

1 EXECUTIVE COMMITTEE MEETING

2 THURSDAY, OCTOBER 28, 1993

3 U.S. Senate,

4 Committee on Finance,

5 Washington, DC.

6 The meeting was convened, pursuant to notice, at  
7 2:12 p.m., Hon. Daniel P. Moynihan (Chairman of the  
8 committee) presiding.

9 Also present: Senators Baucus, Bradley, Pryor,  
10 Riegle, Daschle, Breaux, Conrad, Danforth and Chafee.

11 Also present: Lawrence O'Donnell, Jr., Staff  
12 Director.

13 Also present: Rufus Yerxa, Deputy U.S. Trade  
14 Representative; Ira Shapiro, Esq., General Counsel, U.S.  
15 Trade Representative.

16 Also present: Leon Panetta, Director, Congressional  
17 Budget Office; Kenneth Ryder, Deputy Associate Director  
18 of Housing and Finance, Office of Management and Budget.

19 Also present: Marcia Miller, Majority Chief  
20 International Trade Counsel; Debbie Lamb, Majority Trade  
21 Counsel; and Brad Figel, Minority International Trade  
22 Counsel.

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44 pp.

1           The Chairman. A very good afternoon to our friends  
2           from the administration and our guests. I apologize for  
3           our being a little behind time. We all have a few too  
4           many things to do today. Senator Packwood is  
5           unavoidably detained; I was unavoidably detained.

6           I may be rushing to the floor where the Unemployment  
7           Compensation legislation is being unavoidably--no, quite  
8           avoidably--detained by certain parties on the opposite  
9           side of the aisle. But we have a moment in which we  
10          could reach complete agreement.

11          I am here and you are there. We probably should  
12          carpe diem.

13          Did you want to make a general statement, sir? As  
14          you know, we were pretty much at the point of being able  
15          to report out, in a very informal matter, this measure  
16          last week, and you were not able to present us with a  
17          financing arrangement, so we put over until now, nor  
18          were we able to hear from Senator Riegle, who has some  
19          amendments he will want to offer, and possibly some  
20          others as well.

21          Would you want to just tell us what you have  
22          decided?

23          Mr. Panetta. Please. Thank you, Mr. Chairman. I  
24          appreciate that. I believe I can keep this brief. We  
25          have passed out summaries of what we are proposing.

1 These are similar to what I presented to the Ways and  
2 Means Committee, which I understand reported them out as  
3 the financing part of their mark-up. So, these are the  
4 exact same proposals that we made on the House side.

5 The Chairman. This is the document entitled,  
6 "Overview of Proposed NAFTA Offsets."

7 Mr. Panetta. That's correct.

8 The requirement for the offsets are the following.  
9 We have tariff revenue losses for the NAFTA  
10 implementation of approximately \$2.5 billion.

11 In addition to that, we are recommending that there  
12 be NAFTA-related Trade Adjustment Assistance of  
13 approximately \$138 million. That gives us a total that  
14 is required to be offset over the five-year period of  
15 \$2.669 billion.

16 The elements that we are recommending for covering  
17 those costs, for offsetting those costs, are the  
18 following. On agriculture, CBO will score savings with  
19 regards to deficiency payments that will be lower as a  
20 result of additional markets in Mexico for, principally,  
21 feed grains, soybeans and corn. The CBO is prepared to  
22 score those savings at approximately \$184 million.

23 The second piece, is an enforcement piece that deals  
24 with Customs anti-fraud. This is a proposal that Jake  
25 Pickell, on the House side, had proposed. It basically

1 allows us to have the Customs Service have access to tax  
2 information to improve Customs' efforts at enforcing  
3 tariff laws and detecting fraud.

4 Essentially, what we are doing is, where someone  
5 basically underestimates a product for Customs purposes  
6 but then sells it at a higher cost on the market, you  
7 can basically crisscross with the IRS information in  
8 order to make sure that is the case.

9 Where there is voluntary IRS information provided,  
10 there has been a significant increase in terms of the  
11 Customs receipts. So, it is on that basis that CBO will  
12 score approximately \$107 million from that provision  
13 alone.

14 The next provision involves the speed-up of the  
15 federal tax deposit system. There has been a pilot  
16 program for the last two years that has been in place to  
17 basically speed up the process for forwarding through  
18 the banks the various payroll taxes and other federal  
19 taxes that are deposited with the banks.

20 There is, now, a delay of almost three days that is  
21 provided. We are trying to speed that up. It is  
22 basically an enforcement mechanism that we are trying to  
23 work out here. It will be implemented on a gradual  
24 basis by the Secretary to ensure that there is minimum  
25 disruption.

1           We have discussed this with the banks and they are  
2           receptive of doing this. They knew this was coming and  
3           felt that it is an improvement in terms of the ability  
4           to transfer these dollars. It is not a change in the  
5           tax due date, it is not a tax increase, and it does not  
6           require, of course, any higher taxes.

7           What we are basically doing is transferring what the  
8           Federal Government is entitled to on a more expedited  
9           basis. We believe that provision, if implemented over  
10          the period of five years, will produce about \$1.3  
11          billion.

12          The last piece. Because we have been able to  
13          develop these other elements, we had discussed, as you  
14          know, the possibility of providing an increase in  
15          Customs' fees for the purpose of covering Customs'  
16          costs.

17          As a result of these elements that we have proposed  
18          here we are able to propose an increase in the fee, not  
19          on truckers, not on rail cars, so that the transfer of  
20          commercial products would not require any increase in  
21          fees, but for passengers. We are proposing about \$1.50  
22          per passenger.

23          We had, as you know, talked about the possibility of  
24          doubling that cost from \$5 to \$10, then the possibility  
25          of raising it by \$2.50. We are able, because of these

1 other elements, to bring that cost down to \$1.50 per  
2 passenger. We think that is a minimum amount to be paid  
3 by passengers coming into this country, and it is going  
4 to be used solely and specifically for covering Customs'  
5 costs.

6 The fee was developed, incidentally, in the 1980s  
7 for the purpose of covering Customs' costs. What we are  
8 finding right now is that the existing fees do not fully  
9 cover those costs, they fall short by almost \$200  
10 million.

11 This would, in the very least, allow us to cover  
12 full Customs costs under the treaty as well. That would  
13 produce a little over \$1 billion. That gives us about  
14 \$2.686 billion, and that more than adequately covers the  
15 cost of the tariff loss. That is what we would propose  
16 to the committee.

17 The Chairman. And I am to understand that the air  
18 seat passengers are strictly those who arrive by Concord  
19 or on a Cunarder. That is very straightforward; that is  
20 very clear. The House Committee on Ways and Means has  
21 agreed to this.

22 Mr. Panetta. That is correct.

23 The Chairman. Very well. We do not want to keep  
24 you. You have been here on time, and we are not. We  
25 are doing other things. The House has adjourned until

1 Wednesday, so we are going to be working somewhat  
2 informally. I think that, under the circumstances, why  
3 do we not ask that you could leave behind someone who  
4 could explain this in detail if other Senators have  
5 questions?

6 Mr. Panetta. We have our staff here. I have got  
7 Mr. Ken Ryder. I believe Treasury is also represented  
8 by Lou Samuels.

9 The Chairman. Well, why do we not let you, sir, and  
10 Mr. Samuels get back to your other affairs, with great  
11 appreciation.

12 Mr. Secretary, we did not acknowledge you here.

13 If we have any questions I know that they can be  
14 answered, and if it does not work we will call you up  
15 and you can get a taxi and come back.

16 Mr. Panetta. I am more than happy to do that.

17 The Chairman. With that, we will stand in recess  
18 until other Senators arrive and have business.

19 Mr. Panetta. Thank you, Mr. Chairman.

20 (Whereupon, at 2:21 p.m., the meeting was recessed.)

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1 AFTER RECESS

2 (2:27 p.m.)

3 The Chairman. The committee will come to order.

4 May I ask the representatives of the Treasury and  
5 the Office of Management and Budget to come to the  
6 witness table? Senator Breaux would like to ask about  
7 the increase in Customs user fees, the fourth of the  
8 three items that Mr. Panetta set forth.

