

EXECUTIVE COMMITTEE MEETING TO MARK UP THE GENERALIZED
SYSTEM OF PREFERENCES EXTENSION ACT, THE TRADE ADJUSTMENT
ASSISTANCE REAUTHORIZATION ACT, THE U.S.-CARIBBEAN BASIN
TRADE ENHANCEMENT ACT, THE SUB-SAHARAN AFRICAN GROWTH AND
OPPORTUNITY ACT; AND TO CONFIRM THE NOMINATION OF
LAWRENCE H. SUMMERS, TO BE SECRETARY OF THE TREASURY
TUESDAY JUNE 22, 1999

U.S. Senate,
Committee on Finance,
Washington, DC.

ORIGINAL

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The meeting was convened, pursuant to notice, at
10:07 a.m., in room SD-215, Dirksen Senate Office
Building, Hon. William V. Roth, Jr. (Chairman of the
Committee) presiding.

Also present: Senators Chafee, Grassley, Hatch, Lott,
Mack, Moynihan, Baucus, Breaux, Conrad, Graham, Bryan,
Kerrey, and Robb.

Also present: Ambassador Richard Fisher, U.S. Trade
Representative; Lindy Paull, Chief of Staff, Joint
Committee on Taxation; Mark Prater, Chief Tax Counsel;
Grant Aldonas, Chief, International Trade Counsel; and
Faryar Shirzad, International Trade Counsel.

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

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

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

6 We meet today to mark up four original bills and
7 confirm one nominee. The first bill will be the Trade
8 Adjustment Assistance Reauthorization Act; the second,
9 The Generalized System of Preferences Extension Act;
10 third, the U.S.-Caribbean Basin Trade Enhancement Act;
11 and fourth, the African Growth and Opportunity Act.

12 Then, finally, Pat, we will have the confirmation of
13 Lawrence Summers to be the Secretary of Treasury.

14 So we have a lot of work to do, but not much time to
15 do it. I have tried to accommodate the committee's
16 wishes and have made modifications to some of the marks.
17 We will take up the amendments as they are in order and,
18 once we have a quorum, vote on final passage on the
19 measures. I hope the committee will support the marks as
20 proposed.

21 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. Let us,
5 indeed, attend to the matters in the time we have. We
6 have important legislation on the floor around 11:30.

7 I would like to personally thank you for seeing that
8 Secretary Summers will be brought before the committee so
9 promptly after our very successful hearing last week.

10 The Chairman. Thank you, Senator Moynihan.

11 So we will now turn to the Trade Adjustment
12 Assistance Act. There are no modifications to the
13 proposed Chairman's mark, so we will turn directly to
14 amendments. As I understand it, there is one proposed
15 amendment for us to take up on TAA.

16 Senator Grassley. Could I offer that amendment, Mr.
17 Chairman?

18 The Chairman. Senator Grassley?

19 Senator Grassley. Yes. The amendment extends the
20 Trade Adjustment Assistance Act to its impact of unfair
21 trade on agricultural products. And I want to say that
22 most everybody on this committee, if not everybody, is
23 very much an advocate of free trade, admitting that it
24 brings tremendous benefits to the American economy,
25 creating millions of jobs since World War II. It has

1 enhanced our collective wealth. It has helped keep the
2 peace, even during the bleak days of the Cold War.

3 But even the most staunch advocates of free trade
4 have to admit that trade liberalization results in net
5 gains to the economy. Some sectors win, some lose.
6 Overall, the positive effects of trade far outweigh the
7 negative. But this net gain is little comfort to a
8 worker or a family farmer who loses his or her job or
9 loses income as a result of unfair foreign competition.

10 That is where the Trade Adjustment Assistance Act
11 comes in. It helps assure that we can realize the net
12 gains from free trade, while making sure that injuries to
13 individuals are redressed. Trade Adjustment Assistance
14 is the best way that we have for compensating individuals
15 who are injured by trade.

16 When this Act was first passed in 1962, President
17 Kennedy noted that farmers should be a part of the
18 program. In a message to the 87th Congress in 1962,
19 President Kennedy stated that, "I am recommending, as an
20 essential part of the new trade program, that companies,
21 farmers, and workers who suffer damage from increased
22 foreign competition from imports be assisted in their
23 efforts to adjust to the competition."

24 Even though this was said in 1962, family farmers who
25 were injured by import competition have not shared

1 equally in the benefits of trade adjustment assistance.
2 Between 1979 and 1996, the 12 regional Trade Adjustment
3 Assistance Centers certified for assistance of 4,420
4 firms. Only 200 of these firms were food growers and
5 processors. I am still looking into this, but I do not
6 believe that even one of these 200 food growers or
7 processors was a family farmer. This amendment will
8 correct this inequitable situation.

9 So what we are trying to do here, in basic principle,
10 is establish the same principle that applies to service
11 and manufacturing, and probably more to manufacturing
12 than anything else, applies to agriculture as well.

13 The Chairman. Any further comments on this
14 amendment? Senator Conrad?

15 Senator Conrad. Well, thank you, Mr. Chairman. A
16 special thanks to my co-sponsor, Senator Grassley. We
17 think this is a basic element of fairness. Currently,
18 workers are eligible for TAA, but farmers are not. As
19 Senator Grassley indicated, President Kennedy believed
20 farmers ought to be eligible as well.

21 As world trade has made more and more of a difference
22 to agriculture, we think it is more critical, if we are
23 going to see farmers continue to support free trade
24 provisions, that they be eligible for assistance when
25 market conditions hurt them as a result of free trade agreements.

1 Mr. Chairman, the people of my State are basically
2 advocates of free trade. They understand we have to sell
3 half of our production outside of this country. That is
4 the economic reality. But they have also seen what can
5 happen when unfair trade provisions pass. They have been
6 victimized by the Canadian Free Trade Agreement, though
7 no fault of any member on this committee, I might add.

8 But, because of a side negotiation that occurred that
9 was not revealed to us, our farmers have been badly,
10 badly hurt. That has cost support for free trade
11 agreements, agreements that liberalize trade.

12 So what we are trying to do, Mr. Chairman, is provide
13 the same kind of protection to farmers that workers have.
14 We have capped the expense at \$100 million a year. It
15 cannot cost more than \$100 million a year. Our best
16 estimate is it will cost much less than that.

17 But what we are saying is, in a year when prices go
18 down 20 percent or more from the previous 5-year average,
19 and when there is a determination that it has happened
20 because of imports, that that is the primary cause, that
21 farmers would be eligible for trade adjustment
22 assistance. It would be limited, but it would put
23 farmers on a more level playing ground with other workers
24 in this country.

25 The pay-fors, I might add, are clarifying the

1 definition of the subject to liabilities under Code 357.
2 The committee has approved this proposal previously as
3 part of a miscellaneous trade legislation in 1998, as
4 well as the education bill marked up in May.

5 The second pay-for, is to impose a limitation on
6 prefunding of certain employee benefits. The company has
7 approved this proposal as part of the education bill
8 marked up in May. Neither of those, of course, went
9 forward. So we have got it paid for, we have got it
10 limited in terms of cost. I believe this merits the
11 support of our colleagues.

12 The Chairman. Any further comment? Senator Breaux?

13 Senator Breaux. I certainly support the effort of
14 Senator Conrad. I mean, workers are workers, are
15 workers, whether they are working in a textile plant
16 sewing underwear in Louisiana or whether they are right
17 across the street from the underwear factory growing
18 sugarcane, or anything else, rice, or soybeans. The
19 workers are workers.

