommittee on International Trade
The Senate Finance Committee
135 Senate Hart Office Building
Washington, D.C. 20510-1501

RE: Renewal of the GSP Program, Hearing of August 1, 1995

Dear Senator Grassley:

The Czech and Slovak-U.S. Economic Council, under the administrative aegis of the U.S. Chamber of Commerce, is an association of senior U.S.-based executives of major American companies with significant commercial interests in the Czech and Slovak markets. For over twenty five years, the Council has actively promoted an expanded trade and investment relationship between the U.S. and the Czech and Slovak Republics, formerly Czechoslovakia. On behalf of the Council, I urge you to support legislation renewing the Generalized System of Preferences (GSP) program under Title V of the Trade Act of 1974. The Council members strongly believe that the GSP program, which expired on July 31, 1995, should be reinstated for at least five years.

For the Czech and Slovak Republics, which have been undergoing a transition from a centrally planned to market economy, the GSP program has provided an important opportunity for growth through international trade. GSP has also facilitated a change in the trade patterns away from the pre-transition trade flows. GSP has offered Czech and Slovak companies increased exposure to the U.S. market and trade practices. The GSP program has also been instrumental in promoting the development of a free trade-oriented business class in both countries who will continue to pursue market economic reforms.

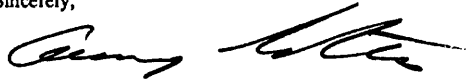
The cost to the United States of the GSP program for Czech and Slovak imports has been minimal. In 1994, total imports of manufactured goods from the Czech and Slovak Republics were valued at \$470 million and \$129 million, respectively; and combined this was slightly more than 0.06 percent of total U.S. imports of manufactured goods over the same period. We estimate that at least 25 percent of Czech and Slovak exports to the U.S. did not benefit from GSP status, which means that the impact for the U.S. budget of the foregone duties was negligible. At the same time, the United States has

successfully used GSP benefits as negotiating leverage to induce both the Czech and Slovak Republics to improve their intellectual property protection laws and enforcement, and to provide enhanced market access for U.S. exports. Despite the relatively small size of the emerging Czech and Slovak markets, in 1994, their companies purchased directly from the United States \$297 million and \$43 million worth of goods, respectively, that is almost as much as they were able to sell in the U.S. market. For example, in the first six months of 1995, Czech imports of U.S. manufactured goods rose by 34.3 percent over the same period last year, due primarily to high technology imports that followed U.S. investment and benefitted directly from improved access to the Czech market.

We believe that the benefits to our economy of a better business environment for U.S. interests in the Czech and Slovak Republics and increased capacity of this emerging market to absorb U.S. exports outweigh the cost of the duties waived under the GSP program. In addition, the full implementation of the estimated 40 percent tariff reduction negotiated under the Uruguay Round of the GATT will further lower the value of any duties foregone under a renewed GSP. To reduce the cost to the U.S. taxpayer of administering the GSP program, and to facilitate business planning, the Council urges you to seek GSP renewal for at least five years.

The members of the Czech and Slovak-U.S. Economic Council wish to thank you for your attention to this important trade issue.

Sincerely,



Gary Litman,
Executive Director
Czech and Slovak-U.S. Economic Council

Hoechst Celanese

Hoechst Celanese Corporation
919 - 18th Street, N.W.
Suite 700
Washington, DC 20006
202-296-2890

August 18, 1995

The Honorable Robert Packwood
Chairman
Senate Finance Committee
Washington, D.C. 20510

Subject: Renewal of the Generalized System of Preferences

Dear Senator Packwood:

I am writing on behalf of Hoechst Celanese Corporation and in response to the Committee's Press Release #104-104, dated July 26, 1995 requesting comments on various trade issues.

Hoechst Celanese urges the Committee to act quickly to reauthorize the Generalized System of Preferences (GSP) for an extended period of time, with no changes to restrict the program. This would prevent the disruptions to the business community and the GSP beneficiaries created by the repeated short term extensions. We also request that the Committee consider additions to the statute with respect to preferential tariff treatment accorded by developed country GSP beneficiaries to the United States' developed trading partners.

Hoechst Celanese manufactures a wide variety of products, including basic chemicals, pharmaceuticals, crop protection products, textiles, dyes and film. In the United States, we are headquartered in New Jersey. Throughout the U.S., we employ 19,522 people, in 32 facilities in 17 states coast to coast.

Hoechst Celanese has benefited from the Generalized System of Preferences since it was first implemented twenty years ago. GSP has allowed Hoechst to expand its investment facilities in some of these countries, and the imports to the U.S. have provided opportunities to lower the prices of our finished goods both consumed in the U.S. and exported abroad.

In the last two years, one issue of great concern has arisen for our company. With the changes in the former Soviet republics and Eastern bloc, the European Union has negotiated a number of bilateral trade agreements. These "Association" agreements provide two-way tariff preferences, "reverse preferences," that give United States companies' EU competitors a sizable competitive advantage in the markets of Eastern European Countries that have these pacts.

Because these Association agreements have only recently gone into effect, their impact on Hoechst Celanese's exports on the U.S. is just beginning to be felt. One product area where Hoechst Celanese has historically been competitive is the export from the U.S. to several Eastern European countries of "acetate cigarette tow," a product used in cigarette filters. The table below illustrates the extent of the tariff preferences and the size of the market for these products.

Cigarette Tow -- Tariff Preferences for EU Exporters

<u>Country</u>	<u>Duty Rate for EU Exports</u>	<u>Duty Rate for U.S. Exporters</u>	<u>Approximate 1995 Market Size (in Millions \$US)</u>
Bulgaria	0	10%	\$14.0
Rumania	0	15%	\$1.0-2.0
Poland	7%	8.7%	\$30.0
Czech Republic	3.5%	8.74%	\$16.0
Turkey	3.4%	10%	\$60.0

As a result of these tariff preferences, Hoechst Celanese is now finding it more difficult to compete and export acetate cigarette tow and may lose market shares in the countries listed.

We are also very concerned that we will be at an even greater regional disadvantage when the EU and Russia conclude an Association Agreement if it includes a similar tariff preference for EU exporters on acetate cigarette tow.

Hoechst Celanese was very pleased that the Statement of Administrative Action accompanying the Uruguay Round Agreements Act of 1995 required the Office of the U.S. Trade Representative to conduct a review of the impact of reverse preferences and to consider whether a full scale review of any countries' GSP eligibility as a result was warranted.

Unfortunately, the impact and even the awareness of the preferences at that time was not felt by USTR to be enough to warrant any full scale reviews. However, in his April report to the Finance Committee, U.S. Trade Representative Mickey Kantor indicated that USTR would, however, pursue reverse preference discrimination through both the GSP program and in any appropriate bilateral forum.

Hoechst Celanese is very pleased that USTR plans to continue this focus. We urge the Senate Finance Committee to continue to monitor the Administration's efforts very closely. More specifically, we request the Committee to incorporate into the renewal legislation, language that would statutorily clarify USTR's current position that reverse

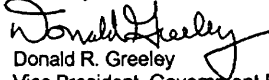
preferences may have an impact on GSP benefits, but in a more limited context than complete loss of benefits.

We recommend that the Committee add reverse preference language to the list of factors affecting country designation in its GSP reauthorization legislation. In the context of the legislation approved by the House Ways and Means Trade Subcommittee, H.R. 1654, this could be achieved by adding an new item (8) to Section 502(c):

"(8) the extent to which such country affords preferential treatment to the products of a developed country that have or are likely to have an adverse effect on U.S. commerce."

We thank the Committee for this opportunity to submit comments, and would be happy to answer any questions that you or your staff might have.

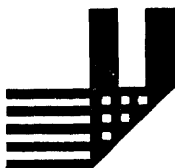
Sincerely,



Donald R. Greeley
Vice President, Government Relations

DRG/cmm

Hungarian-U.S. Business Council



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August 16, 1995

Chairman
Ralph Garson
Guardian International

Executive Committee:
AIG
Columbia Chemicals
Danube Kaitwear
New England Machinery
Procter & Gamble
Stroock & Stroock & Lavan

The Honorable Charles E. Grassley
Chairman, Subcommittee on International Trade
The Senate Finance Committee
135 Senate Hart Office Building
Washington, D.C. 20510-1501

RE: Renewal of the GSP Program, Hearing of August 1, 1995

Dear Senator Grassley:

The Hungarian-U.S. Business Council, under the administrative aegis of the U.S. Chamber of Commerce, is an association of senior U.S.-based executives of major American companies with significant commercial interests in the Hungarian market. For over twenty five years, the Council has actively promoted an expanded trade and investment relationship between the U.S. and Hungary. On behalf of the Council, I urge you to support legislation renewing the Generalized System of Preferences (GSP) program under Title V of the Trade Act of 1974. The Council members strongly believe that the GSP program, which expired on July 31, 1995, should be reinstated for at least five years.

For Hungary, as well other countries undergoing a challenging transition from a centrally planned to market economy, the GSP program provided an important opportunity for growth through international trade. GSP has facilitated a change in the trade patterns away from the pre-transition trade flows, and offered Hungarian companies increased exposure to the U.S. market and trade practices. The GSP program has also been instrumental in promoting the development of a free trade-oriented business class in Hungary who will continue to pursue market economic reform.

The cost to the United States of the GSP program for Hungarian imports has been minimal. In 1994, total imports of manufactured goods from Hungary were valued at \$470 million, and \$78 million over the first six months of 1995, which was slightly more than 0.07 percent of total U.S.

imports of manufactured goods over the same period. We estimate that at least 30 percent of Hungarian exports to the U.S. did not benefit from the GSP status, which means that the impact for the U.S. budget of the foregone duties was negligible. At the same time, the United States has successfully used GSP benefits as negotiating leverage to induce Hungary to improve its intellectual property protection laws and enforcement, and to provide enhanced market access for U.S. exports. Despite the relatively small size of the emerging Hungarian market, in 1994, Hungary purchased directly from the United States \$309 million worth of manufactured goods. This is almost as much as it was able to sell to the U.S. market.

In the first six months of 1995, Hungarian imports of U.S. manufactured goods rose by 40.5 percent over the same period last year, due primarily to high technology imports that followed U.S. investment and benefitted directly from improved access to the Hungarian market. The U.S. share of Hungarian imports has grown steadily from 4.0 percent in 1993 to 4.3 percent in 1994 to an estimated 4.5 percent by year-end 1995. As expressed in a separate letter to you from the Chairman of the Hungarian-U.S. Business Council, Mr. Ralph Gerson, President and Chief Executive Officer of Guardian International, "the GSP program works quite well, creating jobs both in the emerging economies and in the United States."

We believe that the benefits to our economy of a better business environment for U.S. interests in Hungary and increased capacity of this emerging market to absorb U.S. exports outweigh the cost of the duties waived under the GSP program. In addition, the full implementation of the estimated 40 percent tariff reduction negotiated under the Uruguay Round of the GATT will further lower the value of any duties foregone under a renewed GSP. To reduce the cost to the U.S. taxpayer of administering the GSP program, and to facilitate business planning, the Council urges you to seek GSP renewal for at least five years.

The members of the Hungarian-U.S. Business Council thank you for your attention to this important trade issue.