9 Now, do not be fearsome. Do not be fearful, rather,  
10 and don't be fearsome, either. Good morning, sir.

11 Mr. Ryder. Good morning, Senator.

12 The Chairman. Senator Breaux.

13 Senator Breaux. Thank you, Mr. Chairman. I just  
14 want to ask a question on the user fees. I have two  
15 questions I want to ask.

16 Number one, we have had these problems with user  
17 fees in the past. I remember we raised the Coast Guard  
18 user fees, and the Coast Guard never got the user fees,  
19 which was the big criticism by everybody who had to pay  
20 them.

21 They do not mind paying them that much if they are  
22 actually used for some purpose that they get. So, we  
23 ended up repealing the Coast Guard user fees. It did  
24 not work, and everybody came to Congress and said, this  
25 is ridiculous, and we changed it.



1           My first question is, are the Customs user fees  
2 based on services that would be rendered in addition to  
3 those people who are going to be called upon to pay the  
4 user fee?

5           Mr. Ryder. Senator, I think the answer is that  
6 those Customs user fees will be used to cover the  
7 services that are currently being provided to those who  
8 are receiving that service, as they are now.

9           Senator Breaux. All right. Is there a difference  
10 between the amount of services they are getting and the  
11 amount of money we are raising?

12          Mr. Ryder. That is correct, sir.

13          Senator Breaux. And what percentage is that?

14          Mr. Ryder. I think the rough estimate from Treasury  
15 and the Customs Department is that --

16          Let me just back up for a second. As you know now,  
17 the COBRA user fees were originally established to  
18 cover, primarily, overtime costs for flights and ships  
19 that arrive at unusual hours.

20          There was a subsequent amendment about two years ago  
21 that authorized certain other activities, but the normal  
22 inspection costs for bringing people through ports of  
23 entry and airports are covered through a general fund  
24 appropriation in the Customs budget. We believe that  
25 amount varies by year, obviously, but has been roughly

1 on the order of \$230-250 million per year.

2 Senator Breaux. All right. I am trying to  
3 understand this in my somewhat simplistic understanding  
4 of all this. Can we guarantee the people whom we are  
5 asking to pay these user fees for Customs purposes that  
6 all of the money that will be raised will be used for  
7 Customs services?

8 Mr. Ryder. We can guarantee it to the following  
9 extent, Senator, that the monies as they are now will be  
10 deposited in a Customs user fee account. They would not  
11 be put in the general fund and commingled with other tax  
12 funds, they would be there and they would be available  
13 for appropriation by the Congress to use it for those  
14 particular authorized activities.

15 Senator Breaux. This is different from what we did  
16 on the Coast Guard user fees, if you remember and are  
17 familiar with that.

18 Mr. Ryder. Unfortunately, I am not 100 percent  
19 familiar with that so I do not want to --

20 Senator Breaux. Those monies went into the general  
21 treasury.

22 Mr. Ryder. That may be, but I cannot --

23 The Chairman. Well, then it would be different.

24 Senator Breaux. So, this is different from going  
25 into the general treasury.

1 Mr. Ryder. This is different. This would be going  
2 into the Customs user fund account that exists now.

3 Senator Breaux. All right. Mr. Chairman, I had one  
4 other.

5 The Chairman. Please, Senator.

6 Senator Breaux. The second point is on the same  
7 subject, on the user fees. It says, "The ARC passenger  
8 processing fee will increase from the current \$5 fee to  
9 \$6.50." I take it that is per passenger.

10 Mr. Ryder. That is correct.

11 Senator Breaux. It is my understanding that there  
12 are some shipping companies, the cruise industry, that,  
13 now, do not pay the \$5 fee because Congress has  
14 determined, in our wisdom or lack thereof, that they  
15 would be exempted from that fee because they serve the  
16 Caribbean basin. Now, would those ships that are now  
17 exempt from the fee in total be subject to the \$6.50  
18 fee?

19 Mr. Ryder. I think the proposal that is  
20 contemplated would be to remove the current exemptions  
21 that exist for three areas for those passengers, by ship  
22 and air, that arrive from Canada, from Mexico, and from  
23 the Caribbean, Senator.

24 Senator Breaux. So, for some people, under this  
25 proposal, their fee will increase from \$5 per passenger

1 to \$6.50 per passenger. And, for all of those others,  
2 their fee will increase from zero to \$6.50.

3 Mr. Ryder. For those that are currently exempt,  
4 that is correct.

5 Senator Breaux. How is that fair?

6 Mr. Ryder. Well, they are receiving, of course, the  
7 same kind of service, Senator, that the people who are  
8 arriving from other parts of the world are receiving.  
9 And the fairness is--if, indeed, you intend to pay for  
10 this service through a user fee--we have established an  
11 equal user fee for all passengers to receive that  
12 service.

13 Senator Breaux. Is it not correct that they already  
14 pay a per ship fee when they arrive, about \$6,000 per  
15 ship for Customs purposes?

16 Mr. Ryder. That is on every vessel that arrives.  
17 And that can --

18 Senator Breaux. What is the purpose of that?

19 Mr. Ryder. That is simply for--again, I am not an  
20 absolute expert on the Customs budget--the Customs  
21 Service to inspect the vessel, not to inspect the  
22 baggage for the passengers that arrive. There are two  
23 separate fees. That vessel fee, I believe, is applied  
24 to all arriving vessels, whether they are vessels  
25 arriving from the Caribbean or whether they are vessels

1 arriving from the United States.

2 Senator Breaux. Well, I realize that.

3 Mr. Chairman, that brings up a question of, I think,  
4 fairness. I think we have got a problem, at least from  
5 my perspective, because we are asking one group of ships  
6 to have their fee increased from \$5 per passenger to  
7 \$6.50 per passenger, and all of these others, we are  
8 asking them to go from zero to \$6.50. They are the same  
9 type of ships, but just different areas. I think that  
10 we have got a problem here, as far as I am concerned.

11 Mr. Ryder. Mr. Chairman, if I could clarify. Of  
12 course, the fee is not on the ships, it is on the  
13 individual arriving passengers to pay for their --

14 Senator Breaux. Let us add it to their bill. I  
15 mean, let us be fair. It is going to be part of the  
16 price of the ticket, that is very clear.

17 The Chairman. Senator Breaux, we could ask for some  
18 estimates about what proportion of all arriving  
19 passengers are affected, either by sea or by air.

20 Mr. Ryder, you probably do not know that, but is  
21 there someone from Customs who might?

22 (Pause)

23 Senator Breaux. The point that I am trying to make  
24 is, if an industry is going to be charged an increase in  
25 a fee, I am just suggesting that they should all be

1 charged the same increase. What we have here is not  
2 that at all.

3 The Chairman. So, it is \$1.50 for one ship; \$6.50  
4 for the other per passenger.

5 Senator Breaux. Yes. Per passenger. That is an  
6 awful lot of money that we are talking about.

7 The Chairman. Well, it does raise this \$1.1  
8 billion.

9 Mr. Ryder. Mr. Chairman, I conferred with Customs.  
10 As I believe the rough numbers--and we can get you more  
11 exact data--is the people who are currently arriving who  
12 are not exempt from the passenger fee--and this is both  
13 air and sea passengers--are averaging, for 1992,  
14 somewhere between 26 and 28 million passenger arrivals.

15 The Chairman. All right.

16 Mr. Ryder. Those are the people who are currently  
17 paying the \$5 fee. Those who are arriving and getting  
18 the same service that those who are arriving and paying  
19 the fee and getting but are exempt from the fee  
20 currently amount to about 16 million people, both air  
21 and sea passengers. So, I think that is the rough  
22 distribution of the passenger statistics from Customs.

23 [The information appears in the appendix.]

24 The Chairman. Fine. Well, thank you very much.  
25 That sounds reasonable.

1           Senator Breaux, we will just have to leave that  
2 there for the moment. Senator Daschle.

3           Senator Daschle. Thank you, Mr. Chairman.

4           Mr. Ryder, I wanted to ask you about a matter that  
5 has been brought to your attention, or to the  
6 administration's attention, I guess, over the last  
7 several months, beginning with a letter that some of us  
8 wrote on February 16th expressing concern about the  
9 treatment of the flat glass industry under NAFTA. The  
10 agreement, as you know, allows Mexico duty-free access  
11 to the U.S. while phasing out the prohibitive 20 percent  
12 Mexican tariff on flat glass at a very slow pace.

