

1 EXECUTIVE COMMITTEE MEETING ON MARKUP ON AFRICAN TRADE  
2 BILL

3 TUESDAY, JULY 21, 1998

4 U.S. Senate,  
5 Committee on Finance,  
6 Washington, DC.

7 The meeting was convened, pursuant to notice, at  
8 10:30 a.m., in room SD-215, Dirksen Senate Office  
9 Building, Hon. William V. Roth, Jr. (Chairman of the  
10 Committee) presiding.

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11 Also present: Senators Chafee, Grassley, Hatch,  
12 D'Amato, Murkowski, Gramm, Lott, Jeffords, Moynihan,  
13 Baucus, Rockefeller, Breaux, Conrad, Moseley-Braun,  
14 Bryan, and Kerrey.

15 Also present: Franklin Polk, Staff Director and  
16 Chief Counsel; Mark A. Patterson, Minority Staff Director  
17 and Chief Counsel.

18 Also present: Mr. Richard Fisher, Deputy USTR; Grant  
19 Aldonas, Chief Trade Counsel; Mark Prater, Chief Tax  
20 Counsel; and Faryar Shirzad, Trade Counsel.

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1 OPENING STATEMENT OF THE HON. WILLIAM V. ROTH, JR., A  
2 U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON  
3 FINANCE

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5 The Chairman. The committee will please be in  
6 order.

7 We are here to mark up an original bill that will be  
8 offered as a substitute for H.R. 1432. The proposed  
9 Chairman's mark before you would create a new bill  
10 entitled "The Trade and Tariff Act of 1998" that  
11 incorporates a revised version of the Africa bill and a  
12 number of bills that the committee reported out with  
13 overwhelming support over the last 18 months.

14 My purpose in proposing this omnibus bill as a  
15 substitute to the H.R. 1432 is two-fold. First, we are  
16 at a critical juncture in terms of both the U.S. and  
17 global economies.

18 The events unfolding in Asia, as the committee's  
19 recent hearings have underscored, are dampening the  
20 prospects for economic growth at home, as well as abroad.  
21 Our current account deficit is scoring records each month  
22 as the problems in Asia increasingly wash up on our  
23 shores.

24 That impact has been felt most dramatically in our  
25 agricultural sector. Our farmers depend on export

1 markets for 40 percent of their income. The problems  
2 abroad have led to steep price declines for all  
3 agricultural commodities.

4 Those circumstances have led virtually all of the  
5 major farm groups, along with virtually all of the major  
6 business groups, to support the movement of fast track.  
7 Many of these groups, including the Agriculture Coalition  
8 for Fast Track and the Emergency Coalition for American  
9 Trade, have issued a letter in support of the Finance  
10 Committee's decision to move, on a bipartisan basis,  
11 towards the passage of this important legislation.

12 At times like this, we hear urgent calls both here  
13 and abroad to close markets, pull up the drawbridge, and  
14 attempt to hold economic forces at bay. As I have said  
15 before, there is no protection in protectionism and there  
16 is no reason for us to commit the mistakes of the past.

17 What is needed, instead, is a strong statement of the  
18 U.S. commitment to a free and open trading system that  
19 will provide a rising standard of living for both U.S.  
20 and foreign workers.

21 Trade is a positive sum game from which we all can  
22 benefit and that is why I have included the renewal of  
23 fast track and the other measures previously reported by  
24 this committee.

25 I believe that the committee, the Senate, and the

1 Congress must make a strong statement about where America  
2 stands, whether it is our call for further liberalization  
3 of trade, goods, and services, our willingness to follow  
4 through on our commitments, like implementing the OECD  
5 shipbuilding agreement, or our interest in assisting the  
6 less-developed world on the road towards economic growth.

7 I believe we are ready to do just that. Many of our  
8 colleagues have recently signed a letter requesting the  
9 Majority Leader to schedule a prompt vote on fast track.  
10 Based on the 72 votes in favor of Senator Grassley's  
11 resolution this past week, which included a resolution  
12 calling for the approval of fast track, I believe that  
13 the mark before us will maintain the level of bipartisan  
14 support enjoyed this past fall when it moves to the  
15 floor.

16 Second, I want to make the point that we are  
17 committed to moving the trade agenda of the Finance  
18 Committee forward. This package represents a product of  
19 18 months of hard work by the committee on a variety of  
20 measures that we want to ensure are addressed by this  
21 Congress and the President.

22 Further to the point, I want to emphasize that the  
23 administration has in the past emphasized its commitment  
24 to almost every one of these measures, whether on Africa,  
25 fast track, CBI, shipbuilding, Mongolia, GSP, or trade

1 adjustment assistance, and I hope and expect that we will  
2 have the administration's support for each of these  
3 measures now.

4 We are, after all, legislating in an area that  
5 demands that Congress and the President work together.  
6 On the committee we have fashioned a series of measures  
7 that have reduced strong bipartisan support and served  
8 the interest of moving forward on the American trade  
9 agenda, one developed with the active involvement of the  
10 President.

11 I have accepted a number of modifications to the mark  
12 to address concerns raised by individual members. Given  
13 that, I want to encourage the committee to move this  
14 proposal forward without significant amendment in order  
15 to ensure that we make the strongest possible statement  
16 in support of passing the committee's trade agenda in  
17 this Congress.

18 Senator Moynihan?

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1 OPENING STATEMENT OF THE HON. DANIEL PATRICK MOYNIHAN, A  
2 U.S. SENATOR FROM NEW YORK

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4 Senator Moynihan. Thank you, Mr. Chairman. I join  
5 you in support of the measure before us. You set out  
6 some months ago to make international trade a priority  
7 for the Finance Committee in this 105th Congress, and  
8 this legislation fulfills that commitment. The committee  
9 has had jurisdiction over foreign trade since 1816, the  
10 year it was formed. It is important that we continue to  
11 assert it and advance it.

12 Two brief points I would make. You have included the  
13 renewal of fast-track negotiating authority, as reported  
14 by the committee last year, and you have done so, as  
15 ever, on principle and in good faith.

16 However, there are others with perhaps less admirable  
17 motives who would prefer to play politics with fast  
18 track. For political advantage, they hope to force a  
19 difficult vote in the House of Representatives. At the  
20 moment, it is most likely to fail.

21 We know that is not your intention, nor can it be the  
22 goal of anyone who sincerely supports free trade and the  
23 enactment of fast track. But we are concerned about how  
24 the provisions will be handled in the full House and  
25 Senate.

1 I will vote to report the bill, but, after we have  
2 acted, I would propose to work with you, and the  
3 leadership, and our colleagues to determine how best to  
4 proceed in the interest of getting this legislation  
5 actually on the books.

6 One other matter of large possible consequence, which  
7 has to do with labor standards. Last year, our bill that  
8 you proposed stated, "It is the policy of the United  
9 States to reinforce the trade agreements process by: 1)  
10 promoting respect for workers' rights; and 2) seeking to  
11 establish in the International Labor Organization," an  
12 organization which we have been a member of since 1934  
13 and which first met on the PanAmerican Union in 1919 on  
14 Constitution Avenue, "seeking to establish there the  
15 systematic examination of and reporting on the extent to  
16 which ILO members promote and enforce the freedom of  
17 association, the right to organize and bargain  
18 collectively, the prohibition of the use of forced labor,  
19 prohibition on exploitative child labor, and a  
20 prohibition on discrimination in employment."

21 I am happy to report that we now have just such a  
22 mechanism. At the International Labor Conference in  
23 Geneva this last month, much pressed by our distinguished  
24 Secretary of Labor, Secretary Herman, the ILO adopted a  
25 new "Declaration on Fundamental Principles and Rights at

1 Work," with a follow-up mechanism very like that which we  
2 envisioned.

3 We have, therefore, included in your bill, this  
4 legislation--our legislation, if you like--language to  
5 reflect the ILO's adoption of this declaration. If  
6 implemented with energy by the ILO and the governments  
7 thereof and taken seriously in the business and labor  
8 community, the declaration could very much aid and might  
9 just provide us the monitoring mechanism to work our way  
10 out of the recent impasse we have had over labor, on the  
11 one hand, and trade agreements.

12 This last December, in an address in Germany, Mr.  
13 Ruggiero, the head of the International Trade  
14 Organization, said it was for the ILO to look to labor  
15 standards in parallel with the trade measures of the ITO.

16 It could be a very rewarding and productive  
17 relationship. You have included it in the measure and I  
18 think, decades hence, this might turn out to be a much  
19 more important development than is perhaps realized now,  
20 and I thank you for it.

21 Senator Baucus. Mr. Chairman?

22 The Chairman. Yes, Senator Baucus. I would like to  
23 ask that we proceed as rapidly as possible. I know there  
24 are a few that do want to make some, hopefully, very  
25 brief opening remarks. I would ask anyone that feels



1 compelled to speak to limit their comments to two  
2 minutes.

3 Senator Baucus?

4 Senator Kerrey. Mr. Chairman, if I could, to my  
5 home State, this is not only one of the most important  
6 pieces of legislation, but most confusing. Trade has  
7 become unpopular in Nebraska. I must say, if confined to  
8 two minutes, I may not vote for the Chairman's mark. It  
9 has become unpopular.

10 I need time to explain to Nebraskan citizens for whom  
11 I work what this is all about and how they stand to  
12 benefit. I respect the Chairman's desire to move on, and  
13 I hope the Chairman will also respect my need to explain  
14 what it is that we are about to do.

15 The Chairman. Well, I would ask, Senator Kerrey,  
16 that you keep it as brief as possible, because we do want  
17 to try to complete the work this morning.

18 Senator Kerrey. I thank the Chair.

19 The Chairman. Senator Baucus?

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

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4 Senator Baucus. Mr. Chairman, I appreciate your  
5 calling up this bill. It is obviously very important.  
6 It is also clear, and becoming more clear as the years  
7 progress, that we in America are hurting ourselves  
8 overseas. Our stature is somewhat diminishing because of  
9 our inability to conduct trade agreements in the same  
10 vein that other countries can, that is, because we have  
11 not passed fast track.

12 We all know that the European Union, for example, is  
13 beating us in South America. We know of other trade  
14 agreements made worldwide that we are not able to make  
15 because we do not have fast-track authority, something  
16 that is necessary due to our peculiar form of government  
17 with separation of powers. We are not a parliamentary  
18 form of government and, therefore, we need it.

19 I must say that I am a bit perplexed at how quickly  
20 we are rushing this bill now, with virtually no  
21 announcement. There are many provisions here for which  
22 there have not been hearings. As the Senator from  
23 Nebraska said, fast track is a very complex subject. Our  
24 agricultural community is very conflicted about fast  
25 track.

1 Many believe that NAFTA, the Canadian Free Trade  
2 Agreement, caused low prices for commodities,  
3 particularly wheat. Frankly, there is not a lot of  
4 direct evidence of that, but that is what they believe,  
5 and if they believe it, that is what counts.

6 There are also many other agricultural groups,  
7 particularly the leadership--not so much the membership,  
8 but the leadership--who believe that fast track is  
9 necessary to open markets overseas so we can address a  
10 bit of the glut, the over-supply of commodities, which  
11 exists in the world.

12 Of course, selling more overseas is not going to  
13 totally solve the problem of low price for commodities  
14 and the lack of market. It helps a little bit, but not a  
15 lot.

16 I must say also, Mr. Chairman, there is another very  
17 grave concern in our country that, with fast track and  
18 with the agreements under fast track, that many companies  
19 are going to reach agreements which are going to help  
20 those countries' bottom lines, and that is good. We are  
21 all for American companies doing better overseas. We  
22 want to continue the strong economic growth that our  
23 country is experiencing. But there are many, many people  
24 who are not in on the deal. These are employees, these  
25 are people who are laid off because of down-sizing, these

1 are people whose incomes are not going up nearly as much  
2 as are the bonuses of the CEOs and the heads of these  
3 companies.

4 The best evidence of the problem, the direct  
5 evidence, is an increasing maldistribution of income in  
6 America. The wealthy are getting a lot more wealthy and  
7 middle-income Americans are not. Middle-income Americans  
8 are not getting more wealthy.

9 Now, I am not here to say that fast track and  
10 agreements reached under fast track is the cause of that,  
11 but I am here to say that it somewhat contributes to the  
12 problem with this massive globalization that is occurring  
13 and which will increase into the next century, and next  
14 millennium, for that matter.

15 That is why I am a bit concerned that this is coming  
16 up in such a rushed fashion, because there are many very  
17 legitimate questions that have to be addressed if the  
18 American people are going to feel like they are in on the  
19 deal.

20 We need fast track, but there is not a lot of  
21 evidence that we are solving the problems of the people  
22 who are laid off and are down-sized. The answer is more  
23 education, more retraining, and a lot more things like  
24 that.

25 I must say, I was very impressed--and this is very

1 anecdotal--when I was with the President on his trip to  
2 China.

3 The Chairman. Could I just----

4 Senator Baucus. Just very briefly, Mr. Chairman.  
5 This is just a second here, then I will be through,  
6 because I am about finished.

7 The Chairman. I did not want to interrupt you, but  
8 we do have a vote.

9 Senator Baucus. All right.

10 The Chairman. I am just trying to expedite the  
11 continuation of this hearing.

12 Senator Baucus. Right. I will be finished in just  
13 30 seconds.

14 The Chairman. What I want to do is ask those that  
15 can to go and vote and come back, so that we can continue  
16 without interruption.

17 Senator Baucus. The point I was making, is China is  
18 going through very significant problems, down-sizing its  
19 state-owned enterprises. On a boat in Shanghai, on the  
20 Yangtze River, there standing next to me was the mayor of  
21 Shanghai, Mayor Shu. I said to him, you must be very  
22 proud of what you have done here in Shanghai, with all  
23 the buildings, et cetera. His immediate answer was, oh,  
24 but we have got problems.

25 He began to tell me about what they are trying to do

1 to retrain over a million people who have been laid off  
2 in Shanghai as a consequence of down-sizing the state-  
3 owned enterprises, and how a vast majority of the people  
4 laid off as a consequence are being retrained or have new  
5 jobs. It is a very direct effort they are taking.

6 I do not, frankly, see the same kind of commitment in  
7 the United States, the same kind of effort to help those  
8 people who are laid off, and laid off not because they  
9 did anything wrong, but because of the economic realities  
10 that exist in the world today.

11 That is all tied up in fast track. There are some  
12 provisions in this measure, I must say, Mr. Chairman,  
13 which I do not agree with, particularly where we are  
14 lowering tariffs unilaterally, and on a reciprocal basis  
15 getting other countries to lower their tariff barriers.

16 Fast track is important, but I wish that we had  
17 brought this up in a different circumstance so that we  
18 can iron out some of the problems that exist and not rush  
19 this too quickly. Thank you.

20 Senator Chafee. All right. Now, I thought Senator  
21 Kerrey was going to make some remarks. I guess he has  
22 gone over to vote. Then we will have a recess until the  
23 Chairman returns from voting.

24 [Whereupon, at 10:47 a.m., the meeting was recessed.]

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AFTER RECESS

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[11:00 a.m.]

The Chairman. The committee will please be in order.

The vote is still proceeding, but I would like to proceed as rapidly as possible. For that reason, I do not have the order that people arrived, but Senator Kerrey, you have indicated an interest in speaking.

1 OPENING STATEMENT OF THE HON. J. ROBERT KERREY, A U.S.  
2 SENATOR FROM NEBRASKA

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4 Senator Kerrey. Not at length. I think Senator  
5 Conrad was here earlier. Mr. Chairman, I appreciate your  
6 indulgence, and I will probably talk sufficiently fast  
7 that you will need a translator to transcribe this thing.

8 But trade has become unpopular in a State that  
9 benefits from trade, Nebraska, and it has lost its  
10 cachet. I wanted to take time, as a consequence of my  
11 support for this piece of legislation and my support for  
12 trade, Mr. Chairman, to try to communicate with  
13 Nebraskans who might be watching this, either directly or  
14 will acquire it some other way, to say why I believe  
15 trade is enormously beneficial for us. I understand that  
16 we may not have time on the floor to do this, so I beg  
17 your indulgence. As I said, I will go through it  
18 quickly.

19 First of all, though competition is not a pretty  
20 thing to watch and there are times when we do not like  
21 the outcome, it is the best way to raise standards of  
22 living, it is the best way to provide the American people  
23 with the highest quality, lowest priced services and  
24 products available, and the best way for us to keep our  
25 overall standard of living on the rise. It is a



1 difficult thing to accept because there are losers. One  
2 of the problems I think we have had with trade is we have  
3 not said that straight on. We over-promised with NAFTA.

4 I appreciate very much the Chairman including  
5 language in that I have asked to be included in this bill  
6 that would require a very objective analysis of where we  
7 win and where we lose. You cannot have competition  
8 without having both winners and losers, and I think we  
9 have not done a very good job of identifying where the  
10 losses occur.

11 Second, I do not believe that you can love jobs and  
12 hate the people that create them. To create a job, I  
13 have got to have income, I have got to have sales. I  
14 have got to have sales of some product or service that I  
15 am manufacturing.

16 What I find to be the most compelling argument to the  
17 800,000 Nebraskans who are working, who have jobs, and  
18 who worry about their jobs is that over 80 percent of all  
19 the increased income that we have, increased sales that  
20 we have, come from exports, come from our ability to be  
21 able to compete and sell competitively abroad.

22 So I see this as a way for us to create jobs, I see  
23 it as a way for us to lift our incomes, and I especially  
24 want to thank the Chairman for including, I believe it  
25 was Senator Grassley's language, that has us putting in

1 law ways to get these markets open.

2 The Chairman had a wonderful hearing with economists  
3 from Japan. It is clear that the Japanese need to have a  
4 tax cut. The best tax cut they could get would be to  
5 lower their trade barriers because it would automatically  
6 result in a reduction in prices that they pay for many  
7 things, including lots of things that we manufacture and  
8 produce in the State of Nebraska.

9 So they are looking for a way to stimulate their  
10 economy, and one of the best ways would be, in my  
11 judgment, for them to either open up their markets  
12 voluntarily or for us to use the 301 power that this bill  
13 would provide to try to get that job done.

14 Finally, I would say, Mr. Chairman, that all of us  
15 understand that, in addition to a standard of living, I  
16 have got a cost of living. One of the things we very  
17 often miss in trade is that, if we have a competitive  
18 environment and we use trade adjustment to take care of  
19 problems that are created when one side loses and one  
20 side wins, and we pay attention to our schools to make  
21 sure our graduates have world-class skills, there is a  
22 significant list of advantages that come to consumers, to  
23 our people, as they are trying to lower their cost of  
24 living for their household in trade agreements such as  
25 this.

1       So, again, Mr. Chairman, I intend to support the  
2 Chairman's mark. I do not know if we can get the House  
3 of Representatives to pass it. I do not know if we can  
4 get it to the President.

5       I understand the political problems that are contained  
6 in this kind of legislation. But I believe it is  
7 imperative that we go forward on it, and I am hopeful  
8 that your leadership and Senator Moynihan's leadership  
9 will result in breaking this log jam that we have got  
10 right now on giving the President authority under fast  
11 track, and other trade agreements that I think are vital  
12 to the people of America.

13       Senator Gramm. Amen!

14       The Chairman. Thank you, Senator Kerrey. This is a  
15 bipartisan effort, and I appreciate your remarks.

16       Senator Gramm?

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1 OPENING STATEMENT OF THE HON. PHIL GRAMM, A U.S. SENATOR  
2 FROM TEXAS

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4 Senator Gramm. Mr. Chairman, I will be brief.  
5 First of all, I want to congratulate Senator Kerrey for  
6 an excellent statement, and I identify with virtually  
7 everything you said.

8 I never cease to be amazed that we negotiate free  
9 trade agreements with countries and then individual  
10 Senators are shocked that we are buying something from  
11 these countries that we negotiated trade with.

12 Mr. Chairman, I strongly support your package. I  
13 think that it is imperative we move ahead with fast  
14 track. If we, in the end, cannot pass it, at least we  
15 have made the effort. I think it is vitally important.

16 I want this President, and every President, to have  
17 fast-track legislation. I am very supportive of the  
18 African Trade bill. It is a very nominal bill. It does  
19 relatively little.

20 But it is important in the principle that it  
21 establishes and, quite frankly, I think if we cannot pass  
22 the bill in virtually the form in which it was  
23 introduced, that we ought to be embarrassed about it,  
24 given that we have got 700 million people in Africa, many  
25 of whom are hungry.

1           If the whole resources of the continent were  
2 dedicated to textiles, they could end up with three  
3 percent of our imports coming from Africa, this is a  
4 relatively meaningless issue for us, but it is a big  
5 issue for Africa.

6           I am disappointed by the provision we have in the  
7 bill related to them having to use U.S. thread and yarn.  
8 The reason is, that works only in what we call  
9 Maquiladoras, which are operated within 50 miles of our  
10 border, many of them just within feet of our border. I  
11 am afraid, with the increased transportation costs  
12 involved, that we are going to end up destroying the  
13 system.

14           I hope we can get that provision out, either here or  
15 on the floor at some point. But I want to congratulate  
16 you. I want to congratulate Senator Moynihan. I think  
17 this is a bill that we can be proud of, and I hope that  
18 we can pass it.

19           The Chairman.    Thank you, Senator Gramm.

20           I want to encourage no one to make opening remarks,  
21 but I have two further requests. Senator Conrad?

22           Senator Breaux.   Let me just maybe ask a question,  
23 Mr. Chairman.

24           The Chairman.    First, Senator Conrad, I think you  
25 are in line.

1 OPENING STATEMENT OF THE HON. KENT CONRAD, A U.S. SENATOR  
2 FROM NORTH DAKOTA

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4 Senator Conrad. Mr. Chairman, I thank you. For my  
5 State, in representing my State, I think I am really  
6 required to say something because of the effect trade  
7 agreements have had on my State.

8 Let me say from the beginning that I believe in freer  
9 trade, in principle. It is clearly the right way to go.  
10 Mr. Chairman and members of the committee, the devil is  
11 in the details. All too often, these trade agreements  
12 have represented unilateral disarmament on the part of  
13 the United States, and I do not believe in unilateral  
14 disarmament.

15 So, until and unless fast track is altered with what  
16 I believe are important amendments that I will offer, I  
17 cannot be supportive of this package, although I think  
18 many elements of this package are excellent.

19 Mr. Chairman and members of the committee, my State  
20 is in the middle of an agricultural crisis. We are  
21 suffering a disaster. It is really a triple-whammy of  
22 bad prices, bad weather, and bad policy. Part of the  
23 disaster is trade policy.

24 In the Canadian Free Trade Agreement, Congress was  
25 told it would have very little effect on grain trade.

1 That is not what has happened. This chart shows what has  
2 happened. The Canadian Free Trade agreement passed back  
3 here. The Canadians had zero percent of the U.S. durham  
4 market. Zero. They then went to 20 percent of the U.S.  
5 durham market in very rapid order, not because they were  
6 more competitive, not because they were more efficient,  
7 but because of a loophole in the Canadian Free Trade  
8 Agreement. We said in the Canadian Free Trade Agreement,  
9 "neither side shall dump below its costs in the other's  
10 market."

11 But our trade negotiator, in a secret deal never  
12 revealed to Congress, then told the Canadians, when you  
13 calculate your costs you do not have to count the final  
14 and interim payment made by the Canadian Government to  
15 the Canadian farmers.

16 Guess what the Canadian Government did? They doubled  
17 the size of the interim and final payments. That is  
18 clearly unfair. The result has been disastrous in my  
19 State, costing my State's farmers over \$450 million  
20 already.

21 Now, every day the Canadian trucks rumble across the  
22 line, bringing thousands of bushels of Canadian grain to  
23 be sold into our market, weakening our prices, depressing  
24 further and already depressed situation. Someone might  
25 say, gee, can we not fix this? It is clearly a mistake.

1 There is no way to fix it. The only way to fix it, is a  
2 Section 301, which is the atom bomb of trade  
3 negotiations. Nobody seems willing to pull the trigger  
4 on that.

5 Mr. Chairman, I believe we have got to have a  
6 corrections mechanism in these trade agreements. Number  
7 two, I believe we have got to look at the currency  
8 stability of the country with whom we are negotiating,  
9 because in NAFTA, we will recall, we negotiated a 10  
10 percent reduction in the tariffs.

11 Mexico turned around and devalued their currency by  
12 50 percent, and we were worse off than when we started.  
13 The result was, we went from a \$2 billion trade surplus  
14 to a \$16 billion trade deficit.

15 I am suggesting we at least ask the administration to  
16 investigate the currency stability of a country with whom  
17 we are negotiating so that we protect ourselves in a  
18 common sense way.

19 Finally, consultations. The whole basis of fast  
20 track is that individual Senators and the Senate as a  
21 whole gives up rights, its fundamental rights under the  
22 constitution, to expedite trade agreements.