Sincerely,



Gary Litman,
Executive Director



International Business-Government Counsellors, Inc.
818 Connecticut Avenue, N.W., 12th Floor, Washington, D.C. 20006-2702

August 18, 1995

The Honorable Robert Packwood
Chairman
Senate Finance Committee
Washington, D.C. 20510

Subject: Renewal of the Generalized System of Preferences

Dear Senator Packwood:

We are submitting these comments on the renewal of the Generalized System of Preferences (GSP) in response to the Finance Committee's Press Release #104-104, dated July 26, 1995, requesting views on various trade issues.

International Business-Government Counsellors (IBGC) is a more than twenty year old government relations firm providing clients with information, advice and representation on a broad range of issues affecting international trade and investment. Among the issues we have worked closely with our clients are the Generalized System of Preferences and customs matters.

In the course of our work, the issue of Customs Service implementation of the GSP program has arisen. Of particular concern, is the adequacy as we approach the 21st century of Customs Service's interpretation of the statutory requirement that eligible products be "imported directly from a beneficiary country into the Customs territory of the United States" (Section 503 of the Trade, as amended, and codified in 19 U.S.C. Section 2463(B)(1)(A)).

There are two separate problems. First, the Customs Service denies GSP benefits for otherwise eligible goods, if, while in transit from the beneficiary country to the U.S., title to the goods is transferred while they are warehoused in a bonded storage facility in a third country -- even if the goods are always considered under that third country's Customs Control. It is important to point out that these same products can receive GSP benefits if title is transferred an unlimited number of times while they are, for example, on a boat travelling from the country of export to the U.S.

Customs' interpretation is now creating problems for many shippers, particularly those dealing with Eastern European countries and former Soviet republics. Because of the relatively poor storage facilities in these countries, their products are frequently exported and then stored in bonded warehouses for a considerable amount of time in cities in Western Europe, such as Rotterdam, while awaiting transportation across the Atlantic. In addition, lack of convertible currencies or adequate banking facilities complicate the initial developing country export transaction.

However, even though the product rests, modern telecommunications and technology allow buyers and sellers to do business accurately and quickly at long distance. Therefore, it is not unusual that during the storage period, the initial purchaser would have the opportunity to sell to a distributor, who would then sell to a retail outlet. Commercial relationships and insurance coverage are more readily handled while the goods are at rest. If these transactions take place while the product is still in the warehouse in Rotterdam, under Customs Service current interpretation of its regulations, the product would not be eligible for GSP when it arrives in the U.S.

The second related problem occurs when the initial bill of lading for the exported product shows a country other than the United States as the destination. In this case, the Customs Service currently allows the product to receive GSP benefits, even if transfer of title on a non-retail sale subsequently occurs, but only if the original transaction was between the importer and the beneficiary country's seller or agent. Because of the currency and banking issues noted above, many importers find that dealing with a third country intermediary is a sounder business practice and thus cannot meet the Customs Service's standards.

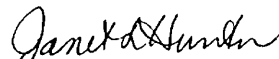
Neither of these problems are related to the original intention of the "imported directly" language which was to prevent third country businesses from being the beneficiaries of GSP.

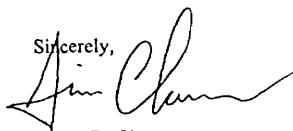
We urge the Senate Finance Committee to consider two steps during its deliberations on the renewal of GSP:

- The adoption of report language to clarify that the goods involved in both of the scenarios just described should be considered "imported directly" by the Customs Service for the purposes of GSP benefits.
- A recommendation that the Customs Service review, with the purpose of updating, its current GSP regulations, request public comment on a proposed rulemaking exercise, and adopt in new regulations the interpretation proposed by the Senate Finance Committee and consider all other submissions seriously.

We look forward to answering any questions you might have on these comments and working with you on their solution.

Best Regards,


Janet L. Hunter
Vice President

Sincerely,

James B. Clawson
Executive Vice President

STATEMENT OF
DR. RICHARD L. BERNAL
AMBASSADOR FROM JAMAICA TO THE UNITED STATES
SUBMITTED TO THE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE

IN RESPONSE TO ITS REQUEST FOR COMMENTS ON THE
GENERALIZED SYSTEM OF PREFERENCES (GSP)

AUGUST 18, 1995

Thank you for providing me this opportunity to submit testimony on behalf of the Government of Jamaica expressing our strong support for Congressional reauthorization of the Generalized System of Preferences (GSP) this year.

Trade Liberalization Supports Economic Growth

The GSP program establishes important tangible and symbolic mechanisms that support trade-based growth and economic reform throughout the Caribbean and the developing world. The GSP provides developing countries market access to the United States for many non-traditional exports, generating a critical source of foreign exchange. These earnings, in turn, help finance future imports or investment in productive capacity, stimulating job creation and advancing the cause of trade liberalization.

The US commitment to trade-based growth, through such programs as the GSP, sends an unmistakable signal of US support for this process of economic growth and trade liberalization throughout the developing world. As Caribbean countries have sought to restructure their economies to take advantage of the benefits of increased US trade links, they have undertaken policies to reduce tariff and other import barriers, privatize state-owned entities, eliminate controls on prices and exchange rates, and lessen the hand of the government in the economy. They have also undertaken to establish fair labor codes, strengthen intellectual property protection, and establish sound environmental policies. The resulting policy mix has allowed the private sector to become an engine of sustainable development and economic growth throughout the region.

Ultimately, economic growth in the Caribbean region and throughout the developing world is important for US interests. The Caribbean Basin's experience with trade-based development -- through both the Caribbean Basin Initiative (CBI) and the GSP program -- provides an instructive model for the United States. As the Caribbean Basin economy has developed, for example, so too has our ability to import US goods and services. *From 1985 to 1994, US exports to the Caribbean have expanded by more than 125 percent. Throughout the Caribbean, such trade-based growth has*

led to the creation of close to 17,000 US jobs a year for the past decade. Finally, US consumers benefit with greater access to the products of the developing world.

Jamaica's Response: Trade Liberalization

Jamaica has responded to program such as the CBI and the GSP by undertaking thorough programs of trade liberalization and economic reform. *Jamaica is an advocate of trade liberalization within the hemisphere and of a multilateral trading system that approaches free trade as far as possible.* Jamaica subscribes to, and its policy has always been fully consistent with, the principles and disciplines of the GATT. Jamaica joined the GATT in the early 1960's and has been an active participant in, and has contributed to, successive negotiating rounds aimed at further liberalization of global trade.

This commitment to outward-looking trade and development policies is firmly based on the knowledge that the benefits to be derived are those of higher growth rates and enhanced capacity to adjust to external shocks. Expanding trade contributes to Jamaica's growth by enabling the economy to improve its productivity by specializing in exports in which it has a comparative advantage. Production for the world market allows firms to achieve the economies of scale which are precluded by a small domestic market. Exposure to competition from imports serves to improve cost efficiency and benefits consumers by lower prices.

In the last four years, there has been a substantial acceleration in the process of liberalizing the trade regime of Jamaica, with an emphasis on the removal of import restrictions and the lowering of tariffs. *In many ways, US products in the Jamaican market are accorded better access than Jamaican products in the US market because Jamaica does not rely upon quotas as a tool of trade policy.* Jamaican sugar and apparel products, for example, still face US quotas.

Jamaica now sees these trade preference programs as springboards to greater hemispheric free trade liberalization. In many cases, we have already taken steps that exceed the requirements of the CBI to help accelerate this goal. *Jamaica has signed a bilateral investment treaty (BIT) and an intellectual property rights (IPR) agreement with the United States. We were also one of the first countries to include new anti-circumvention language in our bilateral textile agreement with the United States.*

Issues for the GSP Renewal

A. Long Term Renewal

The success of trade liberalization in the Caribbean stems in part from the long-term nature of the CBI program, which has

provided US and Caribbean businesses the ability to make long-term plans and commitments. As you know, the CBI program was initially enacted in 1993 to last for 12-years. Subsequent legislation in 1990 repealed the 12 year limitation and made the program permanent. If the original limitation were still in force, Congress would now be looking at language to renew the basic CBI program, which would be scheduled to expire in less than two months on September 30, 1995!

By comparison, the GSP program was initially authorized for relatively long periods of five to ten years. Subsequent legislation, however, extended the GSP program for short time periods only. This has caused considerable disruption, uncertainty, and hardships for the domestic and foreign entities that depend upon the GSP program.

For the GSP program to be most effective, it must be renewed for a longer period -- such as 4-5 years -- to provide the trading community with the long-term certainty. If Congress instead relies upon short-term stop-gap renewals for the GSP program -- as it has for the past two years -- US importers will shy away from this program, damaging trading relationships -- possibly irrevocably -- with many developing countries. As developing economies lose valuable export markets, they will also lose foreign exchange earnings, which will in turn depress their ability to buy US exports. For traditional US markets -- such as those in Latin America and the Caribbean -- such a scenario would devastate US export performance.

B. Budget Considerations of GSP

Current estimates suggest that the GSP renewal could cost as much as \$2 to \$3 billion -- in foregone tariff revenues -- over a five year period. But Congress should take care to avoid letting its budget rules stand in the way of good US trade policy. While fiscal restraint is a key goal that must be considered as any policy option is debated, Congress should consider changing its budget rules to measure the accurate impact of trade liberalization on government revenues.

Again, the Caribbean Basin Initiative provides an instructive perspective on this issue. Congress is now considering legislation that would expand the benefits under the CBI to make them consistent with those accorded Mexico under the NAFTA. Known as the Caribbean Basin Trade Security Act (S. 529/HR 553), this measure has tagged by the Congressional Budget Office (CBO) with a cost of close to \$1 billion. In making this calculation, however, the CBO did not include any revenue gains that might be generated by increased trade with the CBI.

A preliminary calculation suggests that the gains of trade liberalization and economic growth should generate alternative

sources of revenue for the US Government to offset any tariff revenue losses. The CBI has helped create an average of 17,000 US jobs each year for the past decade. If each of these jobs generates an additional \$5,000 in tax revenues during the first year, trade liberalization with the CBI could yield roughly \$85 million in new revenues in that year alone. In the second year, as 17,000 additional jobs are created, US revenues will expand by \$170 million. Over five years, such figures yield roughly \$1.2 billion, exceeding the CBO estimates for the "cost" of the Caribbean Basin Trade Security Act by several hundred million dollars.

Conclusion

As Congress continues to address its trade agenda this year, part of its attention must center on the mechanisms that enable foreign countries to remain healthy and vigorous trading partners of the United States. One means to accomplish this is through the Caribbean Basin Trade Security Act, a measure that will significantly benefit US/Caribbean trade links. Another sure mechanism to help promote stronger trade-based growth throughout the Caribbean -- and the rest of the developing world -- is the Generalized System of Preferences (GSP).

