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RICHARD  
8/9/88  
18 pp

1 EXECUTIVE COMMITTEE MEETING  
2 TUESDAY, AUGUST 9, 1988  
3 U.S. Senate  
4 Committee on Finance  
5 Washington, D.C.

ORIGINAL

6 The meeting was convened, pursuant to notice, at  
7 10:05 a.m. in Room SD-215, Dirksen Senate Office Building,  
8 the Honorable Lloyd Bentsen (chairman) presiding.

9 Present: Senators Bentsen, Matsunaga, Moynihan,  
10 Baucus, Boren, Bradley, Mitchell, Pryor, Riegle,  
11 Rockefeller, Daschle, Packwood, Roth, Danforth, Wallop,  
12 and Durenberger.

13 Also present: Ambassador Alan Holmer, Deputy United  
14 States Trade Representative; and Ms. Judy Bello, Deputy  
15 General Counsel, USTR.

16 Also present: Messrs. Jeff Lang, Trade Chief Counsel;  
17 Mike Mabile, Trade Counsel; and Josh Bolten, Chief Trade  
18 Counsel, Minority.

19 (The press release announcing the hearing follows:)

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1           The Chairman. Will you please cease conversation and  
2 take your seats, and this meeting will be under way.

3           The Finance Committee today is taking a very important  
4 historic step. When we talk about the Canadian Free Trade  
5 Agreement, we are talking about a situation of implementing  
6 what will be one of the most major trading blocks in the  
7 world.

8           We have had for a long time the longest peaceful and  
9 undefended border in the world. This particular agreement  
10 is going to remove many of the restraints on trade between  
11 our countries.

12           Great opportunities, I think, are being created for  
13 investment in business and labor on both sides. It is the  
14 largest bilateral trading agreement in the world.

15           Today, total merchandise that is trade between our  
16 two countries is \$130 billion. Canada is the largest  
17 purchaser of U.S. exports and the second largest supplier  
18 of our imports; and this agreement will only expand that  
19 further.

20           This committee is no Johnny-come-lately to this  
21 situation. Back in 1974 on the trade bill, they talked  
22 then about working toward the establishment of more stability  
23 in the trade relationship between the United States and  
24 Canada, that we should be entering into this kind of  
25 agreement. And now, we see it coming to fruition.

1           This Finance Committee has pointed out the increasing  
2 interdependence of this part of this world. We are looking  
3 at a situation in the European Community where they are  
4 bringing it together, but many of the leaders of Europe  
5 are beginning to talk about free trade being something  
6 really for Europeans within that bloc.

7           I hope that isn't the way they go.

8           What we are talking about here is opening up trade,  
9 breaking down barriers, trying to promote that kind of  
10 free exchange where we will all benefit by it.

11           I can recall that these talks were pretty much bogged  
12 down between the United States and Canada, then this  
13 committee put together a trip; and we went to Canada. We  
14 met with the majority and the minority parties. We met  
15 with the Prime Minister.

16           We said we wanted to see an agreement that would be  
17 beneficial to both sides, and that was the only way that  
18 it could come to pass. I really believe this agreement  
19 would not be this far along, had we not pushed at that  
20 time to show our deep interest in having this kind of an  
21 agreement brought to culmination.

22           One of the concerns we had was whether or not Canada  
23 would be able to carry out their implementation. We didn't  
24 want to be in a situation where this agreement fixed the  
25 obligations on us and the responsibilities on us, but it

1 really wasn't bilateral. So, within the provisions of the  
2 agreement, we have those things that require the  
3 implementation on the Canadian side also before it takes  
4 effect.

5 This doesn't solve all the problems. It doesn't get  
6 rid of all the restraints. There are still some limitations  
7 on investments and grandfathering of some protectionism in  
8 there; but this is a great start, and it is going to require  
9 on the part of this Congress and the Canadians and the  
10 next Administration a continuance of the effort to break  
11 down barriers for the further elimination of subsidies.

12 And as we accomplish those things, I think these two  
13 great nations will continue to prosper and have even closer  
14 ties. I am very deeply grateful for the cooperation of  
15 the members of this committee on both sides of aisles,  
16 the things they have been able to do to help move this  
17 along.

18 I would like to defer to any comment that my  
19 distinguished colleague, the Senator from Oregon, the  
20 ranking member, might have.

21 Senator Packwood. Mr. Chairman, this has been basically  
22 a happy experience, I think, between Republicans and  
23 Democrats, between the Administration and this committee.