20 If we are looking at the problem is imports causing
21 these people to lose their job, and we are going to help
22 them temporarily learn another craft of another skill,
23 there certainly should not be a distinction as to whether
24 the person works on the farm or works in a textile plant.
25 I mean, we are looking at not what type he works he does,

1 but the fact that he is an American citizen who has been
2 hurt by foreign imports.

3 So we should not say that, if you have the cap on of
4 a textile worker you are going to get some retraining to
5 do something else, but if you are running an agricultural
6 tractor on a soybean farm, that somehow you are not
7 eligible. It is a distinction that should not be there.
8 I do not think it takes a long series of hearings to
9 figure this out. I mean, workers are workers, are
10 workers. He is an American citizen who paid taxes and he
11 is being hurt; he should be treated like any other
12 person.

13 I would like to ask staff, somebody, if you could
14 comment on this. I thought farmers were already covered
15 under the thing. If you look at the Act, it says,
16 "Section 222, Group Eligibility Requirements." It says,
17 "The Secretary shall certify a group of workers,
18 including workers in any agricultural firm or subdivision
19 of an agricultural firm." Is a farm person who has his
20 farm structured as a family farm, not a firm under that
21 definition? Could they not be included under that?

22 Mr. Aldonas. Yes, they certainly could. I think
23 the principal difference here is, as I understand the
24 amendment, what it would do is modify the criteria for
25 eligibility. Currently, although agricultural workers

1 are covered by the Trade Adjustment Assistance programs,
2 the criteria may diminish the availability of benefits
3 because the criteria require that a significant number or
4 portion of workers in the firm, or subdivision in the
5 firm, have been, or are, threatened with total or partial
6 lay-offs, that sales or production of the firm or
7 subdivision have decreased absolutely, things of that
8 nature.

9 Senator Breaux. So the criteria under the current
10 law for a farm worker would be different from the
11 criteria for a textile worker, for instance?

12 Mr. Aldonas. No. The criteria under current law
13 would be the same for both.

14 Senator Breaux. It would be the same for both.

15 Mr. Aldonas. Under the proposal, it would
16 substitute two criteria for the existing criteria in the
17 Act, as I understand it, which would suggest that the
18 first criteria would be where the national average price
19 dropped 20 percent compared to the previous 5-year
20 average, and imports contributed importantly to that
21 price drop, that you would only have to satisfy those
22 criteria to be eligible if you were a farm worker.

23 Senator Conrad. Could I address that, Senator
24 Breaux?

25 Senator Breaux. Yes.

1 Senator Conrad. The problem we have got, is that
2 current TAA requires somebody to be laid off or in danger
3 of being laid off. A family farmer----

4 Senator Breaux. Who is going to fire him?

5 Senator Conrad. Yes. You are not laid off. That
6 is the problem. So the practical result is, farmers do
7 not qualify. That is what we are trying to address.

8 Senator Breaux. I think Senator Conrad makes a good
9 point. Nobody is going to fire the young man on the
10 farm. His dad is not going to come fire him because they
11 are growing broke, so you have to have some type of a
12 different criteria. I think it makes sense.

13 The Chairman. Senator Chafee?

14 Senator Chafee. If I understand this correctly,
15 under the present worker retraining, if you are in a
16 textile mill or whatever it might be, the thrust of the
17 program is to give that worker retraining. In addition,
18 the cash assistance he receives during that retraining
19 is, as I understand it, an extension of his or her
20 unemployment compensation. Is that correct?

21 Mr. Aldonas. That is correct.

22 Senator Chafee. Whereas, this suggestion of
23 Senators Grassley and Conrad would not require the
24 retraining. It provides for a cash payment of some type
25 which would not be the standard extension of the

1 unemployment compensation. Am I correct in that?

2 Mr. Aldonas. That is correct.

3 Senator Chafee. So this is quite a departure from
4 TAA as we know it. In other words, the current system
5 provides for retraining, plus an extension of
6 unemployment compensation. Whereas, this does not have
7 the retraining, does not require the loss of a job. I
8 can understand the family farm situation, as posed by
9 Senator Conrad.

10 Mr. Aldonas. Senator, if I could just clarify.
11 What the amendment does, is it allows for them to
12 voluntarily apply for retraining, but does not require
13 it, as do the current programs.

14 Senator Chafee. The current programs require it.
15 That is the whole purpose of the thrust.

16 Mr. Aldonas. That is right.

17 Senator Chafee. That it might well be permanent,
18 and so we do not want to continue these payments forever.

19 Mr. Aldonas. That is right.

20 Senator Chafee. I am not quite sure how they figure
21 out what this payment is. It is not unemployment
22 compensation extension.

23 Mr. Aldonas. No, it is not unemployment
24 compensation extension. It is simply a cash grant of up
25 to \$10,000 per farmer.

1 Senator Chafee. Well, it certainly is different.
2 The mere suggestion of hearings makes people snort, but I
3 must say, I am not quite sure about this program because
4 we have not had a chance to look at it. I do not know
5 why \$10,000 is the sum, and why there is no mandatory
6 retraining.

7 Thank you, Mr. Chairman.

8 Senator Conrad. Mr. Chairman?

9 The Chairman. Yes.

10 Senator Conrad. Might I just briefly address the
11 concerns of Senator Chafee? I think he has raised very
12 legitimate questions.

13 The reason it is different, is because the
14 circumstances are different. This is not a case very
15 often where people become unemployed. That is why we
16 designed this in a different way. The farm is still
17 there, the farmer is still there, but they are being
18 devastated economically. You have had a precipitous
19 price drop because of imports.

20 So what this does, is it gives the farmer an option.
21 Yes, they can get retraining if that is the direction he
22 or she has decided to go. But it also provides for
23 another option: some cash assistance, so that if they are
24 going to remain in agriculture----maybe they decide to go
25 to a different crop that is not affected by what is

1 occurring in terms of the import surge. Maybe they are
2 making some other determination of what to do with their
3 lives to rearrange their economic prospects.

4 So, it is a different circumstance that requires a
5 different response. That is why we have designed it in
6 this way.

7 The Chairman. Any further comment?

8 Senator Graham. Mr. Chairman?

9 The Chairman. Yes. Senator Graham?

10 Senator Graham. Mr. Chairman, just briefly, to add
11 another dimension to this. This Congress has been in
12 gridlock over trade policy for much of the last 5 to 10
13 years. I believe the single most significant
14 contributing factor of that gridlock has been the
15 disaffection of American agriculture for trade.

16 From the very beginning of this country, Thomas
17 Jefferson advocated a free trade policy based on the fact
18 that it was in the interest of agriculture to be able to
19 sell its products on a global basis. Agriculture has
20 traditionally been a strong support for free trade.

21 I believe a series of incidents that have occurred in
22 the last decade have substantially eroded that support of
23 agriculture. Therefore, for those of us who want to
24 support effective trade policies, for those of us who
25 want to see us move beyond this political gridlock which

1 has, in my opinion, been so damaging to our leadership in
2 world trade, I believe that an agenda of issues related
3 to agriculture needs to be adopted.

4 As I have indicated to the Chairman, I am very, very
5 concerned that the International Trade Commission today
6 does not have anybody on it with an agricultural
7 background, yet a high percentage of their cases involve
8 agriculture. This is another example of an effort that
9 understands and is responsive to the special
10 circumstances of when agriculture is impacted by changes
11 in trade policy.