23 That might be fine, if we were actually given what we  
24 are told we are given, which is increased consultation.  
25 All too often, that consultation has been a wave. It has



1 been in passing. It has not been genuine consultation to  
2 prevent mistakes from being made in the first place.  
3 Perhaps if we had known of some of these things, we could  
4 have prevented some of these mistakes from having been  
5 made.

6 So I will offer a modest amendment on the question of  
7 consultation. I would hope that these things could be  
8 adopted. I do not see any reason for them not to be.  
9 Unless they are, I simply cannot support an agreement  
10 which has been so harmful to my State.

11 The Chairman. Thank you, Senator Conrad.

12 Senator Breaux?

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

3  
4 Senator Breaux. I did not know how you wanted to  
5 proceed, Mr. Chairman. I just want to make a general  
6 comment on the whole package. Number one, to  
7 congratulate you and Senator Moynihan for putting  
8 together a very comprehensive trade package. I mean,  
9 each one of these bills is a major accomplishment in and  
10 of itself.

11 It has not that they have not been around. I mean,  
12 the OECD agreement on shipbuilding was signed in 1994.  
13 Every country in the world that has participated in the  
14 negotiations has already passed the legislation they  
15 implemented, save one, which is us. Today, we do that.

16 The African Trade bill. I know that some paper said  
17 that I was teaming up with groups to kill it in the  
18 Senate. I would just suggest that I may be teaming up  
19 with everybody to try and get it passed in the Senate, is  
20 what we are trying to do, not trying to kill it. I  
21 support it. I think that we have a situation where the  
22 House has passed a totally unrestricted bill.

23 The Senate tries to protect the United States'  
24 interests, as well as African interests, so we can both  
25 be winners and not just have one winner and one loser. I

1 think when we get to conference with the other body,  
2 there will be things that can be worked out to make it a  
3 good bill, but we have got to get it passed in the  
4 Senate, first. That is what we are attempting to do.

5 So I would just congratulate you for grabbing all of  
6 these trade bills and putting them together in a package.  
7 It is, I think, quite a major achievement.

8 The Chairman. Thank you, Senator Breaux.

9 I think that concludes the opening remarks. I would  
10 now like to turn to our Chief Trade Counsel, Grant  
11 Aldonas, to walk us through the proposal, including the  
12 modifications I have accepted.

13 Grant?

14 Mr. Aldonas. Thank you, Mr. Chairman.

15 The Chairman's mark would create a new Trade and  
16 Tariff Act of 1998 that would serve as a substitute for  
17 H.R. 1432. We will be working on an original bill today.  
18 It is divided into seven titles, the first of which  
19 addresses three trade and development programs. Subtitle  
20 A under Title 1 is a revised Africa bill.

21 There are three major changes from the House-passed  
22 bill, the first of which is a revised set of findings and  
23 eligibility criteria which simplifies the determination  
24 that the President has to make, but also includes the  
25 emphasis on reciprocal trade benefits for U.S. exporters.

1           Secondarily, it provides duty-free treatment on all  
2 import-sensitive items previously excluded from GSP, but  
3 limits the duty-free treatment and quota free treatment  
4 on textile and apparel products to those manufactured  
5 from U.S. fabric, yarn, and thread, the so-called 807A,  
6 809 proposal.

7           Lastly, it significantly strengthens the penalties  
8 and safeguards against illegal transshipment of textile  
9 and apparel products.

10           Those provisions of the House bill that address  
11 things such as foreign assistance have not appeared in  
12 this mark. The program benefits would be available for  
13 10 years, through June 30, 2008.

14           Subtitle B is a simple renewal of the Generalized  
15 System of Preferences for a period of two and a half  
16 years. That is a change from the original mark, which  
17 suggested either a two- or three-year period based on the  
18 pay-fors, and the expiration date, if this passes, would  
19 be December 31, 2000.

20           Finally, Subtitle C contains the CBI bill, without  
21 amendment, that was passed this past fall and reported  
22 out by the committee.

23           Title 2 is the Reciprocal Trade Agreements Act of  
24 1998. It is the fast-track bill reported out by the  
25 Finance Committee, with one addition and two technical

1 corrections. The addition is the provision referred to  
2 by Senator Kerrey, which would require an ITC study at  
3 the time an agreement is about to be initialed, so that  
4 the results of the study would be available to the  
5 committee at the time it considers both the agreement and  
6 its implementing legislation.

7 The two technical amendments update provisions. One  
8 was referred to by Senator Moynihan with respect to the  
9 ILO, the other was to include within a provision that  
10 waives notice of initial entry into negotiations for  
11 certain negotiations that have started since the time the  
12 bill was reported out last fall. That includes the Free  
13 Trade Agreement of the Americas.

14 Title 3 is a straightforward renewal of our existing  
15 Trade Adjustment Assistance programs for a two-year  
16 period.

17 Title 4 is a new provision which incorporates S. 219,  
18 introduced by Senator Grassley, along with Senator  
19 Daschle, and co-sponsored by four Finance Committee  
20 members. It creates a new mechanism for highlighting,  
21 and potentially investigating, barriers to U.S.  
22 agricultural exports that is based on the Special 301  
23 provisions that have proved successful in the past with  
24 respect to intellectual property.

25 Title 5 incorporates S. 1216, which implements the

1 OECD shipbuilding agreement. The mark includes a couple  
2 of technical amendments introduced by the Commerce  
3 Committee, as well as a procedure that allows the Finance  
4 Committee to retain full jurisdiction over the resolution  
5 of withdrawal, while leaving to the Commerce Committee  
6 those amendments to the Merchant Marine Act that are  
7 properly within their jurisdiction if withdrawal would  
8 take place.

9 Lastly, on Title 6, there are two subtitles under  
10 Miscellaneous Trade Provisions in the original mark. The  
11 first, incorporates the committee's bill reported last  
12 fall which would extend normal trade relations to  
13 Mongolia.

14 The second, would divide the current tier of category  
15 covering imported wool destined most often for the  
16 manufacture of men's and women's suits into two  
17 categories, one covering the high-end fabrics, the other  
18 covering slightly lower quality fabrics.

19 The Chairman's proposal would then suspend the duty  
20 in its entirety on the high-end quality fabric and drop  
21 the tariff on the slightly lower quality fabric to the  
22 level of the tariff on wool suits entering the United  
23 States, which amounts to about a 10 percent drop in the  
24 tariff.

25 The effect of the proposal is to correct the tariff

1 inversion that puts U.S. suit manufacturers and workers  
2 in the needle trades at a competitive disadvantage  
3 relative to their Canadian competition.

4 I am going to go briefly through modifications to the  
5 Chairman's proposal before turning to Mark Prater, the  
6 Chief Tax Counsel, to address the revenue provisions.

7 The first of the modifications in your package would  
8 amend the language in Title 1, Subtitle A, which relates  
9 to Africa, and include and clarify that textile luggage  
10 would be included within the definition of textile  
11 products covered under Subtitle A.

12 The second item, would clarify Title 4 with respect  
13 to the Special 301 procedures on agriculture to ensure  
14 that forest products were covered, as well as other  
15 agricultural products.

16 The third item, would amend Title 6 and it would  
17 suspend tariffs for the personal effects of participants  
18 in world athletic events, such as the Olympics and  
19 Special Olympics, which will be coming to the United  
20 States again in two years.

21 The next item, would be an exemption of gum arabic  
22 from an existing import ban on the Sudan that was imposed  
23 by administrative order under the International Emergency  
24 Economic Powers Act.

25 The next item, is an amendment that would provide for

1 duty drawback on the export of mobile drill rigs.  
2 Currently, mobile drill rigs that are flagged U.S. do not  
3 qualify for duty drawback, although they are essentially  
4 exported, the rigs are put down, they are used for a 20-  
5 year useful life, and then turned into scrap.

6 I want to clarify that, in this instance, as in all  
7 others, that the duty drawback applies only to regular  
8 duties, it would not apply to antidumping and  
9 countervailing duties against any of the important  
10 product that were used as components in the manufacture  
11 of the mobile drill rigs.

12 The last item, is an expansion of Note 5 benefits for  
13 U.S. insular possessions. Note 5 of the head note  
14 related to watches allows watch manufacturers in the  
15 insular possessions, such as the Virgin Islands and Guam,  
16 to export their product into the United States free of  
17 duty. This would expand that category slightly to allow  
18 for the manufacture of fine jewelry in our offshore  
19 possessions and allow that to enter free of duty as well.

20 With that, let me turn to Title 7, the revenue  
21 provisions, and Mark Prater.

22 Mr. Prater. Mr. Chairman, there are two revenue  
23 provisions in the modification to the Chairman's mark.  
24 One provides the offset for the cost of the bill, and the  
25 second conforms the Internal Revenue Code provisions and



1 the Merchant Marine Act with the OECD shipbuilding  
2 agreement.

3 The first item, the offset. The proposal would be to  
4 reduce the carry-back period on a foreign tax credit from  
5 the current law period of two years to one year, and to  
6 increase the carry-forward period from five years to  
7 seven years. That provision, Mr. Chairman, would be  
8 effective for tax years beginning after December 31,  
9 1998.

10 The second provision conforms the terms of the  
11 capital construction fund, which is an Internal Revenue  
12 Code provision, with the OECD shipbuilding agreement so  
13 that those two mesh. That change would be effective for  
14 when the OECD shipbuilding agreement enters into force  
15 and effect.

16 The Chairman. We have now completed the resume of  
17 the legislation before us and the floor is open.

18 Senator Moynihan. Mr. Chairman, can I just note I  
19 do not think that Mr. Aldonas noted that the extension of  
20 normal trade relations to Mongolia is a permanent one. I  
21 would like to suggest in passing, if we could make these  
22 matters permanent, in time, this sort of annual  
23 certification will be behind us.

24 The Chairman. I do not think there will be any  
25 objection on your part or mine as to that.

1 The floor is open to amendment.

2 Senator Gramm. Mr. Chairman?

3 The Chairman. Senator Gramm.

4 Senator Gramm. Mr. Chairman, I have an amendment at  
5 the desk, Amendment Number 6. The amendment has to do  
6 with the restrictions imposed in our markup on the  
7 African Trade bill.

8 I feel very strongly about this provision, both  
9 because I am for the African Trade bill, but also because  
10 I feel that I understand the very marginal impact that  
11 the bill will have on the American textile market.

12 Finally, my State is home to probably 90 percent of  
13 the Maquiladora factories, where we export cloth and  
14 thread to Mexico, and then we bring product back into the  
15 country.

16 Having watched this system evolve over the last 15  
17 years, I believe that it could be potentially fatal to  
18 the African Trade bill if we require that Africa use only  
19 American cloth and American thread to make textile  
20 products to sell to the United States. The amendment  
21 that I am offering would strike that provision and simply  
22 institute the African Trade bill.

23 Now, let me explain the major reason I am concerned  
24 about this. I have watched the growth of Maquiladoras in  
25 my State for the last 15 years. These are plants that

1 were set up in Mexico under a trade arrangement where we  
2 sent them cloth and thread, and they in turn made  
3 garments that were sold on the American market.

4 This process has worked reasonably well in Mexico  
5 because the transportation costs are minimal. Virtually  
6 all of the Maquiladora plants in Mexico are within 50  
7 miles of the American border. Many of them are literally  
8 within feet of the border.

9 This means that we truck the cloth and the thread  
10 into Mexico. The truck simply goes over the bridge,  
11 unloads cloth and thread, loads product, drives back  
12 across the bridge into the market. The transportation  
13 costs are, therefore, very, very nominal.

14 I am concerned, as competitive as the textile market  
15 is in the world, that forcing Africa to use American  
16 cloth and American thread, given the transportation costs  
17 and thousands of miles of sea-borne transportation, will  
18 render Africa, or the portions of it covered by this  
19 bill, non-competitive.

20 I remind my colleagues that if Africa used its entire  
21 resource base in textiles to target the American market,  
22 meaning trying to sell inexpensive products here that  
23 would help our working people, they could only produce  
24 for three percent of our market.

25 So I am very worried that a provision that looks like

1 some kind of compromise is actually going to turn out  
2 killing this important provision. And, having looked at  
3 our relationship with Mexico and the plants that use  
4 American cloth and use American thread, and having  
5 observed that none of them, or any significant number,  
6 are more than 50 miles from my border, most of them are  
7 right along the river so that the transportation costs  
8 are nominal, I am concerned, Mr. Chairman, that if we  
9 have got to ship American fabric and thread to Africa,  
10 thousands of miles, using many different modes of  
11 transportation, that we are going to render the continent  
12 non-competitive in textile production.

13 It is such a small thing to us, but such a big thing  
14 to them. I hope that we can do it in such a way that  
15 they might truly benefit. I am concerned. I know this  
16 is an uphill struggle in this committee, and perhaps in  
17 the Senate.

18 But I do feel that I have some knowledge and  
19 experience in working with Maquiladoras that use our  
20 cloth and our thread and, based on our experience in  
21 Mexico and Texas, I do not believe that Africa can be  
22 competitive if they have got to use our thread and our  
23 materials. It is that simple.

24 Senator Breaux. Mr. Chairman?

25 The Chairman. Senator Breaux?

1           Senator Breaux. I think the question at this point  
2 is whether we are going to deal in theory or we are going  
3 to deal in reality. I think at this point it is  
4 important, with only a few days left in this session, to  
5 deal with reality.

6           The gentleman from Texas compared getting this bill  
7 through the Senate with an uphill battle. I would say it  
8 is more like trying to climb Mount Everest with both  
9 hands tied behind your back. We have to deal with the  
10 reality of the situation.

11           But I think the reality also has a lot to do with the  
12 merits. What we are basically saying to African nations,  
13 is we are going to give you the authority to ship  
14 products that you make duty-free, no quotas, no  
15 restrictions, no tariffs to the United States. We will  
16 let you have access to the U.S. market before any other  
17 international agreement goes into effect.

18           I think it is incredibly important we have better  
19 trade relations with Africa. It is important. But it is  
20 also important that we try and devise a system where  
21 everybody wins instead of just having one side win.

22           So what the Section 809 which the Chairman has  
23 incorporated into this bill basically does, is to say to  
24 the sub-Saharan African nations that they will have the  
25 right to cut, to stitch, to sew, to export and ship all

1 of the products they make to the United States when this  
2 bill becomes law without any tariffs, duties, quotas, or  
3 restrictions at all. That is a major concession to help  
4 that part of the world.

5 But at the same time, we ought to devise a system  
6 that also helps this part of the world. I lost over  
7 4,000 jobs in my State right before Christmas, basically  
8 because of the fact that imports were coming in and  
9 replacing American jobs.

10 So if we can devise a system that helps Americans and  
11 also helps African citizens, that is a good deal and we  
12 can do that. This amendment and this bill before the  
13 committee now says that the African nations, when looking  
14 for the fabric to produce these products, should look to  
15 the United States instead of Asia, instead of Europe,  
16 countries that, in many cases, need no help at all. So  
17 let us help ourselves and let us help the African  
18 countries. This amendment does that.

19 Now, having said that, trying to be a practical  
20 person, I know the House bill has no restrictions. The  
21 House bill says you can use your fabric, you can use  
22 fabric from Asia, you can use fabric from Europe, you can  
23 use fabric from the wealthiest countries in the world,  
24 and you can cut, stitch, and sew in Africa, and then  
25 there is the U.S. market. That is the House's approach.

1 I think there is something in between what this  
2 committee has and what the House has, but we are not  
3 going to get to it today if you want the bill to pass. I  
4 think that there is an appropriate time for that to  
5 happen, but I would suggest it is not today and I think  
6 we ought to support the Chairman's mark.

7 Senator Moseley-Braun. Mr. Chairman?

8 The Chairman. Yes. Senator Moseley-Braun.

9 Senator Moseley-Braun. Thank you, Mr. Chairman. I  
10 am the only member of the Senate of African descent, and  
11 I have spent a good deal of time over the years being an  
12 advocate for increased trade with Africa. I believe that  
13 open trade and free markets is very important to our  
14 economy, as well as to Africa's, precisely because that  
15 continent is in need of the kind of development that  
16 increased trade with the United States will give it. The  
17 needs are obvious and apparent to anybody that has looked  
18 at the issue at all.

19 So, in that regard, I am a very, very strong  
20 proponent and supporter of the African Growth and  
21 Opportunity Act. I think it is a good thing. I think we  
22 have moved in the right direction. I think the  
23 Chairman's mark helps the bill overall, and in that  
24 regard, I would otherwise be supportive of ut.

25 However, Mr. Chairman, I am saddened by the fact

1 that, from my perspective, a poison pill has been put in  
2 this legislation with the addition of Title 2, and that  
3 is the fast track.

4 I believe, as I have stated over time and voted  
5 against fast track the last time it was up, that the  
6 constitution, which is what I am guided by. In my  
7 reading of the constitution, Article 1, Section 8, it  
8 says that it is the duty of the Congress to "regulate  
9 commerce with foreign nations," et cetera.

10 Now, we know there has been a debate over time about  
11 this section of the constitution. Scholars have told us  
12 that this is one of the places in the constitution in  
13 which the Congress and the executive branch have blended  
14 authority.

15 But under that blended authority, it seems to me, it  
16 is inappropriate for us as the Congress to abdicate our  
17 responsibility with regard to trade and to abdicate our  
18 authority in terms of guiding the direction of trade  
19 agreements.

20 In that vein, while I have all the confidence in the  
21 world in the administration and all the fine people who  
22 are working in this area, it seems to me that, as we are  
23 approaching huge trade deficits such as we see right now  
24 with many countries in the world, it is inappropriate,  
25 singularly inappropriate, for the Congress to abdicate



1 this Article 1, Section 8 responsibility that I believe  
2 we have.

3 For that reason, Mr. Chairman, the addition of fast  
4 track as Title 2 of this bill will, frankly, constitute a  
5 poison pill. I will not be able to support the bill,  
6 even though I strongly support the Africa Trade bill part  
7 of it. It just makes me very sad. As well as the  
8 Caribbean Basin parity initiative, and other parts of the  
9 bill. I did not mean to leave out the others, because  
10 there are important trade objectives in this legislation.

11 But if we are, on the one hand, to develop  
12 legislation that sets the parameters of our trading with  
13 nations on the one hand, and then on the other hand turn  
14 around and abdicate that very responsibility with fast  
15 track, it seems to me that we really are sending an  
16 uncertain signal to the world in terms of how our trade  
17 policy is going to be dealt with, and in terms of how we  
18 approach these issues overall as a Congress.

19 For that reason, Mr. Chairman, I will not support the  
20 legislation. I know we are working on amendments now,  
21 but I just wanted to say at the outset that I will not be  
22 able to support the legislation at all because of that  
23 amendment, that addition to it.

24 Thank you.

25 The Chairman. Thank you, Senator. I would just

1 like to point out that fast track was passed by this  
2 committee by a vote of 18 to 2, so I do not think it is a  
3 poison pill. I, frankly, think it is a very important  
4 part of this legislation.

5 It is really an effort to put together a package that  
6 will have such broad support that it can be enacted on  
7 the Senate floor. As I say, fast track has received very  
8 strong support in this committee, and I would expect that  
9 to continue.

10 Senator Moynihan. Mr. Chairman, could I just note  
11 for the record that what we are calling fast track, as  
12 Mr. Aldonas noted, is the Reciprocal Trade Agreements Act  
13 of 1998, the first of which was passed in 1934.

14 For a third of the history of the republic we have  
15 been doing this, one of the great bipartisan achievements  
16 of our time. Some may not think it should continue, but  
17 for 64 years we have been doing this and there has never  
18 been any question of constitutionality.

19 The Chairman. Senator Chafee?

20 Senator Chafee. Thank you, Mr. Chairman. Mr.  
21 Chairman, you can put me down as an enthusiastic  
22 supporter of fast track. I have always supported it. I  
23 think it is the right thing to do, and I commend you for  
24 including it here.

25 I would like to speak in favor of the amendment or

1 proposal of Senator Gramm. I think it is important to  
2 remember several things. We are dealing with the sub-  
3 Saharan nations. I mean, we are not dealing with Egypt  
4 and the northern nations, we are dealing with the sub-  
5 Saharan nations, the poorest nations in the world. I  
6 think the annual income is some shocking figure of  
7 something like \$124. Whatever it is, it is minuscule.

8 It is my understanding that, if we require that in  
9 these textiles they use only American thread, that as the  
10 Senator from Texas pointed out, the shipment costs for  
11 that thread to go over and be used and then come back  
12 would make this so that whatever they produced over there  
13 would really not be competitive. Whatever they do, in  
14 the total picture, will be modest.

15 I think I am correct, Mr. Aldonas, am I not, in  
16 saying that the quota benefit only lasts until 2005. In  
17 other words, all of the quotas go off at that time, is  
18 that right?

19 Mr. Aldonas. That is right, for WTO members.

20 Senator Chafee. So, in other words, we are talking  
21 six years. If there is something horrendous taking  
22 place, then we can reappraise it. But if we are going to  
23 do something to help these nations, and indeed, it is not  
24 completely altruistic.

25 We are helping them because they then can become

1 potential markets for our goods. We found that in Europe  
2 when we brought Europe back from the end of World War II,  
3 and Europe became, as did Japan, a tremendous market for  
4 United States' goods.

5 So, Mr. Chairman, I think the proposal of the Senator  
6 from Texas makes sense, and would hope it could be  
7 adopted.

8 The Chairman. Any further comment?

9 [No response]

10 The Chairman. Let me make some observations,  
11 because I think this is a very critical vote. I am  
12 greatly concerned that if the Gramm amendment is enacted,  
13 that it will be very unlikely that this legislation will  
14 come before the Senate floor for action this year.

15 I would point out that the name of this legislation  
16 is Reciprocal Trade Agreement. What we have sought to do  
17 through this legislation is to make certain that the  
18 proposal is helpful, both to the African nations as well  
19 as the United States. By requiring that the textiles  
20 come from the United States rather than China or India,  
21 we are making this agreement reciprocal.

22 Now, the objection has been made that this will be of  
23 little use, but we do have a study from the General  
24 Accounting Office showing that a number of retailers,  
25 while a distinct minority but still a significant number,

1 would begin importing from Africa under the terms of my  
2 mark.

3 I think it is also important that we should remember  
4 that we struck a deal with the U.S. textile industry as a  
5 part of the Uruguay Round that we would eliminate all  
6 quotas on textiles in exchange--and I emphasize in  
7 exchange--for giving the industry a transition period to  
8 prepare for open competition. That we would go back on  
9 the agreement as the House bill textile and apparel  
10 provisions do, I think, is bad policy and poisons the  
11 well for future negotiations.

12 But again, I want to emphasize that there is a great  
13 deal of concern in the Senate regarding the impact of  
14 this bill on the U.S. textile industry. So I think, if  
15 we want to see the bill passed, we will have to weigh or  
16 maintain concern and remain sensitive to these concerns.  
17 So I would urge that the Gramm amendment, as well  
18 intended as it is, be not enacted.

19 Senator Gramm. Mr. Chairman?

20 The Chairman. Senator Gramm?

21 Senator Gramm. Mr. Chairman, I have a great deal of  
22 respect for you and I know that you tried to put together  
23 a bill that is very important and I am very supportive of  
24 fast track and am very supportive of the bill.

25 I would like my colleagues to know, however, that I

1 do not have any doubt in my mind that if we keep this  
2 provision in this bill that there will not be a textile  
3 bill in our targeted region of Africa because I do not  
4 believe it can become competitive.

5 Under the circumstances, rather than putting my  
6 colleagues on record on this issue, I will go ahead and  
7 withdraw the amendment and reserve the right to do it on  
8 the floor.

9 I would say that at least we ought to look at  
10 allowing the targeted region of Africa to use African  
11 cloth and thread, and I am talking about from the entire  
12 continent, not just from the region, since there is no  
13 cloth or thread manufacturer of any significance in the  
14 region. This is a high-tech machine-oriented production,  
15 whereas, they are looking at basically handmade.

16 I would say that I think that, to the extent they can  
17 make product attractive to our market, much of it would  
18 be from native material. Perhaps there could be a  
19 compromise found, at least in the Senate, to allow the  
20 use of African cloth and African thread in addition to  
21 U.S. thread. Would there be any possibility the Chairman  
22 could support such an amendment?

23 The Chairman. Let me say to the distinguished  
24 Senator from Texas that we will be happy to look at this  
25 proposal and see if we cannot work out some kind of a

1 compromise.

2 Senator Murkowski. Mr. Chairman?

3 The Chairman. Senator Murkowski.

4 Senator Murkowski. Thank you, Mr. Chairman. I am  
5 kind of torn between our intention here and then doing  
6 anything meaningful, because I totally agree with the  
7 Senator from Texas that if the African nations cannot go  
8 out in the market and get the cheapest material, they are  
9 simply not going to be competitive. To suggest that they  
10 are going to take a significant position in the market in  
11 any volume, I think, is unrealistic.