24 Senator Baucus and others complimented Ambassador  
25 Holmer and Ms. Bello last week, and that was fully deserved.

1 If this bill were nothing but a tariff reduction bill, it  
2 would be worthwhile; it is much more than that. That is  
3 the start.

4 But what we have proven we can accomplish, in the  
5 spirit of comaradarie between ourselves, between the  
6 Administration and Congress, between Canada and the United  
7 States, I hope is a harbinger of what we might see extended  
8 to Mexico in a decade. I would hope we would see it  
9 extended world-wide over a generation; but this is a  
10 wonderful start.

11 Mr. Chairman, you are to be especially complimented.  
12 In lesser hands, I think this ship could have been on the  
13 shoals any number of times.

14 The Chairman. You are very generous.

15 Senator Danforth. Mr. Chairman?

16 The Chairman. Yes, Senator Danforth?

17 Senator Danforth. Mr. Chairman, I believe that this  
18 agreement underscores the dangers of entering into  
19 bilateral trade agreements with other countries. It is  
20 clear that the United States has a close and warm  
21 relationship with our neighbor to the north, and all of  
22 us on this committee want to further that relationship,  
23 and certainly our Administration wants to further that  
24 relationship.

25 We have always had a difficulty--and we have talked about

1 a lot in this committee--about how trade fits in with  
2 other concerns that we have as a country, how trade fits  
3 in with foreign policy matters, with relations with other  
4 countries.

5 And I think that the difficulty of attempting to  
6 negotiate a trade agreement one-on-one with another country  
7 --not multilateral, but bilateral negotiations--and  
8 particularly with a close friend is that tough negotiations  
9 on commercial relationships are totally subsumed within the  
10 more general concerns of the overall relationship between  
11 the two countries.

12 I think that that is what has happened in this  
13 agreement. It is billed as a free trade agreement; it  
14 really isn't. It is a tariff elimination agreement.

15 The whole issue of subsidies is something that we  
16 tried to raise, gave up on. As I recall the testimony  
17 earlier by Ambassador Yeutter, or maybe it was by Ambassador  
18 Holmer or Peter Murphy, it was that the question of  
19 subsidies was raised; but the Canadians just said no, they  
20 weren't really interested in doing it.

21 So, we have left in place a situation where they have  
22 a very heavily subsidized economy, much more so than we  
23 do; and that does distort trade. But we couldn't do  
24 anything about it in the negotiations.

25 The same is true with respect to cultural sovereignty.

1 Again, we tried to raise these issues; we got nowhere. And  
2 the Canadians, who are really very tough negotiators,  
3 handled this brilliantly. They were willing to take walks  
4 from the negotiating table.

5 And America, concerned about the overall relationship  
6 to our neighbor, Canada, said, in effect, let's get back  
7 to the bargaining table.

8 The very interesting case that Senator Mitchell has  
9 been involved in relating to lobsters. We have now the  
10 ridiculous situation, in my opinion, that little lobsters  
11 that are sold in the United States have to be imported  
12 from Canada. The same little lobsters caught by American  
13 lobstermen in the same lobster beds can't be sold in the  
14 United States. How can that be the case?

15 I think again the case is that we were really  
16 outnegotiated. We were outbargained by very tough  
17 negotiators, but we recognized that there were matters that  
18 were much more important than trade; the relationship with  
19 Canada, the future of the Mulrooney government were all  
20 much more important to us.

21 So, again, we were willing to give; and the result, I  
22 think, is a trade agreement that I will vote for probably  
23 on the floor of the Senate because I think not to vote for  
24 it at this point really is a blow to this Administration,  
25 and it is blow to Canadian/U.S. relations.

1 But I must say that I really don't agree with this  
2 pell-mell rush to bilateral agreements. I do not agree  
3 that it is a good thing for us to do.

4 I think that trade agreements should be multilateral  
5 and that bilateral agreements are bound to put us in  
6 situations where trade concerns are placed in a secondary  
7 position with respect to overall concerns for the country  
8 with which we are involved.

9 So, I know that this sounds sort of like the prophet  
10 of doom on this basic agreement. It is nothing new; I have  
11 stated my concerns about this throughout these  
12 deliberations; and the reason I state it now--and I will  
13 do so again when this comes to the floor--is that I really  
14 want to alert the Finance Committee and the Senate to the  
15 fact that just maybe this idea of one-on-one negotiations  
16 with good friends is not in the best interests of U.S.  
17 trade.