US/CBI Trade Statistics (1985 - 1994)
(Millions of US Dollars)

<u>Year</u>	<u>US Imports</u>	<u>US Exports</u>	<u>Annual Export Growth</u>	<u>Trade Balance</u>
1985	6687	5942	--	-745
1986	6065	6362	7.1%	297
1987	6039	6906	8.6%	867
1988	6061	7690	11.4%	1629
1989	6637	8290	7.8%	1653
1990	7525	9569	15.4%	2044
1991	8372	10013	4.6%	1641
1992	9627	11263	12.5%	1636
1993	10378	12428	10.3%	2050
1994	11495	13441	8.1%	1946

Average Annual U.S. Export Growth: 9.5%

Note: 1994 marked the 9th straight year of U.S. trade surpluses

**Number of US Workers Dependent on
Trade with the Caribbean Basin Nations**

<u>Year</u>	<u>Total Number of US Workers*</u>	<u>Number of New U.S. Jobs Created Per Year</u>
1985	118,840	--
1986	127,240	8,400
1987	138,120	10,880
1988	153,800	15,680
1989	165,800	12,000
1990	191,380	25,580
1991	200,260	8,880
1992	225,262	25,002
1993	248,552	23,290
1994	268,814	20,292

Average Annual Job Creation: 16,667

* Assuming that \$1 billion in US exports creates 20,000 US trade-related jobs.

Source: US Department of Commerce, US International Trade Commission

Updated: April 28, 1995

**Mattel Toys****Fermin Cuza**

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International Trade
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August 17, 1995

The Honorable Charles E. Grassley
Chairman, Subcommittee on International Trade
Committee on Finance
U.S. Senate
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

In conjunction with the Subcommittee on International Trade's August 1 hearing and request for written comments on an extension of the U.S. Generalized System of Preferences (GSP), Mattel, Inc. wishes to express its strong support for legislation to renew the program retroactive to its recent July 31 expiration date. Mattel is the world's largest toy company, with sales in over 140 countries. Headquartered in El Segundo, California, our company has manufacturing, distribution or sales operations in four states and 34 foreign countries, including the GSP beneficiary countries of Malaysia and Indonesia.

Mattel strongly endorses a renewal of the GSP program. Even though U.S. most-favored-nation rates of duty on all traditional toy categories were eliminated on January 1 as a result of the Uruguay Round agreement, meaning that these products are now removed from GSP eligibility, Mattel continues to have a major stake in the program's continuation for the reasons outlined below.

First, renewing the U.S. GSP program is important to Mattel because imports of several products in Mattel's line are classified outside the scope of the Uruguay Round tariff eliminations and remain eligible for GSP treatment.

Second, the GSP schemes maintained by the European Union, Japan and all other industrialized countries continue to play an important role in Mattel's access to those markets. For example, even though it participated in the Uruguay Round's zero-for-zero tariff deal on toys, the European Union is taking ten years to phase out its tariffs on most toys and has completely exempted several important toy categories from duty eliminations.

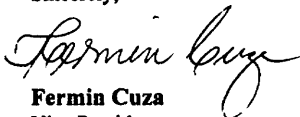
Page Two
Honorable Charles E. Grassley
August 17, 1995

There is little doubt that these other GSP donor countries would come under strong pressure to terminate their GSP programs if Congress fails to extend the U.S. program, particularly given the multilaterally-agreed principle that industrialized countries should share among each other the burden of extending GSP tariff preferences. This would pose a competitive disadvantage to Mattel and other major U.S. toy companies which, in keeping with their global leadership position in this sector, have better optimized their manufacturing structures to reflect cost of production advantages and, as a result, tend to source more heavily from GSP beneficiary countries.

Finally, we would like to take advantage of this opportunity to bring to the Subcommittee on International Trade's attention a customs-related matter that has impaired the ability of Mattel and other U.S. toy companies to take full advantage of the GSP program for certain products. In 1991, the U.S. Customs Service issued an interpretive rule (T.D.91-7) stating that articles entered as a set can only qualify for GSP treatment if each of the items or components in the set are of beneficiary country origin. Given the prevalent use of sets in the toy sector, this ruling has posed a significant problem and has led to situations where toy sets having only de minimis non-beneficiary country input are denied GSP eligibility.

In conclusion, Mattel urges the Subcommittee on International Trade to support a long-term extension of the U.S. GSP program. We also urge the Subcommittee to take appropriate steps to ensure that, under the renewed program, GSP-eligible imports of toys in sets containing de minimis non-beneficiary content are accorded GSP treatment.

Sincerely,



Fermin Cuza
Vice President,
International Trade and
Government Affairs

COMMITTEE ON FINANCE
SUBCOMMITTEE ON INTERNATIONAL TRADE
UNITED STATES SENATE

STATEMENT OF THE
OFFICE OF THE CHEMICAL INDUSTRY TRADE ADVISER (OCITA)
ON

RENEWAL OF THE GENERALIZED SYSTEM OF PREFERENCES
August 1, 1995

I. INTRODUCTION

The Office of the Chemical Industry Trade Adviser (OCITA) is pleased to submit this statement on the Generalized System of Preferences (GSP) program. OCITA believes that several changes must be made to assure that the GSP program operates efficiently, with a minimal impact on U.S. exporters. In particular, GSP beneficiaries should show that they have provided "equitable and reasonable" access to their markets for U.S. exports, by adopting such multilateral agreements as the Chemical Tariff Harmonization Agreement (CTHA), before receiving GSP benefits.

OCITA is a coalition of seven national chemical trade associations: The Chemical Manufacturers Association (CMA), the Synthetic Organic Chemical Manufacturers Association (SOCMA), the Society of the Plastics Industry (SPI), the Fertilizer Institute (TFI), the National Paint and Coatings Association (NPCA), the Chemical Specialty Manufacturers Association (CSMA), and the American Crop Protection Association (ACPA).

OCITA's role is to provide a unique chemical industry perspective on trade policy issues affecting the chemical industry. The industry is the largest exporting sector in the United States. U.S. chemical exports in 1994 outdistanced agricultural exports by \$5.6 billion, and bettered aircraft exports by \$23 billion. OCITA provides some 2,600 companies nationwide with a voice on trade policy issues, like the GSP program, that may affect their competitiveness in the global market.

In OCITA's view, Congress should consider several changes in the GSP program. The changes, detailed in this statement, should help assure that the program does not create a negative economic or competitive impact for U.S. industries.

From its inception, the GSP program was intended to prevent offering economic advantages to developing countries at the expense of established U.S. industry.¹ Since the last time the GSP program was reauthorized in 1984, however, a number of GSP-related problems and concerns were perceived to have caused economic harm to U.S. interests. Most of these problems arose from the lack of specific criteria or sufficient guidelines for the program.

¹19 U.S.C. § 2102(4); 15 C.F.R. § 2007.1(a)(5)(viii) and § 2007.2(e); S. Rep. 93-1290, 93rd Cong., 2d Sess. reprinted in [1974] U.S. CODE CONG. & Ad. NEWS 7353; and PRESIDENT'S REPORT TO THE CONGRESS ON THE FIRST FIVE YEARS' OPERATION OF THE U.S. GENERALIZED SYSTEM OF PREFERENCES (GSP), 96th Cong., 2d. Sess. (W.M.C.P.: 96-53, 1980) [hereinafter Five Year Report], at 64.

Although some of the problems appear to have been addressed, global competitive pressures have created a new, more difficult set of problems and concerns. Many of these new problems can be solved by adopting better enforcement of existing law, administrative improvements in the operation of the program, and more explicit conditions for extending and eliminating GSP benefits.

II. STATUTORY CONDITIONS ON GSP ELIGIBILITY

A. Participation in the Uruguay Round Agreements

In order to assure that eligible GSP beneficiaries provide the "equitable and reasonable" market access to U.S. exports required under existing law, the Office of the United States Trade Representative (USTR) should give significant weight to participation in the Uruguay Round Agreements. The failure of some GSP beneficiaries to offer reciprocal tariff benefits consistent with the Chemical Tariff Harmonization Agreement (CTHA) adopted in the Round is of particular concern to the chemical industry.

U.S. chemical exporters have already expressed their frustration and disappointment over the inadequate tariff concessions made by major chemical producing countries which also benefit from the GSP program. Countries such as Argentina, Brazil, India, Indonesia, Malaysia, Thailand and Venezuela have not joined the CTHA. In OCITA's view, the failure to grant reciprocal tariff benefits violates Section 502(c)(4) of the GSP statute, as there can be no doubt that chemical exporters are not receiving "equitable and reasonable" market access.

OCITA urges the Subcommittee to consider the following amendment to the GSP statutes to address non-reciprocal chemical tariff concessions:

Section 504(a) of the Trade Act of 1974 (19 U.S.C. § 2464(A)) is amended by adding at the end thereof the following new paragraph:

(3) The President shall not apply duty-free treatment under section 501 with respect to any chemical article classified under chapters 28 through 39 of the Harmonized Tariff Schedule of the United States originating (as determined under section 503(b)) in a country which has not reduced and bound its tariff rates in a manner comparable to those agreed to by Canada, the European Union, Japan and the United States in the Uruguay Round of Multilateral Trade Negotiations.

In addition, the GSP statute should also be amended to include a country's adherence to the other Uruguay Round Agreements, particularly a country's adherence to the Agreement on Trade-Related Intellectual Property (TRIPs) as a criteria for GSP eligibility.

B. Automatic Termination of GSP Eligibility

The GSP legislation should provide for automatic termination of GSP eligibility for any country entering into a free trade agreement with the United States.

C. High Import Penetration Requirement

In listing the factors which the President must take into account in awarding GSP status, §2461 lists:

"(3) the anticipated impact of such action on United States producers or like or directly competitive products."

However, the Trade Policy Staff Committee (TPSC) and the International Trade Commission (ITC) hold such a rigid definition of what they consider injurious import penetration that due regard is not given to the anticipated impact of GSP status on key U.S. chemical industry segments.

Both the TPSC and the ITC refuse to recognize that with fungible commodity chemicals, even a 1% import penetration can bring down the entire price structure for a chemical throughout the entire U.S. market. Certainly, import penetration thresholds are important, but assuming low penetration is not injurious is not consistent with either the statute or reality.

Means must be found to assure that a more flexible definition of injurious import penetration will be used when considering requests to terminate duty-free GSP status on products of U.S. industry members.

D. Injury and Threat of Injury

There is no clear TPSC definition of injury or threat of injury. In fact, internally, there appears to be a view that the test is "significant injury or threat thereof". There should, therefore, be a set of clearly defined standards and criteria applied by both the ITC and the TPSC.

Where U.S. industry petitions to remove a product, or opposes adding a product, on grounds of injury or threat thereof, the ITC Commissioners should be required to prepare a brief opinion justifying their support or opposition to the petition. Currently, it is the ITC staff that prepares the assessments; review by the full Commission is entirely pro forma.

E. "Basket" Decisions/Classification Considerations

While not the same problem that it was prior to adoption of the Harmonized Tariff System, there is evidence that the USTR and the TPSC still sometimes grant GSP status to multiple products, rather than just the specific product requested by a petitioning country. This problem is caused when many separate products are included under the same tariff category or "basket." This may result in products being considered eligible for GSP treatment, often without the knowledge of U.S. manufacturers. As a result, the domestic market for import sensitive products may be harmed. At a minimum, U.S. companies will incur unnecessary expenses in petitioning for the withdrawal of eligibility for those products.

Reauthorization of the GSP program should stipulate that benefits will be limited to the individual product for which a petition is filed.

Another concern is the inadvertent inclusion or exclusion of a specific product because of misclassification, reclassification (TSUS to HTS) or U.S. Customs Ruling. An expedited process outside the Annual Review process is needed for these type of problems.