12 So what we have got here is, on one hand, an effort  
13 to help, but clearly if it is mandated that U.S. fabric  
14 or U.S. thread is a mandate in the making of these  
15 garments, you are not going to have any garments on the  
16 market and you have not helped. What your intended  
17 purpose is, is to allow the African nations to have a  
18 shot at our market.

19 So I am satisfied with the action taken by the  
20 Senator from Texas, but I think, from a meaningful point  
21 of view, he was trying to do something that really had a  
22 purpose and was a contribution.

23 I understand the name of the game here, but I just do  
24 not think that the African market offers a significant  
25 inroad in volumes of any substance, even if they are

1 allowed to go out on the open market and buy the fabric  
2 and thread wherever they can. So if he wants to bring it  
3 up on the floor, I would be inclined to support it.

4 Senator Jeffords. Mr. Chairman, I am very  
5 interested in this area also and have an amendment that I  
6 would like to offer which leads sort of an attempt to  
7 find the middle ground between the Chairman's mark and  
8 the House bill with respect to the textiles and apparels.  
9 The Chairman's mark allows for duty-free and quota-free  
10 apparel imports only if the apparel is assembled from  
11 U.S. fabric, period.

12 But to take advantage of this provision, U.S.  
13 companies will have to ship fabric to Africa to be sewn  
14 into garments. This will mean substantial expenses and  
15 will experience substantial delay. It seems anomalous to  
16 allow duty-free African imports for apparel made from  
17 U.S. fabric, but to impose duties on apparel made from  
18 African fabric.

19 My amendment will allow sub-Saharan African countries  
20 to do for themselves. It moves sub-Saharan African  
21 nations towards greater self-sufficiency without  
22 significant impact upon the U.S. textile markets.

23 My amendment allows for duty-free treatment for  
24 apparel made from African textiles. To ensure that the  
25 textiles are truly African textiles, the yarn for the



1 fabric must be spun in Africa. This amendment would also  
2 allow American-spun yarn to be used in these African  
3 textiles.

4 The Chairman's mark encourages the nations of sub-  
5 Saharan Africa to develop cut-and-sew factories. My  
6 amendment will mean that the Nations in sub-Saharan  
7 Africa will be encouraged to develop yarn spinning and  
8 textile industries, together with dying and finishing  
9 process, as well as the cut-and-sew factories. This  
10 amendment will encourage investment in Africa by a  
11 broader range of industries.

12 To guard against the flood of imports of apparel made  
13 from African fabric, my amendment calls for a snapback of  
14 tariffs in sub-Saharan African apparel imports if the  
15 imports exceed three percent of all apparel imported to  
16 the U.S.

17 We do not expect imports would approach this level.  
18 Apparel imports above this level, however, would be  
19 subject to duties. The snapback will guard against a  
20 harmful surge of apparel imports from sub-Saharan Africa.  
21 This is an absolute safeguard that is more swift and  
22 certain than the safeguard provision in the Chairman's  
23 mark.

24 The amendment guards against transshipment of the  
25 apparel assembled from non-African fabric or yarn will

1 not be eligible for duty- and quota-free treatment. My  
2 amendment does not change the transshipment enforcement  
3 provisions in the Chairman's mark.

4 I am hopefully trying to find a middle ground here to  
5 really help these African nations in a meaningful way,  
6 and I would offer that amendment.

7 Senator Breaux. Mr. Chairman?

8 The Chairman. Senator Breaux.

9 Senator Breaux. Mr. Chairman, I think that the  
10 Senator is to be commended for his comments. I just  
11 question the timing of his comments. I think that what  
12 he has outlined is something that has logic to it and has  
13 a great deal of reason to it, but I think it is also very  
14 important to know that we are dealing with a House-passed  
15 bill that has absolutely no requirements and no  
16 restrictions. This is the position of the Senate. When  
17 we go to conference, we are going to negotiate down from  
18 that point. The first question is, how do you split the  
19 difference one more time and make it half of what we have  
20 already?

21 I think the gentleman has outlined a very logical  
22 thought process, and I would only question the timing of  
23 it. I would suggest that the same thing that Senator  
24 Gramm did would be the better procedure in order to  
25 protect the conferees and his ability to reach what you

1 want.

2 If we pass it now we are not going to get what you  
3 want. It is going to be less than that. Anybody who has  
4 been around more than six months, I think, understands  
5 that. That is the nature of compromise. I think that  
6 compromise is good, but it is a question of when it ought  
7 to occur, and I would suggest a little bit later.

8 Senator Jeffords. I would like to point out, just  
9 for the record, this is my Amendment Number 9. I think a  
10 copy has been made available to all members. I  
11 understand, for the reasons that the Senator from  
12 Louisiana stated and with the previous word we had from  
13 the leadership, that the most appropriate thing for me at  
14 this time probably would be for me to withdraw the  
15 amendment, even though I believe there may be enough  
16 votes for it in the committee.

17 I do not want to place an embarrassment here on  
18 anyone, but I would hope, and will certainly pursue, this  
19 kind of a process when it comes into conference. I  
20 withdraw the amendment.

21 The Chairman. I thank the Senator for doing so. As  
22 I said to Senator Gramm, we will be happy to work with  
23 both of them to seek a middle ground that will enable  
24 this legislation to move forward.

25 Senator Conrad. Mr. Chairman?

1 The Chairman. Yes.

2 Senator Conrad. Would this be an appropriate time  
3 to offer an amendment?

4 The Chairman. Senator Conrad, it would, indeed.

5 Senator Conrad. I thank the Chairman.

6 I would like to call up the amendment that is styled  
7 as Number 19 in the packet.

8 The Chairman. Please proceed.

9 Senator Conrad. Mr. Chairman and members of the  
10 committee, this amendment is designed to get at the  
11 question of trade agreements not being correctable. As I  
12 referenced, our experience with Canada, under the  
13 Canadian Free Trade Agreement, where Congress was  
14 repeatedly told the agreement would not affect wheat and  
15 barley sales, there would be virtually no change in the  
16 pattern of trade, if I can just put up once again the  
17 chart that shows what really happened.

18 The Canadians went from zero percent of the U.S.  
19 durham market to over 20 percent. Only when a memorandum  
20 of understanding was put in place between this country  
21 and their country did we see a decline. That is  
22 something we are no longer able to do.

23 Again, this was not because of any competitive  
24 differences, it is because of a loophole in the Canadian  
25 Free Trade Agreement. This loophole has cost American

1 producers hundreds of millions of dollars. That is not  
2 just in durham. We have got the exact same pattern in  
3 other wheats as well. For those who do not know, durham  
4 is what goes to make pasta.

5 So this has had a dramatic impact in this country.  
6 It has hurt our producers badly. Not because they were  
7 not fully competitive, not because somehow free trade  
8 works against us, but because this was negotiated trade  
9 and we lost the negotiation. If you go to try to fix a  
10 mistake, what you find out is, there is no way.

11 Now, I am offering what I think is a common sense  
12 amendment that simply says that we would give the U.S.  
13 Trade Representative, as a negotiating objective, that  
14 they build into future trade agreements a mechanism for  
15 renegotiating a trade agreement in cases where mistakes  
16 were made. To me, this is just common sense and I hope  
17 we could adopt such an amendment.

18 Senator Gramm. Mr. Chairman?

19 The Chairman. Senator Gramm.

20 Senator Gramm. Mr. Chairman, I do not know how you  
21 can negotiate an agreement and then have a provision in  
22 law that says that you would go back and renegotiate  
23 where the provisions in the agreement have substantially  
24 worse results than Congress anticipated. I do not know  
25 who is going to make that judgment.

1           If somebody wanted to buy a piece of land from me, or  
2 buy my old truck, and they said, now, I just want to put  
3 in this contract that I am going to take this truck, but  
4 if it turns out to be substantially worse than I  
5 anticipate by looking at it, then I want you to take it  
6 back.

7           Well, the problem is, I might sell the truck, but the  
8 first time something happens to it, as it inevitably will  
9 because I am selling it because it is an old truck, I am  
10 going to end up with a truck back. I understand what the  
11 Senator is trying to do and his heart may not be bad  
12 here, but the approach is a totally unworkable approach.

13           One of the problems that we all have is, we listen to  
14 the Senator and we look at the charts, but I do not know  
15 if it actually happened that way with regard to durham.  
16 Each of us knows our own area, each of us has our own  
17 viewpoint.

18           We see the world through our lens and it is the  
19 Senator's duty to see the world through the lens of North  
20 Dakota. It is my duty to see the world through the Texas  
21 lens, but that may not be a totally objective lens. I  
22 just do not see how this is workable.

23           I know he is trying to do something that is good from  
24 his point of view, but I am very afraid that this kind of  
25 language really undercuts everything we are trying to do

1 in trade. Look, you make a deal. Sometimes it is not as  
2 good as you thought it was going to be. If there is a  
3 person here that has never had a deal that turned out to  
4 be worse than they thought it was going to be, they made  
5 relatively few deals in their lives.

6 Senator Conrad. Mr. Chairman?

7 The Chairman. Senator Conrad.

8 Senator Conrad. Let me just say to my colleague  
9 from Texas, if you bought a bad truck at a dealership  
10 there is recourse. It is called a lemon law. We need a  
11 lemon law in trade agreements. The fact is, sometimes we  
12 go out there and negotiate and make a big mistake, and  
13 there ought to be a way to fix it. If you buy a bad  
14 truck over at your dealership and it is a lemon, you have  
15 got recourse.

16 There ought to be recourse for both sides when there  
17 is something gone wrong in a trade agreement. There  
18 ought to be a mechanism, there ought to be a process,  
19 that both sides can resort to to get it fixed. Right  
20 now, the only process that is available is 301. 301 is  
21 the nuclear bomb of trade, and nobody is going to pull  
22 that trigger very often.

23 The result is, if you go out and make a mistake and  
24 one part of the country--maybe next time it will be  
25 Texas--is very adversely affected and a serious mistake

1 is made, you have got no means of fixing it.

2 Mr. Chairman, I would hope that we would take a step  
3 and say that, when we negotiate these agreements, we also  
4 ought to negotiate a mechanism for when mistakes are made  
5 so both sides have recourse and a way of coming to the  
6 table and fixing mistakes. Otherwise, I think we are  
7 going to find less and less support in this country for  
8 this fast-track approach.

9 Senator Breaux. Mr. Chairman?

10 The Chairman. Senator Breaux.

11 Senator Breaux. Well, I would say there is no  
12 stronger representative of the folks in North Dakota than  
13 my colleague to my right, Senator Conrad. I mean, they  
14 have a very difficult situation. He has been a leader in  
15 trying to find some remedies for the very desperate farm  
16 situation in his part of the country, and I admire him  
17 for it.

18 But I think that this amendment, although well  
19 intended, is not a good amendment. It is the difference  
20 between avoiding a sale of a defective product under the  
21 lemon law because of a hidden defect that you did not  
22 know about when you bought the vehicle, or anything else,  
23 for that matter, in an agreement where everybody has  
24 negotiated in good faith, where everybody knows what they  
25 are negotiating and everybody lives up to everything that



1 that trade agreement required them to do, but then to  
2 have one party that says, well, it is not as good a deal  
3 as I thought it was going to be, therefore, I can  
4 renegotiate it. Do we give to every country, when the  
5 deal turns out better for us, the right to come in and  
6 change the deal when it is better for us than we thought  
7 it was going to be?

8 The question is, these agreements are fairly  
9 negotiated, they are publicly negotiated, and there are  
10 not any hidden defects. If one agreement turns out  
11 better for one side than another but it has been fairly  
12 negotiated, that is the purpose of negotiations. So, I  
13 would suggest that this is not a good amendment for those  
14 reasons.

15 Senator Conrad. Mr. Chairman?

16 The Chairman. Senator Conrad.

17 Senator Conrad. Mr. Chairman, the Senator from  
18 Louisiana is going down exactly the right path, but he  
19 took a detour. The detour is, he said there was no  
20 hidden defect. That is exactly what happened in the  
21 Canadian Free Trade Agreement, it was a hidden defect  
22 never revealed to Congress.

23 The only way we found out about it, was a Binational  
24 Panel ruling where they uncovered the negotiating  
25 documents between our country and theirs never revealed

1 to Congress, and that is where we found out that our part  
2 of the country had been screwed. That is just about as  
3 blunt as I can make it.

4 As a result, we have paid an enormous price and there  
5 is no way to fix it. It makes no sense to enter into  
6 agreements and not have a process by which you can  
7 correct mistakes. What I am asking, is that our trade  
8 negotiator, in future agreements, also negotiate a  
9 mechanism for appeal. There ought to be some mechanism  
10 that you can go to, go back to the table where a clear  
11 mistake has been made.

12 Let me just go back to the chart, if I could. We  
13 were told repeatedly in the Congress there would not be a  
14 substantial effect on the trade of durham or other  
15 wheats. Well, that is what happened. It went from zero  
16 percent of the U.S. market to over 20 percent of the U.S.  
17 market because of a hidden defect. There ought to be a  
18 lemon law for trade agreements just like there is a lemon  
19 law when you go to the dealership and get hung with a bad  
20 vehicle.

21 Senator Breaux. Would the Senator yield on that  
22 point? I understand what you are saying about the hidden  
23 defects, but I do not think your amendment says that.  
24 Your amendment just addresses the right to renegotiate if  
25 the trade agreement has substantially worse results than

1 Congress anticipated. I mean, you can drive a truck  
2 through that.

3 It just does not say you renegotiate if someone  
4 discovers something that was not made public, or a side  
5 agreement that was not discussed, or Congress was not  
6 involved in. Your amendment just says, I think, anytime  
7 the end result is substantially worse than Congress hoped  
8 it would be, then we can renegotiate. I think that is  
9 much broader.

10 Senator Gramm. Mr. Chairman, one second.

11 The Chairman. Then I would like to proceed with the  
12 vote.

13 Senator Gramm. Mr. Chairman, if the Senator had  
14 offered an amendment where individual members of  
15 Congress, in looking at ratifying an agreement, were  
16 given access to this negotiating material, I think that  
17 is a reasonable proposal. Or that, after the agreement  
18 is reached but before Congress ratifies, that these  
19 documents be made public.

20 But I think the Senator from Louisiana is right, that  
21 you cannot have a deal where, if it turns out  
22 substantially worse than Congress anticipated, why, what  
23 did Congress anticipate? I do not know.

24 Maybe you have got a different Congress five years  
25 later and they say, well, we anticipated something else;

1 those guys who were here five years ago had a different  
2 viewpoint. I just think that this is an amendment that  
3 ought to be rejected.

4 Senator Conrad. Mr. Chairman, let me just respond  
5 to that.

6 The Chairman. Yes.

7 Senator Conrad. This is not based on something that  
8 we do not know about at the time. This is based on the  
9 submissions of the USTR and the required ITC report, so  
10 we would have a base on which we could determine whether  
11 or not what was told to Congress has really come true or  
12 not.

13 Look, we have tried to base this amendment in a way  
14 that would allow the Trade Representative to determine  
15 what is an appropriate mechanism to be negotiated to  
16 correct agreements that have proven to have mistakes.

17 I say to you, if you have what happened in your State  
18 what has happened in mine, you will find that support for  
19 these so-called free trade agreements is going to go to  
20 ground zero, because this is not what free trade is  
21 supposed to be all about.

22 In my State, we see a huge influx of Canadian grain.  
23 The trucks roll every minute of every day, and you cannot  
24 send one bushel north. It is not because of a  
25 competitive difference. Not at all. It is because of a

1 defect in an agreement. If you cannot get defects fixed,  
2 then I would say to you, you are not going to have much  
3 public support for very long. I fear that is exactly  
4 what is happening.

5 The Chairman. I would like to proceed with the  
6 vote. I would just say, in closing, I, too, congratulate  
7 the distinguished Senator from North Dakota for his very  
8 strong advocacy for his State.

9 But, like others, I have to say I do not believe that  
10 any of our trading partners would give us the opportunity  
11 to introduce such a provision, so that I do not think it  
12 would have the result intended.

13 We will proceed, and the Clerk will call the roll.

14 The Clerk. Mr. Chafee?

15 Senator Chafee. No.

16 The Clerk. Mr. Grassley?

17 Senator Grassley. Aye.

18 The Clerk. Mr. Hatch?

19 Senator Hatch. No.

20 The Clerk. Mr. D'Amato?

21 Senator D'Amato. No.

22 The Clerk. Mr. Murkowski?

23 The Chairman. No, by proxy.

24 The Clerk. Mr. Nickles?

25 The Chairman. No, by proxy.

1 The Clerk. Mr. Gramm, of Texas?  
2 Senator Gramm. No.  
3 The Clerk. Mr. Lott?  
4 The Chairman. No, by proxy.  
5 The Clerk. Mr. Jeffords?  
6 Senator Jeffords. No.  
7 The Clerk. Mr. Mack?  
8 The Chairman. No, by proxy.  
9 The Clerk. Mr. Moynihan?  
10 Senator Moynihan. Aye.  
11 The Clerk. Mr. Baucus?  
12 Senator Moynihan. Aye, by proxy.  
13 The Clerk. Mr. Rockefeller?  
14 Senator Rockefeller. No.  
15 The Clerk. Mr. Breaux?  
16 Senator Breaux. No.  
17 The Clerk. Mr. Conrad?  
18 Senator Conrad. Aye.  
19 The Clerk. Mr. Graham, of Florida?  
20 Senator Moynihan. No, by proxy.  
21 The Clerk. Ms. Moseley-Braun?  
22 Senator Moynihan. No, by proxy.  
23 The Clerk. Mr. Bryan?  
24 Senator Bryan. Aye.  
25 The Clerk. Mr. Kerrey?

1 Senator Moynihan. Aye, by proxy.

2 The Clerk. Mr. Chairman?

3 The Chairman. No.

4 The Clerk. The votes are 6 yeas, 14 nays.

5 The Chairman. The amendment does not carry.

6 The floor is open to further amendment.

7 Senator Chafee. Mr. Chairman, I have one. We have  
8 before us a list here, I think, with numbers up in the  
9 corner. This is page 1, second from the bottom. It is a  
10 motion to strike Subtitle B and redirect its \$75 million  
11 in savings to the further extension of the Trade  
12 Adjustment Assistance. This is a world tariff provision,  
13 Mr. Chairman, that is in the mark. It is not a technical  
14 correction, it is a duty suspension bill, Mr. Chairman.

15 As you know, we have a system set up here on the  
16 committee for duty suspension and how to proceed on them.  
17 The way it works, is the committee invites Senators to  
18 introduce their duty suspension bills by a certain date  
19 and then you put out a notice, and then the ITC looks at  
20 the bills to determine whether or not there is domestic  
21 production. Finally, CBO scores the bills, which must be  
22 considered diminimus.

23 In so following that procedure, you, Mr. Chairman,  
24 invited us on February 19 to be sure and have our duty  
25 suspension bills in by March 25 so there could be public

1 comment. Two notices requesting public comment went out,  
2 one on February 17 and one on April 9. In connection  
3 with this particular provision, however, there was no  
4 such notice.

5 It was not introduced in March, it was not introduced  
6 in April, and to tell you the truth, I am not sure it has  
7 been introduced by now. It certainly has not been  
8 circulated for public comment and has not been reviewed  
9 by the ITC.

10 Apparently there has been scoring on it which, to my  
11 understanding, is \$75 million, which does not fit under  
12 the diminimus category. I might say, I know that members  
13 of this committee, some feel strongly for this measure  
14 and I can appreciate that.

15 It is a controversial measure. The Canadian wool  
16 issue is one which attracts a good deal of attention and  
17 it has been a long-running sore point in my State, Mr.  
18 Chairman, and elsewhere around the country. Obviously,  
19 it is not a non-technical correction.

20 So, because this provision could not meet the tests  
21 of no domestic harm, no controversy, and minimal cost, I  
22 would move to strike the whole provision and to put the  
23 monies saved into the Trade Adjustment Assistance  
24 programs, Mr. Chairman.

25 Senator Moynihan. Mr. Chairman?



1 The Chairman. Senator Moynihan.

2 Senator Moynihan. I thank you for including this  
3 measure in your mark. It was done at my request, but  
4 with the support of others. It is designed to correct a  
5 singular inequity in the present tariff schedule. We  
6 have a tariff, almost unknown in our present scale  
7 system, of 31.7 percent on the imports of wool fabric.  
8 It is one of the highest rates in our schedule.

9 By contrast, fully-tailored suits from wool fabric  
10 entering the United States at much lower rates of duty,  
11 suits imported from Canada, pay no tariff whatever.  
12 Suits from Mexico, 11 percent.

13 This tariff inversion, we just have a situation here  
14 where the imports of components are subject to a higher  
15 tariff than the imports of the fully-assembled product,  
16 and creates an obvious incentive to import suits from  
17 abroad, and are putting American manufacturers at a  
18 serious competitive disadvantage which has nothing to do  
19 with their economic efficiency and performance.

20 American garment manufacturers must import this very  
21 high-grade wool fabric which is not made in the United  
22 States. In part, this is due, as I understand it, to the  
23 fact that this particular wool for this very high-grade,  
24 high line is not produced in the United States.

25 I will quote the chairman of Hickie Freeman, one of

1 the suit manufacturers, who says, "United States  
2 manufacturers would certainly be the first to purchase  
3 such goods in order to avoid the tariff, but they cannot.  
4 The tariff cuts provided by this measure apply only to  
5 the very fine grades of wool fabric that are not produced  
6 in significant quantities in the United States."

7 It is a small, temporary step. If we do not take it,  
8 we will put out of business a sector of our economy that  
9 has done nothing wrong. It simply finds itself in this  
10 anomalous situation in which the components of a product  
11 are taxed at a very much higher level than the finished  
12 product.

13 I have a letter here from the chief executive officer  
14 of Saks-Fifth Avenue. He said, "We have been in business  
15 since 1902 and purchase suits made with high-end fabric  
16 from England and Italy for one simple reason: such fabric  
17 is not made in the United States.

18 We would love to purchase high-quality suits with  
19 fabric made in the United States to avoid the punitive  
20 31.7 percent tariff, but no sensible business person  
21 would pay nearly 32 percent more than necessary for their  
22 primary ingredient if they could avoid it.

23 Raw wool used in making this material is grown in  
24 Australia and New Zealand, not in the United States.  
25 Therefore, your provision would not harm the United

1 States wool growers. The Chairman's provision," says Mr.  
2 Miller, "is meritorious and will save American jobs."

3 I thank you, sir.

4 Senator Hatch. Mr. Chairman?

5 The Chairman. Senator Hatch.

6 Senator Hatch. Mr. Chairman, as I understand it,  
7 Senator Chafee and I are willing to combine our two  
8 amendments into one. If I could just say a few words. I  
9 always hesitate to disagree with my good friend from New  
10 York, but the wool sector took the steepest of all  
11 textile and apparel product tariff reductions in the GATT  
12 Uruguay Round.

13 This was done on the strength of the administration  
14 promise to the industry of stability over a 10-year  
15 period. The provision that we have here now nullifies  
16 that promise. Both the Bush Administration and the  
17 Clinton Administration made that promise.

18 The Article on Textile and Clothing, or the ATC,  
19 reduced duties on wool imports by 30 to 35 percent, three  
20 times the average of other textile and apparel products.

21 The Clinton Administration promised a certain  
22 schedule so as to allow the wool industry to fund and put  
23 in place by the end of the ATC 2004 a plan for economic  
24 recovery.

25 Now, the provision to eliminate tariffs on high-

1 quality wool and reduce tariffs on 70-to 80-quality wool  
2 is being done without a hearing, without even a bill  
3 having been introduced, with no review by the  
4 administration that promised scheduled reductions and  
5 without regard for the high cost to the industry that is  
6 being sacrificed for the benefit of a few apparel  
7 manufacturers, who are already enjoying record  
8 prosperity.

9 In fact, a provision to eliminate duties on wool goes  
10 beyond the scope of the ATC, which would phase out quotas  
11 by 2004, but which would continue to reduce, not  
12 eliminate, tariffs.

13 Now, the tariff cuts proposed by this provision would  
14 have widespread, profound, if not fatal, consequences for  
15 U.S. producers of wool, wool yarn, and fabrics. There  
16 are 100,000 workers who are being placed at risk if this  
17 provision remains the same as it is and if our amendment  
18 is rejected.

19 Every wool category listed in this provision is now  
20 being made by U.S. or NAFTA partners. This means the  
21 tariff cuts will give exporters a price advantage. Here  
22 is a perfect illustration of the high-quality wool that  
23 is being produced right here in North Carolina.