13           If the current phase-out schedule becomes law, this  
14 competitive industry will be placed at an economic risk,  
15 and it is estimated it could lose about 6,000 jobs by  
16 the end of the decade. The administration has  
17 indicated, both publicly and privately, that the flat  
18 glass issue needs to be addressed.

19           A number of us have discussed this matter and would  
20 like to be informed, if you can--I see Ambassador Yerxa  
21 is at the table--if you could tell us, what steps have  
22 been taken to address this issue before conference.

23           Mr. Ryder. If I could defer to Ambassador Yerxa, I  
24 think he is ready to respond to that question, Senator.

25           Ambassador Yerxa. Senator, I am aware of the letter

1 and aware of the concerns. We have discussed with the  
2 committee numerous such concerns relating to the  
3 question of tariff acceleration, of the need for faster  
4 phase-out on some of these items, and a procedure for  
5 invoking such acceleration does exist under this  
6 agreement and has been utilized very effectively in the  
7 past with Canada under the Canada Free Trade Agreement,  
8 and it is an area that the administration is looking  
9 actively into, not just with respect to this industry  
10 but with respect to others where such requests exist.

11 We would be glad to keep the committee apprised of  
12 our progress in obtaining such accelerations. I just  
13 want to emphasize that that procedure is possible under  
14 the agreement, and one which we will pursue aggressively  
15 with Mexico.

16 Senator Daschle. Do you intend to take specific  
17 action prior to conference?

18 Ambassador Yerxa. As I said, this is something we  
19 talked in Executive Session with the committee about our  
20 efforts to discuss a number of matters related to tariff  
21 acceleration with Mexico. I would want to report back  
22 to the committee as soon as we have something to report;  
23 I do not have anything to report right now.

24 Senator Daschle. Well, I would hope that that would  
25 be sometime in the not too distant future. But, with



1 that answer, I thank you. Thank you, Mr. Chairman.

2 The Chairman. Thank you, Senator.

3 Senator Bradley. Mr. Chairman.

4 The Chairman. Senator Bradley. May I just make the  
5 point, the measure, in a sense, is open to amendment if  
6 anybody wishes to offer amendments. We will stack the  
7 votes until we have a few more members.

8 Senator Bradley. All right. I do have an amendment  
9 I would like to introduce.

10 The Chairman. All right, sir. Can I say of our  
11 witness table there, I have never seen it so cluttered.  
12 If you can see yourselves the way we see you. There you  
13 are. There we go. That is right. Welcome, Marcia.  
14 Welcome, all. That is good.

15 Senator Pryor. How do we look, Mr. Chairman? Are  
16 we all right?

17 (Laughter)

18 The Chairman. No one can see. That is why we are  
19 up where we are.

20 Senator Bradley, you have some amendments to offer?

21 Senator Bradley. Mr. Chairman, after that exchange  
22 with the staff at the table I am a little nervous about  
23 how to proceed.

24 The Chairman. Well, do so briskly.

25 (Laughter)

1 Senator Bradley. And orderly.

2 The Chairman. In bristol fashion.

3 Senator Bradley. Mr. Chairman, I have an amendment  
4 that I hope will be helpful for all of us, because one  
5 of the real issues that keeps coming up in the course of  
6 the discussion of NAFTA is the worry on the part of  
7 those who oppose it about its effects on jobs in the  
8 United States, and the confidence on the part of those  
9 who support it about its positive effects on jobs, and  
10 also on our economic prospects in international  
11 competition.

12 I hope that we will ratify this, that it will pass,  
13 and that we will be able to demonstrate, beyond a  
14 reasonable doubt, that it has been positive for the  
15 United States. I believe that, that is why I strongly  
16 support it. I do think it would be helpful if we had,  
17 however, an analysis which gave us some of the facts.

18 So, the amendment that I would propose is that, at  
19 three-year intervals, the Congressional Budget Office  
20 would report back to the Congress on the effect of this  
21 agreement on net employment in the United States,  
22 average wage rates, worker dislocation, federal revenues  
23 and expenditures; and that the CBO would report back to  
24 us the effect of NAFTA on these four areas; and, at the  
25 same time, would evaluate the effects of the agreement

1 in these four areas relative to economic changes that  
2 are caused by international competition generally,  
3 reductions in defense spending, the shift from  
4 manufacturing to knowledge-based and information-based  
5 economic activity, and the federal debt burden. The  
6 real purpose here is to try to isolate what are we  
7 really talking about here in terms of jobs.

8 And I think that a three-year interval would be  
9 sufficient to give us some sense to know, well, what has  
10 been the effect of this agreement on our economy  
11 relative to the other changes that are taking place in  
12 our economy and in the world, i.e., reduced defense  
13 budget, knowledge transformation, increased  
14 international competition, and the federal debt burden.

15 That is the amendment. I would hope that we --

16 The Chairman. Is there discussion? I see Senator  
17 Riegle.

18 Senator Riegle. Mr. Chairman, I was out of the room  
19 for part of the description. Do you spell out, Senator  
20 Bradley, who does the counting? In other words, who is  
21 going to do the adding and subtracting of --

22 Senator Bradley. The Congressional Budget Office  
23 would do the study.

24 Senator Riegle. Let me just express a concern. I  
25 think the idea of a study after three years--I do not

1 say this disrespectfully to the Senator from New Jersey--  
2 -has the effect of looking like it is sort of a remedy  
3 or a potential remedy if the positive estimates are awry  
4 and off, as I think they are.

5 So, it sort of gives the illusion that, somewhere  
6 down the line, we can fix the problem if the problem  
7 sort of blows up in our face. I think the damage is  
8 going to occur in the first three years.

9 So, having a study three years out, in effect, is  
10 like three years too late because you sort of catch the  
11 problem then, if it is counted accurately, but, by that  
12 time, you have got a lot of walking wounded in this  
13 country. That has been our experience already in  
14 Michigan. So, I see it multiplying here.

15 I see the study is really--I do not say you intend  
16 it as a gimmick--has the effect of sort of becoming a  
17 gimmick because it sounds like there will be a way to  
18 effect a remedy if this thing spins off the rails. And  
19 the problem is, it is a remedy, to the extent it should  
20 prove that way, to be three years too late.

21 Senator Bradley. Well, I would respond, Mr.  
22 Chairman, simply saying it is kind of the opposite  
23 intention. I think that every three-year interval you  
24 assess how it is going that the story is going to get  
25 better, not worse.

1           Now, if I am wrong, we will know. But it seems to  
2 me that one cannot argue with having a clear analysis of  
3 its effect relative to the effect of the other economic  
4 transformations that we are going through. That is the  
5 purpose of the amendment, and it would be at three-year  
6 intervals.

7           The Chairman. Yes, Senator Baucus.

8           Senator Baucus. Mr. Chairman, I think the amendment  
9 is a good idea. But the question that comes to my mind  
10 is, at what point is CBO overloaded with studies? It is  
11 a resource question, and I ask it because, logically,  
12 there is going to be some point after which they are  
13 going to be unable to do their work effectively. I do  
14 not know where that point is.

15          The Chairman. That thought has certain attractions.

16          Senator Baucus. It may for some. I understand  
17 that, Mr. Chairman.

18          Second, as I read this amendment--and, again, I  
19 think it is a good idea--either it is done in a cursory  
20 fashion and does not require many resources, but then is  
21 not very helpful, or it is done very thoroughly which is  
22 very helpful, but obviously requires lots of resources.

23          I am really asking a hypothetical question. I do  
24 not know at what point we begin to overload CBO. I know  
25 we, as a Congress, tend to ask for studies for all kinds

1 of reasons, sometimes to avoid problems and avoid  
2 issues, and many times for very meritorious reasons. I  
3 know that there are many times, frankly, that the agency  
4 says, oh, my gosh, another study. I was just  
5 wondering --

6 Senator Bradley. I would say to the Senator that  
7 this is kind of one of the central elements of this  
8 treaty in terms of, will it be a success or not? We  
9 have talked to the CBO. The CBO says they can do this.

10 The Chairman. Could I say, as a sometime Labor  
11 Department person, that some of the data the Senator is  
12 seeking is readily available. The Bureau of Labor  
13 Statistics just turns it out once a month. That is  
14 employment average wage rates, worker dislocation. You  
15 learn something from Unemployment Compensation, and  
16 things like that.