12 So I believe this has merit on its own, but it is in
13 the context of a larger effort to understand, deal with,
14 and bring back to the family of trade supporters the
15 disaffected American farmer.

16 Senator Breaux. Mr. Chairman, could I ask staff a
17 question on this?

18 The Chairman. Yes.

19 Senator Breaux. I would like to ask Ambassador
20 Fisher, who is sitting there looking very intelligent.

21 Senator Graham. He always looks intelligent.

22 Senator Breaux. Is this GATT-legal?

23 Ambassador Fisher. I do not know why it would be
24 GATT-illegal.

25 Senator Breaux. I was more interested in the fact

1 that it really is a cash income payment to farmers. I
2 want to be supportive of it, but I am concerned about
3 whether or not that is in violation of GATT in some way.

4 Ambassador Fisher. We certainly will look at it to
5 make sure and double check it, Senator.

6 Senator Breaux. I have got to vote in about 10
7 seconds, so you had better hurry up with that report.
8 [Laughter].

9 Ambassador Fisher. Well, let me consult with my
10 staff.

11 Senator Conrad. Can I just, while he is talking,
12 respond? I believe this is entirely GATT-legal because
13 these payments are not tied to production.

14 Ambassador Fisher. It is not tied to production.
15 If it is not related to the level of production, then it
16 does not appear to be a problem, Senator.

17 Senator Breaux. That is the fastest response I have
18 ever had.

19 Senator Baucus. Mr. Chairman?

20 The Chairman. Yes. Senator Baucus.

21 Senator Baucus. Could I just ask the author of the
22 amendment, I am trying to figure out what this is
23 intended to address. I assume it was the situation where
24 durham is dumped into the U.S. a couple, three years ago.
25 But are there other situations where this would apply?

1 Senator Conrad. Yes. It would apply in any
2 circumstance in which these conditions are met.

3 Senator Baucus. I saw the conditions. How often
4 have those conditions been met in the last two, three, or
5 four years?

6 Senator Conrad. I do not know the answer to that
7 question, Senator. I can tell you, we believe, in wheat,
8 this would clearly have been met, where you had a
9 tremendous import surge, you had a very steep decline in
10 prices, that in the durham wheat category, certainly it
11 would have been met.

12 Senator Baucus. Right. It probably would in
13 durham. I am just trying to think of what other
14 situations it would apply in addition to that one.

15 Senator Conrad. Two others that we think are
16 likely. One, is barley, where you had the same kind of
17 thing occur. The third, would be spring wheat. In all
18 three of those, we believe the conditions would have been
19 met.

20 Senator Baucus. Thank you.

21 Senator Conrad. I am sorry. That was in crop
22 categories. I should have included, in hogs as well.
23 Last year, where we saw hog prices decline to 8 cents a
24 pound when it cost 40 cents a pound to produce them, the
25 conditions of this would have been met.

1 The Chairman. Let me start out by saying that,
2 first of all, I think TAA is an extraordinarily important
3 program. I am concerned that, if we begin adding to it
4 without hearings, without careful consideration, we could
5 jeopardize the entire program. We had considerable
6 difficulty getting it through last year. People wanted
7 to tie it together with fast track, and others.

8 I am very sympathetic and understanding about the
9 problems of agriculture, and I think past performance
10 demonstrates that that is a fact. It is my intent, and I
11 think it is important, that this fall we take a look at
12 the entire program, that we do not begin amending it by
13 sectors, as proposed here.

14 Maybe this is a worthy proposition, ultimately, with
15 some changes. But I am very, very fearful that we are
16 headed the wrong direction if we start amending this
17 program with matters that we have had no hearings, no
18 effort to look at carefully.

19 It is my intent, I say to my distinguished colleagues
20 Senator Conrad and Senator Grassley, to look at the
21 entire TAA program, including agriculture. One of the
22 things I am very concerned about is support for liberal
23 trade policies, and I think agriculture is key, one of
24 the positive factors we have in trade today. I intend to
25 ensure that that continues.

1 But I would urge the committee not to adopt an
2 amendment here on a matter that we have not had hearings,
3 that we should take a careful look at. I want to
4 reassure everyone here that I think it is important that
5 we take a hard look at TAA this fall, and do it in the
6 broader context.

7 Senator Moynihan. Mr. Chairman?

8 The Chairman. Senator Moynihan?

9 Senator Moynihan. May I say, I was present at the
10 creation of the Trade Expansion Act of 1962 and the
11 inclusion of TAA, which was part of the understandings
12 that we reached with the various AFL-CIO groups and
13 southern textile manufacturers, in a context where we
14 looked up and found that the middle west, which had
15 traditionally been opposed to trade, was suddenly the
16 ones that very much wanted it. There has been a change
17 in the geography altogether.

18 Now, that was 37 years ago. It is time we had a
19 good, hard look at the whole assistance program, see what
20 the results have been in a generation or more. I am
21 altogether sympathetic with the idea of including
22 agriculture, but I do agree with you that we ought to
23 look at it systemically and put together a proper bill.

24 The Chairman. With that-----

25 Senator Conrad. Mr. Chairman?

1 The Chairman. Yes.

2 Senator Conrad. Might I just respond by saying that
3 agriculture is on the verge of a depression, the lowest
4 prices in 53 years. There has got to be a response, and
5 there has got to be a coordinated response. I have got
6 high regard for the Chairman.

7 I accompanied him on the trip to China. I saw the
8 job that you did in the meeting with the Premier there,
9 which was superb. I have praised you repeatedly and
10 publicly for your performance on behalf of agriculture
11 there.

12 Let me just say, I think there has got to be a
13 response today on this matter. This is our opportunity.
14 We may not ever get to those hearings. We may not ever
15 get to another chance for another vehicle. This vehicle
16 is available now. Farmers are left out, and it is not
17 fair.

18 If there is going to be support in agriculture for
19 liberalized trade, they are going to have to be persuaded
20 that they are going to be given some help when things
21 turn against them. And they have turned against them in
22 a very extraordinary way.

23 So, I just implore my colleagues to take this
24 opportunity to pass this amendment and send a signal to
25 farmers that they are not going to be left out when

1 things turn bad.

2 Senator Grassley. And, quite frankly, if I could
3 just add to that, I think that I was expecting to be
4 maybe condemned by some people because this was kind of a
5 timid approach, in the sense that you take a 5-year
6 average.

7 Now, remember, 5-year averages of farm prices is
8 already a lower plateau, and then taking 80 percent of
9 that to have this triggered in, as well as being able to
10 show that the imports have contributed importantly to the
11 price drop. This is a pretty stiff threshold for farmers
12 to meet to qualify for this aid.

13 Then also the limit we put on as well in order to
14 make it fiscally responsible is another thing. So, I
15 hope that people will look at this as not some giant leap
16 forward, but maybe, in some areas of agriculture, be
17 considered very, very timid.

18 The Chairman. Well, time is passing by, and we do
19 not have much, to complete. Let me just make one
20 observation. As I said, I am very sympathetic and
21 concerned about agriculture.

22 I would have to point out, however, that the problems
23 basically facing our agricultural sector do not stem from
24 imports so much as the sort of adjustment that TAA is
25 designed to address. American farmers are facing a sharp

1 downturn in demand abroad, principally in Asia, and the
2 same deflationary pressures that are affecting all
3 commodities, from metals, to food products, to oil, at
4 least until recently. Basically, TAA was not designed to
5 address that kind of a problem.