F. Timeliness of Response to Concerns of U.S. Industry

There is need for greater and more timely responses to the interests of domestic producers. Petitions are currently accepted once a year for extension of withdrawal of benefits. Petitions are accepted for review in June and actions on these petitions are taken as late as the

following April. Because the competitive positions of entire industrial sectors can be affected in very short periods of time, it is critical that petitions receive timely responses.

The existing expedited petition procedures are seldom, if ever, granted. The GSP program must have a useful emergency petition process to suspend or eliminate GSP benefits. The GSP rules should allow the petition of a domestic industry to be given immediate consideration by the USTR upon a showing of special need.

G. ITC Consideration of Most Recent Data Available

In a number of instances, the data developed by the ITC during its analysis of possible impact has been irrelevant, while other information which was pertinent to the case was disregarded. In other circumstances, the ITC has failed to consider the most recent data available. With so much weight given to the ITC report and recommendation, it should provide an adequate and meaningful analysis including all available data and changes up to the end of the year rather than cut-off at the petition filing date or with post-hearing submissions.

The reauthorization law and/or annual instructions to the ITC from USTR should include specific requirements for the ITC's use of data, and provide for opportunities for U.S. industry to challenge and suggest more appropriate data. USTR/TPSC should be open to requesting that the ITC review specific points even after their report has been submitted.

H. Competitive Need Limitations

Provisions are needed to allow special consideration for specific product(s) imports that do not exceed limitations, but comprise sufficient import penetration to injure U.S. industry.

I. Indications of Necessary Criteria to Withdraw Eligibility

There is still considerable confusion within the U.S. Government and the business community on whether individual products can be selectively removed for other than competitive need reasons. Many GSP practitioners believe that a request to remove a product entirely from the duty-free GSP program is more difficult than removal of the product from one or perhaps two GSP countries where the benefit is no longer necessary. The ability to selectively petition for withdrawal of GSP eligibility is necessary in order to prevent negative economic effects to U.S. industries.

Further, sometimes petitioners will (for the above reason) petition to have one or perhaps two major suppliers removed only to find that when the petition is accepted, the TPSC converted the petition to a total product removal.

Other helpful indications of necessary criteria for withdrawing product eligibility that USTR and the TPSC could provide U.S. industry include:

- (1) Import-Penetration-History, Current, Future (likely range)
- (2) Important injury factors (percent range, trends)
- (3) Threat factors (must imports have started?, history, forecast, precedents, more emphasis on intent of law)

III. THE GSP PROGRAM CAN BE MADE MORE EFFECTIVE BY BETTER APPLYING EXISTING LAW

A. Foreign Market Access and Export Practices of Beneficiaries

A significant purpose of the 1984 GSP Renewal Act was to encourage developing countries to eliminate or reduce significant barriers to trade. To fulfill this purpose, the Act listed the factors to be applied in designating GSP eligible countries. Among the most important of the eligibility criteria are the extent to which reasonable market access is provided, and unreasonable export practices are prevented.

It is the all-too common experience of OCITA companies that these factors are not adequately considered in the GSP Annual Review process. GSP status has been granted to countries such as Brazil and India, even in the light of evidence that they apply high tariffs, and other non-tariff barriers. These barriers severely restrain imports of chemicals for which they have requested GSP status from the United States. Furthermore, many GSP eligible countries have an elaborate collection of export subsidies and facilitating export practices. These market access and export practices need to be given significant weight in the TPSC deliberations, if the eligibility criteria is to be given any meaning at all. Simply, it is not clear that the U.S. government is complying with the statutory requirement that eligibility determinations must take into account the domestic impact of granting GSP treatment, and the degree to which market access is provided.

The public does not have access to the TPSC's internal decision making documents, but there are no indications that the law is being complied with. For example, seldom, if ever, do TPSC (or GSP Subcommittee) members even make inquiries at the public hearings or through other communications with U.S. industry relevant to "country practices".

TPSC enforcement of the law is particularly important where the petitioner has evidence that the same article produced in the United States is subject to such constraints as market access barriers, patent infringement, and domestic subsidiaries to competitive local producers in the GSP beneficiary country being considered for removal.

Some changes are needed such that:

- (1) GSP policy gives "great weight" to whether the product under review faces one or more of the conditions set forth in Section 2463 (c);
- (2) the TPSC should be required to provide U.S. industry seeking a removal of a product the reasons for adding or keeping the product on the list, including its assessment of factors identified above; and
- (3) a legal opinion from USTR's General Counsel's office should be prepared and forwarded to all TPSC and GSP Subcommittee members explaining the law in this area.

B. Competitiveness Considerations

OCITA companies have found that the TPSC and the ITC do not give much, if any, consideration to the worldwide competitiveness of a particular GSP country's subject industry. As a result, foreign producers with world-scale plants, state-of-the-art technology, worldwide exports, and substantial productive capability have been given duty-free access to U.S. markets. Graduation of industries (products(s)) within GSP eligible countries must be given more attention. Simply, the law requires that the President "shall have due regard" to the extent of the GSP country's competitiveness in any particular article, and measures should be taken to demonstrate compliance with the law.

It makes no sense to grant a preferential benefit to an industry that has already shown itself fully capable of competing in world markets, and consideration commensurate with the law on this factor must be included in future deliberations.

C. Coordinating Trade Policy Actions

There is clear evidence that decisions in the GSP program are not being coordinated with other trade policy activities of the U.S. government. For example, of the twelve chemical product petitions filed in the 1991 annual review, eight were on the USTR's list of import sensitive products in the Uruguay Round tariff negotiations. In another example, the ITC has ruled favorably in an anti-dumping case, only to have the GSP process soon thereafter grant GSP status to the same product.

The reauthorization law should contain provisions to automatically exclude from GSP eligibility products considered import sensitive, as well as other provisions to harmonize the GSP program with other trade decisions of the U.S. government.

In particular, rules concerning submission and marking of business confidential information should be harmonized among the relevant government agencies to simplify, expedite and ensure equal treatment be afforded by all of the agencies.

D. Duties of TPSC Members

GSP guidelines and instructions should be annually reviewed with all relevant government personnel to ensure consistency and fairness in analysis and recommendations. This is important because staff members change from year-to-year.

The TPSC members who are expected to rule impartially on GSP petitions are in some cases the same government representatives who visit foreign countries to promote the program. The reauthorization should delegate the responsibility for promoting the GSP program to others outside the TPSC.

The private sector should be advised at the beginning of the review process as to which particular inter-agency representative has been assigned to each petition. Similarly, the names of the TPSC members or designates should be made available to the private sector at the beginning of the annual process.

E. Sufficiency of Petitions

Accurate and complete information must be provided by petitioners to assure the timely consideration of GSP petitions. An important element of every petition should be a full discussion of how the requested action would provide benefits to the developing countries without an adverse impact on affected U.S. industries.

V. CONCLUSION AND POSITION

OCITA suggests that several statutory and administrative changes in the GSP program are necessary to assure that effective assistance to developing countries is provided with minimal negative impacts on U.S. industry. OCITA looks forward to working with the International Trade Subcommittee as discussions on the future of the GSP program continue.

Polish-U.S. Economic Council



Chamber of Commerce
of the United States
1615 H Street, N.W.
Washington, D.C. 20062-2000

International Division

(202) 463-5482
Telex: RCA 248302
Fax: (202) 463-3114

August 16, 1995

Chairman

Robert W. Brimberry,
Drescher Industries

Executive Committee:

AT&T
Commonwealth Metal
Dow Chemical
Hogan and Hartson
Protein Technologies

The Honorable Charles E. Grassley
Chairman, Subcommittee on International Trade
The Senate Finance Committee
135 Senate Hart Office Building
Washington, D.C. 20510-1501

RE: Renewal of the GSP Program

Dear Senator Grassley:

The Polish-U.S. Economic Council, under the administrative aegis of the U.S. Chamber of Commerce, is an association of senior U.S.-based executives of major American companies with significant interests in Poland. For over twenty five years, the Council has actively promoted an expanded trade and investment relationship between the U.S. and Poland. On behalf of the Council, I urge you to support legislation renewing the Generalized System of Preferences (GSP) program under Title V of the Trade Act of 1974. The Council members strongly believe that the GSP program, which expired on July 31, 1995, should be reinstated for at least five years.

For Poland, as well as other countries undergoing a challenging transition from a centrally planned to market economy, the GSP program provided an important opportunity for growth through international trade. GSP has facilitated a change in trade patterns away from the pre-transition trade flows, and has also offered Polish companies increased exposure to the U.S. market and trade practices. The GSP program has also been instrumental in promoting the development of a free trade-oriented business class in Poland who will continue to pursue market economic reform.

In the attached letters to the Polish-U.S. Economic Council, the two largest private associations of Polish businesses, the Polish Chamber of Commerce which has 150 local chamber affiliates and the Business Center Club with its 500 corporate members, express their concern that, absent the GSP privilege, many fledgling Polish companies will be shut out of the U.S. market. Our Council has also received many letters from U.S., Polish and joint venture companies actively involved in U.S.-Polish trade, in which they provide specific examples of the crucial role played by the GSP program in promoting the growth of the Polish private sector. For example, Lubiana, a

The Council operates under the administrative aegis of the U.S. Chamber of Commerce but is autonomous in matters of policy.

manufacturer of restaurant china, will see tariffs on its exports to the U.S. increase from zero to eight percent; the Cetrozap company from Katowice is likely to lose its U.S. market share for machine tools to Chinese exporters; and, the ceramic insulator manufacturer ZAPEL will have to shelve its attempts to find partners in the United States. Elektrim North America and Toolmex also sent us the attached letters voicing the concern of U.S.-based importers of Polish goods about the survival of the companies' business after the expiration of the GSP program.

The cost to the United States of the GSP program for Polish imports has been minimal. In 1994, total imports of manufactured goods from Poland were valued at \$651 million, and \$173 million over the first six months of 1995, which was less than 0.1 percent of total U.S. imports of manufactured goods over the same period. We agree with the estimate of the Polish Chamber of Commerce that only half of Polish exports to the U.S. benefitted from GSP status, which means that the impact for the U.S. budget of the foregone duties was negligible. At the same time, the United States has successfully used GSP benefits as negotiating leverage to induce Poland to improve its intellectual property protection laws and enforcement, and to provide enhanced market access for U.S. exports. Despite the relatively small size of the Polish fledgling economy, in 1994, Poland purchased directly from the United States \$625 million worth of manufactured goods, i.e., almost as much as it was able to sell to the U.S. market. The U.S. share of Polish imports in 1994 was 5.8 percent and is projected to reach six percent by the end of this year.

We believe that the benefits to our economy of a better business environment for U.S. interests in Poland and increased capacity of this big emerging market to absorb U.S. exports outweigh the cost of the duties waived under the GSP program. In addition, the full implementation of the estimated 40 percent tariff reduction negotiated under the Uruguay Round of the GATT will further lower the value of any duties foregone under a renewed GSP. To reduce the cost to the U.S. taxpayer of administering the GSP program, and to facilitate business planning, the Council urges you to seek GSP renewal for at least five years.

The members of the Polish-U.S. Economic Council thank you for your attention to this important trade issue.