24 I would put a letter into the record from James  
25 Hires, vice president of sales of Provost, USA which also

1 makes that case, that they are producing this high-  
2 quality wool as well.

3 [The letter appears in the appendix.]

4 Senator Hatch. Now, I might say, every wool  
5 category listed in this provision is now being made by  
6 U.S. or NAFTA partners, and this means that tariff cuts  
7 will give exporters a price advantage. Over 40 States  
8 grow wool, while another 25 spin it into yarn or produce  
9 fabric.

10 The U.S. exports little or no wool abroad. The only  
11 customers of U.S. wool growers are the same ones who, it  
12 seems to me, want to bring in less expensive Korean,  
13 Turkish, and Italian wool. Without the cash flow from  
14 sales to finance the wool industry's recovery plan as  
15 promised by the administration, U.S. wool would be  
16 totally unable to compete by the year 2004.

17 Now, the current tariff schedule was designed to  
18 allow the U.S. wool industry to make the heavy and  
19 sustained investments needed to make it competitive by  
20 the year 2004, and I might add that U.S. woolen and  
21 worsted wool fabrics require heavy investments because of  
22 the complexity of the yarn-making process. Nearly a half  
23 a billion dollars has been invested in this industry, and  
24 this investment has shown promise toward making the  
25 finest wool from coarser fibers as well.

1 I do not think wool fabric tariff cuts are necessary  
2 right now. The manufacturers are benefitting from low-  
3 cost fabric from Asian countries with devalued  
4 currencies, such as Korea, which has cut prices by 20  
5 percent for worsted wool.

6 At the same time, tailored clothing sales are up 10  
7 percent, while manufacturers have had a banner year, with  
8 more than a 300 percent profit of growth, according to  
9 the information that I have.

10 I think the manufacturers can easily afford to defer  
11 for five months the implementation of this provision  
12 until the International Trade Commission and Commerce  
13 Department can verify the need for duty eliminations and  
14 reductions.

15 So I am hopeful that we can pass our combined  
16 amendment, which I think would solve some very serious  
17 problems for the wool industry in this country without, I  
18 think, hurting manufacturers that I am sure both Senators  
19 from New York, and others, are doing their best to help  
20 to protect.

21 Senator D'Amato. Mr. Chairman?

22 The Chairman. I do want to proceed as rapidly as we  
23 can. We have Senator Gramm, then Senator D'Amato.

24 Senator Gramm. Well, Mr. Chairman, first of all, I  
25 want to dispel any notion that high-quality cloth does

1 not contain American wool and American mohair: it does.

2 The point is this, that we are in a free trade  
3 agreement with Canada and Canada is importing high-  
4 quality woolen products without protective tariffs, which  
5 means that we are either going to allow our manufacturers  
6 of high-quality clothing the same access to a raw  
7 material or they are going to be driven out of business.

8 I want to take a slightly different tack than our  
9 colleagues from New York, because they are here arguing  
10 for very sophisticated and well-known manufacturers. I  
11 want to argue for smaller manufacturers that can develop  
12 a regional clientele by making very high quality suits  
13 using high-quality wools that have to be imported. We  
14 are talking about, often, very small businesses.

15 Senator D'Amato. If my friend would yield, just on  
16 that point. Indeed, I have a letter here from the Lear-  
17 Berry people, the Petrafasa family, and it is exactly the  
18 kind of company that the Senator is speaking about. They  
19 have 500 employees in Syracuse. They make a high-end  
20 product. They sell to some of the finest retailers in  
21 America using their label. They will go out of business.  
22 They cannot compete if they have to pay this 31 percent  
23 tariff. It is just to that point. It is the small  
24 manufacturers.

25 Senator Gramm. And I will take it just one step

1 lower. A couple that makes men's suits, women's suits,  
2 where you may have three or four people working in the  
3 shop. But their ability to compete on this high end  
4 depends on their ability to get quality fabric.

5 I just think that we produce so little of this  
6 product, that it makes absolutely no sense to jeopardize  
7 all these jobs to be lost to Canada, and losing a basic  
8 tradition of craftsmanship in our country because we are  
9 not letting a mom and pop in Dallas, Texas get quality  
10 fabrics from England and elsewhere so that they can sew  
11 very high-end men's and women's suits, when it may be  
12 only family members that are working in the shop.

13 I mean, it is just crazy. I just would like to say  
14 that my State is, I assume, the largest wool-producing  
15 State in the country. We are big producers of mohair,  
16 which is often blended with wool to make these high-  
17 quality products.

18 We have American wool in many of these high-quality  
19 products that are produced elsewhere in the world, and it  
20 would be great if America had a tradition of investment  
21 in these areas and we were producing these materials  
22 locally. But the plain truth is, we are not.

23 So I think the provision of the bill is a very  
24 important provision and it is a job-protecting provision.  
25 It is just that simple.



1           The Chairman.    I will call on Senator D'Amato, then  
2 we will have the vote.

3           Senator D'Amato.   Mr. Chairman, I want to commend  
4 the Senator from Texas for the cogency of his argument,  
5 because that is exactly what we are faced with in New  
6 York.

7           It is the small craftsmen who are going out of  
8 business, the Hickie Freemans who will be out of  
9 business, the Lear-Berry people, exactly as the Senator  
10 has said, a small family company. They cannot pay a 30  
11 percent tariff.

12          By the way, if that high-end wool is available here  
13 in this country sufficiently, they will buy it. It is  
14 not a question that they are trying to save money and  
15 expense. We just do not produce sufficiently to meet the  
16 needs of these manufacturers.

17          It is giving people an opportunity to compete in jobs  
18 that they are highly effective, highly proficient, and it  
19 is not a question of protecting an outmoded, outdated  
20 industry who does not compete. They can compete, but you  
21 have got to give them the product without putting a 30  
22 percent tariff on it. That is incredible.

23          Now, what takes place in addition to that, is they  
24 then take in fully-made suits with no tariff on them. So  
25 if you buy an imported suit, there is no tariff, but if

1 you buy the wool and you want to have a producer here in  
2 this country, they have got to pay 31 percent. Now, that  
3 is just madness. So, I strongly urge my colleagues to  
4 support the mark as it is and to reject the amendment to  
5 strike.

6 The Chairman. Senator Chafee?

7 Senator Chafee. Mr. Chairman, this proposal that is  
8 included in the mark came out of the blue. There is a  
9 set-up here. Here is a letter from you, Mr. Chairman,  
10 dated February 19 that set up the procedure that I  
11 previously talked about, that we are going to bring up  
12 these tariff suspensions, we are going to consider them  
13 this fall. I believe the date now is September, is that  
14 correct, to consider all of these?

15 Mr. Aldonas. Correct.

16 Senator Chafee. This is short-circuiting the  
17 process. None of the steps that were laid out have been  
18 followed in connection with this particular provision.  
19 There has been the consultation with the ITC, with the  
20 industries, and so forth.

21 The second point I would like to make, is this tariff  
22 did not go on yesterday. This tariff has been there. So  
23 it is not something that has come out of the blue and is  
24 suddenly doing this tremendous job to all these mom and  
25 pop needletrades that we are hearing about.

1           So, Mr. Chairman, it is something that we feel very  
2 strongly about in our State because we are involved in  
3 the whole process. To let this flood of imports come in  
4 from Canada, would be very unfortunate to my State.

5           Furthermore, I would point out that, if my amendment  
6 were adopted, we would provide some \$75 million to the  
7 Trade Adjustment Assistance recipients, which is  
8 something that we are all interested in trying to  
9 achieve. So, I hope the amendment will be adopted.

10           Senator Conrad.   Mr. Chairman?

11           Senator Baucus.   Mr. Chairman?

12           The Chairman.    Senator Baucus?

13           Senator Baucus.   Mr. Chairman, as I understand it,  
14 the Chafee amendment is pending, is that correct?

15           The Chairman.    That is correct.

16           Senator Baucus.   I strongly support the amendment  
17 offered by my good friend from Rhode Island for the  
18 reasons that have been basically mentioned, namely the  
19 process. This did come up quickly, just sprung up here,  
20 and I think it is, frankly, not a good way to do  
21 business.

22           Second, I do not know what we are getting for it. It  
23 is a unilateral reduction of tariff, but there is no  
24 reciprocity here. There is nothing else in this bill  
25 that unilaterally has another country reducing its

1 tariffs and quotas.

2 We have the factor of increasing GSP, we have got  
3 fast track which is potentially an area where we get  
4 reciprocity, but there is nothing in this bill which is  
5 reciprocal, as I see it, and that forces a country to  
6 lower its tariffs.

7 Third, this is really a whammy against my State, too.  
8 Not too many years ago, the Congress repealed the wool  
9 incentive payment. Frankly, the consequence of that is a  
10 reduction of the sheep industry by about 25 percent, that  
11 vote alone in a time when Uncle Sam took in more money on  
12 a three-to-one basis than it paid out in the wool  
13 incentive payment. It was a winner by three to one.

14 Nevertheless, this body, against my counsel, and the  
15 Senate and the Congress voted to eliminate that wool  
16 incentive payment. Again, about 25 percent of producers  
17 are now gone and it is only because of that. Here we are  
18 going further, with no reciprocity. It just does not  
19 make sense.

20 Senator Conrad. And no hearing.

21 Senator Gramm. Mr. Chairman, may I respond to this  
22 reciprocity thing, very briefly?

23 The Chairman. Thirty seconds.

24 Senator Gramm. What we are getting, is we are  
25 getting quality material that lets thousands, tens of

1 thousands of people keep their job. I have no  
2 reciprocity with a grocery store. The grocery store buys  
3 absolutely nothing that I produced. And I could spite  
4 them. I could go out and plant stuff in my backyard, but  
5 I do not because I benefit from going to the grocery  
6 store, despite no reciprocity. We are talking about  
7 saving thousands of American jobs of very highly-skilled  
8 people who want to make quality product.

9 Now, most of us cannot afford or do not choose to buy  
10 their product, but we ought not to put them out of  
11 business. The point is, the product is coming in from  
12 Canada with the material in it.

13 The Chairman. I oppose this amendment. The wool  
14 tariff provision is designed to deal with the tariff  
15 anomaly that has had a crippling impact on a domestic  
16 industry.

17 The Clerk will call the roll.

18 The Clerk. Mr. Chafee?

19 Senator Chafee. Aye.

20 The Clerk. Mr. Grassley?

21 Senator Grassley. Aye.

22 The Clerk. Mr. Hatch?

23 Senator Hatch. Aye.

24 The Clerk. Mr. D'Amato?

25 Senator D'Amato. No.

1 The Clerk. Mr. Murkowski?  
2 The Chairman. No, by proxy.  
3 The Clerk. Mr. Nickles?  
4 The Chairman. No, by proxy.  
5 The Clerk. Mr. Gramm, of Texas?  
6 Senator Gramm. No.  
7 The Clerk. Mr. Lott?  
8 The Chairman. Yes, by proxy.  
9 The Clerk. Mr. Jeffords?  
10 Senator Jeffords. No.  
11 The Clerk. Mr. Mack?  
12 The Chairman. No, by proxy.  
13 The Clerk. Mr. Moynihan?  
14 Senator Moynihan. No.  
15 The Clerk. Mr. Baucus?  
16 Senator Baucus. Aye.  
17 The Clerk. Mr. Rockefeller?  
18 Senator Rockefeller. No.  
19 The Clerk. Mr. Breaux?  
20 Senator Breaux. No.  
21 The Clerk. Mr. Conrad?  
22 Senator Conrad. No.  
23 The Clerk. Mr. Graham, of Florida?  
24 Senator Moynihan. No, by proxy.  
25 The Clerk. Ms. Moseley-Braun?

1 Senator Moynihan. No, by proxy.

2 The Clerk. Mr. Bryan?

3 Senator Bryan. No.

4 The Clerk. Mr. Kerrey?

5 Senator Moynihan. No, by proxy.

6 The Clerk. Mr. Chairman?

7 The Chairman. No.

8 The Clerk. The votes are 5 yeas, 15 nays.

9 The Chairman. The amendment is not agreed to.

10 Senator Conrad. Mr. Chairman?

11 The Chairman. Yes, Senator Conrad.

12 Senator Conrad. Mr. Chairman, can I bring up my  
13 amendment, which is Number 20 in the packet?

14 The Chairman. Please proceed.

15 Senator Conrad. Mr. Chairman, this amendment goes  
16 to the question of currency fluctuations and the problem  
17 that that can create for trade agreements. As we saw in  
18 the NAFTA agreement where we negotiated a 10 percent  
19 reduction in the tariff and then Mexico devalued their  
20 currency by 50 percent, we were worse off than when we  
21 started. The result was, we went from a \$2 billion trade  
22 surplus to a \$16 billion trade deficit.

23 Mr. Chairman, this shows what happened. We go out  
24 there, do good work, get the tariffs reduced by 10  
25 percent, then they devalue by 50 percent and we are 40

1 percent worse off than when we started.

2 This amendment simply says that, in order for fast-  
3 track procedures to apply, the President is required to  
4 submit to Congress: 1) that he has sufficient information  
5 regarding the economic position of the other parties to  
6 make a judgment regarding the stability of the currency  
7 of the other parties; and 2) based on the information,  
8 the President does not expect a marked change in currency  
9 value that would significantly nullify any tariff  
10 concessions.

11 Mr. Chairman and members of the committee, again, it  
12 seems to me that this is a common sense provision. We  
13 ought to look before we leap. We ought to determine the  
14 currency stability of the country with whom we are  
15 negotiating so that we do not see defeated by a currency  
16 devaluation what has occurred at the negotiating table.

17 For those of us who are on the borders with other  
18 countries, we have become acutely aware of the importance  
19 of the currency valuations in these agreements. I would  
20 hope members of the committee would support this  
21 amendment.

22 Senator Gramm. Mr. Chairman?

23 The Chairman. Senator Gramm.

24 Senator Gramm. Mr. Chairman, I think we are calling  
25 on the President to issue assurances that the President



1 is not capable of providing. I can assure you that  
2 Mexico, which, in the last five years, has suffered a  
3 depression greater than our Great Depression, did not set  
4 about to have a currency crisis to benefit itself in  
5 NAFTA.

6 In fact, NAFTA has proven itself, it seems to me, to  
7 be a stabilizing influence for American producers in the  
8 following sense. And that is that, despite a depression  
9 in Mexico greater than our Great Depression in terms of  
10 living standard impact on Mexican workers, the demand for  
11 American products in Mexico because of NAFTA never really  
12 declined as a result of their depression.

13 So I think, to have an agreement like this, is to,  
14 number one, call on the President to provide knowledge  
15 that he is incapable of having; number two, we do not  
16 want trade agreements so that if we have financial  
17 problems, that they are compounded by some undoing of the  
18 trade agreement that we are counting on to be  
19 stabilizing.

20 Quite frankly, as much as we all hate the depression  
21 under way in Asia, their ability to sell product on the  
22 world market is a critical stabilizing influence and that  
23 capacity is probably the major reason why our equity  
24 markets have not been driven down.

25 So I just want to urge people to be very careful of

1 what we are doing here. International trade is part of  
2 the stabilizing influence that helps prevent a regional  
3 recession or depression from turning into worldwide  
4 depression.

5 It is interesting, because the devaluations produced  
6 by the Great Depression and the effort, in turn, to try  
7 to offset those really turned what might have been a  
8 European problem into a world problem.

9 So I just think, again, we are asking too much of  
10 trade agreements if we are asking it to protect us from  
11 the fact that our neighbors do have good economic times  
12 and bad economic times, but certainly nobody in Mexico  
13 ever chose to have this problem, thinking it would help  
14 them in NAFTA. It really has not helped them.

15 Senator Conrad. Mr. Chairman?

16 The Chairman. Yes, Senator Conrad.

17 Senator Conrad. Mr. Chairman, I agree with much of  
18 what the Senator from Texas has said about the impact of  
19 international trade, of the importance of it in terms of  
20 advancing the world economic condition. But that is  
21 really irrelevant to my amendment. The point of my  
22 amendment, is we ought to be looking before we leap. If  
23 we ever had an example, it is NAFTA.

24 In the case of NAFTA, we go out and negotiate a  
25 tariff reduction and then see it totally swamped by a

1 currency devaluation. We ought to at least ask the  
2 President to satisfy himself and to certify to us that  
3 there is a stability in the currency valuation of a  
4 country with whom we are negotiating. That is just good  
5 business. There is not an American company that engages  
6 in international trade that does not evaluate the  
7 currency stability of the country with whom they are  
8 negotiating. We ought to do the same thing.

9 Senator Baucus. Mr. Chairman?

10 The Chairman. Senator Baucus.

11 Senator Baucus. Mr. Chairman, might I ask the  
12 sponsor of the amendment a couple of questions? One that  
13 comes to my mind is, how far in advance must the  
14 President make this determination? That is, must it be  
15 his sense that there be no devaluation within the next  
16 month, next year, two years, or what?

17 Senator Conrad. We have left that open to a  
18 determination and a judgment by the President as to what  
19 is an appropriate time period. I would be open to any  
20 suggestions the Senator or others on the panel might  
21 have.

22 But to me, it is just common sense that we ought to  
23 examine the stability of the currency of the country with  
24 whom we are negotiating and satisfy ourselves we are not  
25 setting ourselves up for undermining what we have

1 accomplished at the negotiating table.

2 Senator Baucus. The second question is, what are  
3 the consequences if, despite the President's best efforts  
4 under this amendment, there is a devaluation?

5 Senator Conrad. There are no consequences. This  
6 amendment is intended to be a look-before-you-leap. This  
7 is intended to, let us go out and do our homework, let us  
8 evaluate the currency stability of the country with whom  
9 we are negotiating. Let us at least have looked before  
10 we go out and have an adverse result. Obviously, there  
11 is no consequence if he makes an improper judgment, other  
12 than maybe held account by the voters.

13 Senator Baucus. Mr. Chairman, this is a tough  
14 amendment because, frankly, I do know that a President  
15 could, under current circumstances, make this projection.  
16 For example, today in China. Is China going to devalue  
17 its currency or not? Nobody knows. I do not even know  
18 if the Premier or the President know today if they are  
19 going to devalue their currency.

20 In addition to that, events just occur which are  
21 totally unpredictable which do cause devaluations. I  
22 might say, in the Mexican case, a very good argument can  
23 be made that NAFTA helped prevent the peso from  
24 devaluating even further. Were it not for NAFTA, the  
25 peso would have fallen even more.

1 Frankly, the things that prevent devaluations are  
2 matters that we should be looking into, but they are  
3 often made because it is a political judgment, because it  
4 is easier to devalue than it is to reform a country's  
5 economy, in many cases.

6 So, Mr. Chairman, this amendment is troublesome  
7 because I do not think it really will be able to help  
8 solve the currency problems. Frankly, I am not sure how  
9 I am going to vote.

10 Senator Conrad. Mr. Chairman, if I might just  
11 respond.

12 The Chairman. Senator Breaux?

13 Senator Breaux. I was just wondering if we might  
14 ask some of our USTR people, who I note are here, whether  
15 this is not done normally. I mean, would you ever enter  
16 into a trade agreement with a country without considering  
17 their economic stability and what they are doing? I  
18 mean, do we do any of that already? It would seem like  
19 you probably would. Is that right?

20 Mr. Fisher. Senator, before I became a Deputy USTR,  
21 I spent 20 years trading foreign exchange in the  
22 marketplace and investing in markets. I would say that  
23 Morgan Stanley cannot predict in advance, yet alone the  
24 U.S. President, precise currency movements.

25 Obviously, we would not be negotiating a large

1 agreement with any country that was suffering from  
2 significant turmoil at the time, and he would not be able  
3 to engage this committee in a serious discussion of any  
4 such proposed agreement. It is a question of  
5 practicability, how far in advance you can predict these  
6 things, Senator, Senator Conrad. These matters are just  
7 not predictable.

8 So, as much as we would like to have certainty here,  
9 this is a world driven by uncertainty in terms of  
10 exchange rate movements. So it is really a question of  
11 practicability. In this case, these are unpredictable  
12 matters.

13 Senator Breaux. Let me just follow up on a final  
14 point. I guess you would say that this would be very  
15 difficult to comply with with any degree of  
16 responsibility.

17 Mr. Fisher. Yes, sir. That is what I am saying.

18 Senator Conrad. Mr. Chairman?

19 The Chairman. Senator Conrad.

20 Senator Conrad. Mr. Chairman, to me, this is kind  
21 of fundamental to the credibility of these agreements.  
22 If we are going to resist every possible change to  
23 enhance the credibility, I do not think we will see this  
24 agreement going forward.

25 I just think, with respect to what we have

1 experienced, that it is absolutely critical that we ask  
2 the executive to look to the currency stability of the  
3 country with whom we are negotiating. It is absolutely  
4 central to the outcome of a negotiation. We are not  
5 asking the President to analyze precise currency  
6 movements. That is not the amendment.

7 What we are asking, is that the President review the  
8 currency stability of the country with whom we are  
9 negotiating so that the President can say to us, yes, we  
10 have a reasonable level of confidence that this country  
11 is not about to have a massive devaluation that would  
12 entirely overwhelm what we have accomplished at the  
13 negotiating table. I really do not see any reason, other  
14 than kind of bureaucratic inertia that exists here, for  
15 adding this so that we are looking before we leap.

16 Senator Gramm. Mr. Chairman?

17 The Chairman. Senator Gramm.

18 Senator Gramm. Mr. Chairman, while Ambassador  
19 Fisher is at the table, is it not true that Mexico was  
20 our third largest customer before NAFTA, it is our second  
21 largest customer after NAFTA, we have \$71 billion sales  
22 to Mexico. Do you believe we would have \$71 billion of  
23 sales to Mexico, even with their economic problems, if we  
24 did not have NAFTA?

25 Mr. Fisher. Senator, as you know, we are big

1 supporters of NAFTA. As you just mentioned, Mexico is  
2 our second largest market now. It is a market one-  
3 twelfth the size of Japan, but it has exceeded it in  
4 terms of sales.

5 Senator Gramm. But here is my point. The  
6 implication of what the Senator from North Dakota is  
7 saying, is that somehow we are worse off than we would be  
8 without NAFTA. It seems to me that exactly the opposite  
9 is true. Mexico was our third best customer before  
10 NAFTA.

11 If we had not had NAFTA and they had their currency  
12 devaluation, we would have clearly been affected. We  
13 were their biggest market by far. They were our third  
14 largest customer. Has NAFTA been overwhelmed by the  
15 recession/depression in Mexico?

16 Mr. Fisher. Senator, as you mentioned earlier, it  
17 has not. In fact, as the other Senator said just now, if  
18 it had not been for NAFTA, it is our feeling that things  
19 might have gotten a lot worse in Mexico.

20 Senator Gramm. That is my point, Mr. Chairman. We  
21 are unhappy that Mexico had a depression, but the plain  
22 truth is, they have become our second largest customer,  
23 surpassing Japan, while they were having a recession.

24 The point is, we would have been much worse off  
25 because they would still be one of our largest trading



1 partners. They would have been worse off, we would have  
2 been worse off without NAFTA. So the point is, they  
3 suffered the currency devaluation, they suffered the  
4 economic downturn.

5 We are unhappy about it, but NAFTA helped shield both  
6 the United States and Mexico. And this idea that somehow  
7 the system has been gamed or overwhelmed, there is no  
8 factual basis for that assertion whatsoever.

9 Senator Baucus. Mr. Chairman?

10 The Chairman. Senator Baucus.

11 Senator Baucus. Ambassador Fisher, on the other  
12 hand, what is wrong with this? I mean, it is the  
13 argument of the Senator from North Dakota, namely, we are  
14 not asking the President to predict depreciation, we are  
15 not asking the President to predict potential  
16 devaluation. We are just asking the President to give it  
17 his best shot.

18 Will that not kind of encourage us as a country, as a  
19 government, as individuals, business people, to think a  
20 little bit more clearly about potential devaluation or  
21 potential depreciation of a country's currency, and might  
22 that also kind of focus the attention of a country that  
23 we might be negotiating an agreement with to think a  
24 little more about that, because it is true that  
25 devaluations or depreciations do significantly affect

1 countries?

2 As I am thinking back in the NAFTA negotiations,  
3 frankly, currency rates were not really debated very  
4 much. You made a statement agreeing with mine, namely,  
5 as it turned out, probably the NAFTA prevented the peso  
6 from falling any further.

7 But, had we had this provision at that time, would it  
8 have helped us in the Congress, and helped negotiators,  
9 and give us maybe a little bit of sense of, if not  
10 security, at least a little bit more understanding of  
11 currency markets and enforce us to maybe pay a little bit  
12 more attention to that? What is wrong with this  
13 amendment?