6 But I agree that we ought to look at the problem and,
7 with the help of the two sponsors of this legislation, it
8 would be my intent, as I have already said, to hold
9 hearings on the whole program and see what we can do.

10 Thirty seconds, if I may.

11 Senator Conrad. Mr. Chairman, let me just respond
12 to that by saying, this is not an attempt to solve all of
13 the problems facing agriculture. I mean, this is a very
14 modest step. But it does deal with a specific set of
15 problems. In my State, imports are a problem as a result
16 of the Canadian Free Trade Agreement. Before that
17 agreement, the Canadians had zero percent of the U.S.
18 durham market. Zero. They went to 20 percent overnight.
19 Not because they were more efficient, not because they
20 were more productive, but because of loopholes in the
21 trade agreement. This is a response to that kind of
22 crisis. And if we do not do it, we are going to cost
23 support for liberalized trade. It is just as simple as
24 that.

25 The Chairman. Would the gentleman like a roll call

1 vote?

2 Senator Breaux. Please.

3 The Chairman. The Clerk will call the roll.

4 The Clerk. Mr. Chafee?

5 Senator Chafee. No.

6 The Clerk. Mr. Grassley?

7 Senator Grassley. Aye.

8 The Clerk. Mr. Hatch?

9 The Chairman. No, by proxy.

10 The Clerk. Mr. Murkowski?

11 The Chairman. Yes, by proxy.

12 The Clerk. Mr. Nickles?

13 The Chairman. No, by proxy.

14 The Clerk. Mr. Gramm, of Texas?

15 The Chairman. No, by proxy.

16 The Clerk. Mr. Lott?

17 Senator Lott. No.

18 The Clerk. Mr. Jeffords?

19 The Chairman. No, by proxy.

20 The Clerk. Mr. Mack?

21 Senator Mack. No.

22 The Clerk. Mr. Thompson?

23 The Chairman. No, by proxy.

24 The Clerk. Mr. Moynihan?

25 Senator Moynihan. No.

1 The Clerk. Mr. Baucus?

2 Senator Baucus. Aye.

3 The Clerk. Mr. Rockefeller?

4 Senator Moynihan. Aye, by proxy.

5 The Clerk. Mr. Breaux?

6 Senator Breaux. Aye.

7 The Clerk. Mr. Conrad?

8 Senator Conrad. Aye.

9 The Clerk. Mr. Graham, of Florida?

10 Senator Graham. Aye.

11 The Clerk. Mr. Bryan?

12 Senator Moynihan. Aye, by proxy.

13 The Clerk. Mr. Kerrey?

14 Senator Moynihan. Aye, by proxy.

15 The Clerk. Mr. Robb?

16 Senator Moynihan. No, by proxy.

17 The Clerk. Mr. Chairman?

18 The Chairman. No.

19 The Clerk. The votes are 9 yeas, 11 nays.

20 The Chairman. The amendment is not agreed to.

21 We have to set this aside because we do not have
22 sufficient votes at the moment to report it out, but we
23 will have before we leave this morning.

24 With that, I would now like to turn to the
25 Generalized System of Preferences Extension. There is

1 one modification to the Chairman's mark which involves
2 the authorization of weekly entries from foreign trade
3 zones, which I think is self-explanatory. I do not know
4 whether you want to comment on that or not, Senator Lott.

5 Senator Lott. Actually, Mr. Chairman, if I could
6 just be recognized momentarily, rather than on that
7 specifically.

8 I just want to thank you for going forward with these
9 trade initiatives. We have acted in this committee in
10 the past on the CBI enhancement legislation and the
11 African free trade bills, and now the GSP reauthorization
12 and the Trade Adjustment Assistance. To do all four of
13 these today, I think is very commendable.

14 I look forward to working with you and the Ranking
15 Member to devise a plan as to how to bring these up on
16 the Senate, because I think they are overdue and very
17 justified. I look forward to working with you to help
18 get them passed. Beyond that, I have nothing further.
19 Thank you.

20 The Chairman. Thank you, I appreciate the support.
21 I could not agree more strongly as to the importance of
22 these matters. I think there is strong bipartisan
23 support.

24 As I understand it, there is no amendment to GSP, so
25 we will have to set this aside. The other two matters

1 have no amendment, so we have to get a quorum here so we
2 can vote them out.

3 Senator Lott. Mr. Chairman, while we are pursuing
4 other members' presence so we can vote on all of these,
5 and I do not know quite how you would like to proceed
6 with that, let me just make an inquiry of the Chairman
7 and the Ranking Member, and do it here in public just so
8 we can all have the benefit of your thinking.

9 Is it your intent to bring these various bills up one
10 by one as opposed to a package, or really will we have
11 the option of going with a package or individually?

12 The Chairman. I would say to the distinguished
13 Leader, it would be my thought that we should look and
14 see what the House does, and see if we can match it with
15 their actions so that we expedite the final action on it.
16 So, that would be the way I would suggest we proceed.

17 Senator Lott. And if they do not act, then we would
18 not go forward either. Is that what your thinking is?

19 The Chairman. I do not like to consider that
20 possibility.

21 Senator Lott. All right.

22 Senator Breaux. Can I ask another question on the
23 trade package that we have? I mean, the Majority Leader
24 is correct, it is a very good, solid trade package.

25 One thing that I note that is still missing on it is

1 the OECD ship building agreement. I was wondering if we
2 have any thought about what we might be doing on that.

3 The Chairman. As the distinguished Senator from
4 Louisiana knows, I am an enthusiastic supporter of this
5 legislation.

6 Senator Moynihan. And so are we on our side.

7 Senator Breaux. So will we add it to this package?

8 The Chairman. We have run into problems in the
9 past. I know the distinguished Senator from Louisiana
10 has worked very hard to promote, and we will be happy to
11 cooperate and work with them.

12 Senator Breaux. The only point I make is, every
13 year we wait until the last to do it, and then one
14 Senator can stop it. I think that is the problem we have
15 always had on it. It just seems like it would be better
16 to go out and bring it out and have it ready to go
17 earlier rather than later.

18 The Chairman. Senator Graham?

19 Senator Graham. Mr. Chairman, at an appropriate
20 time, and maybe while we are waiting for a quorum to
21 arrive this would be that time, I would like to make a
22 few comments on the CBI legislation that is before us.

23 Senator Moynihan. I think there is no better time
24 than now as we try to muster an eleventh member.

25 The Chairman. If he guarantees his speech will

1 bring people in, I would be happy to recognize him.

2 [Laughter].

3 Senator Graham. It will strengthen the hearts of
4 those from the United States throughout the Caribbean and
5 Central America who are interested in our long-term well-
6 being, it will point the way to more intelligent trade
7 policy for the United States, it will rally a bipartisan
8 level of support for this important legislation. All of
9 those, and more, will be the result of my remarks.

10 The Chairman. Senator Graham.

11 Senator Graham. Whether it will acquire a quorum or
12 not, I do not know.

13 I would like to comment that the rationale for this
14 legislation, in my judgment, has undergone an evolution
15 just in the last year or two. Two years ago, the
16 rationale for CBI enhancement was that we had created--I
17 think inadvertently--a gap between the benefits available
18 to Mexico and the benefits available to the Caribbean and
19 Central America, and as a result of that had seen a
20 stagnation, and even some shifting of investment from the
21 Caribbean to Mexico. So, the goal was one of parity
22 between the Caribbean and Mexico.