Sincerely,



Gary Litman,
Executive Director

Attachments



Elektrim
North America Corporation

850 Dillon Drive • Wood Dale, Illinois 60191
708-238-8626 ITT 4330146 FAX 708-238-8627

Polish - U.S. Business Council
Chamber of Commerce of the United States
1615 H Street, N.W., Washington D.C. 20062
attn Mr G. Litman - Executive Director

August 7, 1995

Dear Mr Litman

Elektrim North America Corp is a subsidiary of Elektrim S.A., Warsaw, Poland and minority interest in our company is also held by three cable companies of Polish origin.

As Elektrim's S.A. representative in the North America we are promoting their exports mainly in two lines - electrical cables and wires as well as in electric motors. Procurement of parts and materials for Elektrim S.A. and its industrial partners in Poland also plays some role in our overall activity.

US market in the line of cable and wires has been very aggressively priced and it was always very difficult for European manufacturers to compete with U.S. cable companies who quite often manufacture its product in South American and/or Far East facilities.

Elektrim's sales of cable and wires to North American market started in 1989 and annual sales vary as from \$ 5 to 10 M. In all these years GSP status of the product (0 % US import duty) contributed to a very large extent to the success of the sales especially Polish products had to compete also with very low priced cables of South American and/or Far East origin.

Transportation/insurance cost of getting these product from Europe to the destination in the US has also been adding a large percentage margin to the final price so the potential threat of elimination of the GSP status for cables and wires Made in Poland would be a very serious setback for further exports and would drastically reduce or possibly even eliminate sales. Polish manufactures would not be in a position to absorb 5.3 % import duty and at the existing price level in the US there is no possibility either that the US importers would agree to the price increased by import duty.

During all these years Elektrim S.A. and the Polish cable manufacturers succeeded in obtaining a number of industry recognitions (Underwriters Laboratories, Mine Safety and Health Administration acceptances etc) and it would be the most unfortunate if all those efforts would not result in the continuation of sales especially that cables Made in Poland acquired a very good technical reputation and meet any industry requirements.

Your best efforts in promoting of our cause and restoration of the GSP clause for our products would be highly appreciated.

Sincerely

Andrew K. Kaminiecuk
President

copy Mr Dir N. Muszynski - Elektrim S.A., Warsaw.

ul. Trębacka 4, 00-074 Warszawa, Poland



POLISH CHAMBER OF COMMERCE
President

Mr. Gary Litman
Executive Director
International Division
Chamber of Commerce
of the United States
Polish - U.S. Business Council

Warsaw, August 11, 1995

RE: The U.S. Generalized System of Preferences

Dear Mr. Litman,

In reference to our recent discussions and to your letter of August 2, I would like to inform you that the Polish business community is deeply concerned about the expiry of the U.S. Generalized System of Preferences as of August 1, 1995. The increased import duties at the U.S. border on many goods exported from Poland so far will bring about a number of negative consequences for fledgling Polish private firms, which are difficult to estimate at the present moment.

Two million private firms have been established in Poland since 1989, their existence being dependent to a significant degree on export, among other, to the United States.

The basic concept which laid behind the introduction of the GSP was the will to assist the world's developing countries and, from 1990 on, also the post-communist ones on their way towards market-oriented economics. The system has contributed to the economic development in the countries in question by allowing for increased exports, and the development of new firms resulting from it. We consider, therefore, that it is advisable and desirable to reinstate the GSP system.

The Gross National Product in Poland has been growing rapidly in the recent years amounting to 5-6% p.a.. This growth rate was achieved mainly owing to the increasing share of private firms and privatized state companies, which in turn were developing on export-driven basis. The facilities, such as the GSP, are among the principal factors in contributing to boosting sales abroad.

According to our estimates approximately 50% of Polish exports, to the lucrative but at the same time very difficult and demanding American market, were in the last 2-3 years under the GSP system. The "suspension" of the GSP for a few months (ie. till the final approval of the U.S.A budget) can bring about temporary difficulties in the development of our exports to the U.S. market. This is especially true for small and medium firms, for which even a few percent increase in import duties can result in significant drop in export to the U.S. and in their subsequent bankruptcy.

tel.: (4822) 260143, fax: (4822) 274678, 260143, tlx 814361

(Owing to different factors, but especially thanks to the Generalized System of Preferences, Polish exports to the U.S.A. amounted to :

- \$ 374 mln in 1992
- \$ 453 mln in 1993
- \$ 651 mln in 1994

Major products which were exported to the U.S.A. with the GSP certificate are:

- agro-alimentary products;
- raw materials;
- semi-manufactured articles and semi-processed industrial products.

Due to fierce competition on the American market, the GSP allows the Polish companies to export their goods, hardly making any profit. Once import duties are reintroduced, the Polish companies will automatically be excluded from the lucrative American market. The industries that will suffer the most from the change are: conditionery, crystal and silver jewellery manufacturers as well as furniture makers. All the above mentioned products have long been marketed at the large Polish population in the States. The importance of the American market to the small and medium-sized enterprises is reflected in the increased interest in trade mission organized by the Polish Chamber of Commerce.

1993 - 2 missions organized

1994 - 3 missions organized

1995 - 3 missions planned

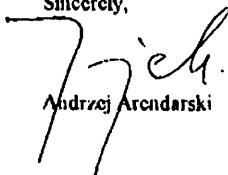
It is worth mentioning that despite the increase in Polish export value in the years 1991-1995, the foreign trade balance was in the red (with the notable exception of 1994). It is estimated that a similar 30-50 mln USD deficit will be recorded in 1995. What accounts for this situation is mainly the high import value of new private Polish enterprises. Moreover the Generalized System of Preferences and thus the sustained growth of the private sector in the long run builds up a market for American exports to Poland.

Summing up, to deprive Poland of the preferences or even to suspend them, would bring about serious decline in export value and hence may bring many companies to the verge of bankruptcy.

The decision of the American Congress to limit imports from Poland will halt the rapidly developing private sector of the Polish economy and bring many companies to the verge of bankruptcy. This step stands in sharp contrast with another recently issued declaration that Poland is among the ten big emerging markets owing to its good economic performance.

I let me thank you in advance for your help in presenting our standpoint to the American Congress

Sincerely,

WZ

 Andrzej Arcidarski

**TOOLMEX CORPORATION**

HEAD OFFICE
 1615 WORCESTER ROAD, RT. 1, NATICK, MASSACHUSETTS 01950
 telephone 508-653-8897 • telex 200171 • fax 508-653-5110



August 8, 1995

Mr. Gary V. Litman, Executive Director
 Polish - U.S.A. Business Council
 Chamber of Commerce of the United States
 1615 H Street N.W.
 Washington, D.C. 20062

Dear Mr. Litman:

As we learned recently, the Generalized System of Preferences (GSP) expired on July 31, 1995. Related to this fact, we kindly ask you to take the necessary steps to extend its validity for the next few years.

Toolmex Corporation has continuously operated on the United States' market since 1973 as an American company established by Polish exporters.

The main subject of our activity is to deliver to the American purchaser the highest quality of polish tools, machine tools, and electric motors. These imported goods have been very popular among our clients for over 22 years because of their everlasting and moderate prices. For many years of our activity, we have established solid relationships with many distributors in the United States.

Toolmex has assisted U.S. companies to be more competitive by supplying reputable equipment to over 600 companies. The competition is endangered now. The expiration of "GSP" has increased our cost because of duty. Our goods previously eligible for duty free entry are now dutiable. For example, the average duty for our products are as follows:

For	tools	7.0 %
	machines	4.4 %
	motors	2.0 %

BRANCH
 POLAND • Warszawa • tel 24 71 40
 TLX 812313
 FAX 24 73 53

MACHINE DIVISION
 CINCINNATI, OHIO • tel 609 786 1500
 FAX 609 786 0133



page 2

This new cost means higher prices of our merchandise and also a decrease of our competitiveness. Taking into consideration the fact that in many cases we are the sole importer of these various kinds of goods, the expiration of "GSP" has caused the endanger of greatly reducing and even desisting from import. It will cause the dissatisfaction of our customers as well as complicating their businesses.

Taking into account the mutual benefit of the American purchaser and the Polish producer, we hope that your endeavors will give positive results and the Generalized System of Preferences will be prolonged for many years to come.

Yours truly

TOOLMEX CORPORATION

Jan Dui
President

Business Centre Club

Piec Żelaznej Bramy 2, 00-136 Warszawa
Tel. 626 30 37, Fax 621 64 20, Komertel 99 12 07 04

Warsaw, August 12th, 1995

Mr Gary Litman
Executive Director,
Polish- US Business Council,
Washington DC

Dear Mr Litman,

I am writing to you on behalf of the Business Centre Club, an association of more than 500 companies which jointly have a total capital of about \$20 billion. We are asking the Polish-US Business Council to take steps to have Poland included again on the list of countries which can take advantage of the Generalized System of Preferences (GSP).

Those of our members who export goods to the USA are very disturbed that Poland has been struck off the list of countries covered by the GSP. They consider that a consequence of this will be a drastic restriction of Polish exports to US markets.

Polish exporters, members of the BCC, have been taken aback by the all too real possibility that Poland's participation in the GSP will not be renewed to cover next year. Especially as this system of preferences is taken advantage of by a large number of Polish companies whose exports to the USA include goods such as: copper alloys, products manufactured from copper, foundry products, porcelain items, raw materials, chemicals, lathes and so on. Exports to the USA contribute a great deal to these companies' turn over figures.

Due to the element of surprise involved, it is too early today for Polish exporters to calculate their potential losses. They are waiting for reactions from US importers of their products which will enable them to calculate in more detail the results if Poland's expired access to the GSP is not renewed.

As the USA market is extremely competitive the GSP allowed the majority of Polish companies active there to sell their goods while barely making a profit. Thanks to the Generalized System of Preferences they could compete. Excluding Poland from the GSP will, for many of them, mean that trading links with their US customers will be broken off.

I would like to draw your attention to the fact that as the Polish Zloty has risen against the US dollar this year a reduction in the profitability of exports to US markets has occurred. Barring Poland from the system of preferences will create another limit, this time an administrative one, on Polish exports to the USA.

Polish enterprises connected with the US market have based their calculations on existing tariffs. They considered these to be stable factors based on long-term US government policies; policies which emanate from officially promulgated concepts of free trade and official declarations of support for countries which are transforming their economic systems.

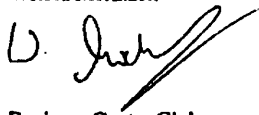
These companies are still operating without the support of a properly functioning infrastructure, (information, credit facilities, insurance, international forwarding, distribution channels etc.) which means that they have to take greater risks than enterprises from countries with stable economic systems.

The transformation of the Polish economic system is taking place slowly in spite of the noteworthy economic growth we have achieved over the last three years. However this growth has not made Poland strong enough yet to be able to compete, without any adjustments being made, with highly developed nations and with others included in the GSP, on the US market which is undoubtedly very competitive.

I enclose some statements from some of our members who export goods to the USA.