18 The Chairman. Are there other comments? Senator  
19 Rockefeller?

20 Senator Rockefeller. Mr. Chairman, if I might just  
21 ask a question of Ambassador Holmer? As you know, Alan,  
22 we have the provision in the Statement of Administrative  
23 Action that refers to a report on subsidies in both  
24 countries.

25 There has been dialogue on that, and I would just like



1 to get your assurance that this work will be done.

2 Ambassador Holmer. You have my assurance on that,  
3 Senator. The Statement of Administration Action contemplates,  
4 as I recall, that this study would be done under Chapter 19  
5 of the agreement. I expect that is going to happen.

6 In the unlikely event that that study were not to be  
7 completed under Chapter 19 on a timely basis, then we could  
8 and we would be willing to request consultations with the  
9 Canadians under Article 1804 of the agreement.

10 But the bottom line is that we are confident that we  
11 will be able to have that study completed, one way or  
12 another, on a timely basis, and clearly we would think  
13 within 24 months of entry into force of the agreement.

14 Senator Rockefeller. Thank you, Alan. Mr. Chairman,  
15 I would like to put into the record a letter that Senator  
16 Moynihan and myself wrote to Ambassador Gottlieb of Canada  
17 with respect to electric utility subsidies on both sides  
18 and the study thereto.

19 The Chairman. Without objection.

20 Senator Rockefeller. And also the answer that he  
21 wrote to me yesterday confirming such.

22 The Chairman. All right. Fine.

23 (The letters appear in the appendix.)

24 The Chairman. Gentlemen, we have a quorum here, and  
25 that is a difficult thing to sustain. And I would ask that

1 remarks be held to a minimum and that there be only opening  
2 remarks and that we not engage in questioning the witnesses  
3 at this point.

4 Senator Moynihan. Mr. Chairman?

5 The Chairman. Yes?

6 Senator Moynihan. Mr. Chairman, if there were no  
7 further comments, I was going to move to report it out.

8 Senator Baucus. Mr. Chairman?

9 The Chairman. Senator Baucus?

10 Senator Baucus. Mr. Chairman, I think that the honest  
11 assessment of all this is that is, on balance, a major  
12 achievement. There are no clear winners here.

13 Canada gains major benefits from this treaty, from  
14 this agreement. What are those benefits? Basically,  
15 reduction of tariffs, and there are many other  
16 that Canada gains.

17 The United States finally, after tough negotiations,  
18 gains some benefits; and they are clear, too. One benefit  
19 that is particularly important in my part of our country  
20 is the provision that tends to address Canadian subsidies.  
21 We didn't go near as far and we didn't get all that we  
22 wanted, but we did gain some language that begins to address  
23 those subsidies and begins to knock down those subsidies.

24 Neither side walks away with all the marbles. Neither  
25 side wins the prize. Both sides gain. And frankly, I think

1 from the longer perspective of all this, we must recognize  
2 that this is an agreement; it is a step.

3 We will meet again tomorrow. There will be new  
4 conditions, new circumstances tomorrow. We will see what  
5 parts of this agreement work and what parts do not work.  
6 Canada, too, will be in that position.

7 So, I firmly believe that, even though I initially  
8 opposed this agreement--I opposed it because I think the  
9 agreement tended to not address subsidies at all--but now  
10 that the agreement has new language in it, and the  
11 implementing language certainly tends to address subsidies,  
12 I think there is enough of an improvement to make this  
13 agreement worthwhile.

14 On balance, it is important for two countries, for  
15 two good friends, who are neighbors to reach agreements.  
16 It is not the best agreement and it is not the worst  
17 agreement, but it is an agreement that satisfies both  
18 countries and gets us further along than would be the  
19 case if there were no agreement.

20 The Chairman: Thank you, Senator.

21 Senator Mitchell. Mr. Chairman?

22 The Chairman. Senator Mitchell?

23 Senator Mitchell. Mr. Chairman, I have not yet made  
24 a decision on this agreement and intend to abstain on  
25 this vote, reserving final judgment until the agreement

1 reaches the Senate floor. I am very deeply disappointed  
2 at the Administration's out-of-hand rejection of some of  
3 the recommendations of this committee; and I remain  
4 skeptical about the future handling of subsidies, which  
5 really are the core of whatever difficulty exists in the  
6 U.S.-Canada relations.

7 I think all this agreement does is put them on the  
8 shelf or sweep them under the rug. I am doubtful that they  
9 will be addressed in any meaningful way in the future.  
10 Before a vote occurs in the full Senate, I will carefully  
11 weigh these and other disadvantages against the benefits  
12 which might result from this agreement.