23 Last fall, two devastating hurricanes hit. Hurricane
24 Georgia in the Caribbean, and Mitch in Central America.
25 So the focus of the attention became humanitarian, how to

1 provide some immediate assistance to our neighbors who
2 were in such desperate shape.

3 I would suggest that, now, a third rationale has
4 emerged. That is, it is so much in the long-term
5 economic interest of the United States and the Caribbean
6 that we encourage practices that would lead to greater
7 efficiency and productivity in the production
8 particularly of apparel products in the Caribbean and
9 Central America and the textiles which are produced in
10 the United States upon which they depend.

11 If I could show a chart, we talk about sometimes
12 whether what we do here makes a difference. Let me just
13 show you, if we could see our chart. CBI started under
14 the leadership of President Reagan in the early 1980s, at
15 which time the United States had a trade deficit with the
16 some-25 countries that make up the Caribbean Basin
17 Initiative of \$3 billion.

18 As you can see, since the passage of the CBI
19 initiative, there has been a continuous shift in that to
20 the point that last year, 1998, we had a trade surplus of
21 almost \$3.5 billion.

22 So, in a period from 1983 to 1998, we have gone from
23 down \$3 billion to up \$3.5 billion. I doubt that there
24 is any region in the world where we have had that kind of
25 a change in our relative economic position. That chart

1 is now at risk. Why it is at risk, is there has been a
2 fundamental part of the economics of the CBI which are
3 now going to be challenged.

4 I have two shirts here. These shirts are identical.
5 These shirts both sell, retail, in the United States for
6 generally \$19. Now, there are two things that are
7 different on these shirts. One of them has inside the
8 collar a statement, "Made in Nicaragua." The other one
9 has inside the collar a statement, "Made in China."

10 Now, there is a second difference between these two
11 shirts. The shirt that is made in Nicaragua, including
12 the cost of transportation to the United States, has a
13 cost of \$5 to produce this shirt. The shirt from China,
14 including transportation from China to the United States,
15 has a cost of \$4.75.

16 Now, the question is, why are they producing any
17 shirts in Nicaragua if you can produce the same identical
18 shirt for 25 cents less in China? Well, there are some
19 natural advantages that Nicaragua and the other CBI
20 countries have.

21 They have the natural advantage of proximity. But
22 these cost differentials already include that
23 differential in transportation costs. They also had the
24 advantages of being able to turn around product more
25 quickly in an era of rapidly-changing customer

1 preferences.

2 But the fundamental benefit that Nicaragua has is
3 that China can only produce approximately three million
4 dozen of this shirt and all others like it per year. The
5 reason for that, is that China and most other countries
6 are participants in what is called the Multifiber
7 Agreement, which sets annual quotas by nation and by
8 apparel product.

9 Now, that multi-fiber agreement is going to lapse in
10 the year 2005. Now, for China, there are special
11 provisions that extended, I believe, to the year 2000.

12 Ambassador Fisher. Four additional.

13 Senator Graham. There are four nations who will go
14 beyond 2005 in terms of the application, but that is just
15 a short additional interval.

16 So, beginning in the year 2005, the Caribbean is
17 going to have to compete with almost every other nation
18 in the world, with those other countries, particularly
19 those in Asia, having a substantially lower cost of
20 production.

21 What is at risk? Well, the United States provides
22 virtually all of the textile that goes into this shirt
23 made in Nicaragua. It provides none of the textile that
24 goes into this shirt made in China. This is made of
25 Chinese cotton, spun in Chinese textile mills, assembled

1 by Chinese apparel workers.

2 Today in the United States, there are 62,000 textile
3 workers whose jobs depend upon U.S. textile sales to the
4 Caribbean Basin.

5 Senator Moynihan. Senator, your speech has done the
6 trick. [Laughter].

7 The Chairman. Congratulations.

8 Senator Graham. And, Senator, if it has done all of
9 the other positive things, I would be equally as happy.

10 I would just conclude by saying, to me, the issue of
11 the CBI bill--and I want to thank the Chairman, because
12 he has incorporated in his mark some changes that will
13 facilitate achieving this goal--the key purpose of the
14 CBI at this time is not parity, it is not humanitarian,
15 it is to create a climate that will encourage the textile
16 and apparel industry in the United States and in the
17 Caribbean to become as efficient as possible so that,
18 after the year 2005, we will not face the prospect of the
19 kind of massive dislocation to the Far East that is
20 likely to happen if we do not become more productive.

21 So, Mr. Chairman, I appreciate the opportunity to
22 give that speech. I am sorry that a quorum has arrived
23 so I could not complete it.

24 The Chairman. I know that is the unanimous thinking
25 of the committee. [Laughter].

1 Senator Graham. But since I think the result is
2 going to be positive, I will defer the rest of my remarks
3 until later.

4 The Chairman. We do have a quorum here. So I move
5 to report favorably the four trade bills to the Senate.
6 All those in favor, say aye.

7 [Chorus of ayes]

8 The Chairman. All those opposed, say nay.

9 [No response]

10 The Chairman. The ayes have it, and the bill is so
11 reported. I ask that the staff be permitted to make
12 technical and conforming corrections to these bills, if
13 needed. Without objection, it is so agreed.

14 Next, since we now have a quorum present, I move that
15 we report favorably the nomination of Lawrence H. Summers
16 to be Secretary of the Treasury. All in favor, signify
17 by saying aye.

18 [Chorus of ayes]

19 The Chairman. Those opposed, signify by saying no.

20 [No response]

21 The Chairman. The ayes have it. I am happy to say,
22 the nomination is ordered reported.

23 Senator Moynihan. Mr. Chairman, would it be in
24 order to suggest we have a roll call vote, the Secretary
25 of the Treasury being a position of such eminence?

1 The Chairman. A request has been made for a roll
2 call vote. The Clerk will call the roll.

3 The Clerk. Mr. Chafee?

4 Senator Chafee. Aye.

5 The Clerk. Mr. Grassley?

6 Senator Grassley. Aye.

7 The Clerk. Mr. Hatch?

8 Senator Hatch. Aye.

9 The Clerk. Mr. Murkowski?

10 The Chairman. Aye, by proxy.

11 The Clerk. Mr. Nickles?

12 The Chairman. Aye, by proxy.

13 The Clerk. Mr. Gramm, of Texas?

14 The Chairman. Aye, by proxy.

15 The Clerk. Mr. Lott?

16 Senator Lott. Aye.

17 The Clerk. Mr. Jeffords?

18 The Chairman. Aye, by proxy.

19 The Clerk. Mr. Mack?Aye.

20 Senator Mack. Aye.

21 The Clerk. Mr. Thompson?

22 The Chairman. Aye, by proxy.

23 The Clerk. Mr. Moynihan?

24 Senator Moynihan. Aye.

25 The Clerk. Mr. Baucus?

1 Senator Baucus. Aye.
2 The Clerk. Mr. Rockefeller?
3 Senator Moynihan. Aye, by proxy.
4 The Clerk. Mr. Breaux?
5 Senator Breaux. Aye.
6 The Clerk. Mr. Conrad?
7 Senator Moynihan. Aye, by proxy.
8 The Clerk. Mr. Graham, of Florida?
9 Senator Graham. Aye.
10 The Clerk. Mr. Bryan?
11 Senator Bryan. Aye.
12 The Clerk. Mr. Kerrey?
13 Senator Kerrey. Aye.
14 The Clerk. Mr. Robb?
15 Senator Robb. Aye.
16 The Clerk. Mr. Chairman?
17 The Chairman. Aye.
18 The Clerk. Mr. Chairman, the votes are 20 yes, zero
19 no.
20 The Chairman. I am happy to say, the nomination is
21 so reported. We wish our new Secretary of Treasury the
22 best.
23 Senator Moynihan. Thank you, Mr. Chairman.
24 The Chairman. The committee is in recess.
25 [Whereupon, at 10:52 a.m., the meeting was

1 concluded.]