Yours Sincerely

Witold Michalek



Business Centre Club

Procter & Gamble

R. SCOTT MILLER
Director
National Government Relations

August 18, 1995

The Honorable Robert Packwood
Chairman
Senate Finance Committee
Washington, D.C. 20510

Subject: Renewal of the Generalized System of Preferences

Dear Senator Packwood:

I am writing on behalf of the Procter & Gamble Company to support renewal of the Generalized System of Preferences program. These comments are submitted in response to the Finance Committee's Press Release #104-104, dated July 26, 1995 requesting comments on various trade issues.

Procter & Gamble is headquartered in Cincinnati, Ohio. It markets a broad range of laundry, cleaning, paper, beauty care, health care, food and beverage products in more than 140 countries around the world. The company has on-the-ground operations in 57 countries and employs 96,500 people.

Procter & Gamble has benefitted from the GSP program since it was first implemented twenty years ago. The duty free benefits have been key factors in our decisions to increase investments in or purchases from Malaysia and a number of other GSP beneficiary developing countries. These investments or exports have generally been for the manufacture of ingredients used in Procter & Gamble's wide range of home and personal care products. They not only have enhanced development in the beneficiary countries, but also have improved the consumer value of Procter & Gamble products through lower prices.

We urge the Committee to reauthorize the Generalized System of Preferences (GSP) for the full five year period being recommended by the House Ways and Means Trade Subcommittee. Frequent, short term extensions cause disruption for the business community and the exporting countries. In addition, to enhance the certainty of the business community, we urge the Committee to fully fund the GSP program at its current levels, without any significant changes in the program beyond those in the House Ways and Means Trade Subcommittee-approved legislation, H.R. 1654.

We appreciate this opportunity to submit our comments.

Sincerely,



R. Scott Miller

**Statement of Tile Council of America, Inc.
to be inserted in the hearing record of the
U.S. Senate Committee on Finance
Subcommittee on International Trade
on the Generalized System of Preferences**

August 1, 1995

On behalf of the U.S. ceramic tile industry Tile Council of America, Inc. appreciates the opportunity to submit a statement presenting its views on the reauthorization of the Generalized System of Preferences ("GSP") and specifically on the possible addition of ceramic tile, not eligible for GSP benefits in the past, to the statutory list of import-sensitive products ineligible for preferential tariff exemption.

Renewal of the GSP duty-free import program is now up for congressional consideration. Tile Council of America, Inc. (TCA) is in support of a statutory recognition that glazed and unglazed ceramic tile are import sensitive articles that should be excluded from GSP eligibility. This recognition would preserve the *status quo*, since glazed and unglazed ceramic tile are not presently designated to receive tariff preferences under the GSP program except for a unique category of "specialty" mosaic tile, which currently is eligible for GSP benefits and whose eligibility could not be affected by a statutory recognition for other kinds of ceramic tile.

The U.S. ceramic tile market has long and repeatedly been recognized as extremely import-sensitive. During the past thirty-years, the U.S. industry has been the documented victim of various unfair and illegal import practices carried out by some of our closest trade partners including Japan, the UK, the Philippines and Mexico. Imports have dominated the U.S. ceramic tile market for the last decade and they currently provide 54.6 percent of the largest and most important glazed tile sector, according to 1994 year end government figures.

A major guiding principle of the GSP program has been reciprocal market access. Current GSP eligible beneficiary countries supply almost one-fourth of the U.S. ceramic tile imports, and they are rapidly increasing their sales and market shares. U.S. ceramic tile manufacturers, however, are still denied access to many of these foreign markets. Many developing countries maintain exclusionary tariff and non-tariff mechanisms which serve to block the entry of U.S. ceramic tile exports into their markets. Industrial countries, including the European Union (EU), may use less transparent methods such as unique or differentiated product standards and testing methods to control their ceramic tile imports and, in some cases, to divert ceramic tile manufactured in third countries over to the U.S. market by imposing restrictions on those third country exports to the EU.

Also, previous abuses of the GSP eligible status with regard to some ceramic tile product lines has been well documented. In 1979, the USTR rejected various petitions for duty-free treatment of ceramic tile from certain GSP beneficiary countries. With the acquiescence of the U.S. industry, however, the USTR at that time created a duty-free exception for the then minuscule category of irregular edged "specialty" mosaic tile. Immediately thereafter, foreign manufacturers from GSP beneficiary countries including Thailand, South Korea and Taiwan either shifted their production to "specialty" mosaic tile or identified their existing products as "specialty" mosaic tile on customs invoices and stopped paying duties on those products. These actions flooded the U.S. market with superficially restyled or mislabeled duty-free ceramic tile.

From its inception in the Trade Act of 1974, the GSP program has provided for the exemption of "articles which the President determines to be import-sensitive." In light of the historic unfair trade in ceramic tile and the increasing foreign dominance of the U.S. ceramic tile market, the U.S. industry has been recognized by successive Congresses and Administrations as "import-sensitive" dating back to the Dillon and Kennedy Rounds of the General Agreement on Tariffs and Trade (GATT). During this period, however, the American ceramic tile industry also has been forced to defend itself from over a dozen petitions filed by designated GSP eligible countries seeking duty-free GSP treatment for their ceramic tile sent into this market.

The domestic industry has been fortunate in the fact that both the USTR and the International Trade Commission (ITC), thus far, have recognized the "import-sensitivity" of the U.S. market and have denied these repeated GSP petitions that would result in further import penetration. However, it has been at a great cost to an American industry with limited resources and at continuous risk that, some day, a single petition may be accepted that reduces tariffs on ceramic tile to zero for the entire list of almost 130 eligible GSP beneficiary countries, representing about a fourth of all U.S. tile imports. If any major category of ceramic tile were to be designated as a duty-free GSP eligible product, it could seriously threaten the viability of the U.S. ceramic tile industry.

Given the existing access to and participation in the U.S. ceramic tile market already afforded to foreign manufacturers, including developing and developed countries, as evidenced by an import penetration under current tariff levels of almost 55 percent and almost 58 percent for the dominant glazed tile category, ceramic tile should be excluded from GSP program through the statutory recognition of glazed and unglazed ceramic tile as "import sensitive" products. The U.S. tile industry does not seek withdrawal of the existing GSP eligibility for specialty mosaic tile, only a statutory preservation of the *status quo* regarding all other ceramic tile.

**STATEMENT OF
DON STILLMAN, DIRECTOR,
GOVERNMENTAL AND INTERNATIONAL AFFAIRS DEPARTMENT
INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND
AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)
to the
COMMITTEE ON FINANCE
UNITED STATES SENATE**

August 3, 1995

As a past petitioner in the Annual Reviews conducted to implement the Generalized System of Preferences (GSP), the UAW would like to see numerous changes incorporated into the GSP program, should it be renewed. We have testified on these proposed changes before and appreciate this opportunity to inform the Finance Committee of our views.

There are two aspects of the program of greatest interest to the UAW: reviews of the mandatory worker rights criterion for eligibility for the program; and, reviews of GSP-benefits for specific products. In each of these review processes, we have had extremely frustrating experiences that should be remedied if the program is re-authorized.

Concerning the review of country practices related to compliance with the mandatory worker rights criterion, there are important structural and procedural changes that must be made. The UAW strongly supports the continued inclusion of the worker rights standard for eligibility, but the standard itself must be improved. The current language, requiring countries to be "taking steps" to adopt and implement internationally-recognized worker rights, has been interpreted so broadly as to make it nearly impossible to find the absence of some minuscule "baby" steps. Because the withdrawal of GSP benefits is of significant economic interest to beneficiary countries, this leverage should be used to ensure that workers are, indeed, able to exercise basic worker rights.

Under present procedures, all that is needed to remain eligible for the program is for the repressive government of a country to promise to adopt, at some future date, a minor, ineffectual change in labor policies. This has made a mockery of the worker rights reviews; it has undermined the efforts of workers in beneficiary countries to make real progress in exercising the rights covered in the GSP language.

In addition to revising the standard that beneficiary countries must meet to comply with the worker rights criterion, the procedure of review is also seriously flawed. It was the clear intent of Congress, when it added the worker rights language in 1984, that every GSP-eligible country be reviewed and that only those

countries meeting the worker rights standard would remain eligible. The current procedures require a formal petition to initiate a review and significant new information to re-examine a country that has already been reviewed. Petitions have been rejected for reasons that are arbitrary and unrelated to worker rights matters. This must be changed.

One way to fix this problem is readily available. The Administration could, as part of its annual review of human rights conditions in each country, expand the worker rights reviews of GSP-eligible countries and make a determination regarding which ones meet the worker rights standard for eligibility. There should be a petitioning process to review these determinations and reverse them when, after a public hearing and due consideration, the petition is found to have merit. We believe that such a process would be consistent with the intent of Congress.

Concerning the product review procedures, the UAW has been greatly disturbed by the lack of attention given to the competitiveness of the producers requesting additions to the list of eligible products or seeking competitive need limit waivers. In many cases, U.S.-based corporations have shifted production from U.S. plants to a GSP-eligible country, displacing their American workers, and petitioned for duty-free entry into the U.S. for their product. Since the purpose of the program is to permit struggling developing country producers an opportunity to gain access to the U.S. market through a tariff break, it is inappropriate for the benefits to go to U.S. companies that are hurting the U.S. economy or to advanced producers in developing countries. In recent years, companies like Ford Motor Company and Whirlpool have taken advantage of the GSP program to reduce the costs of supplying the U.S. market from their foreign plants at the expense of U.S. production. This has made a mockery of the GSP program and undermined any hope that the program works in the national economic interest.

The criteria in the existing language concerning product reviews must be more explicit and rigorous. As long as there are domestic producers, competitive need limit waivers should be rejected; applications by petitioners that are multinational corporations, affiliated with such corporations or, themselves, sophisticated producers should be categorically rejected. As soon as evidence is provided that the major beneficiary of duty-free treatment of a product is a competitive firm, eligibility for that product should be limited or withdrawn. If modifications are not made, the whole competitive need limit waiver procedure should be eliminated.

Finally, the GSP program has removed eligibility from too few of the most advanced developing countries. There must be a "graduation" procedure that prevents a few countries from gaining the greatest share of GSP benefits. Only Korea, Taiwan, Singapore and Hong Kong have truly graduated from the program, though Mexico has also lost its eligibility as a result of NAFTA. Additional beneficiary countries must be removed from eligibility from GSP benefits if the poorer developing countries with genuinely struggling locally owned producers are

going to gain effective access to the U.S. market through duty-free entry of their products. The present criteria for graduation are simply not working and must be revised.

It may be nearly impossible for a program as broad as the GSP to succeed in limiting the benefits of easier access to the U.S. market only to countries meeting strict criteria and products meeting different, equally stiff, standards. Yet, in order to ensure that the program does not become a way for developing countries to flaunt unsavory worker rights practices and become havens for low-wage-seeking multinational corporations fleeing from home-country responsibilities, changes such as those proposed here must be adopted.