13 The Chairman. Thank you, Senator.

14 Senator Moynihan. Mr. Chairman?

15 The Chairman. Yes?

16 Senator Moynihan. Mr. Chairman, if there are no  
17 further comments, I would move that the --

18 Senator Bradley. Mr. Chairman?

19 The Chairman. Senator Bradley?

20 Senator Bradley. Could I just simply say that this  
21 is a real tribute to you, your effort, in staying with  
22 this and making sure that we ended up with an agreement  
23 that was in the interests of both countries. I think, down  
24 the road, looking back at this Congress, this will be viewed  
25 as probably the most significant thing that we have done in

1 this Congress and in a few Congresses.

2 The Chairman. Thank you very much, Senator. Senator  
3 Moynihan?

4 Senator Moynihan. As a tribute to your achievement, I  
5 would like to move that this be reported out.

6 The Chairman. You are recognized.

7 (Laughter)

8 The Chairman. All in favor of the motion as stated  
9 make it known by saying "Aye."

10 (Chorus of ayes)

11 The Chairman. Opposed?

12 (No response)

13 The Chairman. The motion carried, gentlemen.

14 Now, I would ask also that I have unanimous consent  
15 to report out the House bill, which I assume will be coming  
16 over today; and as I understand, it will be referred to  
17 this committee and we report it out in exactly the same  
18 form and send it to the floor.

19 And with that, the report language that in general  
20 has been decided on in previous meetings that we have had  
21 will be a part of this piece of legislation. If you want  
22 additional report language that you have concern about, then  
23 I would suggest very strongly that you talk to the  
24 Administration about that and get a clearance there so we  
25 don't run into some kind of a conflict with what we have

1 already agreed on. With that, we would give it consideration.

2 We would also be asking that the other committees be  
3 discharged and that we report out, and I ask again your  
4 consent that we put together their report language with this  
5 and send it to the floor.

6 Is there objection?

7 (No response)

8 The Chairman. If not, it will be done that way.

9 Does staff have any further comment on this?

10 Mr. Lang. No, Mr. Chairman; that will close the matter,  
11 I think.

12 The Chairman. Let me reiterate what has been said by  
13 so many here. Ambassador Holmer, you have done an  
14 extraordinarily good job, and Ms. Bello you have made a  
15 very major contribution on this; and we are most appreciative.

16 It has been a pleasure to work with you.

17 Any further comments?

18 Senator Moynihan. Mr. Chairman, would it be in order  
19 to press one view that this member and perhaps the whole  
20 committee would share that Ambassador Gottlieb of Canada  
21 has been a good interlocutor throughout this exercise. He  
22 has sought to get us information we needed and has served  
23 his country well and proven to be a friend of ours.

24 The Chairman. I think he served his country well.

25 (Laughter)

1           The Chairman. And I think that is what he hired out  
2 to do, and that is fine.

3           Senator Packwood? Mr. Chairman?

4           The Chairman. Yes?

5           Senator Packwood. I would move that we report out  
6 the nominations of Mr. Newquist and Mr. Cass with the  
7 International Trade Commission.

8           The Chairman. That has already been done by the  
9 subcommittee, hasn't it? It is now referred to the full  
10 committee. Are there any objections?

11           (No response)

12           The Chairman. If not, all in favor of that motion  
13 make it known by saying "Aye."

14           (Chorus of ayes)

15           The Chairman. Opposed?

16           (No response)

17           The Chairman. The motion carried.

18           Senator Matsunaga. Mr. Chairman, I move that we  
19 report out favorably the nomination of Mr. Martoche.

20           The Chairman. The motion has been made that we  
21 report out Mr. Martoche. All in favor of that, make it  
22 known by saying "Aye."

23           (Chorus of ayes)

24           The Chairman. Opposed?

25           (No response)

1           The Chairman. The ayes have it. So done. Now, we  
2 had a fifth thing to consider here, the suggestion of  
3 Senator Wilson that the Finance Committee request a  
4 Section 332 investigation by the ITC to study the economic  
5 effects of existing import restraints.

6           The chairman and the ranking member had agreed on the  
7 negotiations on the debate on the trade bill that we  
8 would recommend to this committee and its membership that  
9 that be done. It seems to me that fulfills a very worthwhile  
10 purpose for us to be able to understand that, utilize that,  
11 have that kind of information available to us.

12           There is no question but that it will take some time,  
13 and we will work with the ITC in trying to see that it is  
14 done in a feasible way and a rational way and a productive  
15 way.