14 Senator Breaux. Would the Senator yield?

15 Senator Baucus. No, I am asking Mr. Fisher.

16 Senator Breaux. Just for a point that may help Mr.  
17 Fisher answer the question. I know it is always  
18 dangerous to read legislation that is getting ready to  
19 pass, but on page 16 of the bill that we are getting  
20 ready to mark up, they have language that deals with this  
21 issue.

22 Let us see if this helps. It says, "It is the policy  
23 of the United States to reinforce the trade agreement  
24 process by," and the first one listed is----

25 Senator Baucus. What page are you on?

1           Senator Breaux.   Page 16.  "By fostering stability  
2   in international currency markets and developing  
3   mechanisms to ensure greater coordination, consistency,  
4   and cooperation between international trade and monetary  
5   systems and institutions in order to protect against the  
6   trade consequences of significant and unanticipated  
7   currency movements."

8           Senator Baucus.   I do not see that.

9           Senator Breaux.   Page 16 of the bill.  I mean, is  
10   that not what we are talking about?  It is in the bill.

11          Senator Conrad.   If I can say about my amendment,  
12   that does not deal with what we are talking about because  
13   that is hortatory language that says we ought to be  
14   concerned, we ought to be interested in this.

15          But what we are not doing, is we are not doing the  
16   analysis as we negotiate a trade agreement.  To me, it is  
17   fundamentally irresponsible because of the extraordinary  
18   impact currency devaluation can have on the terms of an  
19   agreement.

20          Senator Baucus.   Mr. Chairman, I think I was the one  
21   that was recognized here.  I would like Mr. Fisher to  
22   please answer my question.

23          Mr. Fisher.    Senator, as I understand your question,  
24   it is, what is wrong with this, why not?

25          Senator Baucus.   Yes.  Right.

1           Mr. Fisher.    Again, I just want to avoid the  
2           inference that we are able to anticipate or predict  
3           interest rates and create a false confidence.  Clearly,  
4           right now, for example, we would not bring before this  
5           committee or before this body of the Senate and we would  
6           not contemplate doing a major trade agreement with  
7           Indonesia, for example, which is going through  
8           significant turmoil at present.

9           The worry that I have here, is that, in essence, it  
10          broaches the argument about the whole exchange rate  
11          regime and whether or not there really is an interest on  
12          the part of this country to somehow contemplate the  
13          viability of something that is more fixed than the  
14          current system.

15          I do not think that is an appropriate role, although  
16          it is something we consider, Senator Conrad, obviously,  
17          in negotiating trade.  But the inference here is that we  
18          can predict, that we can anticipate, that we have  
19          knowledge in advance of significant exchange rate  
20          movements, and I do not want to create that artificial  
21          confidence.  This administration would not want to create  
22          that artificial conceit.

23          I understand your concern, Senator Conrad.  We are  
24          very aware of that.  We are very aware of the fact that  
25          foreign exchange rate movements can swamp other factors.

1 These macroeconomic variables are powerful. But, again,  
2 it is a matter of implying, Senator Baucus, a  
3 predictability, an ability to anticipate. I think it  
4 would be providing an artificial confidence.

5 The Chairman. I would like to proceed with the vote  
6 on this amendment. The Clerk will call the roll.

7 The Clerk. Mr. Chafee?

8 Senator Chafee. No.

9 The Clerk. Mr. Grassley?

10 Senator Grassley. No.

11 The Clerk. Mr. Hatch?

12 The Chairman. No, by proxy.

13 The Clerk. Mr. D'Amato?

14 The Chairman. No, by proxy.

15 The Clerk. Mr. Murkowski?

16 The Chairman. No, by proxy.

17 The Clerk. Mr. Nickles?

18 The Chairman. No, by proxy.

19 The Clerk. Mr. Gramm, of Texas?

20 Senator Gramm. No.

21 The Clerk. Mr. Lott?

22 Senator Lott. No.

23 The Clerk. Mr. Jeffords?

24 Senator Jeffords. No.

25 The Clerk. Mr. Mack?

1 The Chairman. No, by proxy.  
2 The Clerk. Mr. Moynihan?  
3 Senator Moynihan. Aye.  
4 The Clerk. Mr. Baucus?  
5 Senator Baucus. No.  
6 The Clerk. Mr. Rockefeller?  
7 Senator Rockefeller. No.  
8 The Clerk. Mr. Breaux?  
9 Senator Moynihan. No, by proxy.  
10 The Clerk. Mr. Conrad?  
11 Senator Conrad. Aye.  
12 The Clerk. Mr. Graham, of Florida?  
13 Senator Moynihan. No, by proxy.  
14 The Clerk. Ms. Moseley-Braun?  
15 Senator Moynihan. No, by proxy.  
16 The Clerk. Mr. Bryan?  
17 Senator Bryan. Aye.  
18 The Clerk. Mr. Kerrey?  
19 Senator Moynihan. Aye, by proxy.  
20 The Clerk. Mr. Chairman?  
21 The Chairman. No.  
22 The Clerk. The votes are 4 yeas, 16 nays.  
23 The Chairman. The amendment is not agreed to. I  
24 believe that is the last.  
25 Senator Chafee. Mr. Chairman, could I just ask

1 staff a couple of questions, very briefly? They will be  
2 very brief, if the answer is right. [Laughter.] First,  
3 I would ask you, Mr. Aldonas, on the TAA, we have trouble  
4 in our State understanding what is an article. The  
5 jewelry industry is big to us. Is an article a line of  
6 jewelry or is it a pair of earrings? We would like to  
7 work with you on trying to get that straightened out.

8 Senator Moynihan. Can we not suggest either or  
9 both?

10 Senator Chafee. Second, you adopted a provision,  
11 Mr. Chairman, dealing with agricultural 301, and that  
12 included forest products. I would like to make sure that  
13 that included fish and seafood as well under that  
14 definition. Senator Breaux also supports this. It is  
15 Senator Grassley's amendment. Is that all right?

16 The Chairman. That is all right.

17 Senator Chafee. We are on a roll here. The last,  
18 is on the soft-side luggage. I would ask that this  
19 provision be expanded to include the CBI nations, as well  
20 as Africa. Is that the understanding? Senator Gramm  
21 approves that. Is that all right?

22 The Chairman. Yes.

23 Senator Chafee. All right. Fine. Thank you all  
24 very much. That improved my average. [Laughter.]

25 Senator Moynihan. Mr. Chairman, I move the adoption

1 of the Chairman's mark, and I ask for the yeas and nays,  
2 as modified now.

3 The Chairman. The Clerk will call the roll.

4 The Clerk. Mr. Chafee?

5 Senator Chafee. Aye.

6 The Clerk. Mr. Grassley?

7 Senator Grassley. Aye, of course.

8 The Clerk. Mr. Hatch?

9 The Chairman. Aye, by proxy.

10 The Clerk. Mr. D'Amato?

11 The Chairman. Aye, by proxy.

12 The Clerk. Mr. Murkowski?

13 The Chairman. Aye, by proxy.

14 The Clerk. Mr. Nickles?

15 The Chairman. Aye, by proxy.

16 The Clerk. Mr. Gramm, of Texas?

17 Senator Gramm. Aye.

18 The Clerk. Mr. Lott?

19 Senator Lott. Aye.

20 The Clerk. Mr. Jeffords?

21 Senator Jeffords. Aye.

22 The Clerk. Mr. Mack?

23 The Chairman. Aye, by proxy.

24 The Clerk. Mr. Moynihan?

25 Senator Moynihan. Aye.



- 1 The Clerk. Mr. Baucus?
- 2 Senator Baucus. Aye.
- 3 The Clerk. Mr. Rockefeller?
- 4 Senator Rockefeller. Aye.
- 5 The Clerk. Mr. Breaux?
- 6 Senator Breaux. Aye.
- 7 The Clerk. Mr. Conrad?
- 8 Senator Conrad. No.
- 9 The Clerk. Mr. Graham, of Florida?
- 10 Senator Moynihan. Aye, by proxy.
- 11 The Clerk. Ms. Moseley-Braun?
- 12 Senator Moynihan. No, by proxy.
- 13 The Clerk. Mr. Bryan?
- 14 Senator Bryan. Aye.
- 15 The Clerk. Mr. Kerrey?
- 16 Senator Moynihan. Aye, by proxy.
- 17 The Clerk. Mr. Chairman?
- 18 The Chairman. Aye.
- 19 The Clerk. The votes are 18 yeas, 2 nays.
- 20 The Chairman. The legislation is agreed to. I
- 21 thank everyone.
- 22 Senator Lott. Mr. Chairman, to you and the Ranking
- 23 Member, I want to thank you for this. I think this is a
- 24 monumental accomplishment. I am very much impressed.
- 25 The Chairman. Thank you very much. The committee

1 is in recess.

2 [Whereupon, at 12:51 p.m., the meeting was  
3 concluded.]

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**UNITED STATES SENATE  
COMMITTEE ON FINANCE**

**OPEN EXECUTIVE SESSION**

**Tuesday, July 21, 1998 10:00 a.m.  
216 Hart Senate Office Building**

**AGENDA**

- I. An original bill on trade including the following provisions:
- A. Authorizing trade preferences for Africa and the Caribbean Basin
  - B. Renewal of GSP and Trade Adjustment Assistance
  - C. Implementation of the OECD Shipbuilding Agreement
  - D. Renewal of Fast Track Negotiating Authority
  - E. Extension of Normal Trade Relations with Mongolia
  - F. Elimination of tariff disparities on wool

Pursuant to Committee Rule 2(a), the official notification and this agenda are being delivered at least 48 hours in advance. The Chairman will rule out of order nongermane items (offered as a single amendment or as part of a larger amendment). Additionally, all amendments must be revenue neutral.



# Committee On Finance

William V. Roth, Jr., Chairman

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## NEWS RELEASE

[www.senate.gov/~finance](http://www.senate.gov/~finance)

FOR IMMEDIATE RELEASE  
July 21, 1998

Press Release #105-387  
Contact: Ginny Flynn  
202/224-4288  
Christina Pearson  
202/224-5218

### COMMITTEE MARKS UP OMNIBUS TRADE BILL

WASHINGTON -- The Senate Finance Committee today met to mark up comprehensive trade legislation. The Chairman's mark for the bill includes fast track trading authority and a number of other important trade measures. Chairman William V. Roth, Jr. (R-DE) opened the mark up with the following statement:

"We are here to markup an original bill that will be offered as a substitute for H.R. 1432, the African Growth and Opportunity Act. The proposed Chairman's mark before you would create a new bill, entitled the Trade and Tariff Act of 1998, that incorporates a revised version of the Africa bill and a number of bills that the Committee reported out with overwhelming support over the last 18 months.

"My purpose in proposing this omnibus bill as a substitute to the H.R. 1432 is twofold. First, we are at a critical juncture in terms of both the U.S. and global economies. The events unfolding in Asia, as the Committee's recent hearings have underscored, are dampening the prospects for economic growth at home and abroad. Our current account deficit is scoring records each month as the problems in Asia increasingly wash up on our shores.

"That impact has been felt most dramatically in our agricultural sector. Our farmers depend on export markets for 40 percent of their income. The problems abroad have led to steep price declines for all agricultural commodities. Those circumstances have led virtually all of the major farm groups, along with virtually all of the major business groups, to support the movement of fast track.

"Many of these groups -- including the Agricultural Coalition for Fast Track and the Emergency Coalition for American Trade -- have issued a letter in support of the Finance Committee's decision to move -- on a bipartisan basis -- toward the passage of this important legislation.

"At times like these, we hear urgent calls, both here and abroad, to close

STATEMENT OF SENATOR MAX BAUCUS  
Senate Committee on Finance  
Tuesday, July 21, 1998

Mr. Chairman, thank you for all of your efforts in setting forth an unprecedented package of valuable trade initiatives this morning for consideration by the Senate Committee on Finance. Your leadership in trade this session will long be remembered.

I would like to go on record, Mr. Chairman, as supporting the majority of these initiatives on their own merit — the Caribbean Basin Initiative, the renewal of Generalized System of Preferences and Trade Adjustment Assistance, the extension of Normal Trade Relations with Mongolia and Fast Track authorization.

On the other hand, I would like to express my dismay at the process. I realize that we are nearing the end of the 105<sup>th</sup> Congress; however, I do not believe that we should be addressing Fast Track, Africa and the elimination of wool textile tariffs — each problematic on its own — carte blanche. That is to say, I believe that the unfortunate packaging of these controversial bills is not only rushed but is a calculated endeavor to force certain members to cast a difficult vote. We face one bill rather than a series of opportunities to defend our constituents interests on a case by case basis. Let me take, for example, the provision on Fast Track. While I have long been a supporter of Fast Track — last fall as well as the present — I am not convinced that we are ready to push it through Congress. I am certainly cognizant of the fact that several of my colleagues see this as a means to embarrass the President and force them to make election deciding votes in the Fall. I know that you have worked very hard on this issue, Mr. Chairman, and that this committee has already reported the Reciprocal Trade Act of 1997; however, I would add the caveat that while I support this endeavor on its merits, I am disturbed by the politics.

Second, I am not thoroughly convinced that Fast Track, as it stands, is perfect. Certainly my constituency back home involved in agriculture is anything but anxious to extend further trade negotiating authority when all they can see is truck after truck after truck of Canadian cattle pouring across the border. Some states have been real winners in international trade; Montana has not. And so I strongly support amendments today aimed at "fixing the loopholes" in our trade agreements. Free trade must be fair trade. Thus, if we are going to grant the Administration such trade authority, we must also empower them to expeditiously address the errors in our outstanding agreements that are detrimental to American producers. We must also ensure that they address the problems we have experienced.

Third, we must not forget who benefits and who loses in trade — we all know that business is doing fairly well abroad. I just returned from China, and I was amazed by all the American influence from telecommunications to environmental technologies. However, it is clear that other sectors, such as agriculture and labor have been impacted by the inordinate number of phytosanitary trade barriers. I am also troubled by the number of American jobs that have shifted to Asia. We must not forget that we serve the citizens of this country. As we do so, we must craft trade legislation, like Trade Adjustment Assistance -- to protect our industry and jobs back home — while we participate in the global economy.

Finally, I would like to voice my strong opposition to the elimination of the wool tariff. This last minute addition to the Chairman's mark is devastating to the wool growers in my state and across the nation. To begin, we had no discussion, no hearing, no notice that this provision would appear in this package as a miscellaneous issue. It is no wonder, then, that the industry is up in arms.

I recall the 1994 elimination of the Wool Act. At that time I voiced my strong opposition to decoupling the one measure of support to a struggling industry in the United States. Nevertheless, we severed a lifeline to the sheep industry. The result has been a flood of imports in our domestic markets. Montana is among the top wool growing states, with US wool yarn and fabric producers as virtually its only customers. With limited export opportunities, Montana producers rely on Burlington Industries to buy 20% of its wool clip each year. In total there are just a few wool textile manufacturers. I can understand a sensible phase-out of this tariff, but right now our nation's producers and 87,000 textile workers stand threatened by this simple measure.

I also find it ironic that the industry was assured by Congress and the Administration that there would be a gradual staging of the tariff reduction and quota phase-outs. And yet, this morning, we would wipe the tariff off the books without so much as requiring a study by the International Trade Commission to fully calculate the impact such elimination would have on the industry. With all due respect, Mr. Chairman, I must vote for striking this provision in the act we are considering today.

To conclude, I would suggest that my colleagues take time today to consider each of these bills carefully. We have many interests to consider and should do so on a cooperative bipartisan front.

Thank you Mr. Chairman.

July 20, 1998

The Honorable Daniel Patrick Moynihan  
United States Senate  
464 Senate Russell Office Building  
Washington, DC 20515

Dear Senator Moynihan:

The undersigned business and agricultural groups strongly support bipartisan efforts in Congress to move forward on broad, multi-year fast-track trade negotiating authority. Fast-track negotiating authority is a critical element of America's trade infrastructure that enables the United States to secure new trade agreements that will break down foreign barriers to U.S. products and services, thereby promoting U.S. economic growth through expanding opportunities for American companies, workers, and farmers.

We applaud you and Chairman Roth for your leadership in the effort to renew fast-track authority. Without fast track, the United States will not be able to open foreign markets for U.S. industry, agriculture, and services through the World Trade Organization, FTAA, and APEC. American business and agriculture need fast track to preserve their competitiveness in global markets and to ensure that they are not disadvantaged commercially by the expansion and creation of regional trade arrangements that exclude the United States.

With the current economic downturn in a number of Asian countries and other principal markets for U.S. goods and services, particularly agriculture, the imperative to promote open trade around the world has never been greater. Fast track would empower the United States to lead that effort once again and allow U.S. trade and investment to remain an engine of U.S. economic growth.

We recognize that enactment of fast-track legislation can only be accomplished through the kind of bipartisan initiative that you are leading. We commit our full assistance to building broad support for fast-track renewal.

Sincerely,

Agricultural Coalition for Fast Track

Business Roundtable, The

Coalition of Service Industries

Emergency Committee for American Trade

National Foreign Trade Council

U.S. Chamber of Commerce

**COMMITTEE ON FINANCE**

**MODIFICATIONS TO CHAIRMAN'S PROPOSAL  
ON THE TRADE AND TARIFF ACT OF 1998**

**JULY 21, 1998**

**TITLE I: AFRICAN GROWTH AND OPPORTUNITY ACT**

Page 6, section "G", line 6, after "textiles" -- insert language clarifying that textile luggage be included in the definition of textiles for purposes of Title I, Subtitle A.

**TITLE IV: MARKET ACCESS IDENTIFICATION FOR CERTAIN  
AGRICULTURAL PRODUCTS**

Page 25, section "C", line 4, after "products" -- insert language clarifying that forest products will be treated as agricultural products for purposes of Title IV.

**TITLE VI: MISCELLANEOUS TRADE PROVISIONS**

**Addition of Subtitle C - Tariff Suspension for Personal Effects of  
Participants in Certain World Athletic Events**

Page 37: Add a Subtitle C, which would codify the traditional practice of ensuring that the personal effects of athletes and other officials participating in international sporting events are eligible to enter the United States duty free, while remaining subject to inspection by Customs officials.

**Addition of Subtitle D - Exemption of Gum Arabic From Sudan  
Import Ban**

Page 37: Add a Subtitle D, which would exempt gum arabic from the current administrative ban on imports from Sudan.



**Addition of Subtitle E - Treatment of Offshore  
Drilling Units for Duty Drawback  
Purposes**

Page 37: Add a Subtitle E, which would extend duty drawback to U.S.-flagged offshore drilling units that are exported for use outside of the customs territory of the United States.

**Addition of Subtitle F - Expansion of Note 5 Benefits for US  
Insular Possessions**

Page 37: Add a Subtitle F, which would extend limited duty preferences currently available for watches made in U.S. insular possessions to include fine jewelry manufactured in the insular possessions as well.

**Staff Document**

**Chairman's Proposal --**

**TRADE AND TARIFF ACT OF 1998**

**Prepared by the Staff of the  
Senate Committee on Finance  
JULY 17, 1998**

On Tuesday, July 21, 1998 at 10:00 am in Room 216 Hart Senate Office Building, the Committee on Finance will meet to markup the Chairman's mark of the Trade and Tariff Act of 1998. The Chairman's mark consists of seven titles, each of which covers one or more trade measures. The contents of the Chairman's mark are as follows:

**Title I - Trade and Development**

- 1. Subtitle A - African Growth and Opportunity Act**
- 2. Subtitle B - Generalized System of Preferences Extension**
- 3. Subtitle C - Caribbean Basin Parity Initiative**

**Title II - Reciprocal Trade Agreements Act of 1998**

**Title III - Trade Adjustment Assistance Programs Reauthorization**

**Title IV - Mechanism to Bolster Market Access for Agricultural Products**

**Title V - Legislation Implementing the OECD Shipbuilding Agreement**

**Title VI - Miscellaneous Trade Provisions**

- 1. Subtitle A - Normal Trade Relations for Mongolia**
- 2. Subtitle B - Tariff Correction for Wool Products**

**Title VII - Revenue Provisions - attached**

## **TITLE I**

### **Subtitle A**

#### **Chairman's Proposal -- Legislation Authorizing a New Trade Policy for Sub-Saharan Africa**

This memorandum outlines the Chairman proposal to authorize a new trade policy for sub-Saharan Africa and provides some background information regarding this legislation.

#### **I. Background**

##### **A. H.R. 1432**

The Chairman's mark is based on the trade-related provisions of H.R. 1432, the African Growth and Opportunity Act. This legislation authorizes "a new trade and investment policy" for sub-Saharan Africa and is designed to encourage increased trade and economic cooperation between the United States and the sub-Saharan African (SSA) countries as a way to help those countries that are committed to accountable government and economic reform. H.R. 1432 was introduced in the House of Representatives on April 24, 1997, and was referred to the House Committees on International Relations, Ways and Means and Banking and Financial Services. The Committees on International Relations and Ways and Means each reported the bill on March 2, 1998. The Banking and Financial Services Committee was discharged of the bill on March 2, 1998. The bill was passed by the House on March 11, 1998, by a vote of 233-186.

The Senate Finance Committee held a hearing on U.S.-African trade relations generally, and H.R. 1432 specifically, on June 17, 1998. During this hearing, the Committee heard testimony from the chief sponsors of the legislation, the Administration and private sector panelists. The Committee also heard testimony on trade with Africa on September 17, 1997.

## **B. Sub-Saharan Africa**

Currently, trade between the United States and the sub-Saharan African ("SSA") countries is relatively minor. In 1997, United States merchandise exports to the SSA countries amounted to less than 1 percent of total U.S. merchandise exports (\$6.2 billion), while imports from those countries totaled only 1.7% of U.S. merchandise imports (\$16.4 billion). The 48 SSA countries together constitute the 21st largest export market for the United States. The major export markets in sub-Saharan Africa are South Africa and Nigeria and the primary export sectors are transportation equipment, machinery, electronic products, agricultural products and chemicals (together, these sectors accounted for 80 percent of exports to the region). The main import suppliers are Nigeria, Angola, South Africa, and Gabon. The primary import sectors are energy-related products and minerals and metals, which accounted for 69 percent and 14 percent, respectively, of all merchandise imports from the region in 1997.

The sub-Saharan countries are among the poorest and least developed in the world. According to World Bank data, the per capita GNP for the SSA countries declined at an annual rate of 1.1 percent during 1985-1995 to an average of \$490. Based on 1996 figures, 39 SSA countries are in the lowest income group of countries (per capita GNP of \$765 or less) and 5 are in the lower middle group (\$766 to \$3,035). The remaining four - - Gabon, Mauritius, Seychelles and South Africa -- are in the upper middle income group of countries (\$3,036 to \$9,385).

Most of the SSA countries are eligible for preferential tariff treatment under the Generalized System of Preferences (GSP) program, though only 3 percent of imports under the program are from the SSA countries. Under the GSP program, developing countries are eligible to receive duty-free access to the U.S. market for certain specified products. U.S. imports from Sub-Saharan Africa under GSP totaled \$588.2 million in 1996, with imports from South Africa (\$429.3 million in 1996) accounting for most of this amount. Significantly, most petroleum products -- which constitute the largest portion of merchandise exports from the SSA countries -- are not eligible for duty-free treatment under the GSP program.

The political climate in several of the SSA countries has improved in recent years. Although there have been notable improvements, there remain a number of SSA countries that suffer from significant instability. Moreover, over 30 countries, with assistance from the World Bank and the

International Monetary Fund, have taken steps toward economic reform, including some liberalizing of exchange rates and prices, privatizing state-owned enterprises, instituting tighter disciplines over government expenditures, limiting subsidies and reducing barriers to trade and investment.

## **II. Chairman's Proposal**

The Chairman's mark is based on the trade-related provisions of the House Bill and has four primary components. First, the mark provides eligible sub-Saharan African countries with enhanced benefits under the Generalized System of Preferences ("GSP") program. Second, the mark provides quota-free access to the United States for apparel products produced in eligible sub-Saharan African countries using U.S. fabric. Third, the mark directs the President to begin plans for implementing a United States-Sub-Saharan Africa free trade area. Fourth, the mark creates a United States-Sub-Saharan Africa Trade and Economic Cooperation Forum.

### **A. Title**

The Chairman's mark adopts the title of the House bill: the "African Growth and Opportunity Act."

### **B. Findings**

The Chairman's mark sets forth a number of findings regarding the importance of economic and political development in the sub-Saharan African countries, and the constructive role of increased trade and economic cooperation between the United States and the sub-Saharan African countries in facilitating such changes.

### **C. Statement of Policy**

The Chairman's mark contains a statement of policy on behalf of Congress supporting economic development within sub-Saharan Africa and

increased trade and economic integration between that region and the United States.