The UAW appreciates this opportunity to present its views on the GSP program. We remain concerned that workers in developing countries are not the beneficiaries of the program as it currently operates and that American workers are losing jobs and earnings because of this. We hope needed changes in the GSP program will be adopted and stand ready to provide additional advice to the Committee.

opeiu494

U.S. Chamber of Commerce

*Bulgaria - U.S.
Working Group Members:
Caresbac
Caterpillar Overseas
Coca-Cola BEC
Curtis Instruments
Dodge International
Dow Chemical
Eli Lilly
Hooverwell
Laporte
PepsiCo Wines & Spirits
PlanEco
Royal Gold
Socotab*

BULGARIA-U.S. WORKING GROUP *International Division*

August 16, 1995

1615 H Street, N.W.
Washington, D.C. 20062-2000
Phone: (202) 463-5460
Fax: (202) 463-3114

The Honorable Charles E. Grassley
Chairman, Subcommittee on International Trade
The Senate Finance Committee
135 Senate Hart Office Building
Washington, D.C. 20510-1501

RE: Unconditional MFN treatment for Bulgaria

Dear Senator Grassley:

The Bulgaria-U.S. Working Group at the Chamber of Commerce of the United States is a leading association of U.S. companies with trade and investment interests in Bulgaria. The Working Group is the successor to the Bulgaria-U.S. Trade and Economic Council, established twenty years ago as an advocacy body whose main goal has been protection and promotion of U.S. business interests in Bulgaria.

We firmly believe that an unconditional extension of MFN treatment to Bulgaria is necessary for economic reasons and fully justified on political and human rights grounds. Since the beginning of the market transition in Bulgaria, the members of the Bulgaria-U.S. Working Group have been closely watching the economic and political developments in the country. We are keenly interested in the growth of the Bulgarian market for U.S. goods and services. As an export-driven economy, Bulgaria can only develop its market through free trade. This is clearly understood in Bulgaria where successive governments have been working for fast-track accession to the World Trade Organization which will further open Bulgaria's market for American exports. In order to fully benefit from Bulgaria's accession to the WTO, the United States must be able to extend to Bulgaria unconditional MFN treatment, which it can only do by graduating Bulgaria from Title IV of the Trade Act of 1974.

Bulgaria is undertaking steps to make its market more attractive to American exporters and investors. Bulgaria's record on the protection of intellectual property (IP) rights provides a recent example of the country's commitment to market economic reform. Subsequent to President Zhelev's visit to the United States in February 1995 and the open discussions he and members of Prime Minister Videnov's government had with representatives of the U.S. government and business community, including the U.S. Chamber of Commerce, Bulgaria pledged to

strengthen the protection of foreign intellectual property rights. These pledges have been kept. The Bulgarian government was recently commended by the United States Trade Representative for effective enforcement of its IP commitments.

At the same time, Bulgaria has become less dependant on its traditional export markets as a consequence of the collapse of the Comecon trading bloc and the restrictions on trade with the republics of the former Yugoslavia. Despite these external difficulties, Bulgaria's economy appears to have bottomed out in 1994. Industrial production grew by 4.5 percent and both its convertible trade balance and current account balance registered a modest surplus. In 1994, direct U.S. exports to Bulgaria totaled \$110 million and accounted for almost three percent of total Bulgarian imports. In the first six months of this year, U.S. exports to Bulgaria increased by more than 35 percent over the same period last year. An extension of the MFN status for Bulgaria will be crucial for sustaining this growth and ensuring the continuation of market economic reforms in the country.

Bulgaria's recent human rights record justifies the extension of unconditional MFN treatment to Bulgaria. We are not aware of any policies or practices of Bulgarian authorities that would run afoul of the language or spirit of the Jackson-Vanik Amendment to Title IV of the Trade Act of 1974. President Zhelev, who proudly holds honorary degrees from the Universities of Tel Aviv and Ankara, is well recognized as an advocate of human rights. The government of Prime Minister Videnov has been consistent in developing its domestic and foreign policies to be able to accede to the West European Union, NATO and the European Union.

Bulgaria is on a steady course of transition to a fully-fledged market economy with democratic political institutions. Regular reviews of Bulgaria's eligibility for MFN treatment create unnecessary restraints on and uncertainties about U.S.-Bulgarian trade that benefits both countries. The Bulgarian-U.S. Working Group strongly urges your Committee to recommend the extension of unconditional MFN treatment for Bulgaria.

Thank you for your attention to this important trade policy matter. Please do not hesitate to contact me or members of the Working Group with any questions or comments.

Sincerely yours,



Gary Litman
Executive Director
Bulgaria-U.S. Working Group



**ROYAL EMBASSY
OF CAMBODIA
WASHINGTON D.C.**

No.

July 28, 1995

Editorial Section
United States Senate
Committee on Finance
Washington, D.C. 20510

Dear Sir / Madam:

I am enclosing for your information material that I believe may assist the Committee as it considers authorizing MFN status for the Royal Government of Cambodia.

I have been informed that the Subcommittee on International Trade will hold an hearing on August 1, 1995, to receive testimony on various trade issues, including MFN authorizations. I write to express my government's strong interest in securing MFN status, and to offer my assistance in providing any information you may require.

As the representative of the Royal Government of Cambodia I can assure you that my government, though struggling with the legacy of two decades of civil strife and international isolation, is firmly committed to restoring civility through the reconciliation and through renewing international relationships, particularly through the international trade.

By authorizing MFN status for Cambodia, the United States can significantly help my government achieve these goals.

Sincerely,

A handwritten signature in black ink, appearing to read "Var Huoth", written in a cursive style.

VAR HUOTH
Ambassador

The Royal Embassy of Cambodia submits this statement to provide the Subcommittee on International Trade with current information regarding the situation in Cambodia, as the Subcommittee considers recommending that the United States grant Most Favored Nation status to Cambodia.

The Royal Government of Cambodia now has been in power for approximately twenty months. During that time, there has been substantial progress in both the economic and political areas. Cambodia's two leading political parties continue to work closely together to advance the process of national reconciliation and ensure the continued political stability essential to the economic development of Cambodia.

Unfortunately, national security remains a challenge. The Khmer Rouge has recently increased its activities in some of the provinces along the border with Thailand. The rainy season gives the Khmer Rouge's guerrilla warfare tactics an advantage, specifically in Oddor Meanchey, Preah Vihea, Battambang and Banteay Meanchey provinces. The Royal Government of Cambodia is pursuing a policy of rural development as a method of not only raising the standard of living for the rural population, but also as a means of strengthening support for the Royal Government in those provinces and eliminating the Khmer Rouge. This important rural development program depends on substantial and continuing support and assistance from the international community.

The government is making progress against the threat by the Khmer Rouge. In fact, since the adoption in July 1994 of a law outlawing the Khmer Rouge, more than 6,000 former Khmer Rouge members have defected to the Royal Government side.

At the same time, the human rights situation is very much improved, and even surpasses the situation in some other countries in the region and in the world. Cambodia's progress in the human rights arena is even more remarkable if the situation before the election is compared with that after the election.

One recent step toward liberalization is of particular importance. On July 11, 1995, the National Assembly adopted a new press law, which guarantees greater freedom of the press than

the laws of any other country in the region. Under the new law, journalists are free to express their opinions and to publish the news without prior censorship.

The Royal Government has launched a wide range of reforms intended to improve the functioning of the government. The new budget laws and other programs to rationalize state finances, institutional reforms affecting the administrative and judiciary systems, and reorganization of the Royal Armed Forces are examples of the progress that has been made. The Royal Government will continue to pursue these goals.

The Royal Government wants to be an efficient partner of the private sector, which should function as the engine driving economic growth. To that end, the Royal Government has committed itself to respecting the principles of a liberal market economy, and is developing a system built on private ownership, the inviolability of contracts, and the transparency of public institutions and government practice.

The Royal Government has succeeded in stabilizing the economy. GDP growth for 1994 was up to 5.2%. The exchange rate of the Riel has been stable for more than one year (1\$ = 2500 Riel), and the inflation rate dropped to 10% in 1995, from 18% in 1994. These conditions are very favorable for foreign investment.

Cambodia is now open for business and encourages foreign investment in its free market economy. Cambodia's new investment law is the most liberal and advantageous in the region. The Council for the Development of Cambodia (CDC) is a one-stop investment center which provides for speedy "fast track" approval of foreign investment. Investors will also benefit from special promotional zones. The first Free Trade Zone and an Export Processing Zone are in the planning stage, and will be established in Sihanoukville.

Cambodia currently enjoys GSP status in twenty-six countries. Furthermore international companies are already doing business in Cambodia, including Coca Cola, Shell, Banque Indosuez, Standard Chartered Bank, Telstra, DHL, Aerospatiale McCann-Erickson, Accor Group, Maeda, Ernst & Young, Bangkok Bank, Unocal, Nissho Iwai, Enterprise Oil, Silk Air, Dragon Air, Diethelm, and Daewo. Opportunities for U.S. investment range from infrastructure projects,

such as roads, airports power plants, telecommunications, fuel and energy distribution, and oil and gas exploration to wood factories, restaurants, hotels and recreation centers. Towards these ends the Royal Government has approved over US\$2 billion of foreign direct investment, and foreign investment continues to grow.

Cambodia welcomes U.S. investors and business people !

Granting Most Favored Nation status to Cambodia will benefit both Cambodia and the United States. For Cambodia, it will assist efforts to develop a free market economy by making Cambodian exports to the United States more competitive in the global market place. In addition, MFN status will promote further progress by Cambodia toward protecting its citizens' human rights, and towards the adoption of regional and world trading rules and principles. Finally, MFN is an efficient tool for Cambodia to use in its fight against poverty and the Khmer Rouge finishing the important work in which the United States, the United Nations and the International community have invested so much.

Granting MFN status to Cambodia will also benefit the United States by establishing normal economic and commercial relations between the two countries on a reciprocal basis. A strong U.S.-Cambodia trade relationship will promote U.S. exports to the rapidly growing Southeast Asian region and provide expanding opportunities for U.S. businesses and investments in the Cambodian economy.

TRADE BETWEEN CAMBODIA AND USA

YEARS	EXPORT FROM CAMBODIA	EXPORT FROM USA
1993	US\$ 655,000	US\$ 15,650,000
1994	US\$ 1,169,000	US\$ 7,427,000
1995 (Jan.-Mar.)	US\$ 1,016,000	US\$ 4,357,000

Source : U.S Department of Commerce

Embassy of the Czech Republic
3900 Spring of Freedom St. N.W.
Washington, D. C. 20008

Editorial Section
 Committee on Finance
 Room SD - 219
 United States Senate
 Washington, D.C. 20510

Written statement for the record of the hearing, held on the subject of GSP renewal in the International Trade Subcommittee of the Senate Finance Committee on August 1st, 1995.

The Czech Republic remains interested in the early renewal of the Generalized System of Preferences (the GSP) by the U.S. Congress. The Czech Republic is one of the two successor states of the former Czechoslovakia, which became eligible for the GSP effective May 29, 1991. The Czech Republic welcomed its designation as a beneficiary of the United States GSP scheme as a recognition of the radical political and economic transformation it has undertaken since 1989.

The U.S. GSP scheme provides for an expanded window of opportunity for the Czech businesses. A wide variety of goods is being imported into the U.S. from the Czech Republic under the GSP scheme, ranging from wooden furniture to glass bead jewelry and from machinery and related parts to different chemicals to hops for breweries. The GSP is rightly regarded as an important instrument of access to the U.S. market. Last, but not least, the GSP imports also translate into lower prices for U.S. consumers. GSP has become an important component of Czech trade with the United States. Each year approximately 50% of all Czech merchandise exports (i.e. some \$ 150 million) enter the U.S. market under the GSP. Czech exporters count upon the GSP duty - free access in their business plans and decisions. The 1995 renewal of the GSP system for several years would significantly add to the predictability of the business environment Czech businessmen expect in the U.S. market.