16           I must say to you that Senator Heinz has written a  
17 letter to the chairman asking a deferral of that, but I  
18 would also say that, with all due respect to Senator Heinz,  
19 the agreement that Senator Packwood and I had was that we  
20 would do it at this time; and I would urge that we move  
21 along with the request to the ITC for the study.

22           Senator Packwood. I would confirm what the chairman  
23 has said. We would have had this offered on the floor, had  
24 the chairman and I not agreed; and frankly, I think the study  
25 is a good idea, in addition, to find out what the effect of



1 these general limitations we have on fairly traded items.  
2 There is no argument about unfair, but what effect they  
3 have on the country and the consumer and our economy.

4 The Chairman. May I have a motion then for the study?  
5 Senator Bradley. I so move.

6 The Chairman. All in favor of the motion as stated  
7 make it known by saying "Aye."

8 (Chorus of ayes)

9 The Chairman. Opposed, by a similar sign?

10 (No response)

11 The Chairman. The motion carried. Mr. Lang, do we  
12 have anything further on the agenda?

13 Mr. Lang. No, sir.

14 The Chairman. I would say this has been a productive  
15 morning, gentlemen. We are recessed. I would ask the  
16 conferees for the welfare conference to stay, and we will  
17 be meeting in the executive room.

18 (Whereupon, at 10:29 a.m., the meeting was concluded.)

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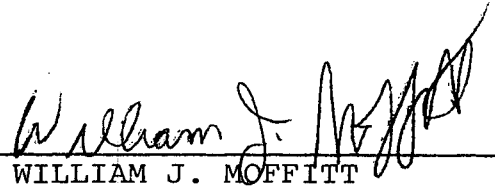
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C E R T I F I C A T E

1  
2 This is to certify that the foregoing proceedings of  
3 a meeting of the Executive Committee of the Committee on  
4 Finance, held on August 9, 1988, were held as appears herein  
5 and that this is the original transcript thereof.

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8   
9 WILLIAM J. MOFFITT  
10 Official Court Reporter

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14 My Commission expires April 14, 1989.  
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Moffitt Reporting Associates

(301) 350-2223

UNITED STATES SENATE  
COMMITTEE ON FINANCE

EXECUTIVE SESSION

Tuesday, August 9, 1988 -- 10:00 A.M.  
Room SD-215, Dirksen Senate Office Building

A G E N D A

1. Committee action with respect to the implementing legislation for the U.S.-Canada free trade area agreement (FTA).
2. Consider the nomination of Don E. Newquist to the International Trade Commission.
3. Consider the nomination of Ronald A. Cass to the International Trade Commission.
4. Consider the nomination of Salvatore R. Martoche to be Assistant Secretary of Treasury for Enforcement.
5. Consider the suggestion of Senator Wilson that the Finance Committee request a section 332 investigation by the ITC to study the economic effects of existing U.S. import restraints.

LLOYD BENTSEN, TEXAS, CHAIRMAN

SPARK M. MATSUNAGA, HAWAII  
DANIEL PATRICK MOYNIHAN, NEW YORK  
MAX BAUCUS, MONTANA  
DAVID L. BOREN, OKLAHOMA  
BILL BRADLEY, NEW JERSEY  
GEORGE J. MITCHELL, MAINE  
DAVID PRYOR, ARKANSAS  
DONALD W. RIEGLE, JR., MICHIGAN  
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JOHN H. CHAFFEE, RHODE ISLAND  
JOHN HEINZ, PENNSYLVANIA  
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DAVID DURENBERGER, MINNESOTA  
WILLIAM L. ARMSTRONG, COLORADO

# United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

JAMES C. GOULD, STAFF DIRECTOR AND CHIEF COUNSEL  
ED MIHALSKI, MINORITY CHIEF OF STAFF

June 23, 1988

Dear Allan,

As you know, the Finance and the Ways and Means Committees, in agreement with the Administration, have included in the Statement of Administrative Action the following:

The Administration will make every effort to assure that the working group prepare a report, within 24 months of entry into force of the agreement, on the nature and extent of assistance and benefits provided to electric utilities in the United States and Canada by Federal and provincial or State Governments.