**D. Eligibility Requirements**

The Chairman's mark sets forth several eligibility criteria that the sub-Saharan African countries must meet to receive the benefits set forth in the legislation. In order to become eligible, the President must determine that the sub-Saharan African country is not engaging in gross violations of human rights or providing support for international terrorism and whether it has a good or improving record regarding market-based economic policies, fair and open trade policies, the rule of law, and domestic development programs such as poverty reduction and physical infrastructure development. In addition, the mark requires that sub-Saharan African countries satisfy the eligibility requirements of the GSP program before they can become eligible for the benefits contained in the legislation.

**E. United States-Sub-Saharan Africa Trade and Economic Cooperation Forum**

The Chairman's mark establishes the United States-Sub-Saharan Africa Trade and Economic Cooperation Forum. The purpose of this Forum is to foster close economic ties between the United States and sub-Saharan Africa by encouraging meetings between private sector, governmental and nongovernmental leaders to discuss issues of common interest with regard to U.S.-sub-Saharan African trade and economic cooperation.

**F. United States-Sub-Saharan African Free Trade Area**

The Chairman's mark directs the President to develop a plan for the purpose of entering into one or more trade agreements with eligible SSA countries in order to establish a United States-Sub-Saharan African Free Trade Area. The mark also directs the President to transmit the plan to Congress.

## **G. Sub-Saharan Africa Trade Preferences**

The Chairman's mark amends the Generalized System of Preferences program to provide enhanced benefits under that program for eligible SSA countries.

First, the Chairman's mark permits the President to provide duty-free treatment under the GSP program to imports from eligible sub-Saharan African countries of all products (except textiles and apparel) that are currently ineligible for GSP benefits. GSP benefits would also be provided to imports of apparel products assembled in SSA countries from U.S. fabric made with U.S. yarn; apparel products cut and assembled in SSA countries from U.S. fabric made with U.S. yarn and sewn together with U.S. thread; and handloomed, handmade and folklore items. Before granting these tariff preferences, the President must determine, after receiving the advice of the International Trade Commission, that the product is not import sensitive in the context of imports from SSA countries.

Second, the Chairman's mark amends the GSP program's rules of origin by allowing 15 percent of the appraised value of the article at the time of importation to be derived from materials produced in the United States. Also, the Chairman's mark permits the value of materials produced in any eligible sub-Saharan African country to be applied in determining the origin of the product. These are the same provisions as contained in the House-passed bill.

Third, the Chairman's mark amends the GSP program to waive the competitive need limits for eligible sub-Saharan African countries. The competitive need limits require that the President cut off the duty benefits under the GSP program when imports from a beneficiary country during a particular year exceed either 50 percent of total imports of that product or \$85 million. This is the same provision as that contained in the House passed bill.

Fourth, the Chairman's mark authorizes the GSP program with respect to the sub-Saharan African countries for a period of ten years. This is the same provision as that contained in the House passed bill.

## **H. Treatment of Textile and Apparel Articles**

The Chairman's mark eliminates quotas -- or, in instances where there is no quota in place -- directs the President not to impose quotas -- on imports of apparel products eligible for duty-free entry. In order to receive quota-free treatment, the eligible sub-Saharan African country must adopt measures to guard against the transshipment of textile and apparel goods.

The Chairman's mark directs the U.S. Customs Service to provide technical assistance to the eligible sub-Saharan African countries for the implementation of such measures to guard against the transshipment of textile and apparel goods. The mark also directs the U.S. Customs Service to report to Congress on an annual basis regarding the effectiveness of the anticircumvention systems implemented by the eligible sub-Saharan African countries. In addition, the Chairman's mark establishes certain penalties for exporters that engage in transshipment with respect to textile or apparel products.

The Chairman's mark also includes a safeguard measure, authorizing the President to impose appropriate remedies in the event that imports of textile and apparel products from eligible SSA countries are found to be disruptive under current WTO safeguard measures for textiles and clothing.

## **I. Reporting Requirement**

The Chairman's mark directs the President to submit reports on an annual basis, for four years, on the implementation of this legislation. This is the same provision as that contained in the House-passed bill.

## **J. Definition of Sub-Saharan African Countries**

The Chairman's mark defines SSA countries to include the forty-eight countries covered under the House bill.



**TITLE I**  
**Subtitle B**

**Chairman's Proposal –**  
**Legislation Extending Duty-Free Treatment Under the**  
**Generalized System of Preferences**

The following memorandum outlines the Chairman's GSP extension proposal.

**I. Background**

The Generalized System of Preferences (GSP), title V of the Trade Act of 1974, as amended, grants authority to the President to provide duty-free treatment to imports of eligible articles from designated beneficiary developing countries, subject to certain conditions and limitations. To qualify for GSP privileges, each beneficiary country is subject to various mandatory and discretionary eligibility criteria. Import sensitive products are ineligible for GSP. The President's authority to grant GSP benefits expired on June 30, 1998.

**II. Chairman's Proposal**

The Chairman's mark reauthorizes the GSP program for two (2) or three (3) years, depending on the pay-fors, to expire on either June 30, 2000 or June 30, 2001. Refunds of any duties paid between July 1, 1998 and the date of enactment will be provided upon request of the importer. This provision is effective upon the date of enactment.

**TITLE I**  
**Subtitle C**

**Chairman's Proposal -**  
**Legislation Affording CBI Beneficiary Countries Access**  
**to an Expanded Program of Tariff Preferences**

The following memorandum outlines Chairman's CBI parity proposal. It reflects the same proposal without change that was reported favorably by the Finance Committee as an original bill (S.1278) on October 9, 1997.

**I. Background**

Congress enacted the Caribbean Basin Economic Recovery Act ("CBERA") in 1983 to respond to an economic crisis in Central America and the Caribbean. The principal U.S. response to that crisis under CBERA was a broad grant of unilateral tariff preferences to qualifying beneficiary countries.

In order to qualify, the beneficiary country had to request the opportunity to participate. The President then determined whether the country was eligible based on a variety of factors, including, among others, the country's commitment to afford the United States reciprocal market access, the country's participation (at the time) in the GATT, its willingness to accept subsidy disciplines, the extent to which the country afforded adequate intellectual property protection, and the extent to which the country's economic policies would contribute to the goals of the Caribbean Basin Initiative, or "CBI" as it is widely known.

The original grant of preferences was limited to a period of 12 years. It covered virtually all trade with the CBI countries with the exception of textiles and apparel, canned tuna, petroleum and petroleum products, and certain watches and watch parts, handbags, luggage, flat goods such as wallets, change purses and key and eyeglass cases, work gloves and leather wearing apparel.

The current CBI beneficiaries include Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Costa Rica, Dominica, Dominican Republic, El

Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, Saint Christopher and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, and the British Virgin Islands.

In 1990, Congress passed the Caribbean Basin Economic Recovery Expansion Act of 1990, the so-called "CBI II." That Act made the unilateral grant of preferences permanent. It also expanded some of the benefits otherwise available. CBI II permitted the President to proclaim a tariff reduction of 20 percent (but not more than 2.5 percent ad valorem on any article) in tariffs applicable to a subset of the previously excluded products - handbags, luggage, flat goods, work gloves, and leather wearing apparel. CBI II also allowed for duty-free treatment on articles, other than textiles and petroleum based products, if made from U.S. fabricated components.

In 1993, Mexico joined the North American Free Trade Agreement. Among the commitments made by the United States to Mexico were the sharp reduction in duties and quantitative limits applicable to products not previously eligible for CBI treatment, including textiles and apparel.

Although textile exports from the Caribbean remained strong, the onset of the NAFTA raised the concern that the preferences available under that agreement would eventually undermine investment in Central America and the Caribbean, particularly in textiles and apparel. That concern led to the formulation of various proposals for expanding the CBI still further to provide treatment equivalent to that provided to Mexico under the NAFTA for all products not previously eligible for CBI treatment. It is that concept that is commonly referred to as "CBI parity."

## **II. Chairman's Proposal**

Like the CBI II enacted in 1990, the Chairman's proposal would expand the existing CBI by providing for additional tariff preferences on a number of products not previously covered by the program. Those benefits, however, are conditioned on the eligible beneficiary countries' trade policies, their participation and cooperation in the Free Trade Area of the Americas ("FTAA") initiative, and other factors.

### **A. Findings and Policy**

The findings contained in the Chairman's proposal set out the underlying rationale for expansion of the CBI program. The purpose is to provide opportunities that will enhance the beneficiary country's economic development and integration into the international trading system, while providing expanded export opportunities for U.S. goods as a result of the increased trade and economic growth that the enhanced CBI program is designed to foster.

## **B. Product Coverage and Preferences**

The Chairman's proposal would include some or all of the product categories previously excluded from CBI tariff preferences, including certain textile and apparel products, footwear, canned tuna, petroleum and derivatives, watches and watch parts.

### **1. Textiles**

With respect to textiles, the proposal opts for an approach consistent with that of the CBI II -- one that will both provide expanded benefits to the CBI beneficiaries' apparel industry while affording new opportunities for U.S. textile, yarn, and thread producers. The Chairman's proposal would extend immediate duty-free and quota free treatment to the following items

- Apparel articles assembled in an eligible CBI beneficiary country from U.S. fabrics wholly formed from U.S. yarns and cut in the United States that would enter the United States under HTS 9802.00.80 (a provision that otherwise allows the importer to pay duty solely on the value-added abroad when U.S. components are shipped abroad for assembly).
- Apparel articles entered under chapters 61 and 62 of the HTS where they would have qualified for HTS 9802.00.80 treatment but for the fact that the articles were subjected to certain types of washing and finishing.
- Apparel articles cut and assembled in the eligible CBI country from United States fabric formed from U.S. yarn and sewn in the Caribbean with U.S. thread.
- Handloomed, handmade and folklore articles originating in the CBI beneficiary country.

To ensure that the preferences made available under the Chairman's proposal do not lead to the transshipment of textile and apparel products from other countries where the goods would be subject to U.S. quotas, the proposal includes two provisions penalizing such actions. First, the proposal would penalize exporters found to have engaged in transshipment -- all benefits under the program would be denied for a period of two years. Second, any country failing to take actions to prevent transshipment after a specific request for assistance in that regard from the President would have its exports reduced by three times the quantities found to have been transshipped.

The proposal would also allow for the snapback of the tariff preferences in the case of surges in imports that could cause serious damage to the U.S. industry producing a like product in the United States.

## **2. Other Products**

On all other products covered by the Chairman's proposal, the program would provide an immediate reduction in tariffs equivalent to 50 percent of the preference afforded imports of similar articles from Mexico under NAFTA. In other words, the applicable duty paid by importers would be equal to the duty applicable to the same good if entered from Mexico, plus one-half of the difference between the duty rate afforded Mexico on that product and the tariff rate otherwise applicable to the product.

The Chairman's proposal provides for additional reductions over time if the eligible CBI beneficiary countries make progress toward fulfilling the criteria set out in the proposal.

### **C. Eligibility**

Eligibility for the program is left in the discretion of the President, but the proposal would provide very specific guidance as to the criteria the President should apply in making that determination. The starting point under the Chairman's proposal is compliance with the eligibility criteria set out in the original CBI. The proposal would add to those criteria trade factors such as the extent to which the beneficiary country fully implements the various Uruguay Round agreements and whether the beneficiary country affords adequate intellectual property protection.

The proposal also adds non-trade criteria that reflect important U.S. initiatives in other areas. They include, among others, the extent to which the country has become a party to the Inter-American Convention Against Corruption and is or becomes a party to a convention regarding the extradition of its nationals, and the extent to which the prospective beneficiary supports the multilateral and regional objectives of the United States regarding the introduction of transparent bidding procedures on public procurement contracts.

#### **IV. Duration**

The Chairman's proposal would provide the additional benefits through 2001.

## TITLE II

### **Chairman's Proposal Legislation to Extend Tariff Proclamation Authority and Fast Track Procedures for Congressional Consideration of Trade Agreements**

The Chairman's proposal represents the same proposal reported by the Finance Committee as an original bill (S.1269) on October 8, 1997, with one addition. The proposal would include, discussed in connection with the notice and consultation provisions below, an additional requirement for a study by the International Trade Commission of the economic impact of any new trade agreement at the time the agreement is initialed and prior to congressional consideration of the accord and any implementing legislation.

#### **I. Background**

Congress introduced the so-called fast track procedures for implementing trade agreements in 1974. The procedures were designed to preserve Congress' constitutional role in the regulation of foreign commerce, while offering the President and our trading partners the assurance that a trade agreement requiring changes in U.S. law would receive an up-or-down vote.

From the outset, the procedures allowed Congress to set the framework for use of the authority by spelling out the basic negotiating objectives. The President was then obliged to notify Congress prior to entry into any trade agreement, consult on the nature and scope of the accord, and submit, together with any implementing legislation, the President's findings as to how the accord met the objectives set by Congress in the first instance.

Congress has preserved that basic structure each time it has renewed the fast track procedures. The procedures were renewed once for eight years by the Trade Agreements Act of 1979, and a second time for five years in the Omnibus Trade and Competitiveness Act of 1988. The authority granted by the 1988 Act was extended in 1993 for an additional six months in order to complete the Uruguay Round of multilateral trade negotiations.

The fast track authority has been used on five occasions. Congress used the fast track procedures to implement the Tokyo and Uruguay Rounds of multilateral trade negotiations under the General Agreement on Tariffs and Trade ("GATT"). Congress also relied on fast track to implement free trade accords with Israel, Canada, and Mexico. The fast track procedures lapsed in 1994 and those procedures have not been renewed since that time.

The President submitted a proposal for renewal of the fast track procedures in September, 1997. The proposal retained the familiar structure of the 1988 Act in many respects, although with certain basic differences, particularly in the scope of the negotiating objectives.

## **II. Chairman's Proposal**

The Chairman's proposal would retain the basic structure of the 1988 Act as well. In contrast to the President's proposal, however, it reemphasizes that the purpose of the authority is the reduction of trade barriers and the expansion of market access for U.S. exports. The Chairman's proposal provides greater detail regarding the purposes of the Act and the negotiating objectives Congress expects the President to pursue.

The following discussion outlines the Chairman's proposal section-by-section. Where helpful for context, the memorandum draws contrasts with the 1988 Act and the Administration's proposal.

### **A. Title**

The proposed act would be titled "Reciprocal Trade Agreements Act of 1998."

### **B. Trade Negotiating Objectives of the United States**

Under the Chariman's proposal, the statement of the trade negotiating objectives of the United States is divided into three parts -- a statement of purposes, the trade negotiating objectives themselves, and a complimentary set of economic policy objectives designed to reinforce the trade agreements process.

#### **1. Statement of Purposes**



The Statement of Purposes provides the underlying rationale for which Congress grants access to the fast track -- expanding U.S. access to foreign markets, reducing barriers to trade, creating more effective international trade rules, and promoting economic growth, higher living standards and full employment in the United States.

## **2. Principal Trade Negotiating Objectives**

The Principal Trade Negotiating Objectives identify the specific sectors and practices on which Congress expects the President to focus his efforts. The provision expressly links access to the fast track procedures to fulfillment of the enumerated objectives.

The Principal Trade Negotiating Objectives include the following.

**a. Trade in Goods:** Reducing barriers on trade in goods, including a directive to eliminate tariff disparities left over from previous rounds of multilateral tariff negotiations, as well as those tariff and nontariff measures identified in the United States Trade Representative's annual trade barriers study.

**b. Trade in Services:** Reducing barriers to trade in services and expanding access to foreign markets for U.S. service providers. The provision retains the 1988 Act guidance for negotiators regarding U.S. domestic policy objectives in various areas, including health, safety, national security, environmental protection, consumer protection, and employment, but makes clear that the guidance should not be construed as authority to modify U.S. law related to those domestic policy objectives.

**c. Investment:** Reducing barriers to U.S. investment and ensuring the means for an equitable resolution of investment disputes. The guidance from the 1988 Act with respect to domestic policy objectives is retained here as well, along with the proviso noted above that the guidance should not be construed as authority to modify U.S. law.

**d. Intellectual Property:** Reinforcing intellectual property protection at home and abroad. The objective, among other actions, focuses on the enactment and enforcement of adequate intellectual

property protections and the acceleration and full implementation of the Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property ("TRIPS").

**e. Agriculture:** Achieving more open and fair conditions of trade by reducing barriers to trade in agricultural products, eliminating trade distorting practices of state trading enterprises, banning unjustified restrictions or commercial requirements affecting new technologies, and addressing a variety of other market distorting practices that unfairly decrease U.S. market access opportunities.

**f. Unfair Trade Practices:** Enhancing existing international disciplines against unfair trade practices such as dumping and trade-distorting subsidies and ensuring the aggressive enforcement of those disciplines through the World Trade Organization ("WTO").

**g. Safeguards:** Reinforcing international rules on the use of safeguard measures in order to ensure that they do not become an obstacle to U.S. exports.

**h. World Trade Organization:** Expanding the coverage of and participation in the WTO agreements.

**i. Dispute Settlement:** Ensuring the effectiveness of trade dispute settlement procedures for the enforcement of U.S. rights, particularly within the WTO.

**j. Transparency:** Encouraging transparency in the development of trade policy and practices among our trading partners and in the institutional procedures of the WTO.

**k. Developing Countries:** Encouraging greater integration of and participation by developing countries in the world trading system and ensuring that they assume responsibilities for the international trading system commensurate with their level of development.

**l. Current Account Surpluses:** Encouraging the reduction of large and persistent current account surpluses that undermine the stability of the international trading system.

**m. High Technology:** Ensuring U.S. access to technologies developed abroad.

**n. Border Taxes:** Seeking the revision of the WTO's treatment of border taxes to redress the disadvantage it creates for countries like the United States that rely more heavily on income taxes, as opposed to value-added, sales or excise taxes.

**o. Regulatory Competition:** Preventing the use of government regulation or other government practices, including health, safety, labor and environmental standards, to afford a commercial advantage to domestically produced goods or third country imports, either by using such rules to discriminate against U.S. goods, services or investment or lowering or failing to enforce existing regulations as a means of attracting investment. The proposal clarifies that this provision is not intended to authorize the negotiation and implementation through fast track procedures of any measure that would modify U.S. domestic health, safety, labor, or environmental laws

### **3. International Economic Policy Measures**

The draft introduces a new subsection relating to international economic policy objectives that would reinforce the trade negotiations process. Those objectives would include -- (1) work within international monetary institutions to encourage currency stability and coordination between trade and monetary institutions, (2) efforts within international fora other than the WTO TRIPS agreement to ensure adequate enforcement of intellectual property rights, (3) the promotion of respect for workers' rights, such as use of the ILO to monitor its members adherence to certain accepted labor standards (e.g., the prohibition on exploitative child labor), and (4) expanding trade to ensure the optimal use of the world's resources, while seeking to protect and preserve the environment and to enhance the international means for doing so.

The provision makes clear that any legislation modifying U.S. law in pursuit of these objectives would not be subject to fast track consideration.

#### **C. Trade Agreement Negotiating Authority**

The actual grant of trade agreement negotiating authority contains

two different procedures for implementing trade agreements -- one for implementing tariff negotiations and one for implementing trade agreements which require other changes in U.S. law.

The first of those two is referred to as "tariff proclamation authority." It permits the President to "proclaim" the results of tariff negotiations directly into U.S. law without further review by Congress.

The second set of procedures, designed for changes in U.S. law other than tariff changes, constitutes the "fast track."

### **(1) Tariff Negotiating Authority**

Tariff negotiating authority in the Chairman's proposal tracks prior grants of negotiating authority contained in every extension of tariff negotiating authority since the Reciprocal Trade Agreements Act of 1934. It imposes limits on the maximum amount by which the President can cut any individual tariff line item. It also contains rules on staging tariff cuts, rules on the rounding of such changes, and other related matters.

The Chairman's proposal would authorize the tariff proclamation authority for an initial period of four years until October 1, 2001. It would allow for a single extension of that authority for four years until October 1, 2005.

### **(2) Tariff and Non-Tariff Authority**

The 1988 Act included two separate grants of fast track authority -- one that applied to trade agreements on non-tariff measures and one that applied to free trade agreements. The Chairman's proposal, like that of the Administration, condenses those separate tracks into a single process and applies common notice, consultation, and implementing procedures to all such negotiations.

The draft provides for an initial grant of authority through October 1, 2001. It then provides a process for extending the authority through October 1, 2005. The disapproval resolution procedures remain the same as in previous grants of fast track authority, allowing Congress to deny an extension of fast track authority by agreeing to a resolution of disapproval.

The Chairman's proposal imposes certain conditions on access to the fast track process, as does the President's proposal and all prior grants of fast track authority. In order to qualify for fast track treatment under the Chairman's proposal, a trade agreement must first make progress toward achieving one or more of the principal negotiating objectives. In addition, the President must satisfy the notice and consultation procedures discussed below.

The Chairman's proposal also defines which provisions of the proposed implementing legislation would be subject to fast track procedures. Fast track would extend to

- provisions needed to approve of a proposed trade agreement and its related statement of administrative action;
- provisions necessary and appropriate to implement a trade agreement that falls within the scope of the principal negotiating objectives and are also directly related to trade;
- provisions intended to define the relationship of the agreement to U.S. law regarding preemption, private rights of action and similar issues; and
- provisions needed to comply with section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985.

In terms of the process for extending the authority, the Chairman's proposal parallels the provisions of the 1988 Act. The President must request the extension, provide his reasons for that request along with an explanation of the trade agreements for which he expects to need fast track authority and a description of the progress he has made to date toward achieving the principal negotiating objectives.

The extension of the authority takes place automatically, unless either House of Congress approves a "resolution of disapproval." Any member of Congress can introduce a resolution of disapproval in his or her respective House of Congress. Such resolutions would be referred to the Committee on Finance in the Senate and the Committees on Rules and Ways and Means in the House. Floor action on such resolutions would be out of order unless the resolution had been reported by the aforementioned committees.

#### **D. Notice and Consultations**

Consistent with the 1988 Act and the Administration's draft bill, the Chairman's proposal would require the President to notify Congress in writing 90 days prior to initiating negotiations on any agreement destined for the fast track procedures. The President is then obliged to consult at the outset of and during any negotiations that might result in fast track legislation. The President is also obligated to consult with Congress immediately prior to the initialing of any agreement.

The consultation requirements obligate the President to consult on the nature of the proposed accord, the extent to which it achieves the negotiating objectives set out above, the planned implementation of the agreement, and on any additional or "side" agreements that may be a part of the package.

In addition the Chairman's proposal would require the President to request a study by the International Trade Commission of the potential economic impact of the proposed agreement at the time the President notifies Congress of his intent to enter into the agreement. The Commission that must report to Congress within 90 days of the initialing of the agreement. The intent is to have the Commission's report available to Congress at the time of its deliberations on the agreement and any implementing legislation.

#### **E. Implementation**

The implementation requirements (i.e., the need for an implementing bill and statement of administrative action) would remain unchanged from prior grants of fast track authority. Those procedures require the President to notify Congress of his intent to enter into an agreement 90 days before doing so. Then, 60 days prior to entry into an accord, the President is obliged to provide a description of the changes in U.S. law that the agreement will make.

The Chairman's proposal makes one significant departure from both the 1988 Act and the Administration's proposal. The draft provides for Congressional disapproval of negotiations under two circumstances -- (1) when either the Senate Finance or the House Ways and Means Committee disapproves of the negotiations within sixty days of the President's initial

notification and (2) when either House of Congress passes a procedural disapproval resolution based on the President's failure to consult as required by law.

The first of those two provisions -- the outright disapproval of negotiations before they start -- was a part of the 1988 Act, although it applied solely to free trade agreement negotiations. The Administration's proposal had eliminated that step entirely, even for free trade agreements. The Chairman's proposal reinstates that step and expands its coverage.

The latter of those two provisions (on consultations) has been in each previous grant of fast-track authority and is contained in both the 1995 House bill and the Administration's proposal.

#### **F. Treatment of Certain Trade Agreements**

The Chairman's proposal also addresses notice requirements that would otherwise apply to negotiations that may have begun at the time this legislation is passed. Those negotiations include talks on a free trade agreement with Chile, negotiations under the WTO to harmonize customs rules of origin, and discussions of a second Information Technology Agreement.

Initiation of the talks prior to passage of the Chairman's proposal would preclude the Administration's ability to comply with the otherwise applicable notice requirements. The Chairman's proposal would obviate the need to do so for such talks.

#### **G. Conforming Amendments**

The Chairman's proposal makes various conforming amendments. Those amendments are designed to ensure that the fast track procedures originally set out in the 1974 Act do in fact apply and that all applicable consultation requirements apply as well.

## **TITLE III**

### **Chairman's Proposal -- Legislation Reauthorizing the Trade Adjustment Assistance Programs**

The following memorandum outlines the Chairman's TAA reauthorization.