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**UNITED STATES SENATE
COMMITTEE ON FINANCE**

**Tuesday, June 22, 1999 -- 10:00 a.m.
SD-215 Dirksen Senate Office Building**

**OPEN EXECUTIVE SESSION
AGENDA**

- I. The Generalized System of Preferences Extension Act.
- II. The Trade Adjustment Assistance Reauthorization Act.
- III. The U.S. Caribbean Basin Trade Enhancement Act.
- IV. The Sub-Saharan African Growth and Opportunity Act.

NOMINATION

Committee consideration to report favorably the nomination of:

- I. **Lawrence H. Summers**, to be Secretary of the Treasury.

Statement of the Honorable James M. Jeffords of Vermont



June 22, 1999

The Sub-Saharan African Growth and Opportunity Act

Mr. Chairman, I want to thank you for your efforts to make sure the Africa trade bill was included on today's agenda. I'm a strong supporter of efforts to provide the nations of sub-Saharan Africa with meaningful access to the U.S. market. I believe that U.S. trade policy could play a vital role in helping sub-Saharan Africa move toward industrialization and economic prosperity.

History has shown us that the road to industrialization often starts with the production of clothing. This was certainly true in Vermont and New England, where buildings that once housed textile mills and apparel factories still dot the landscape. For a variety of reasons--especially, the fact that clothing production requires little in the way of infrastructure and a relatively small capital investment--providing clothing made in sub-Saharan Africa with special limited access to U.S. market can serve as the impetus for economic development so desperately needed in sub-Saharan Africa.

I have serious concerns that the textile and apparel access provision in the bill we are reporting out today is a hollow measure.

The bill limits special market access for sub-Saharan clothing to apparel made from U.S. fabrics and yarns. I seriously doubt that U.S. retailers and importers will invest in Africa or place orders there if access to the U.S. market requires that they buy fabric in United States. It takes 40 days and two different ships to move fabric from the east coast of the United States, where most of our textile industry is located, to the east coast of Africa, where most of the African apparel industry is located. That's 80 days round-trip, and in this era of just-in-time delivery 80 days is too long. Of equal concern to me is the bill's denial of special access to clothing made in Africa from African fabrics and yarns.

I will vote for this bill today, because I think it's important to get Africa trade legislation out of this committee and on to the Senate floor. When it gets to the floor, I hope we can expand the bill's limited access provisions for textile and apparel. I am considering offering amendments that would allow special access to apparel made, from start to finish, in sub-Saharan Africa, regardless of the origin of the fabrics or the raw materials involved. At the very least, I believe that we should extend the special access provision to clothing made in Africa from African fabric. I believe these amendments can be crafted in a manner that will not harm U.S. textile and apparel industries.

**DESCRIPTION OF REVENUE PROVISION INCLUDED IN
THE GENERALIZED SYSTEM OF PREFERENCES EXTENSION ACT**

Scheduled for Markup

By the

SENATE COMMITTEE ON FINANCE

on June 22, 1999

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION



June 18, 1999

JCX-37-99

INTRODUCTION

This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of a revenue provision included in the "Generalized System of Preferences Extension Act." The Act is an original bill to be considered by the Senate Committee on Finance on June 22, 1999.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of Revenue Provision Included in the Generalized System of Preferences Extension Act* (JCX-37-99), June 18, 1999.

DESCRIPTION OF REVENUE PROVISION

The following revenue provision would be included in the "Generalized System of Preferences Extension Act."

Modify Installment Method and Prohibit Its Use By Accrual Method Taxpayers

Present Law

An accrual method taxpayer is generally required to recognize income when all the events have occurred that fix the right to the receipt of the income and the amount of the income can be determined with reasonable accuracy. The installment method of accounting provides an exception to this general principle of income recognition by allowing a taxpayer to defer the recognition of income from the disposition of certain property until payment is received. Sales to customers in the ordinary course of business are not eligible for the installment method, except for sales of property that is used or produced in the trade or business of farming and sales of timeshares and residential lots if an election to pay interest under section 453(1)(2)(B)) is made.

A pledge rule provides that if an installment obligation is pledged as security for any indebtedness, the net proceeds² of such indebtedness are treated as a payment on the obligation, triggering the recognition of income. Actual payments received on the installment obligation subsequent to the receipt of the loan proceeds are not taken into account until such subsequent payments exceed the loan proceeds that were treated as payments. The pledge rule does not apply to sales of property used or produced in the trade or business of farming, to sales of timeshares and residential lots where the taxpayer elects to pay interest under section 453(1)(2)(B), or to dispositions where the sales price does not exceed \$150,000.

An additional rule requires the payment of interest on the deferred tax that is attributable to most large installment sales.

Description of Proposal

Prohibit use of installment method for accrual method dispositions

The proposal generally would prohibit the use of the installment method of accounting for dispositions of property that would otherwise be reported for Federal income tax purposes using an accrual method of accounting. The proposal would not change present law regarding the availability of the installment method for dispositions of property used or produced in the trade or business of farming. The proposal also would not change present law regarding the

² The net proceeds equal the gross loan proceeds less the direct expenses of obtaining the loan.

availability of the installment method for dispositions of timeshares or residential lots if the taxpayer elects to pay interest under section 453(1).

The proposal does not change the ability of a cash method taxpayer to use the installment method. For example, a cash method individual owns all of the stock of a closely held accrual method corporation. This individual sells his stock for cash, a ten year note, and a percentage of the gross revenues of the company for the next ten years. The proposal would not change the ability of this individual to use the installment method in reporting the gain on the sale of the stock.

Modify pledge rule

The proposal would also modify the pledge rule to provide that entering into any arrangement that gives the taxpayer the right to satisfy an obligation with an installment note will be treated in the same manner as the direct pledge of the installment note. For example, a taxpayer disposes of property for an installment note. The disposition is properly reported using the installment method. The taxpayer only recognizes gain as it receives the deferred payment. However, were the taxpayer to pledge the installment note as security for a loan, it would be required to treat the proceeds of such loan as a payment on the installment note, and recognize the appropriate amount of gain. Under the proposal, the taxpayer would also be required to treat the proceeds of a loan as payment on the installment note to the extent the taxpayer had the right to "put" or repay the loan by transferring the installment note to the taxpayer's creditor. Other arrangements that have a similar effect would be treated in the same manner.

The proposed modification of the pledge rule would only apply to installment sales where the pledge rule of present law applies. Accordingly, the proposal would not apply to installment method sales made by a dealer in timeshares and residential lots where the taxpayer elects to pay interest under section 453(1)(2)(B), to sales of property used or produced in the trade or business of farming, or to dispositions where the sales price does not exceed \$150,000, since such sales are not subject to the pledge rule under present law.

Effective Date

The proposal would be effective for installment sales entered into on or after the date of enactment.