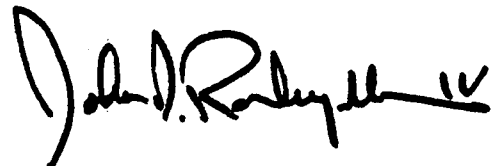
This provides for an even-handed study of practices in both countries by a neutral body. As members of the Finance Committee with quite different constituent interests, we worked closely together to craft this statement. It is our full expectation that, when the U.S. Administration makes a request to the working group that it undertake such a study, the Canadian side will agree. It would be very helpful if you could provide us with an assurance that this will be the case.

We appreciate your help and understanding.

Sincerely,



Daniel Patrick Moynihan



John D. Rockefeller IV

The Honorable Allan Gotlieb  
Ambassador  
Embassy of Canada  
1746 Massachusetts Avenue N.W.  
Washington, D.C. 20036-1985

Canadian Embassy



Ambassade du Canada

1746 Massachusetts Ave.,  
Washington D.C. 20036

August 8, 1988

The Honourable John D. Rockefeller IV,  
United States Senate,  
Room 724 Senate Hart office Building,  
Washington 20510.

Dear Senator Rockefeller,

I am responding to your letter of June 23 concerning the program of the Working Group to be established under Article 1907 of the Canada-U.S. Free Trade Agreement.

While the objectives of the Working Group are clearly stated in the agreement, its work program has yet to be negotiated and will obviously have to reflect the priorities of both parties. On the Canadian side, we will have to consult closely with the provinces on our approach to these negotiations, and I expect that the U.S. federal government might wish to do likewise with the states.

In the interim, after the agreement's entry into force, the Administration would be at liberty, without prejudice to the results of the negotiations on the work program of the Working Group, to request consultations on the matter raised in your letter under the provisions of Article 1804 of the agreement. As you know, Article 1804 reads as follows:

- 1) Either Party may request consultations regarding any actual or proposed measure or any other matter that it considers affects the operation of this Agreement, whether or not the matter has been notified in accordance with Article 1803.

- 2) The Parties shall make every attempt to arrive at a mutually satisfactory resolution of any matter through consultations under this Article or other consultative provisions in this Agreement.
- 3) Each Party shall treat any confidential or proprietary information exchanged in the course of consultations on the same basis as the Party providing the information.

The Canadian side, of course, is committed to fulfilling all its obligations under the agreement, including those under Article 1804.

I take this opportunity to thank you for your constructive efforts in moving this historic agreement towards adoption.

Yours sincerely,



Allan Gotlieb  
Ambassador

COMMITTEE ON FINANCE  
United States Senate  
205 Dirksen Building  
Washington, D.C. 20510

PRESS RELEASE M-17

FOR IMMEDIATE RELEASE  
August 9, 1988

FINANCE COMMITTEE FAVORABLY REPORTS  
U.S.-CANADA FREE TRADE AREA AGREEMENT;  
TREASURY AND ITC NOMINATIONS

Washington, D.C. -- Senator Lloyd Bentsen (D., Texas), Chairman, announced Tuesday that the Senate Finance Committee ordered that legislation be reported favorably to implement the U.S.-Canada Free Trade Area Agreement by voice vote.

The Committee also approved by voice the nominations of Salvatore R. Martoche to be Assistant Secretary (Enforcement) of the Treasury, and Don E. Newquist and Ronald A. Cass to be Commissioners of the United States International Trade Commission.

In addition, the Finance Committee approved a section 332 investigation by the International Trade Commission on the economic effects of existing U.S. import restraints over a three-year period.

Joint Committee on Taxation  
JCX-20-88  
August 1, 1988

**ADDITIONAL TECHNICAL CORRECTIONS TO S. 2238**  
**ADOPTED BY FINANCE COMMITTEE\***

**A. Foreign**

Liquidation of possession corporation.--The amendment would treat as foreign source, and subject to a separate foreign tax credit limitation, gain derived from the liquidation of a corporation organized in a U.S. possession and which derives more than 50 percent (based on the prior three taxable years) of its gross income from the active conduct of a trade or business in that possession.

**B. Capital Cost Recovery**

Passage of time problem for 1986 Act transitional exception.--The amendment would modify a 1986 transitional exception for the Frankford Arsenal to ameliorate problems caused by the delay in passage of the technical corrections bill.

**C. Amortizable Bond Premium**

Effective date.--The amendment would provide that the provision of the bill (sec. 106(j)(1)) relating to the treatment of bond premium as a reduction of interest income on the bond applies to bonds acquired after December 31, 1987, unless the taxpayer elects to have the amendment apply to bonds acquired after October 22, 1986.

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\* At Finance Committee markup on July 26, 1988. These provisions are in addition to the additional technicals listed in JCX-18-88.