#### **I. Background**

Title II of the Trade Act of 1974, as amended, authorizes three trade adjustment assistance (TAA) programs for the purpose of providing assistance to individual workers and firms that are adversely affected by the reduction of barriers to foreign trade.

- The general TAA program for workers provides training and income support for workers adversely affected by import competition.
- The TAA program for firms provides technical assistance to qualifying firms. (Both the TAA programs for workers and for firms were first established by the Trade Expansion Act of 1962.)
- The third program, the North American Free Trade Agreement (NAFTA) program for workers (established by the North American Free Trade Agreement Implementation Act of 1993), provides training and income support for workers adversely affected by trade with or production shifts to Canada and/or Mexico.

All three programs expire on September 30, 1998. The TAA program for firms is also subject to annual appropriations.

#### **II. Chairman's Proposal**

The Chairman's mark reauthorizes each of these three programs through September 30, 2000. This provision is effective on the date of enactment.



## **TITLE IV**

### **Chairman's Proposal -- Market Access Identification for Certain Agricultural Products**

The Chairman's proposal introduces a provision designed to bolster United States efforts to eliminate barriers to American agricultural exports. The proposal provides a mechanism modeled on the so-called Special 301 procedures that have proved successful in improving protection of American intellectual property rights in foreign markets and similar procedures that have proved successful in gaining market access for U.S. exports of telecommunications equipment and services.

#### **I. Background**

The Chairman's proposal incorporates S.219, which was introduced on January 28, 1997 by Senators Daschle and Grassley, with one modification. The Chairman's proposal would expand the product coverage from the value-added agricultural products covered under S.219 to include all U.S. agricultural commodities and products.

A combination of natural disasters, crop disease, low commodity prices, and the loss of Asian markets due to the ongoing economic crisis in that region have depressed farm income and the economies of rural areas. Approximately 40 percent of farm income is currently derived from foreign sales. These circumstances mandate greater attention to the removal of unfair trade barriers that displace American agricultural products in foreign markets in an effort to help alleviate the growing crisis in American agricultural.

The Chairman's proposal focuses on that problem.

#### **II. Chairman's Proposal**

##### **A. Title**

The title of the new provisions will be the "United States Agricultural Products Market Access Act of 1998."

## **B. Purposes**

The Chairman's proposal identifies three purposes for use of the new investigatory procedures, including the reduction or elimination of foreign unfair trade practices, providing the assurance of fair and equitable market access for U.S. exports, and the promotion of free and fair trade in agricultural products.

## **C. Investigatory Procedures**

The Chairman's proposal would establish a process by which the United States Trade Representative must identify those foreign countries that deny fair and equitable market access to United States agricultural products or apply unjustified sanitary or phytosanitary standards to agricultural products imported from the United States. Those countries would be designated as "priority foreign countries." Such designations are to be reserved for those countries that engage in egregious acts, policies, or practices that have the greatest affect on U.S. agricultural exports and who are not engaged in good faith negotiations with the United States, either bilaterally or multilaterally, to provide fair and equitable market access to U.S. agricultural exports.

The Chairman's proposal would require the United States Trade Representative to consult with the Secretary of Agriculture and other appropriate officials of the federal government in determining which countries and practices would be identified as priorities. The Trade Representative would also be required to take into account information provided from U.S. agricultural interests, including petitions filed under section 302 of the Trade Act of 1974 requesting investigations of particular acts, policies, or practices that impose an unfair burden on U.S. agricultural exports. The Trade Representative must also take into account a variety of other factors, including the history of agricultural trade relations with the foreign country and any history of past efforts to achieve fair and equitable market access for U.S. agricultural products.

The Trade Representative must publish in the Federal Register a list of foreign countries identified under the procedures outlined above. In addition, the Trade Representative must provide a report regarding the countries so-identified to the Senate Committees on Finance and Agriculture, Nutrition, and Forestry and the House Committees on Ways

and Means and on Agriculture.

To the extent countries identified as priority foreign countries do not take action to address the concerns raised by the Trade Representative, the Trade Representative must initiate a formal investigation of those practices under section 302 of the Trade Act of 1974.

## TITLE V

### **Chairman's Proposal -- Legislation to Approve and Implement the Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry**

(Prepared by the Staff of the Senate Finance Committee)

July 17, 1998

This document provides background information relevant to the Committee's consideration of legislation to approve and implement the Agreement Respecting Normal Competitive Conditions in the Commercial Shipbuilding and Repair Industry (the "Shipbuilding Agreement"), negotiated under the auspices of the Organization for Economic Cooperation and Development ("OECD").

#### **I. BACKGROUND**

After five years of negotiation under the auspices of the OECD, key shipbuilding nations (the United States, the European Union (EU), Japan, South Korea, and Norway) signed the Shipbuilding Agreement on December 21, 1994.

The Shipbuilding Agreement applies to construction and repair of self-propelled seagoing vessels of 100 gross tons and above and tugs of 365 kilowatts or more, and covers approximately 80 percent of world shipbuilding capacity for vessels engaged in worldwide shipping. It has four main provisions: (1) elimination of virtually all shipbuilding subsidies granted either directly to shipbuilders or indirectly through ship operators; (2) an injurious-pricing code, modeled on the World Trade Organization (WTO) Antidumping Code, under which countries can fine foreign shipyards that sell ships at unfairly low (*i.e.*, dumped) prices; (3) a comprehensive set of rules on government financing for export and domestic ship sales; and (4) binding dispute-settlement procedures in the OECD. The Shipbuilding Agreement also contains a "standstill" requirement, under which the signatories agree not to give their shipyards additional subsidies or to increase existing subsidies before the Shipbuilding Agreement enters into force.

The Shipbuilding Agreement is scheduled to enter into force 30 days after all signatories deposit their instruments of ratification with the OECD. To date, all signatories to the Shipbuilding Agreement except the United States, have completed ratified. In order for the United States to complete its ratification, legislation must be enacted by Congress to bring U.S. law into compliance with the Shipbuilding Agreement.

On October 23, 1995, Senator Breaux introduced legislation (S. 1354) to implement the Shipbuilding Agreement. On December 11, 1995, similar legislation (H. R. 2754) was introduced in the House.

The Committee on Finance held a hearing on the Shipbuilding Agreement on December 5, 1995. During this hearing, the Committee heard testimony from the Administration in support of the Shipbuilding Agreement and other testimony from supporters and opponents of the Shipbuilding Agreement.

On May 8, 1996, the Committee on Finance reported H.R. 3074, which contained a number of trade items, including legislation to implement the Shipbuilding Agreement. Subsequently, on June 13, 1996, the House of Representative passed H.R. 2754, which, as amended, contained major substantive differences from the bill reported by the Committee on Finance. The Senate was unable to consider either the version of the implementing legislation reported by the Committee on Finance or H.R. 2754 before the conclusion of the 104th Congress.

On April 22, 1997, Senator Breaux again introduced legislation (S. 629) to implement the Shipbuilding Agreement. This bill contained a number of modifications from the both H.R. 3074 as reported by the Finance Committee and H.R. 2754 as passed by the House.

On September 24, 1997, the Committee on Finance reported an original bill (S. 1216) which contained further modifications to S. 629. With the consent of the Committee on Finance, this bill was then sequentially referred to the Committee on Commerce, Science and Transportation which reported the bill with several changes to matters within its jurisdiction on November 10, 1997.

## **II. EXPLANATION OF THE CHAIRMAN'S MARK**

The Chairman's mark would implement the Shipbuilding Agreement in

U.S. law. It first provides for approval and entry into force of the Shipbuilding Agreement. The specific legislative changes in the Chairman's mark would also establish an injurious pricing mechanism that is modeled on the antidumping provisions in Title VII of the Tariff Act of 1930, as amended ("Title VIII") and would eliminate the current 50 percent duty on repairs that are made in Shipbuilding Agreement signatories on U.S.-flagged vessels covered by the Shipbuilding Agreement and on U.S.-flagged integrated tug-barges. Finally, the Chairman's mark contains certain amendments to the Merchant Marine Act of 1936, required to ensure U.S. compliance with the Shipbuilding Agreement.

The Chairman's mark reflects the modifications contained in S. 1216 as reported by both the Committees on Finance and Commerce with slight modifications as explained below.

#### **A. Approval of the Agreement, Purposes, and Entry into Force**

##### **1. Approval of the Agreement**

Chairman's mark.--The Chairman's mark states that Congress approves the Shipbuilding Agreement.

##### **2. Purposes**

Chairman's mark.--The Chairman's mark lists three purposes of the Act:

1. Enhance U.S. shipbuilders' competitiveness, which has diminished due to foreign subsidies and predatory-pricing practices;
2. Ensure U.S. ownership, manning, registry, and construction requirements for coastwise trade vessels, which have provided the Department of Defense with mariners and assets in time of national emergency, cannot be compromised by the Shipbuilding Agreement; and
3. Strengthen the U.S. shipbuilding industrial base to ensure that its full capabilities are available in time of national emergency.

### **3. Entry into Force**

Chairman's mark.--The Chairman's mark states that the implementing legislation takes effect on the date that the Shipbuilding Agreement enters into force with respect to the United States. The Shipbuilding Agreement provides that entry into force occurs 30 days after all signatories have implemented the Agreement.

#### **B. Injurious Pricing and Countermeasures**

Title VII of the Tariff Act of 1930 establishes a mechanism to redress dumping of products imported into the United States. Under this mechanism, the Department of Commerce (Commerce) determines whether a foreign producer is dumping its product in the United States -- *i.e.*, selling at a price below normal value, which is usually the price it charges in its home market for like merchandise. In addition, the International Trade Commission (ITC) determines whether the U.S. industry producing a like product is materially injured or threatened with material injury by reason of the dumped imports. If Commerce and the ITC reach affirmative determinations of dumping and injury, an antidumping duty is assessed against all imports of the product under investigation.

Because ocean-going vessels are technically not entered for consumption or imported into the United States, it is not possible to use antidumping remedies in Title VII or other provisions under current law to cover vessels sold at less than "normal" value. Therefore, separate statutory authority is required to implement the injurious-pricing provisions of the Shipbuilding Agreement.

The Chairman's mark would establish a new Title VIII of the Tariff Act of 1930 ("Title VIII"), in order to create an injurious-pricing mechanism against the sale of ocean-going vessels at a dumped price that materially injures the U.S. shipbuilding industry or threatens material injury. This mechanism would permit the United States to collect a one-time charge (*i.e.*, a fine) against a foreign shipbuilder selling a vessel at a dumped price and to impose specified "countermeasures" against the shipbuilder if it fails to pay the charge.

The injurious-pricing provisions in the new Title VIII create a virtually identical mechanism to the current antidumping provisions in Title VII. The specific provisions in the new Title VIII differ from the provisions in Title VII only where necessary to account for the fact that it targets sales of ships, rather than imported products, and to comply with the Shipbuilding Agreement. The

injurious-pricing provisions in the Chairman's mark are identical to the version of the implementing legislation reported by the Finance Committee on September 24, 1997.

### **C. Other Provisions**

#### **1. Equipment and Repair of Vessels**

**Current law.**--Section 466 of the Tariff Act of 1930 imposes a 50 percent duty on the value of repairs that are made outside the United States on a U.S.-flagged vessel.

**Chairman's mark.**--In accordance with requirements in the Shipbuilding Agreement, the Chairman's mark would exempt from the 50 percent duty imposed under section 466 of the Tariff Act of 1930 any repairs that are made in a Shipbuilding Agreement signatory on covered U.S.-flagged vessels. The Chairman's mark would expand the exemption to apply also to U.S. flagged, integrated tug-barges, which have many of the characteristics of the self-propelled, ocean-going vessels covered by the Shipbuilding Agreement.

#### **2. Private Remedies**

**Current law.** --Section 102(c) of the North American Free Trade Agreement Implementation Act and section 102(c) of the Uruguay Round Agreements Act prohibit private persons other than the U.S. Government from asserting any cause of action or defense in U.S. courts under the respective trade agreements implemented by those pieces of legislation.

**Chairman's mark.** --The Chairman's mark would prohibit private persons other than the U.S. Government from asserting any cause of action or defense under the Shipbuilding Agreement in U.S. courts.

#### **3. Expanding Membership in the Shipbuilding Agreement**

**Chairman's mark.**--The current Chairman's mark adds a provision that would require USTR to monitor the policies and practices of countries that are not parties to the Shipbuilding Agreement. USTR would also be directed to seek the accession to the Shipbuilding Agreement of specific countries with significant commercial shipbuilding and repair industries including: Australia, Brazil, India, the People's Republic of China, Poland, Romania, Singapore, the Russian



Federation, and Ukraine.

#### **4. Monitoring and Enforcement**

**Chairman's mark.--**The current Chairman's mark adds a provision requiring USTR to monitor whether other countries, that are Shipbuilding Agreement parties, are complying with the rules and restrictions established under the Shipbuilding Agreement. USTR would also submit an annual report to Congress on the results of these monitoring activities. In the case of material violations of the Agreement, USTR would be directed to seek consultations with the relevant Shipbuilding Agreement party according to the dispute settlement procedures established under the Agreement.

#### **5. Withdrawal from the Shipbuilding Agreement**

**Chairman's mark.--**The Chairman's mark would add a provision specifying two circumstances which could ultimately lead to U.S. withdrawal from the Shipbuilding Agreement: (1) the President would be required to commence U.S. withdrawal from the Shipbuilding Agreement when one or more Shipbuilding Agreement parties, accounting for a specified tonnage of construction of vessels covered by the Shipbuilding Agreement, withdraws from the Agreement; and (2) Congress could initiate procedures for withdrawing its approval for the Shipbuilding Agreement when a Shipbuilding Agreement Party undertakes responsive measures pursuant to a determination that the Jones Act has significantly undermined the balance of rights and obligations under the Shipbuilding Agreement. In the second instance, the procedures in the Chairman's mark for withdrawal of Congressional approval for the Shipbuilding Agreement are essentially the same as the procedures spelled out in section 125 of the Uruguay Round Agreements Act (19 U.S.C. 3535) for withdrawal of Congressional approval for that agreement.

The Chairman's mark adds a new provision (not contained in S. 1216) which sets forth expedited procedures for the Committee on Commerce Science, and Transportation in the Senate or the Committee on National Security in the House of Representatives to report an original bill in order to restore the U.S.-build requirements prescribed by the Merchant Marine Act of 1936 in the event that the United States withdraws from the Shipbuilding Agreement. Any changes

authorized by such legislation would take effect on the date of the United States' withdrawal.

#### **D. Maritime Issues under the Jurisdiction of the U.S. Senate Committee on Commerce, Science and Transportation**

In addition to the foregoing, the Chairman's mark also contains provisions within the jurisdiction of the U.S. Senate Committee on Commerce, Science, and Transportation -- viz. the Jones Act, modifications to the Title XI loan program, amendments to the Merchant Marine Act 1936, and the Military Reserve Vessel Program.<sup>1</sup> These provisions are the same as those included in S. 1216 as reported by the Commerce Committee, with a few technical modifications.

### **III. BUDGETARY IMPACT**

The Congressional Budget Office estimates that the proposal in the Chairman's mark will have a budgetary impact of approximately \$75 million over 10 years (fiscal years 1998-2007). This budgetary impact results from: (1) changes in the Chairman's mark to section 466 of the Tariff Act of 1930 respecting the duty imposed on repairs made in foreign countries on U.S.-flagged vessels; and (2) the expansion of the tax benefits provided under the Capital Construction Fund (pursuant to the Merchant Marine Act, 1936) to ships constructed in countries that are parties to the Shipbuilding Agreement.

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<sup>1</sup>The Merchant Marine Act, 1920 (46 App. U.S.C. 861 et seq.), the Act of June 19, 1886 (46 App. U.S.C. 2891, or any other provision of law set forth in Accompanying Note 2 to Annex II of the Shipbuilding Agreement.

**TITLE VI**  
**Subtitle A**

**Chairman's Proposal --**  
**Legislation to Extend Permanent Normal Trade Relations**  
**(NTR) Tariff Treatment to Imports from Mongolia**

This document provides background information relevant to the Committee's consideration of legislation (S. 343) to authorize the extension of permanent normal trade relations tariff treatment to imports from Mongolia.

**Background.**--Mongolia's NTR status is currently governed by Title IV of the Trade Act of 1974, as amended by the Customs and Trade Act of 1990 ("Title IV"). Section 402 of Title IV (also known as the Jackson-Vanik amendment) sets forth requirements relating to freedom of emigration, which must be met or waived by the President in order for the President to grant nondiscriminatory, NTR status to nonmarket-economy countries. Title IV also requires that a trade agreement remain in force between the United States and a nonmarket-economy country receiving NTR status and sets forth minimum provisions which must be included in such agreement.

The United States and Mongolia concluded a trade agreement on January 23, 1991, which, among other things, provides for the protection of intellectual property and the promotion and facilitation of trade between the two countries. The United States and Mongolia also signed a bilateral investment treaty on October 6, 1994.

On January 23, 1991, the President issued a waiver of the freedom-of-emigration requirements of Jackson-Vanik for Mongolia. On October 31, 1991, Congress passed a joint resolution (H.J.Res. 281) approving NTR for Mongolia, which the President signed on November 13, 1991 (P.L. 102-157). Since then, the President has renewed Mongolia's NTR status annually according to the requirements of Title IV. On September 4, 1996, the President found Mongolia to be in full compliance with the freedom-of-emigration requirements of Jackson-Vanik. As required by Title IV, the President has submitted two semi-annual reports to Congress, on January 3, 1997, and July 21, 1997, both of which found that Mongolia continues to be in compliance with the freedom-of-emigration requirements of Title IV.

Mongolia joined the World Trade Organization (WTO) on January 29, 1997. Because the conditional NTR afforded by Title IV is inconsistent with the obligation under WTO rules to give all WTO member countries unconditional NTR treatment, the United States invoked Article XIII of the Agreement Establishing the World Trade Organization, which allows the United States to withhold application of the WTO Agreements with respect to Mongolia. Non-application will continue for as long as Mongolia remains subject to Title IV.

On February 24, 1997, Senators Thomas and Robb introduced S. 343, which would authorize the President: (1) to determine that the requirements of Title IV should no longer apply to Mongolia; and (2) proclaim the permanent extension of unconditional NTR treatment to the products of Mongolia. The bill was referred to the Committee on Finance, which requested public comments on the legislation on June 20, 1997. As of the deadline of July 18, 1997, the Committee had received no comments in opposition to granting Mongolia unconditional NTR status.

*Explanation of S. 343.*--S. 343 sets forth seven Congressional findings that support removing Mongolia from the requirements of Title IV and permanently extending nondiscriminatory, NTR status to the products of Mongolia:

1. Mongolia has received conditional NTR under Title IV since 1991 and has been found to be in full compliance with the requirements of Title IV;
2. Mongolia has made substantial progress in building a democratic political system and a free-market economic system;
3. Mongolia had its third election under its new constitution in 1996, which resulted in a peaceful transfer of governmental power;
4. Mongolia and the United States signed a bilateral trade agreement in 1991 and a bilateral investment treaty in 1994;
5. Mongolia has joined the WTO;
6. Mongolia has demonstrated a strong desire to build a friendly and cooperative relationship with the United States; and
7. By extending unconditional NTR to Mongolia, the United States would be able to avail itself of all rights under the WTO with respect to that country.

The legislation also authorizes the President to determine that Title IV should no longer apply to Mongolia. After making such a determination, the President would have the authority to proclaim the permanent extension of unconditional MFN treatment to the products of Mongolia.

***Budgetary impact.***--The Congressional Budget Office estimates that S. 343 will have no budgetary impact.

**TITLE VI**  
**Subtitle B**

**Chairman's Proposal –  
Legislation Suspending Tariffs on Imports of  
Certain Wool Fabric**

The following memorandum outlines the Chairman's Wool Fabric proposal.

**I. Background**

This provision corrects a competitive imbalance in the tariff schedule which favors foreign production of wool suits at the expense of U.S. suit makers. Because of an inverted tariff, imports of wool fabric used to make wool suits instances subject to a higher rate of duty than imports of the wool suits (which are subject to a 20.2 percent duty, except for imports from Canada, which are duty-free, and imports from Mexico, which have an 11% duty, pursuant to HTS heading 6203.31.00).

**II. Chairman's Proposal**

This provision corrects that inversion by temporarily reducing or suspending, through December 31, 2004, the duties on certain imports of fine wool fabric used to make suits, suit-type jackets and trousers. Under this section, the duty on imports of wool fabric certified by the importer to be 'Super 70s' or 'Super 80s' grade fabric is reduced to 20.2 percent. In addition, if the President proclaims a staged rate reduction with respect to wool suits, this section provides that corresponding changes would be made to the tariffs applicable to 'Super 70s' and 'Super 80s' wool fabric. Finally, this section temporarily suspends the duty on imports of wool fabric that are certified by the importer as 'Super 90s' or higher grade.

**TITLE VII**  
**Chairman's Proposal -**  
**Revenue Provisions**

**[attached]**

**DESCRIPTION OF REVENUE PROVISIONS  
TO BE CONSIDERED  
IN CONNECTION WITH A MARKUP OF  
TRADE MATTERS**

Scheduled for Markup

by the

SENATE COMMITTEE ON FINANCE

on

July 21, 1998

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

July 20, 1998

JCX-54-98



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## INTRODUCTION

This document<sup>1</sup>, prepared by the staff of the Joint Committee on Taxation, contains a description of revenue proposals to be considered by the Senate Committee on Finance in connection with a markup of trade matters, scheduled for July 21, 1998.

This document contains descriptions of the following revenue proposals: (1) the modification of the foreign tax credit carryback and carryover periods, and (2) the expansion of the definition of vessels qualified for capital construction fund treatment.

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<sup>1</sup> This document may be cited as follows: Joint Committee on Taxation *Description of Revenue Provisions to be Considered in Connection with a Markup of Trade Matters* (JCX-54-98), July 20, 1998.

## DESCRIPTION OF REVENUE PROVISIONS

### 1. Modification to Foreign Tax Credit Carryback and Carryover Periods

#### Present Law

U.S. persons may credit foreign taxes against U.S. tax on foreign-source income. The amount of foreign tax credits that can be claimed in a year is subject to a limitation that prevents taxpayers from using foreign tax credits to offset U.S. tax on U.S.-source income. Separate foreign tax credit limitations are applied to specific categories of income.

The amount of creditable taxes paid or accrued (or deemed paid) in any taxable year which exceeds the foreign tax credit limitation is permitted to be carried back two years and forward five years. The amount carried over may be used as a credit in a carryover year to the extent the taxpayer otherwise has excess foreign tax credit limitation for such year. The separate foreign tax credit limitations apply for purposes of the carryover rules.

#### Description of Proposal

The proposal would reduce the carryback period for excess foreign tax credits from two years to one year. The proposal also would extend the excess foreign tax credit carryforward period from five years to seven years.

#### Effective Date

The proposal would apply to foreign tax credits arising in taxable years beginning after December 31, 1998.

### 2. Expansion of Definition of Vessels Qualified for Capital Construction Fund Treatment

#### Present Law

Under section 7518 of the Internal Revenue Code (the "Code"), in determining taxable income for regular tax purposes, a qualified taxpayer who owns or leases a qualified vessel (an "agreement vessel") is allowed a deduction for certain amounts contributed to a fund established under section 607 of the Merchant Marine Act, 1936 (a "capital construction fund"). In addition, the investment earnings on amounts contributed to a capital construction fund are excluded from gross income for regular tax purposes.

If a withdrawal from a capital construction fund is used to acquire, construct, or reconstruct a qualified vessel, the amount withdrawn generally is not included in gross income and the basis of the qualified vessel generally is reduced by the amount withdrawn to the extent attributable to

amounts previously deducted or excluded from income. In the case of any other withdrawal from a capital construction fund, the amount withdrawn generally is included in gross income to the extent attributable to amounts previously deducted or excluded from income and interest on the tax liability attributable to such inclusion generally must be paid from the date of the deduction or exclusion.

Any term (including the definition of "agreement vessel") provided in section 607(k) of the Merchant Marine Act, 1936, as in effect as of the date of enactment of the Tax Reform Act of 1986, applies for purposes of section 7518. Under section 607(k) of the Merchant Marine Act, 1936, as in effect as of the date of enactment of the Tax Reform Act of 1986, an agreement vessel generally is a vessel constructed or reconstructed in the United States (the "U.S.-build requirement") and documented under the laws of the United States (the "U.S.-flag requirement"). In addition, the person maintaining the capital construction fund must agree with the Secretary (of Commerce or Transportation) that the vessel will be operated in the United States foreign trade, Great Lakes trade, or noncontiguous domestic trade or in the fisheries of the United States.