ESTIMATED BUDGET EFFECTS OF THE "GENERALIZED SYSTEM OF PREFERENCES EXTENSION ACT,"
 SCHEDULED FOR MARKUP BY THE COMMITTEE ON FINANCE ON JUNE 22, 1999

Fiscal Years 1999 - 2009

(Millions of Dollars)

Provision	Effective	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-04	2005-09	2000-09
Extension of Generalized System of Preferences [1]	10/1/99	--	-438	-360	-373	-383	-313	--	--	--	--	--	-1,877	--	-1,877
Possible Revenue Offset Provision:															
1. Repeal installment method for most accrual basis taxpayers; adjust pledge rules	iseio/a DOE	4	477	677	406	257	72	8	21	35	48	62	1,889	174	2,063
NET TOTAL		4	39	317	33	-136	-241	8	21	35	48	62	12	174	186

Joint Committee on Taxation

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

Legend for "Effective" column:

DOE = date of enactment

iseio/a = installment sales entered into on or after

[1] Estimate provided by the Congressional Budget Office.

**DESCRIPTION OF REVENUE PROVISIONS INCLUDED IN
THE TRADE ADJUSTMENT ASSISTANCE REAUTHORIZATION ACT**

Scheduled for Markup

By the

SENATE COMMITTEE ON FINANCE

on June 22, 1999

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION



June 18, 1999

JCX-35-99

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B. Add Certain Vaccines Against Streptococcus Pneumonia to the List of Taxable Vaccines	4

INTRODUCTION

This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of revenue provisions included in the "Trade Adjustment Assistance Reauthorization Act." The Act is an original bill is to be considered by the Senate Committee on Finance on June 22, 1999.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of Revenue Provisions Included in the Trade Adjustment Assistance Reauthorization Act* (JCX-35-99), June 18, 1999.

DESCRIPTION OF REVENUE PROVISIONS

The following revenue provisions would be included in the "Trade Adjustment Assistance Reauthorization Act."

A. Increase Elective Withholding Rate for Nonperiodic Distributions from Deferred Compensation Plans

Present Law

Present law provides that income tax withholding is required on designated distributions from employer compensation plans (whether or not such plans are tax qualified), individual retirement arrangements ("IRAs"), and commercial annuities unless the payee elects not to have withholding apply. A designated distribution does not include any payment (1) that is wages, (2) the portion of which it is reasonable to believe is not includible in gross income,² (3) that is subject to withholding of tax on nonresident aliens and foreign corporations (or would be subject to such withholding but for a tax treaty), or (4) that is a dividend paid on certain employer securities (as defined in sec. 404(k)(2)).

Tax is generally withheld on the taxable portion of any periodic payment as if the payment is wages to the payee. A periodic payment is a designated distribution that is an annuity or similar periodic payment.

In the case of a nonperiodic distribution, tax generally is withheld at a flat 10-percent rate unless the payee makes an election not to have withholding apply. A nonperiodic distribution is any distribution that is not a periodic distribution. Under current administrative rules, an individual receiving a nonperiodic distribution can designate an amount to be withheld in addition to the 10-percent otherwise required to be withheld.

Under present law, in the case of a nonperiodic distribution that is an eligible rollover distribution, tax is withheld at a 20-percent rate unless the payee elects to have the distribution rolled directly over to an eligible retirement plan (i.e., an IRA, a qualified plan (sec. 401(a)) that is a defined contribution plan permitting direct deposits of rollover contributions, or a qualified annuity plan (sec. 403(a)). In general, an eligible rollover distribution includes any distribution to an employee of all or any portion of the balance to the credit of the employee in a qualified plan or qualified annuity plan. An eligible rollover distribution does not include any distribution that is part of a series of substantially equal periodic payments made (1) for the life (or life expectancy) of the employee or for the joint lives (or joint life expectancies) of the employee and the employee's designated beneficiary, or (2) over the a specified period of 10 years or more. An eligible rollover distribution also does not include any distribution required under the minimum distribution rules of section 401(a)(9), hardship distributions from section 401(k) plans, or the

² All IRA distributions are treated as if includible in income for purposes of this rule.

portion of a distribution that is not includible in income. The payee of an eligible rollover distribution can only elect not to have withholding apply by making the direct rollover election.

Description of Proposal

Under the proposal, the withholding rate for nonperiodic distributions would be increased from 10 percent to 15 percent. As under present law, unless the distribution was an eligible rollover distribution, the payee could elect not to have withholding apply. The proposal would not modify the 20-percent withholding rate that applies to any distribution that is an eligible rollover distribution.

Effective Date

The proposal would be effective for distributions made after August 31, 1999.

B. Add Certain Vaccines Against Streptococcus Pneumonia to the List of Taxable Vaccines

Present Law

A manufacturer's excise tax is imposed at the rate of 75 cents per dose (sec. 4131) on the following vaccines routinely recommended for administration to children: diphtheria, pertussis, tetanus, measles, mumps, rubella, polio, HIB (haemophilus influenza type B), hepatitis B, varicella (chicken pox), and rotavirus gastroenteritis. The tax applies to any vaccine that is a combination of vaccine components equals 75 cents times the number of components in the combined vaccine.

Amounts equal to net revenues from this excise tax are deposited in the Vaccine Injury Compensation Trust Fund to finance compensation awards under the Federal Vaccine Injury Compensation Program for individuals who suffer certain injuries following administration of the taxable vaccines. This program provides a substitute Federal "no fault" insurance system for the State-law tort and private liability insurance systems otherwise applicable to vaccine manufacturers. All persons immunized after September 30, 1988, with covered vaccines must seek compensation under this Federal program before pursuing civil tort actions under State law.

Description of Proposal

The proposal would add conjugated streptococcus pneumonia vaccines to the list of taxable vaccines.

Effective Date

The proposal would be effective for vaccine purchases beginning on the day after the date on which the Centers for Disease Control make final recommendation for routine administration of conjugated streptococcus pneumonia vaccines to children. No floor stocks tax would be collected for amounts held for sale on that date.

ESTIMATED BUDGET EFFECTS OF THE "TRADE ADJUSTMENT ASSISTANCE REAUTHORIZATION ACT,"
SCHEDULED FOR MARKUP BY THE COMMITTEE ON FINANCE ON JUNE 22, 1999

Fiscal Years 1999 - 2009

(Millions of Dollars)

Provision	Effective	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-04	2005-09	2000-09	
Extension of Regular and NAFTA Trade Adjustment Assistance Programs [1]	7/1/99	-5	-23	-36	-22	-6	--	--	--	--	--	--	-87	--	-87	
Revenue Offset Provisions:																
1. Optional withholding for nonqualified deferred compensation	dma 8/31/99	6	46	1	1	1	1	1	1	1	1	1	1	1	4	53
2. Include the Streptococcus Pneumonia vaccine in the Federal vaccine insurance program	[2]	--	4	7	9	10	10	10	10	10	10	11	39	52	91	
NET TOTAL		1	27	-28	-12	5	11	11	11	11	11	12	1	56	57	

Joint Committee on Taxation

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

Legend for "Effective" column: dma = distributions made after

[1] Estimate provided by the Congressional Budget Office.

[2] Effective for vaccine purchases the day after the date on which the Centers for Disease Control make final recommendation for routine administration of conjugated Streptococcus Pneumonia vaccines to children.

**DESCRIPTION OF REVENUE PROVISIONS INCLUDED IN THE
UNITED STATES-CARRIBEAN BASIN TRADE ENHANCEMENT ACT**

Scheduled for Markup

By the

SENATE COMMITTEE ON FINANCE

on June 22, 1999

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION



June 18, 1999

JCX-31-99

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INTRODUCTION

This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of revenue provisions included in the "United States-Caribbean Basin Trade Enhancement Act." The Act is an original bill to be considered by the Senate Committee on Finance on June 22, 1999.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of Revenue Provisions Included in the United States-Caribbean Basin Trade Enhancement Act* (JCX-31-99), June 18, 1999.