17 Some of these other areas or factors, such as  
18 international competition, are as yet imperfectly done.  
19 May I say, they do not -- I suppose they can be done.  
20 The first unemployment rate published in the United  
21 States was 1949. It took us that long to get the data  
22 down. We used to publish it once every 10 years in the  
23 Census. We took the Census in the spring of 1930, and  
24 then again in the spring of 1940, and the Depression  
25 never happened.

1           Senator Baucus. I do not mean to belabor the issue,  
2 I just raise it. We can keep it in the back of our  
3 mind, that is all.

4           The Chairman. Right. Right. Well, I am going to -  
5 -

6           Senator Chafee. I have a question on this subject,  
7 if I might, Mr. Chairman, to the sponsor of the  
8 amendment.

9           The Chairman. Of course.

10          Senator Bradley. The sponsor is ready to accept the  
11 question and try to respond.

12          Senator Chafee. Thank you. I noticed in your  
13 amendment, if I read it correctly, the report should  
14 distinguish between consequences of the agreement and  
15 events that would likely have occurred without the  
16 agreement.

17          Now, I take it that the intention is that the report  
18 assess only those employment wage dislocation and  
19 revenue changes that are triggered by NAFTA itself. is  
20 that correct?

21          Senator Bradley. That is correct. It is the  
22 changes in the employment wage rates, dislocation,  
23 federal revenues and expenditures triggered by NAFTA  
24 versus that triggered by international competition,  
25 knowledge revolution, and the other transformations.

1           Senator Chafee. All right. And the other question  
2 is, will the report take into account, in the net  
3 employment category, those jobs kept in this country  
4 thanks to the enactment of NAFTA?

5           Senator Bradley. It will be a net figure. So, it  
6 will --

7           The Chairman. I have to tell my friend from Rhode  
8 Island that nobody knows how to do that calculation.

9           Senator Chafee. Well, it is tough. I admit that.

10          The Chairman. Try it.

11          Senator Chafee. Well, I do not want to try it. I  
12 like the job I am in.

13          The Chairman. No. I did not say you should try it,  
14 it can be tried.

15          Senator Chafee. All right. Let me ask you another  
16 question.

17          Senator Bradley. Yes, sir.

18          Senator Chafee. Will the report take into account  
19 companies that may have moved part of their company to  
20 Mexico or Canada, but who, by doing so, were able to  
21 maintain or increase the employment back in the U.S.?

22                 In other words, we have an outfit in Rhode Island  
23 that has moved part of its operations to Mexico. So,  
24 somebody could say that is 60 jobs moved to Mexico. But  
25 the facts are that, by this movement to Mexico, they



1 were able to increase, because of the synergism between  
2 the two plants, their employment in Rhode Island.

3 Senator Bradley. Again, I would say to the Senator  
4 that the operative word here is net. And if it is net,  
5 it takes in consideration both job creation and job  
6 loss. So, if jobs go down, that is a debit; if jobs are  
7 created, that is a plus.

8 Senator Chafee. All right. So, you would say, in  
9 this case, all right, so they moved 60 jobs to Mexico.  
10 That is a loss of 60 jobs. But the company added 100  
11 jobs in Rhode Island, a different phase, but allied to  
12 the work in Mexico. So, that is a net gain of --

13 Senator Bradley. If it is NAFTA-related. Yes.

14 Senator Chafee. All right. Fine. Thank you very  
15 much. Thank you, Mr. Chairman.

16 The Chairman. Thank you. Senator Riegle.

17 Senator Riegle. Mr. Chairman, just one other  
18 question to close out of that discussion. That is, it  
19 seems to me we are calling for a very tough subjective  
20 call here when you say those that occurred as a  
21 consequence of the agreement and those that would have  
22 occurred without the agreement.

23 So, you could have a plant, for example, that goes  
24 down to Mexico and locates. Now, you bring NAFTA in and  
25 another plant goes down to Mexico and locates. I mean,

1     how do you make a determination as to the degree to  
2     which NAFTA, on the margin, in effect, helps promote a  
3     plant going down there? You have got plants going now;  
4     you are going to have plants going in the future,  
5     presumably, with or without NAFTA. I mean, how does one  
6     try to divine whether NAFTA, on the margin, is the  
7     precipitating event?

8             Senator Bradley. Well, I think that you would,  
9     first of all, look at the movement, whether it has  
10    increased above what it has been. That would be,  
11    clearly, one thing you could look at. I think there are  
12    any number of other measurements that you could take to  
13    see whether there was an incremental as a result of  
14    NAFTA. The studies out there are fairly wide-ranging,  
15    but, at the same time, they are rather narrow in terms  
16    of their effect.

17            Senator Riegle. If you saw a spurt, for example,  
18    you saw a large increase in the number of plant closings  
19    and relocations down there, you would tend to assume  
20    that that was NAFTA-related?

21            Senator Bradley. I would say, first of all, there  
22    is surge language in the agreement. And I would say  
23    that, over a three-year period, if there was a dramatic  
24    movement to Mexico that was NAFTA-related and that was a  
25    net movement, then you would report that. You would

1 report the NAFTA effects.

2 See, what I am trying to get at is this. If you  
3 have the agreement, the opponents of it assert that it  
4 will lose 400,000 jobs over 50 years. The proponents  
5 assert that it will create 200,000 jobs over three or  
6 four years. What I am saying is, after three years, let  
7 us have a report that tells us. That is juxtaposed to  
8 what we already know is happening in the economy.

9 For example, in the defense sector, we know in 1987  
10 there were 7.2 million people working in the defense  
11 sector. By 1996, that is going to be 4.2 million.  
12 Those are losses because we are cutting the defense  
13 budget.

14 Senator Riegle. Well, also, as we pointed out the  
15 other day--you may have been out of the room--in the  
16 debate with Senator Chafee, we have got some of the  
17 defense work in the United States that has been moved to  
18 Mexico.

19 Senator Bradley. Yes. The point is --

20 The Chairman. All right, now, gentlemen. Come on.  
21 Senator Daschle, you wanted to have one last remark.

22 Senator Daschle. Mr. Chairman, I do not want to  
23 belabor this. But I guess as I look to the language of  
24 the amendment, I wonder how one would calculate the  
25 impact that all of this has on agriculture. Obviously,

1 agriculture is very directly affected.

2 There are those who argue that it is going to be  
3 substantially effected favorably, and those who argue  
4 that it is going to have a tremendous effect in  
5 dislocation in rural areas. Is there a way that we can  
6 accommodate agriculture as we seek information?

7 The Chairman. I am sure that Senator --

8 Senator Bradley. I think we could add a fifth  
9 category.

10 The Chairman. Senator Bradley, I confidently  
11 predict you will add a fifth category.

12 Senator Daschle. I appreciate your cooperation in  
13 that regard.

14 Senator Bradley. All right.

15 The Chairman. And, with that, I am going to ask --  
16 as you know, we are in an informal consultative mode  
17 here. These are matters which we will bring to the  
18 Committee on Ways and Means.

19 Can I tell the Senators that the House is adjourned  
20 until Wednesday. We will not be able to have a formal  
21 conference. We will not have our informal conference  
22 until Wednesday, but we will attempt to do it directly  
23 then.

24 Could I ask those who are in favor of Mr. Bradley's  
25 amendment to say aye?

1 (A chorus of ayes)

2 The Chairman. And those opposed?

3 (No response)

4 The Chairman. The ayes have it.

5 Now, Senator Riegle.

6 Senator Riegle. Mr. Chairman, I got in on the tail  
7 end of the issue, the discussion about how this is to be  
8 paid for. I want to just make two or three points about  
9 it, if I may, because I am concerned about the costs,  
10 and, I think, really an inadequate proposal to step up  
11 to the plate and pay the costs.

12 First of all, in going through it, it appears to me  
13 that in totaling up to the \$2.7 billion figure that the  
14 calculation ignores the cost of the environmental clean-  
15 up, which is estimated to be at least \$250 million.

16 I understand that yesterday Assistant Secretary  
17 Chafford of the Treasury Department indicated that there  
18 was not yet a complete answer on how to pay for NAFTA,  
19 and that may have been in reference to the environmental  
20 part of it. Am I right on that?

21 The Chairman. Well, now, let us ask Ambassador  
22 Yerxa in the first instance. Welcome back, Mr. Ryder,  
23 from the OMB. Mr. Ryder.