#### **Description of Proposal**

The proposal would provide that any term provided in section 607(k) of the Merchant Marine Act, 1936, as in effect as of the date that the OECD Shipbuilding Trade Agreement Act enters into force with respect to the United States, would apply for purposes of section 7518 of the Code. Thus, in general, for purposes of the tax benefits provided by capital construction funds, an agreement vessel would include any vessel constructed or reconstructed in any nation that is a signatory to the OECD shipbuilding agreement entered into on December 21, 1994. In effect, the proposal would eliminate the "U.S.-build requirement" of present law for vessels constructed or reconstructed in a signatory nation.

#### **Effective Date**

The proposal would be effective as of the date that the OECD Shipbuilding Trade Agreement Act enters into force with respect to the United States.

ESTIMATED BUDGET EFFECTS OF REVENUE AND TRADE PROVISIONS TO BE CONSIDERED IN CONNECTION WITH A MARKUP OF TRADE MATTERS  
 SCHEDULED FOR MARKUP BY THE SENATE COMMITTEE ON FINANCE ON JULY 21, 1998

Fiscal Years 1999 - 2007

(Millions of Dollars)

Provision	Effective	1999	2000	2001	2002	2003	2004	2005	2006	2007	1999-02	2003-07	1999-07
1. Trade Provisions [1]:													
a. African Growth and Opportunity Act.....	---	-15	-21	-47	-57	-60	-63	-67	-70	-74	-140	-334	-474
b. Generalized System of Preferences Extension.....	---	-393	-333	-88	---	---	---	---	---	---	-814	---	-814
c. Caribbean Basin Parity Initiative.....	---	-98	-138	-147	-26	---	---	---	---	---	-409	---	-409
d. Trade Adjustment Assistance.....	---	-34	-43	-17	-3	---	---	---	---	---	-97	---	-97
e. OECD Shipbuilding Agreement.....	---	---	---	-5	-7	-7	-7	-7	-7	-7	-12	-35	-47
f. Normal Trade Relations for Mongolia.....	---	---	---	---	---	---	---	---	---	---	---	---	---
g. Wool Tariff Correction.....	---	-13	-14	-14	-15	-17	-18	-5	---	---	-56	-40	-96
Subtotal of Trade Provisions.....	---	-553	-549	-318	-108	-84	-88	-79	-77	-81	-1,528	-409	-1,937
2. Revenue Provisions:													
a. Modify Foreign Tax Credit Carryback and Carryforward Rules.....	ftpoal tyba 12/31/98	84	546	487	454	424	394	271	267	263	1,571	1,619	3,190
b. Expand the Definition of Vessels Qualified for Capital Construction Fund Treatment.....	[2]	---	---	[3]	-1	-2	-3	-3	-3	-3	-1	-14	-15
Subtotal of Revenue Provisions.....	---	84	546	487	453	422	391	268	264	260	1,570	1,605	3,175
<b>NET TOTAL</b> .....		<b>-469</b>	<b>-3</b>	<b>169</b>	<b>345</b>	<b>338</b>	<b>303</b>	<b>189</b>	<b>187</b>	<b>179</b>	<b>42</b>	<b>1,196</b>	<b>1,238</b>

NOTE: Details may not add to totals due to rounding.

Legend for "Effective" column:  
 ftpoal = foreign taxes paid or accrued in taxable years beginning after

[1] Estimates provided by the Congressional Budget Office.  
 [2] Effective as of the date that the OECD Shipbuilding Trade Agreement Act enters into force with respect to the United States.  
 [3] Loss of less than \$50 million.

①

AMENDMENTS SUBMITTED BY SENATOR JOHN H. CHAFEE  
TO THE TRADE AND TARIFF ACT OF 1998 (CHAIRMAN'S MARK)

July 20, 1998

Title I: Trade and Development/Subtitle A: Africa Growth and Opportunity Act

- Motion to strike textiles and apparel from the trade benefits granted under the bill

Title III: Trade Adjustment Assistance Programs Reauthorization

- Amendment to define the meaning of "article" as used in TAA for firms

Title VI: Misc Trade Provisions/Subtitle B: Wool Products

- Motion to strike Subtitle B
- Motion to strike Subtitle B, and redirect the \$(XX) million in savings to the further extension of the Generalized System of Preferences (GSP)
- Motion to strike Subtitle B, and redirect the \$(XX) million in savings to the further extension of the Trade Adjustment Assistance (TAA) program
- Amendment to prevent Subtitle B from going into effect until the International Trade Commission has certified that there exists no domestic supplier/no domestic harm

# MEMO

**To:** Hon. William V. Roth, Jr.  
Chairman, Committee on Finance

**From:** Orrin G. Hatch, United States Senator

**Subject:** Amendments to the Trade and Tariff Act of 1998

**Date:** July 20, 1998

I have the privilege of submitting the following three amendments to the subject bill to be considered by the Committee on Finance, Tuesday, July 21, 1998:

1. S.2047, **Temporary Duty Suspension for Personal Effects of Participants in Certain World Athletic Events**, Hatch for Bennett, Stevens, Durbin and Helms. To be added as a new Subtitle C of Title VI.
2. An amendment to strike all of subtitle B, Title VI, and replace it with language requiring a study of the wool tariff suspension proposal.
3. A relevant amendment to Title VII of the subject bill, ensuring the right to amend any revenue-related provisions.

A further information may be obtained from Bob Lockwood, 41015.

TITLE VI- MISCELLANEOUS TRADE PROVISIONS

SUBTITLE C - Temporary Duty Suspension for  
the Personal Effects of Participants  
in Certain World Athletic Events

S.2047, sponsored by Senators Hatch, Bennett, Stevens, Durbin, and Helms, codifies the traditional practice of ensuring that the personal effects of athletes, and other officials from participating countries related to the athletic events, such as coaches, trainers, schedulers, and medical personnel, participating in such events as the 2002 Salt Lake City Winter Olympics, the 1999 Women's World Cup Soccer, the 2001 International Special Olympics, the 1999 and 2001 International Special Olympics, and the 2002 Winter Paralympic Games, are eligible to enter the United States duty free, while remaining subject to inspection by Customs officials.

The Congressional Budget Office has scored this bill as "having no significant effect on governmental receipts," in its memorandum of June 22, 1998.

The following report language is recommended:

"The Committee commends the highly successful practices and procedures developed during the Centennial Olympic Games in facilitating entry of goods covered under the statute, while preserving the traditional inspection authority of the United States Customs Service. Sec. C should not be construed as an effort to tighten, or otherwise change to any great extent, except as required by circumstances or found necessary, in the judgment of the Customs Service, the procedures and processes applied in Atlanta. It simply represents a reaffirmation of the traditional inspection authority of the Customs Service. The purpose of the legislation is to expedite the movement of goods enumerated in the statute, where that action is appropriate. It is not intended to change the content of what is admitted."



105TH CONGRESS  
2D SESSION

**S. 2047**

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IN THE SENATE OF THE UNITED STATES  
*Stevens, Durbin, Helms*

Mr. HATCH (for himself and Mr. BENNETT) introduced the following bill;  
which was read twice and referred to the Committee on \_\_\_\_\_

---

**A BILL**

To suspend temporarily the duty on the personal effects of participants in, and certain other individuals associated with, the 1999 International Special Olympics, the 1999 Women's World Cup Soccer, the 2001 International Special Olympics, the 2002 Salt Lake City Winter Olympics, and the 2002 Winter Paralympic Games.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. TEMPORARY DUTY SUSPENSION FOR PER-**  
4 **SONAL EFFECTS OF PARTICIPANTS IN CER-**  
5 **TAIN WORLD ATHLETIC EVENTS.**

6 (a) IN GENERAL.—Subchapter II of chapter 99 of  
7 the Harmonized Tariff Schedule of the United States is

- 1 amended by inserting in numerical sequence the following
- 2 new heading:

9902.98.08	Any of the following articles not intended for sale or distribution to the public: personal effects of aliens who are participants in, officials of, or accredited members of delegations to, the 1999 International Special Olympics, the 1999 Women's World Cup Soccer, the 2001 International Special Olympics, the 2002 Salt Lake City Winter Olympics, and the 2002 Winter Paralympic Games, and of persons who are immediate family members of or servants to any of the foregoing persons; equipment and materials imported in connection with the foregoing events by or on behalf of the foregoing persons or the organizing committees of such events; articles to be used in exhibitions depicting the culture of a country participating in any such event; and, if consistent with the foregoing, such other articles as the Secretary of Treasury may allow .....	Free	No change	Free	On or before [1/1/2003]
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3 (b) TAXES AND FEES NOT TO APPLY.—The articles  
 4 described in heading 9902.98.08 of the Harmonized Tariff  
 5 Schedule of the United States (as added by subsection (a))  
 6 shall be free of taxes and fees which may be otherwise  
 7 applicable.

8 (c) NO EXEMPTION FROM CUSTOMS INSPECTIONS.—  
 9 The articles described in heading 9902.98.08 of the Har-  
 10 monized Tariff Schedule of the United States (as added  
 11 by subsection (a)) shall not be free or otherwise exempt  
 12 or excluded from routine or other inspections as may be  
 13 required by the Customs Service.

1 **SEC. 2. EFFECTIVE DATE.**

2       The amendment made by this Act applies to articles  
3 entered, or withdrawn from warehouse, for consumption  
4 on or after the 15th day after the date of enactment of  
5 this Act.

AMENDMENT NO. \_\_\_\_\_

Purpose: To require the Committee for the Implementation of Textile Agreements to report to Congress by January 1, 1999, on the availability of certain wool fabric.

IN THE COMMITTEE ON FINANCE

AMENDMENT intended to be proposed by Mr. Hatch.

To strike all of Title VI, Subtitle B, of the Trade and Tariff Act of 1998, and insert the following:

"SEC. \_\_\_\_\_ STUDY ON WOOL TARIFFS.

(a) IN GENERAL.-The Committee for the Implementation of Textile Agreements, in concert with the International Trade Administration of the Department of Commerce, shall report to the House Committee on Ways and Means and the Senate Committee on Finance, not later than January 1, 1999, their determination regarding:

(1) The current and projected availability through December 31, 2004, of the following fabrics from the NAFTA partners:

(A) Fabrics, of carded or combed wool or fine animal hair, all the foregoing certified by the importer as 'Super 70's' or 'Super 80's' intended for use in making suits, suit-type jackets or trousers (provided for in the subheadings 5111.11.70, 5111.19.60, 5112.11.20, or 5112.19.90)

(B) Fabrics, of carded or combed wool or fine animal hair, all the foregoing certified by the importer as 'Super 90's' or higher grade intended for use in making suits, suit-type jackets or trousers (provided for in the subheadings 5111.11.70, 5111.19.80, 5112.11.20, or 5112.19.90)

(2) The existence of a deficiency in either or both of the fabric categories stated above in subsections (a) (1) (A) - (B); the report will detail the causes of the shortage.

(3) The economic consequences for United States producers of fiber, tops, yarn and fabric, as well as United States producers of the textile goods and articles using the fabric categories stated above in subsections (a) (1) (A) - (B) resulting from the deficiencies, if determined.

(4) The economic consequences for the producer groups stated above in subsection (a) (3) resulting from the reduction of tariffs to 20.2 percent in 1999 for the importation of wool fabrics listed in subsection (a) (1) (A) and the elimination of tariffs in 1999 for the importation of wool fabrics listed in subsection (a) (1) (B).

(b) No part of this amendment is intended to affect the elimination of quotas or the application of safeguards stated in the GATT Article on Textiles and Clothing or the Agreement on Safeguards."

4

AMENDMENT NO. \_\_\_\_\_

Purpose: To ensure a marker in Title VII of the Trade and Tariff Act of 1998 for relevant amendments to any measure therein related to revenues, or other jurisdictional matters delineated in Sec. 25.1i of the Standing Rules of the

IN THE COMMITTEE ON FINANCE

AMENDMENT intended to be proposed by Mr. Hatch.

To strike, replace, substitute, amend or otherwise change or affect any revenue-related provision or language in Title VII, Trade and Tariff Act of 1998, as may be required.

5

AMENDMENT TO CHAIRMAN'S MARK

Senator D'Amato to propose a striking amendment to Title I, Trade and Development pertaining to textile and apparel concerns.

6

Amendment to be offered by Senator Gramm  
To the Omnibus Trade Bill

In Title I, Subtitle A (the Sub-Saharan Africa Trade bill), strike the textile and apparel provisions and substitute in lieu thereof the corresponding provisions of the House-passed African Growth and Opportunity Act (H.R. 1432).



7

Amendment to be offered by Senator Gramm  
To the Omnibus Trade Bill

At the appropriate place in the bill add a provision exempting gum arabic from the ban on imports from Sudan, perhaps along the lines of the following language:

“Sec. . Notwithstanding any other provision of law, Executive Order 13067 of November 3, 1997, shall not apply to the importation of articles described in Harmonized Tariff Schedule headings 1201.20.00 and 1301.90.9090 until January 1, 2003.”

8

JEFFORDS AMENDMENT 1  
TITLE 1  
SUBTITLE A

Amend Section 1005 to:

1. Add a new section to allow for duty-free and quota-free treatment for apparel and textiles, which are assembled in one or more beneficiary SSA countries from fabrics wholly formed and cut in the United States or in one or more beneficiary SSA countries, from yarns spun in the United States or one or more beneficiary countries. This provision would cover sub-African textiles and knit-to-shape apparel from yarns wholly formed in the United States or in one or more beneficiary SSA countries.
2. Strike subsection (f) and add a new subsection (f) which provides that if imports of textiles and apparel eligible under the new sections 1 and 2 above exceed three percent of total U.S. imports of textiles and apparel the tariff will return to NTR column 1 tariffs.

**JEFFORDS AMENDMENT # ~~2~~ 1**

Title I. Subtitle A  
Trade Policy for Sub-Saharan Africa  
(Textiles; Rule of Origin)

Amend Section 1005(b) to allow duty-free and quota-free treatment for apparel made from textiles fabricated in sub-Saharan Africa from African yarn.

Strike section 1005(f), the President's safeguard authority and substitute in its place a tariff snap-back if textile and apparel imports from sub-Saharan Africa exceed three percent of all U.S. textile and apparel imports. The snap-back would apply only to textiles and apparel made from regional fabric. Apparel made from American fabric would continue to be duty free.

10

**Breaux/Murkowski/Gramm(?) Mobile Offshore Drilling Units amendment**

**Purpose:** To recognize that mobile offshore drilling units are exported when built in the U.S., notwithstanding their continued U.S. registry, and placed in service in drilling and operations outside the Exclusive Economic Zone of the U.S.

**Explanation:** Removes anomaly in US treatment of foreign registered units operating in US EEZ and US treatment of US registered units operating in foreign EEZ.

11

**Breaux/Murkowski "Forest Products" Amendment**  
**to "Title IV- Mechanism to Bolster Market Access for Agricultural Products"**

**Purpose:** To clear up the ambiguity regarding whether "Forest Products" are included in the category of "Agricultural Products" covered in this bill.

**Explanation:** Forest Products are sometimes treated as Agricultural products and sometimes industrial products. This amendment would clarify that they are to be treated as Agriculture products for purposes of this Title.

Virgin Islands PIC

**Description:**

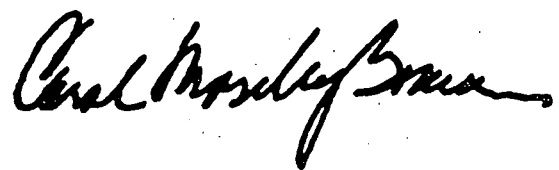
To counteract the insular possessions lack of natural resources and other competitive disadvantages, Congress has established limited but important preferential trade regimes for insular possession products, including the Note 5 program for watches. The U.S. has long recognized its responsibility to encourage the economic development of U.S. insular possessions. Under current law, Note 5 to chapter 91 of the Harmonized Tariff Schedule (HTS) provides limited duty-free treatment and duty refunds with respect to certain watches and watch movements produced in insular possessions (Virgin Islands, Guam, and Samoa).

The watch manufacturing industry plays a significant role in the economies of the insular possessions, particularly the Virgin Islands. The Virgin Islands provides high-skill, high-wage employment to approximately 200 workers.

Senator Moseley-Braun's amendment (identical to S.1457) would make certain articles of fine jewelry, specifically jewelry articles of silver, gold, or platinum under HTS heading 7113, produced in the insular possessions eligible for certain Note 5 benefits, thereby significantly expanding economic opportunities for insular possession manufacturers and their workers. The amendment also provides that the extension of Note 5 benefits to jewelry may not result in any increase in the authorized amount of benefits established by Note 5; thus the bill would utilize an existing program and previously authorized benefits to promote additional employment.

**Cost:**

CBO has scored the amendment as de minimis.



105TH CONGRESS  
1ST SESSION

**S.** 1457

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IN THE SENATE OF THE UNITED STATES

Ms. MOSELEY-BRAUN introduced the following bill; which was read twice and referred to the Committee on \_\_\_\_\_

---

**A BILL**

To amend the Harmonized Tariff Schedule of the United States to extend to certain fine jewelry certain trade benefits of insular possessions of the United States.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 That the additional U.S. notes to chapter 71 of the Har-  
4 monized Tariff Schedule of the United States are amended  
5 by adding at the end the following new note:

6 "3.(a) Notwithstanding any other provision in addi-  
7 tional U.S. note 5 to chapter 91, any article of jewelry  
8 provided for in heading 7113 which is the product of the  
9 Virgin Islands, Guam, or American Samoa (including any  
10 such article which contains any foreign component) shall

1 be eligible for the benefits provided in paragraph (h) of  
2 additional U.S. note 5 to chapter 91, subject to the provi-  
3 sions and limitations of that note and of paragraphs (b),  
4 (c), and (d) of this note.

5       “(b) Nothing provided for in this note shall result in  
6 an increase or a decrease in the aggregate amount referred  
7 to in paragraph (h)(iii) of, or quantitative limitation other-  
8 wise established pursuant to the requirements of, addi-  
9 tional U.S. note 5 to chapter 91.

10       “(c) Nothing provided for in this note shall be con-  
11 strued to permit a reduction in the amount available to  
12 watch producers under paragraph (h)(iv) of additional  
13 U.S. note 5 to chapter 91.

14       “(d) The Secretary of Commerce and the Secretary  
15 of the Interior shall issue such regulations, not inconsis-  
16 tent with the provisions of this note and additional U.S.  
17 note 5 to chapter 91, as they determine necessary to carry  
18 out their respective duties under this note. Such regula-  
19 tions shall not be inconsistent with substantial trans-  
20 formation requirements established by the United States  
21 Customs Service but may define the circumstances under  
22 which articles of jewelry shall be deemed to be ‘units’ for  
23 purposes of the benefits, provisions, and limitations of ad-  
24 ditional U.S. note 5 to chapter 91.”



13

Grassley Amendment

Amend Title 1 to clarify that textile luggage be included in the definition of textiles.

14

**Senate Committee on Finance  
Trade Legislation Mark Up  
July 21, 1998**

**Amendment to Title II of Trade and Tariff Act of 1998  
proposed by Senator Bob Graham**

In the proper place, insert the following:

**ENFORCEMENT--**In the course of negotiations conducted under this title, the United States Trade Representative shall preserve the ability of the United States to enforce rigorously its trade laws, including antidumping and countervailing duty laws, and avoid agreements which lessen the effectiveness of domestic and international disciplines on unfair trade, especially dumping and subsidies, in order to ensure that United States workers, agricultural producers, and firms can compete fully on fair terms and enjoy the benefits of reciprocal trade concessions.

CONRAD AMENDMENT #1a

Consultations

**Justification**

Often the Congress has not had an opportunity to consult in any meaningful way on details of a proposed agreement after most details have been negotiated but before it becomes too late to change them. In practice the consultation period between the U.S. initialing an agreement and the President signing it has not afforded Congress this opportunity because negotiations are considered complete once the agreement is initialed. This amendment would ensure that the Congress has a meaningful opportunity to affect individual provisions of an agreement before being presented with a take-it-or-leave-it choice on the agreement as a whole by requiring USTR to make changes requested by the Finance (or Ways and Means) Committee or explain why it didn't and what it will do instead to respond to the request.

**Amendment**

The Chairman's mark requires USTR to consult closely and on a timely basis (including immediately before initialing an agreement) with the Committee on Finance and the Committee on Ways and Means (section 2004(d)). This amendment would add to that requirement by requiring that, if either committee requests specific changes to an agreement before the agreement is initialed, USTR must either negotiate the requested changes or submit a detailed explanation in writing why it was not possible to achieve the requested changes and what actions the Administration will take to respond to the concerns that led to the request for a change.

16

CONRAD AMENDMENT #1b

Consultations

**Justification**

Often the Congress has not had an opportunity to consult in any meaningful way on details of a proposed agreement after most details have been negotiated but before it becomes too late to change them. In practice the consultation period between the U.S. initialing an agreement and the President signing it has not afforded Congress this opportunity because negotiations are considered complete once the agreement is initialed. This amendment would ensure that the Congress has a meaningful opportunity to affect individual provisions of an agreement before being presented with a take-it-or-leave-it choice on the agreement as a whole by providing for a "cooling off" period after the negotiations are completed but before the agreement is initialed.

**Amendment**

The Chairman's mark requires USTR to consult closely and on a timely basis (including immediately before initialing an agreement) with the Committee on Finance and the Committee on Ways and Means (section 2004(d)). This amendment would add to that requirement by requiring that, upon the completion of negotiations, USTR could not initial the agreement for at least 10 days, during which time USTR would have to consult with the Committees as required in the Chairman's mark.

CONRAD AMENDMENT #1c

Consultations

**Justification**

In prior grants of fast track, the Finance Committee has had the ability to block a proposed negotiation by a majority vote of the committee. Although this power has never been exercised (an attempt to block the Canada-US FTA negotiations failed on a 10-10 vote), it nevertheless served an important role in preserving the Congress's constitutionally mandated responsibility to regulate Commerce with foreign nations. Giving the Finance Committee the power to block negotiations that do not have the support of the Senate enhances the consultation requirement by allowing the Finance Committee to dictate changes in specific negotiating objectives before granting the President authority to negotiate a trade agreement.

**Amendment**

The Chairman's mark in essence gives the Ways and Means Committee veto power over Finance Committee action by requiring both the Finance Committee and the Ways and Means Committee to disapprove of the negotiation. This amendment would preserve the Finance Committee's authority by allowing either the Finance Committee or the Ways and Means Committee to disapprove of a proposed negotiation.

CONRAD AMENDMENT #2a

Corrections

**Justification**

Under current law, once the U.S. has implemented an agreement, it is virtually impossible to fix flaws in the agreement even if these flaws produce results not anticipated by the Congress when it considered the agreement. This amendment creates a process whereby unanticipated negative results of trade agreements could be remedied.

**Amendment**

In order for fast track procedures to apply to implementing legislation, the Administration is required to submit detailed estimates of the expected effect on industries of the trade agreement. Following the third, sixth and ninth year of the agreement, the Administration is required to submit a report to Congress comparing actual outcomes to the projections submitted with the implementing legislation. If such outcomes show that import levels are more than 50% greater than projected or that export levels are less than 50% of any projected increase for any given industry, USTR would be required to begin consultations to re-negotiate the provisions of the agreement affecting that industry and authorized to increase tariffs up to the effective level (taking into account any non-tariff barriers that may have existed and been tariffed) that prevailed prior to the entry into force of the agreement. If such consultations are not successful in changing such provisions, USTR would be required to raise tariffs up to the effective level that prevailed prior to the entry into force of the agreement and authorized to provide compensation to the foreign country.

CONRAD AMENDMENT #2b

Corrections

**Justification**

Under current law, once the U.S. has implemented an agreement, it is virtually impossible to fix flaws in the agreement even if these flaws produce results not anticipated by the Congress when it considered the agreement.

**Amendment**

This amendment adds a third negotiating objective to the section on dispute settlement. The amendment establishes as a negotiating objective that USTR should build into trade agreements a mechanism for renegotiating a trade agreement in cases where provisions in the agreement have substantially worse results than Congress anticipated (based on submissions of USTR and the required ITC report) at the time it approved implementation of the agreement.

CONRAD AMENDMENT #3

Currency

**Justification**

Currency movements can, as the NAFTA experience demonstrated, swamp the gains from tariff concessions in a trade agreement. This amendment will guard against future devaluations by a free trade agreement partner by requiring the President to certify that the currency is sound before fast track procedures would apply.

**Amendment**

In order for fast track procedures to apply to a proposed free trade area agreement, the President is required to submit to the Congress assurances that--

1) he has sufficient information regarding the economic position of the other parties to the agreement (and any other factors affecting currency values) to make a judgment regarding the stability of the currency of the other parties: and

2) based on the information in paragraph (1), the President does not expect a marked change in currency value that would significantly nullify any tariff concessions achieved by the United States in the proposed agreement.