The Czech Government recognizes the importance of the GSP as a market access tool against the background of continued U.S. trade surplus in trade with the Czech Republic (\$ 148 mil. in 1993 and \$ 189.2 mil. in 1994, according to Czech data). Even though the relative weight of the merchandise imports from the Czech Republic to the U.S. under the GSP represents a marginal amount as compared to all the U.S. annual GSP imports (some \$ 16 billion), the Czech Republic adds its voice to those who express their interest in and hope for the GSP renewal by the U.S. Congress as early as possible, retroactively, starting from August 1, 1995.

Washington, August 14, 1995



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August 1, 1995 - SENATE FINANCE COMMITTEE HEARING ON GSP
RENEWAL AND GRANTING BULGARIA MFN STATUS

This statement, submitted in support of renewal of the Most Favored Nation (MFN) status for Bulgaria, is submitted by Tobacco Associates, the U.S. tobacco farmer financed export promotion association. Historically, Bulgaria was the largest importer and exporter of tobacco and has traditionally imported large quantities of U.S. tobacco.

It is the belief of Tobacco Associates that Bulgaria's MFN status has played a major part in its ability and desire to purchase U.S. tobacco, thereby creating and improving American jobs. In light of the past proven effectiveness of MFN status and the crucial role it has played in the U.S. - Bulgaria trade relationship, Tobacco Associates strongly recommends that the Senate Finance Committee vote to renew the Bulgarian MFN status.

**US
ASEAN**

**U.S.-ASEAN COUNCIL
for Business and
Technology, Inc.**

1400 L Street, N.W.
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Washington, D.C. 20005-3509
202-289-1911
Fax: 202-289-0519

**Comments in support of the extension of unconditional
most-favored-nation treatment to Cambodia.**

August 8, 1995

The U.S.-ASEAN Council is an independent, non-profit organization that represents U.S. private sector interests in trade and investment in the region of the Association for Southeast Asian Nations (ASEAN). As Cambodia is currently an observer of ASEAN, the Council and our member companies take a particular interest in the development of the U.S.-Cambodia bilateral trade relationship. The Council fully supports the extension of unconditional most-favored-nation (MFN) treatment for Cambodia.

First, the Council supports efforts to liberalize international trade. Reducing barriers to trade, as the extension of MFN status to Cambodia would, permits greater efficiency of markets and a relative increase in economic wealth for both countries.

Second, in recent years, Cambodia has made concrete efforts to develop its economy and open it to foreign participants. In keeping with our normal trade relations with most countries, MFN status should be extended now to Cambodia to support its efforts to enter the global economy. Refusing MFN status to Cambodia at this time might give the impression that Cambodia is a economic pariah in the world community, an effect diametrically opposite to current U.S. efforts to help Cambodia and foster a positive working relationship with that country.

Third, the more Cambodia's foreign trade increases, the more foreign exchange is at its disposal to buy American products. U.S. purchases of goods from Cambodia create the wherewithal in Cambodia to buy U.S. goods and services. In turn, more jobs and greater economic activity are generated in the U.S. In the near future, Cambodia faces great needs in areas where American companies are highly competitive, in infrastructure development, for example. Fostering a positive commercial relationship with Cambodia should be a priority of U.S. policy in Southeast Asia.

Fourth, Cambodia's status as an observer within ASEAN demonstrates its interest in becoming a full participant in the dynamic economy of the region. ASEAN is one of the largest and fastest growing markets for U.S. products and services. Already the U.S. Department of Commerce has named ASEAN one of the world's "Big Emerging Markets." In light of U.S.'s foreign and commercial policy goal of improving relations with ASEAN, extension of MFN status to Cambodia now is both timely and appropriate.

Submitted by Irene Wu, Manager for Vietnam, Cambodia, and Laos, U.S.-ASEAN Council; 1400 L Street, N.W., Suite 375; Washington, D.C. 20036; tel (202) 289-1911; fax (202) 289-1911.

World Vision

Submitted By:

Thomas Getman,
Director Government Relations

EXECUTIVE SUMMARY:

Extending unconditional most-favored-nation treatment to Cambodia would strongly benefit the United States by:

- * Providing an opportunity for moral leadership;
- * Offering leverage to exert positive influence in Cambodian policies;
- * Increasing trade relations and a positive trade balance;
- * Having a geo-political ally strategically located in Indochina.

POSITION:

THE UNITED STATES SHOULD EXTEND UNCONDITIONAL MOST-FAVORED-NATION TREATMENT TO CAMBODIA.

ARGUMENTS:

The country of Cambodia is today striving to rebuild after years of destruction caused by both war and communism. While all of the Indochina nations are liberalizing to some extent, Cambodia has been the most progressive in opening up both its market and its government. Extending Most Favored Nation treatment to Cambodia would help Cambodia in its attempt to forge a new, more open society in the midst of numerous obstacles. It would also benefit the United States, which has a keen interest in expanding trade around the world and in increasing global stability.

In the 1970s Cambodia suffered immensely under Pol Pot and the Khmer Rouge. The Khmer Rouge killed between one and three million people. Then in 1978, Vietnam invaded Cambodia. By the late 1980s no country in Indochina had its physical and economic infrastructure in worst condition than Cambodia. The economic, cultural and environmental destruction was so deep and widespread that the future of Cambodia held very little promise.

In October 1991, however, more promising events began to occur. "Agreements on a Comprehensive Political Settlement in Cambodia" was signed by nineteen nations and the four warring Khmer factions. The United Nations Transitional Authority in Cambodia (UNTAC) became responsible for the transition from a nation torn by civil war to one governed by a single, free government. Less than two years later in May 1993, free elections were held under UNTAC supervision, resulting in the formation of a coalition government creating democratic governance in Cambodia.

- Given the devastation in Cambodia in the 1970's and 80's, the road to real stability and prosperity remains an uphill climb, a climb that the United States can make easier for Cambodia by extending MFN treatment. There is a moral benefit to the United States in extending MFN treatment to Cambodia. Cambodia is a country that needs assistance; the United States is a country capable of providing that assistance. Extending MFN, besides being an economic and political tool in U.S. policy, could also be considered, in a sense, a

tool of U.S. moral leadership. As Cambodia forges a democracy and a market economy, it continues to be fraught with difficulties. If the U.S. establishes mutually beneficial trade relations, then there would be doors of opportunity open to influence Cambodian policies regarding human rights, corruption in the military and government, repression of free press, etc., that are threatening this fragile democracy. Not extending MFN to Cambodia is, in a sense, treating Cambodia like an enemy, putting it in the same category with Libya, Cuba, or North Korea.

- Cambodia has begun to decentralize and privatize its economy in an effort to adhere to more free market principles. Extending MFN status would not only be a fair reward to Cambodia for its strong moves toward a free market economy, it would also assist economically by making trade easier between the U.S. and Cambodia. Current tariffs make it difficult for Cambodia to either import or export goods to the United States. The U.S. would reap the economic and political benefits of open trade relations and a positive trade balance: our exports entering a new market with potentially rapid growth. Extending MFN to Cambodia would cost the United States little and could yield high returns.

- Extending MFN to Cambodia will make the Cambodian market more accessible to U.S. products. While Cambodia is a country of only 10 million people and could thus be considered a small market, it is important to remember that any increase in the export of U.S. goods benefits the United States by creating more jobs for American citizens. Every \$1 billion in exports means 20,000 new jobs for Americans. As Cambodia continues to rebuild and develop its infrastructure it will need to import the machinery and equipment necessary for many of its roads, bridges, and buildings to be repaired and constructed.

- The geopolitics of the Indochina region and the strategic location of Cambodia is relevant to US foreign policy. Assisting in the development of democracy in previously authoritarian nations has always been an interest of the United States. In Cambodia, the people have gone to the ballot box despite the threats of violence against them because they desire freedom from fear and oppression. It is in the strategic interest of the United States to assist in building a stronger Cambodia so that it can be a source of stability in a relatively unstable region. US strategic interests and our ability to collaborate with Cambodia on critical international issues would be strengthened. Helping Cambodia, particularly by extending MFN treatment to it, may provide us with an ally in the uncertain world of tomorrow. History proves development leads to greater stability.

Much of Cambodia's recent history is full of destruction and despair. But the 1990s have, so far, brought previously unimagined signs of hope as Cambodia is currently implementing systemic economic reforms allowing market forces to determine economic activity and emphasizing privatization and decentralization. In addition, the government is striving towards sound economic planning and development. There is a desire among the people to rebuild their country.

Strengthening economic ties with Cambodia could build a relationship between our two nations that has long term benefits for the United States. World Vision urges the Congress to recognize that it is in the interests of both countries to extend Most Favored Nation treatment to Cambodia.



WORLD VISION RELIEF & DEVELOPMENT INC.

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(202) 547-3743 / FAX (202) 547-4834

August 15, 1995

The Honorable Robert Packwood
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman,

We ask the Committee on Finance to extend unconditional most-favored nation treatment to Cambodia. World Vision strongly supports MFN for Cambodia, and we applaud you for focusing the Committee's efforts in this direction.

World Vision is an international, Christian, humanitarian organization with offices in over 100 countries. World Vision Cambodia (WVC) has been active since the early 1970's. The National Pediatric Hospital (NPH) was constructed by World Vision in 1973-74, with medical teams providing outreach services to the thousands of displaced people from the countryside. World Vision was forced to evacuate in 1975, but was invited back by the State of Cambodia in 1979 to start a major relief and development rehabilitation program. Food distribution, infrastructure rehabilitation, and assistance to orphanages were principal activities. The National Pediatric Hospital was renovated and reopened to the public in 1980. For the past 15 years, an expatriate medical team has worked side by side with a Khmer counterpart.

Involvement in the health sector has been the bulk of WVC's program since 1981. During the period 1986-90, WVC's program expanded into additional sectors including rural health, agriculture, income-generation, vocational skills training, and literacy. From 1990, USAID has funded the Urban Child Health Project whose primary purpose is to expand and improve the availability of health services to children.

Presently, WVC has an expatriate staff of 35 and a local Khmer staff of 220 headed by Mr. Jaisankar Sarma, Director for WVC. The FY 95 budget is nearly \$ 5 million, and growing as more projects are identified. The current strategy is to shift the WVI-C national program from a sectoral approach into an integrated community development focus in five provinces of Battambang, Kandal, Kompong Thom, Kompong Chhnang, Kompong Speu, and in Phnom Penh proper. Please note that WVC does not provide any assistance directly or indirectly to the Khmer Rouge.

A highlight of 1994 was the presentation of a Gold Medal to WVC by the Royal Cambodian Government. This, the country's highest award, was presented by First Prime Minister His Royal Highness Prince Ranariddh on September 12, 1994, in recognition of World Vision's contribution to the reconstruction of Cambodia.

As you can see, World Vision knows Cambodia intimately and has many years invested in this country. We are very pleased that you have chosen to focus on MFN for Cambodia, a very important issue for this well deserving nation. Please see the attached comments prepared by World Vision for the record.

Sincerely Yours,



Tom Getman
Director, Government Relations