24 Senator Riegle. On the environmental costs.

25 Mr. Ryder. Yes, Senator.

1           Senator Riegle. My understanding is that they cost  
2           that out at at least \$250 million. Is there a revenue  
3           source in this proposal now to cover that?

4           Mr. Ryder. Well, I think there is a question that  
5           we are still working with the Treasury on as to whether  
6           the funds would be discretionary, as some banks are, or  
7           whether it would mandatory funding.

8           If it were mandatory funding it would have to be in  
9           this proposal. We believe there would be enough revenue  
10          in the aggregate to cover that, but we are still working  
11          on whether it is discretionary or mandatory.

12          Senator Riegle. There would be enough revenue --

13          Mr. Ryder. There would be enough offsets to the  
14          amounts that had been identified that the Director had  
15          gone over over the five-year period.

16          The Chairman. You mean the 2.686?

17          Mr. Ryder. Yes.

18          Senator Riegle. So, then you are saying that the  
19          2.686 is intended to cover the environmental clean-up?  
20          My view is to the contrary on that.

21          Mr. Ryder. Well, I think some of the ETF numbers  
22          are still being adjusted, Senator. I think what the  
23          Director said was that he expected to get at least \$1.3  
24          billion over the five-year period from the acceleration  
25          of deposits through the tax deposit system.

1           The Chairman. Yes. It says so here in writing.  
2           How are we going to resolve this? Are you saying that  
3           you still have a question of your own that you have not  
4           really settled yet?

5           Mr. Ryder. Yes, Senator. That is what we are  
6           saying.

7           The Chairman. Yes. All right.

8           Senator Riegle. So, that issue is, in effect,  
9           unresolved as --

10          The Chairman. And what we are doing now, you will  
11          have resolved it by the time the President sends a  
12          proposal to the Congress.

13          Mr. Ryder. We expect it will be certainly resolved  
14          by then, Senator.

15          The Chairman. If he does send a proposal.

16          Mr. Ryder. We expect to continue to have discussion  
17          with the relevant committees of jurisdiction.

18          The Chairman. Senator Bradley expressed  
19          astonishment when I said, if he does. And maybe the  
20          Canadians veto it.

21          Senator Riegle. Well, that would be a good piece of  
22          news.

23          Senator Bradley. Do you mean they would veto the  
24          work of this committee in the U.S.-Canada Free Trade  
25          Agreement?

1           The Chairman. That would be imprudent to do. But  
2           now that we have -- we are closing Plattsburg, that great  
3           base built in 1818 for the purposes of defending the  
4           Republic against the onslaughts from the north. And now  
5           that it is being closed down, well, who knows what  
6           interference might follow.

7           (Laughter)

8           Senator Bradley. And all of those things are being  
9           transferred to New Jersey.

10          The Chairman. Lake Champlain. Or all to New  
11          Jersey, where it will be of no avail against the Quebec  
12          forces.

13          (Laughter)

14          Senator Riegle. Just two other things with respect  
15          to the funding side of it.

16          The Chairman. Yes, sir.

17          Senator Riegle. In terms of the tax increase in the  
18          form of the Customs fee, that is estimated to raise  
19          \$1.08 billion over five years. Am I right on that?

20          Mr. Ryder. I think we consider a user fee, Senator,  
21          but that is correct, it is intended to raise \$1.08  
22          billion.

23          Senator Riegle. Well, the user fee tax issue we  
24          have been around. What I am seeing here, is I am seeing  
25          the same -- I thought we were going to try to shed some



1 of this when we went from one administration to the  
2 other to get away from the labeling game of, what is a  
3 user fee, what is a tax increase? It looks to me as  
4 they are the one and the same. The same thing on the  
5 smoke and mirrors category in terms of this  
6 administrative procedure on the banks on the day's  
7 float.

8 As I try to take that down through the ranks to  
9 small employers who provide information on paper to the  
10 banks, they do not now come in electronically, so how  
11 the banks will, in turn, convert that more rapidly into  
12 this format by which you pick up this sort of accounting  
13 increase that you can then credit as a revenue, I do not  
14 see how -- somebody is going to have to stand the gaff  
15 there, either the small companies in America--the dry  
16 cleaners, and the gas stations, and so forth--are going  
17 to have to convert to a new reporting form to feed their  
18 data into the banks, or else the banks are going to have  
19 to take the paper reports and convert them into this  
20 electronic format in order to be able to accelerate this  
21 reporting for you to be able to post, really, a revenue  
22 here. I mean, it is a gimmick. You can call it what  
23 you want. If that is not a gimmick then I have never  
24 seen one.

25 But, when you add up the revenues, whether you call

1 it taxes or user fees, the fact that you are finessing  
2 the issue on the environmental clean-up --  
3 do not have an answer for that. And, on this bank  
4 reporting issue, for tax purposes, the fact is that it  
5 is very difficult to track through exactly how that is  
6 going to work. I think it is a side step.

7 You ought to be in here asking for the money that it  
8 takes honestly and directly to pay these bills, and you  
9 are not doing that. I think you are understating the  
10 costs, and I do not think the sources of revenue are  
11 direct and straightforward the way they should be. I  
12 think that is very unfortunate.

13 Mr. Ryder. Senator, if I could at least address the  
14 gimmick aspect.

15 The Chairman. Please, Mr. Ryder.

16 Mr. Ryder. I think the Director had indicated in  
17 his earlier testimony, Senator, that this proposal has  
18 actually been tested in about three different areas with  
19 about 2,800 employers of varying sizes, large and small.

20 I think what we found over time, is that the problem  
21 is the technology has improved quite dramatically from  
22 the time of the paper coupons that have been used since  
23 the 1960s, and that the problem has been that the  
24 technology has not been available to IRS to handle most  
25 of the electronic fund transfers and the tax data. So,

1 we are moving in that direction, Senator.

2 Senator Riegle. Well, let us just take that point.  
3 What does that have to do with NAFTA? Absolutely  
4 nothing. You are reaching for an accounting saving  
5 here. And even if you will argue, it really has nothing  
6 to do with NAFTA. So, you are bringing it in to try to  
7 apply it here because you have got a cost that you do  
8 not want to face up to in a direct way. I mean, that,  
9 to me, is a dishonest practice.

10 The Chairman. Mr. Ryder, do not pursue the matter.  
11 Senator Riegle is essentially correct, and we all know  
12 that. Let us leave it. I have been on the floor for  
13 three days with the extension of Unemployment Insurance  
14 paid for by efficiencies in the U.S. Employment Service  
15 over the next five years, although the costs will be  
16 incurred in the next four months. Also, by depriving  
17 legal aliens for three years of their entitlement to  
18 Medicaid, we are picking up \$330 million. I mean, those  
19 are pretty sick people, obviously. Senator Breaux.

20 Senator Breaux. Mr. Chairman and Members, I would  
21 like to revisit the Custom fee.

22 The Chairman. Yes, sir.

23 Senator Breaux. I mean, I agree. We are just  
24 talking about raising money. I mean, the user fee  
25 argument, I think, is very, very suspect, at best. We

1 are looking for money to pay for loss in revenues from  
2 NAFTA, and I understand that. I mean, I am willing to  
3 go along with that. But the concern I have is the  
4 fairness. The Customs fees right now is an act of  
5 Congress. We made that decision. Mainly they are U.S.  
6 passengers coming back in, so we said they should not  
7 have to pay the fee.

8 Customs does not have to spend as much time  
9 inspecting U.S. passengers coming back as they  
10 passengers from other parts of the world. They may not  
11 say that, but I think that is a given and that is, I  
12 think, a correct policy. So, they pay zero from Canada,  
13 Mexico or the Caribbean. All other passengers coming in  
14 pay \$5 per passenger.

15 Now, the proposal from the administration and the  
16 way that they say it in their proposal, is that we are  
17 going to amend the Customs user fees by increasing it by  
18 \$1.50 per passenger. That is not what we are doing for  
19 passengers coming from Mexico, Canada, or the Caribbean.

20 The Chairman. That is right. That is right.

21 Senator Breaux. And these are basically our  
22 constituents who take these cruise ships from every  
23 State in the Union. We are saying to them that we are  
24 going to go from zero to \$6.50 per passenger. I think  
25 they could possibly handle the same increase for

1 everybody else, which is \$1.50. We are going from  
2 giving them a priority to vastly discriminating against  
3 our own citizens with a \$6.50 fee.

4 The Chairman. Well, I say, Mr. Ryder, you have  
5 heard the Senator make a very power, very cogent point.  
6 I think, perhaps, it is the Caribbean passengers who  
7 most concern him because this free trade agreement is  
8 meant to be of some advantage to Canada, Mexico, et  
9 cetera.

10 Is there any way you can return to this question and  
11 see whether there is some accommodation that could be  
12 made to Senator Breaux? I would advise you to attempt  
13 that. We do not have to have your answer this second.

14 Mr. Ryder. I am sure if the Director of OMB were  
15 here he would be certainly prepared to come back and  
16 discuss further with the Senator and others whether  
17 there are other options.

18 The Chairman. Fine. We will be here Monday and  
19 Tuesday when the House will not be here. We do not have  
20 to have a formal session to address this, but I think it  
21 should be addressed to your satisfaction. Not that we  
22 can all have our way about everything, but we have asked  
23 that you do. Senator Bradley.

24 Senator Bradley. Mr. Chairman, on this issue,  
25 generally, I wonder if the administration or USTR could

1 tell us, what is the landing fee or the exit fee in a  
2 number of other countries around the world; do we have  
3 that number? I mean, it is now a \$5 fee, and this would  
4 go to \$6.50. So, it is like \$1.50 more. It seems to  
5 me, when you leave certain countries, I always have to  
6 leave something in that country's currency so I can get  
7 out of that country.

8 Ambassador Yerxa. Senator Bradley, I cannot give  
9 you a complete inventory of all countries. We do know  
10 that --

11 Senator Bradley. Well, take the big ones.

12 Ambassador Yerxa. Yes. Well, I was going to say,  
13 fairly close to home and close to this issue, Mexico has  
14 a \$12 fee. Japan--and many of you may have had  
15 experiences flying out of Norita Airport--there are  
16 those nice little ticket machines when you leave that  
17 require, in current exchanges rates, about a \$20 fee for  
18 airport departures.

19 Our system operates differently because when this  
20 was legislated and implemented by the Congress we worked  
21 out with the airlines that it would be incorporated into  
22 the ticket rather than paid separately upon arrival.

23 The Chairman. Well, again, we can learn more in the  
24 next few days on the matter.

25 Now, the measure is open to amendment. Senator

1 Riegle.

2 Senator Riegle. Just a clarification, Mr. Chairman.  
3 We talked the other day about making sure that Section  
4 301 actions would be permitted after the adoption of  
5 NAFTA. We had a discussion. I think we had a meeting  
6 of the minds on that.

7 I just would like to confirm my understanding that  
8 the legislative report on the implementing legislation  
9 and the Statement of Administrative Action will each  
10 contain a statement that all remedies currently  
11 available under Section 301 remain available after  
12 NAFTA. I think we reached that understanding, but I  
13 would like to just nail it down.

14 The Chairman. I think that was our understanding.

15 Senator Riegle. Very good. Thank you. Well, I  
16 would like to hear from Ambassador Yerxa.

17 Ambassador Yerxa. Without holding myself to any  
18 precise wording, that was the understanding in our  
19 discussions with the committee.

20 The Chairman. That was the understanding.

21 Ambassador Yerxa. We have to work out the  
22 appropriate language with the committee staff.

23 Senator Riegle. Very good.

24 The Chairman. Indeed, you do, and you had better  
25 get about it. To meet your request, we are here --

1           Ambassador Yerxa. Well, I think they have worked on  
2           it some. We will just make sure it is perfect.

3           The Chairman. Fine. We are acting in response to  
4           the President. Senators, there is a vote on. After  
5           that I have to be on the floor; other people have to be  
6           in conferences. I am going to suggest that we agree to  
7           go to conference with the House on the measure that we  
8           have before us, with some questions about the funding  
9           that have to be resolved, but that we are substantially  
10          in the range of --

11          Senator Conrad. Mr. Chairman.

12          The Chairman. Sir. Senator Conrad.

13          Senator Conrad. Might I just say that I have three  
14          amendments to offer. Would I be foreclosed from that?

15          The Chairman. You would if we act now. So, why do  
16          you not give us your amendments?

17          Senator Riegle. Why do we not just accept the  
18          amendments, in the interest of time?

19          The Chairman. Well, I understand the administration  
20          will support the amendments. One, relates to import  
21          surge classification. It is just a very simple problem  
22          of, in an agricultural commodity, if you do not look at  
23          what has happened because of disasters, you could get an  
24          unintended consequence with respect to import surges.  
25          The first amendment deals with that question.



1           The second amendment also deals with import surge  
2 classification problems. The solution is a very simple  
3 one. We simply say that, for purposes of determining  
4 whether a reduction in duty has occurred, expansion of a  
5 quota -- under tariff rate quota shall be considered to  
6 be a reduction in the duty.

7           The Chairman. All right. And the third?

8           Senator Conrad. And the third, is entry in the  
9 force. The administration has tied the question of the  
10 labor agreements and the environmental agreements to the  
11 NAFTA, but there is no formal connection. This simply  
12 makes a formal connection.

13          The Chairman. All right. This is by you and  
14 Senator Riegle, I believe.

15          Senator Conrad. Yes.

16          Senator Bradley. Mr. Chairman, on this last point,  
17 if you could comment, if this is in any way a problem on  
18 the fast-track.

19          The Chairman. Ambassador Yerxa.

20          Ambassador Yerxa. We have been talking with Senator  
21 Conrad and his office on these amendments. My  
22 understanding from these conversations is that the  
23 administration finds the amendments acceptable. We  
24 would like to reserve the right to work out further on  
25 the language as we go to conference.

1           The Chairman. You have that right, and you will  
2 exercise it vigorously, I cannot doubt.

3           We are well into our vote.

4           Senator Danforth. Mr. Chairman.

5           The Chairman. Yes, of course.

6           Senator Danforth. On this third one, of course, I  
7 do not know what these are. But there is a problem.  
8 Are we going to be --

9           The Chairman. Yes. Yes. I think there are enough  
10 things around that probably we should have a meeting on  
11 Monday. I think Senator Breaux has some real questions  
12 you might want to know about.

13          Senator Danforth. So we can just revisit this. I  
14 do not know much about it.

15          The Chairman. Right. Right. I am going to propose  
16 that we, in effect, report out this measure so that  
17 consultations can take place at the staff level. We  
18 will have a formal meeting on Monday in which we can  
19 amend our offer if we are so disposed. And, then,  
20 again, we can have a meeting on Tuesday because we will  
21 not be able to meet with the House until Wednesday. Is  
22 that agreeable?

23          Senator Riegle. Mr. Chairman, can I ask that Senate  
24 Con. Res. 36, which is on trucking standards, I think  
25 will be acceptable, that my staff could work with you to

1 see if we could get that incorporated?

2 The Chairman. Of course.

3 Those in favor will say, aye.

4 (A chorus of ayes)

5 The Chairman. Those opposed?

6 (No response)

7 The Chairman. Done.

8 Senator Bradley. Mr. Chairman, is that aye all of  
9 the amendments that were --

10 The Chairman. Yes. But we can revisit this matter  
11 on Monday, probably later in the day.

12 (Whereupon, at 3:12 p.m., the meeting was  
13 concluded.)

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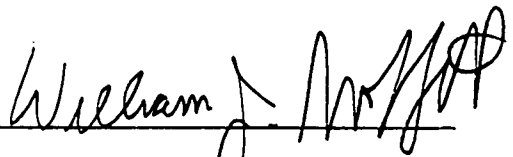
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C E R T I F I C A T E

This is to certify that the foregoing proceedings of an Executive Committee Meeting of the Committee on Finance, United States Senate, held on October 28, 1993, were transcribed as herein appears and that this is the original transcript thereof.



WILLIAM J. MOFFITT

Official Court Reporter

My Commission Expires April 14, 1994

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# United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

LAWRENCE O'DONNELL, JR., STAFF DIRECTOR  
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## EXECUTIVE SESSION

Thursday, October 28, 1993 -- 2:00 p.m.  
Room SD-215 Dirksen Senate Office Building

## A G E N D A

To consider recommendations for legislation to  
implement the North American Free Trade Agreement

October 28, 1993

### Overview of Proposed NAFTA Offsets

- Although NAFTA will generate net economic and revenue gains, technical requirements of the Budget Enforcement Act require legislation that will offset revenue losses from the tariff tax cut. The Administration proposes that Congress offset those costs in the following ways:
  - Commodity Credit Corporation (CCC) outlays for deficiency payments will be lower, under current law, because NAFTA will directly increase agriculture exports and farm incomes, saving slightly less than \$0.2 billion between 1994 and 1998. (See separate talking points for more detail.)
  - Give the Customs Service access to certain tax information to improve Customs' efforts to enforce current tariff laws and detect fraud. This will generate \$0.14 billion in revenue between 1994 and 1998.
  - Implement a new electronic Federal Tax Deposit (FTD) system. By cutting paperwork and increasing IRS efficiency, this will generate approximately \$1.3 billion between 1994 and 1998.
  - Increase certain Customs user fees to cover Custom's inspection and processing costs. The air/sea passenger processing fee will increase from the current \$5.00 fee to \$6.50, generating approximately \$1.1 billion between 1994 and 1998. (See separate talking points for more detail.)

**New Electronic  
Federal Tax Deposit (FTD) System**

**Background:**

- Under the current Federal Tax Deposit (FTD) System, employers present paper FTD coupons and the taxes withheld to their banks on tax due dates in payment of Federal taxes. The banks, then, forward the paper coupons to IRS with aggregate tax account information and separately initiate steps to transfer funds to the Federal government. Treasury currently receives the tax payments in its account on the day after tax due date.

**Electronic FTD Proposal:**

- The objective is to increase IRS processing efficiency and enable the tax payments to be credited to Treasury's account on the due date. The proposal will move the FTD system from paper coupons and checks that currently are credited to Treasury's account the day after the tax due date, to an electronic payment method that would result in net settlement to Treasury's account on the tax due date.
- The proposal would phase in a new system to transmit electronically tax funds and tax information, eliminating the need for banks to process paper tax forms.
  - As the new system is implemented, Federal tax deposits will be credited to Treasury's account one day earlier.
  - This is only a change in payment method. **It is not a change in tax due date. It is not a tax increase and no taxpayer will have to pay any higher taxes.**
  - The proposal gives the Treasury Secretary flexibility to address specific conversion issues that employers or banks may encounter.
- The proposal will contain annual minimum conversion targets to assure that this change to a new electronic processing system is implemented in a phased, orderly way.
- The change provides a permanent acceleration of tax receipts and a resulting increase in Federal revenues during the period 1994 - 1998. Over the period Treasury estimates that revenues could increase as much as \$3 billion if 100 percent of the payments are converted to the new system.

- To provide the Secretary flexibility, the legislation, however, will not require 100 percent conversion to the new system by 1998.
- The proposal has not been considered for implementation earlier because the IRS has needed to upgrade its computer and telecommunications technology. **The private sector has already been using this technology for many years.**

Additional Information:

- Treasury has been testing the feasibility of different electronic approaches for several years. Approximately 2,500 employers have participated voluntarily in three separate tests.
- The proposal implements an important Treasury effort to modernize the IRS and Treasury's primary tax collection system. It reinforces a National Performance Review objective to replace current government paper transactions with electronic processing.
- The pilot tests envision using the commercial "Automated Clearing House" (ACH) electronic payment method that is a standard in the business world. Treasury regulations would provide an alternative for taxpayers who might not be able to accommodate this method.

The proposal is a real improvement, not a gimmick:

- It makes a real change that benefits the private sector and government operations.
  - It enables industry and government to move further towards conducting operations electronically, reducing paperwork burden on the public.
  - It improves efficiency and accuracy at the IRS and Treasury.
- The revenue increase results from a permanent one day acceleration of the deposit of Federal tax withholdings into the Treasury. The revenue increase from converting from paper to electronic processing is a major benefit of our investments to modernize the IRS.



## INCREASE CERTAIN CUSTOMS FEES AND REMOVE PASSENGER FEE EXEMPTIONS

### Background:

Customs currently assesses a \$5 user fee on air and sea passengers arriving in the United States (except those arriving directly from Mexico, Canada, the Caribbean Islands and the U.S. Territories). These user fees were enacted in the 1986 Reconciliation Act (COBRA). The fees are available without appropriation to cover only the costs of overtime for Customs inspectors and other enhanced inspections activities. The fees were not set at a level sufficient to cover the base costs of providing Customs inspections services and have not been changed since 1986.

### Proposal:

Amend statute to lift exemptions for passengers arriving by air and sea from certain countries and increase passenger user fees by \$1.50 for those and all other international air and sea arrivals. Make these increased user fee revenues available for appropriation to cover the basic costs of Customs inspections services that are not covered by the current user fee.

(1) Lift the current exemptions for air and sea passengers arriving from Mexico, Canada, the Caribbean and the U. S. Territories, (Puerto Rico is considered a State for this purpose and its exemption would continue):

- Consistent with current INS practice for air passengers. (INS has a separate \$6 passenger fee for air passengers but does not exempt air passengers arriving from these countries.)
- Does not violate NAFTA, which deals only with the treatment of cargo, and not passengers.

- (2) Increase from \$5.00 to \$6.50 the Customs user fee assessed on all air and sea travelers arriving in the United States, including those currently exempted.
- Fees are currently authorized, but will require legislation to increase and change the authorized uses of the fees to cover the costs of basic Customs inspections services.
  - INS assesses a separate fee per passenger in addition to the Customs fee. The INS fee was increased this year from \$5 to \$6 to help fund the Administration's immigration initiatives.
  - Fee collection procedure already in place because airlines and cruise lines include fee in total ticket price.
  - Other reasons for increasing the fees at this time include the following:
    - The additional \$1.50 passenger fee will help eliminate the current taxpayer subsidy provided to fund the total costs of Customs inspection and processing activities.
    - Current fees have not been increased since their original enactment in 1986 and were not increased in the extension enacted in OBRA 1993.
    - The additional \$1.50 fee will have a minimal impact on the total price of international airline and ship ticket prices.
    - Passenger fee is assessed on all international arrivals. No individual airline is placed at a disadvantage and domestic airlines will not be adversely affected relative to their foreign competitors.

**CUSTOMS ANTI-FRAUD AND ENFORCEMENT INITIATIVE:  
IRS INFORMATION SHARING**

Background: Customs currently conducts approximately 200 major import audits annually. Customs has no statutory authority to obtain IRS tax information to facilitate Customs audit and other work but may ask importers to voluntarily disclose tax information.

In cases where Customs receives voluntary tax information, audits collect on average \$585,000, versus \$385,000 where Customs has no tax information. Customs receives no tax information in 3/4 of its 200 annual audits.

Proposal: Provide Customs Service the ability to secure certain tax information to allow officers and employees of the Customs Service, in the performance of their official duties, to conduct Customs audits and certain other Customs functions. This access would be provided to all relevant tax returns which would aid primarily in the assessment of Customs duties.

- The expected tariff collection increase from granting Customs access to tax information submitted to the IRS would be, at a minimum, equal to \$30 million annually (or 150 cases at \$200,000 per case). The \$30 million increase would occur each year following adoption of Customs access to taxpayer information. Revenue would increase either through audit findings or increased importer reporting of accurate valuation figures.
- Reasons for adopting the statutory change include the following:
  - Increases collection of debts currently owed and combats taxpayer fraud without increasing taxes.
  - Without statutory change, voluntary compliance by importers is likely to decrease over time with successful audit program.
  - Consistent with Administration's debt collection efforts as contained in the National Performance Review (NPR).

AMENDMENT

SENATOR CHARLES E. GRASSLEY

TRANSITIONAL WORKER ADJUSTMENT PROGRAM

ADD THE FOLLOWING LANGUAGE FOR INCLUSION OF WORKERS IN TRADE ADJUSTMENT ASSISTANCE SEC 221 (A) AND SEC 222 (A) CHAPTER 2 OF TITLE II OF THE TRADE ACT OF 1974, AS AMENDED:

SEC. 221 PETITIONS (A) WHICH CURRENTLY READS (INCLUDING WORKERS IN ANY AGRICULTURAL FIRM OR SUBDIVISION OF AN AGRICULTURAL FIRM) SHOULD BE CHANGED TO READ (INCLUDING FAMILY FARMER, FARM WORKERS, WORKERS IN ANY AGRICULTURAL FIRM OR SUBDIVISION OF AN AGRICULTURAL FIRM)

SEC. 222 GROUP ELIGIBILITY REQUIREMENTS (A) WHICH CURRENTLY READS (INCLUDING WORKERS IN ANY AGRICULTURAL FIRM OR SUBDIVISION OF AN AGRICULTURAL FIRM) SHOULD BE CHANGED TO READ (INCLUDING FAMILY FARMER, FARM WORKERS, WORKERS IN ANY AGRICULTURAL FIRM OR SUBDIVISION OF AN AGRICULTURAL FIRM)

**PORT LICENSES**

ments Act of 1979

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other provision of law, public auction under such appropriate. Regulations pre- e extent practicable and ration, insure against in- eily small number of the

purposes of this section, cumentation used to ad- ed or modified after the

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ct (50 U.S.C. App. 1-44), ct of 1956 (7 U.S.C. 1854) or

e purpose of implement- hich the United States is relating to commodities, ating to cheese or dairy

**G. TRADE ADJUSTMENT ASSISTANCE**

Chapters 2, 3, and 5 of Title II of the Trade Act of 1974, as amended.

[19 U.S.C. 2271; P.L. 93-618, as amended by P.L. 96-417, P.L. 97-35, P.L. 98-120, P.L. 98-369, P.L. 99-272, P.L. 100-418, P.L. 100-647, and P.L. 101-382]

**CHAPTER 2—ADJUSTMENT ASSISTANCE FOR WORKERS**

**Subchapter A—Petitions and Determinations**

**SEC. 221. PETITIONS.**

(a) A petition for certification of eligibility to apply for adjustment assistance under this chapter may be filed with the Secretary of Labor (hereinafter in this chapter referred to as the "Secretary") by a group of workers (including workers in any agricultural firm or subdivision of an agricultural firm) or by their certified or recognized union or other duly authorized representative. Upon receipt of the petition, the Secretary shall promptly publish notice in the Federal Register that he has received the petition and initiated an investigation.

(b) If the petitioner, or any other person found by the Secretary to have a substantial interest in the proceedings, submits not later than 10 days after the date of the Secretary's publication under subsection (a) a request for a hearing, the Secretary shall provide for a public hearing and afford such interested persons an opportunity to be present, to produce evidence, and to be heard.

**SEC. 222. GROUP ELIGIBILITY REQUIREMENTS.**

(a) The Secretary shall certify a group of workers (including workers in any agricultural firm or subdivision of an agricultural firm) as eligible to apply for adjustment assistance under this chapter if he determines—

(1) that a significant number or proportion of the workers in such workers' firm or an appropriate subdivision of the firm have become totally or partially separated, or are threatened to become totally or partially separated.

(2) that sales or production, or both, of such firm or subdivision have decreased absolutely, and

(3) that increases of imports of articles like or directly competitive with articles produced by such workers' firm or an appropriate subdivision thereof contributed importantly to such total or partial separation, or threat thereof, and to such decline in sales or production.

(b) For purposes of subsection (a)(3)—

(1) The term "contributed importantly" means a cause which is important but not necessarily more important than any other cause.

PROPOSED SENSE OF THE SENATE LANGUAGE FOR NAFTA IMPLEMENTING  
LEGISLATION

SENATOR CHARLES E. GRASSLEY

IT IS THE SENSE OF THE SENATE THAT THE U.S. TRADE REPRESENTATIVE,  
HAVING STATED TO THIS BODY THAT MAJOR HOUSEHOLD APPLIANCES (WHITE  
GOODS) AND FLATGLASS ARE CONSIDERED TO BE HIS TOP PRIORITIES IN THE  
FIRST ROUND OF TARIFF ACCELERATIONS IN THE NAFTA, THAT IMMEDIATELY  
UPON PASSAGE OF THE IMPLEMENTING LANGUAGE OF NAFTA, HE SHOULD  
INITIATE NEGOTIATIONS WITH THE MEXICAN GOVERNMENT ON THESE TWO  
PRODUCTS AND REPORT BACK TO THE FINANCE COMMITTEE PROGRESS MADE  
PRIOR TO THE FINAL VOTE ON NAFTA AND EVERY SIX MONTHS THEREAFTER.

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Amendment proposed to be offered by Senator Conrad

Bilateral Import Surge Clarification I  
Problem:

Article 801 allows tariff snapback in the case where a domestic industry is injured as a result of an absolute increase in imports under the NAFTA. This formulation could create a problem in the following scenario involving an agricultural commodity:

In a given year, there is a serious shortfall in domestic production of a certain commodity in a given year as a result of factors beyond the control of producers (e.g., flood, drought, pests, change in support programs), and imports from a NAFTA party surge as a result of the increased demand for imports and the lowered barriers resulting from NAFTA; because of the natural disaster the import surge does not cause serious injury. In the following year, however, domestic production returns to its normal level and imports from a NAFTA party continue at the level of the previous year, or even decrease very slightly. Because domestic production has returned to its normal level, this same, or slightly lower, level of imports could now constitute a substantial cause of serious injury to the domestic industry. In this case, it is not clear, from the Agreement, that the ITC would find that there is an absolute increase in imports causing injury. The Conrad amendment clarifies that the ITC could reach an affirmative finding in this scenario; this reflects normal current ITC practice.

Solution:

Amend page 8-1 by adding the following clarification:

"Statement of Administrative Action to include the following:

'In determining whether imports have increased and whether increased imports are a substantial cause of serious injury or the threat thereof to the domestic industry, the ITC will examine trends in imports and changes in the marketplace over the most recent years. Particularly in the case of imports of an agricultural good, the fact that imports may have been higher in a year prior to the most recent year due to natural disasters (such as floods, droughts, pest problems) or changes in domestic support programs would not be dispositive of the question of whether imports are increasing or whether increased imports are a substantial cause of serious injury or the threat thereof to the domestic industry.' "

Amendment proposed to be offered by Senator Conrad

Bilateral Import Surge Clarification II

**Problem:**

Article 801 allows tariff snapback only in the case where a domestic ~~an~~ increase in imports is caused by the elimination or reduction of a duty under the NAFTA. However, many goods are subject to a tariff rate quota, not a duty; in this case the surge in imports may result from an expansion of the first tier quota rather than a reduction in a duty. Past history involving global surges and tariff rate quotas and the negotiating history of the NAFTA suggest that this term is meant to include the expansion of a first tier quota, because such an expansion results in a de facto reduction in the duty on the additional volume eligible for the first tier. However, it is not clear how the ITC would rule on this case unless it is given some direction. The Conrad amendment clarifies the intent of this provision.

**Solution:**

Amend page 8-1 by adding the following clarification:

"For purposes of determining whether a reduction in duty has occurred, expansion of a quota under a tariff-rate quota shall be considered to be a reduction in a duty."



**Amendment proposed to be offered by Senators Conrad & Riegle**

**Entry into Force**

**Problem:**

The Administration has argued that the side agreements are an integral part of the NAFTA package. Yet there is nothing in the implementing bill that would prevent the NAFTA from entering into force even if Mexico does not take the necessary steps to ensure that the side agreements enter into force.

**Solution:**

Amend the provision on entry into force by adding the following language on page 22-2:

"Before making such a determination, the President shall certify that the United States has received written notifications certifying the completion of necessary legal procedures by Mexico and Canada for the labor and environmental side agreements."

## Bradley Amendment

The Congressional Budget Office shall submit to Congress, at the close of each three-year period after the date on which the Agreement enters into force through the end of the fifteenth year after the Agreement enters into force, a report assessing the economic and budgetary effects of the Agreement on U.S.--

- 1) net employment,
- 2) average wage rates,
- 3) worker dislocation, and
- 4) Federal revenues and expenditures.

The report should distinguish between consequences of the Agreement and events that would likely have occurred without the Agreement. The report should evaluate the effects of the Agreement relative to aggregate economic changes and, to the extent possible, to the effects of other factors to include --

- 1) international competition,
- 2) reductions in defense spending,
- 3) the shift from traditional manufacturing to knowledge- and information-based economic activity, and
- 4) the federal debt burden.