DESCRIPTION OF REVENUE PROVISIONS

The following revenue provisions would be included in the "United States-Caribbean Basin Trade Enhancement Act."

A. Impose Limitation on Prefunding of Certain Employee Benefits

Present Law

Under present law, contributions to a welfare benefit fund generally are deductible when paid, but only to the extent permitted under the rules of Code sections 419 and 419A. The amount of an employer's deduction in any year for contributions to a welfare benefit fund cannot exceed the fund's qualified cost for the year. The term qualified cost means the sum of (1) the amount that would be deductible for benefits provided during the year if the employer paid them directly and was on the cash method of accounting, and (2) within limits, the amount of any addition to a qualified asset account for the year. A qualified asset account includes any account consisting of assets set aside for the payment of disability benefits, medical benefits, supplemental unemployment compensation or severance pay benefits, or life insurance benefits. The account limit for a qualified asset account for a taxable year is generally the amount reasonably and actuarially necessary to fund claims incurred but unpaid (as of the close of the taxable year) for benefits with respect to which the account is maintained and the administrative costs incurred with respect to those claims. Specific additional reserves are allowed for future provision of post-retirement medical and life insurance benefits.

The present-law deduction limits for contributions to welfare benefit funds do not apply in the case of certain 10-or-more employer plans. A plan is a 10-or-more employer plan if (1) more than one employer contributes to it, (2) no employer is normally required to contribute more than 10 percent of the total contributions under the plan by all employers, and (3) the plan does not maintain experience-rating arrangements with respect to individual employers.

If any portion of a welfare benefit fund reverts to the benefit of an employer that maintains the fund, an excise tax equal to 100 percent of the reversion is imposed on the employer.

Description of Proposal

Under the proposal, the present-law exception to the deduction limit for 10-or-more employer plans would be limited to plans that provide only medical benefits, disability benefits and group-term life insurance benefits which do not provide for any cash surrender value or other money that can be paid, assigned, borrowed or pledged for collateral for a loan. The exception would no longer be available with respect to plans that provide supplemental unemployment compensation, severance pay and life insurance (other than group-term life) benefits. Thus, the

generally applicable deduction limits (secs. 419 and 419A) would apply to plans providing these benefits.

In addition, if any portion of a welfare benefit fund attributable to contributions that are deductible pursuant to the 10-or-more employer exception (and earnings thereon) is used for a purpose other than that for which the contributions were made (including cash payments to employees upon termination of the fund), such portion would be treated as reverting to the benefit of the employers maintaining the fund and would be subject to the imposition of the 100-percent excise tax.

No inference would be intended with respect to the validity of any 10-or-more employer arrangement under the provisions of present law.

Effective Date

The proposal would be effective with respect to contributions paid or accrued on or after June 9, 1999, in taxable years ending after such date.

**B. Temporary Increase in Amount of Rum Excise Tax that is Covered
Over to Puerto Rico and the U.S. Virgin Islands**

Present Law

A \$13.50 per proof gallon² excise tax is imposed on distilled spirits produced in or imported (or brought) into the United States (sec. 5001). The excise tax does not apply to distilled spirits that are exported from the United States or to distilled spirits that are consumed in U.S. possessions (e.g., Puerto Rico and the Virgin Islands).

The Code provides for coverover (payment) of \$10.50 per proof gallon of the excise tax imposed on rum imported (or brought) into the United States (without regard to the country of origin) to Puerto Rico and the Virgin Islands (sec. 7652). During the 5-year period ending on September 30, 1998, the amount covered over was \$11.30 per proof gallon. This temporary increase was enacted in 1993 as transitional relief accompanying a reduction in certain tax benefits for corporations operating in Puerto Rico and the Virgin Islands (sec. 936).

Amounts covered over to Puerto Rico and the Virgin Islands are deposited in the treasuries of the two possessions for use as those possessions determine.

Description of Proposal

The proposal would increase from \$10.50 to \$13.50 per proof gallon the amount of excise taxes collected on rum brought into the United States that is covered over to Puerto Rico and the U.S. Virgin Islands.

The proposal further would provide that \$0.50 per proof gallon of the amount covered over to Puerto Rico will be transferred to the Puerto Rico Conservation Trust, a private, non-profit section 501(c)(3) organization operating in Puerto Rico.

Effective Date

The proposal would be effective for excise taxes collected on rum imported or brought into the United States from July 1, 1999, through September 30, 1999.

² A proof gallon is a liquid gallon consisting of 50 percent alcohol.

ESTIMATED BUDGET EFFECTS OF THE "UNITED STATES-CARIBBEAN BASIN TRADE ENHANCEMENT ACT,"
SCHEDULED FOR MARKUP BY THE COMMITTEE ON FINANCE ON JUNE 22, 1999

Fiscal Years 1999 - 2009
[Millions of Dollars]

Provision	Effective	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-04	2005-09	2000-09
Caribbean Basin Initiative [1]	7/1/00	--	-65	-268	-281	-50	--	--	--	--	--	--	-664	--	-664
Increase Amount of Rum Excise Tax That is Covered Over to Puerto Rico and the U.S. Virgin Islands (from \$10.50 per proof gallon to \$13.50 per proof gallon) [1]	[2]	-16	--	--	--	--	--	--	--	--	--	--	--	--	--
Revenue Offset Provision:															
1. Impose limitation on pre-funding of certain employee benefits	cpo/a 6/9/99	22	93	141	147	149	140	129	118	105	90	74	671	516	1,187
NET TOTAL		6	28	-127	-134	99	140	129	118	105	90	74	7	516	523

Joint Committee on Taxation

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

Legend for "Effective" column: cpo/a = contributions paid on or after

[1] Estimate provided by the Congressional Budget Office.

[2] Effective for rum imported into the United States after 7/1/99, and before 10/1/99.

**DESCRIPTION OF REVENUE PROVISIONS INCLUDED IN
THE AFRICAN GROWTH AND OPPORTUNITY ACT**

Scheduled for Markup

By the

SENATE COMMITTEE ON FINANCE

on June 22, 1999

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION



June 18, 1999

JCX-33-99

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INTRODUCTION

This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of revenue provisions included in the "African Growth and Opportunity Act." The Act is an original bill to be considered by the Senate Committee on Finance on June 22, 1999.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of Revenue Provisions Included in the African Growth and Opportunity Act* (JCX-33-99), June 18, 1999.

DESCRIPTION OF REVENUE PROVISIONS

The following revenue provisions would be included in the "African Growth and Opportunity Act."

A. Limit Use of Non-Accrual Experience Method of Accounting to Amounts to be Received for the Performance of Qualified Personal Services

Present Law

An accrual method taxpayer generally must recognize income when all the events have occurred that fix the right to receive the income and the amount of the income can be determined with reasonable accuracy. An accrual method taxpayer may deduct the amount of any receivable that was previously included in income that becomes worthless during the year.

Accrual method taxpayers are not required to include in income amounts to be received for the performance of services which, on the basis of experience, will not be collected (the "non-accrual experience method"). The availability of this method is conditioned on the taxpayer not charging interest or a penalty for failure to timely pay the amount charged.

A cash method taxpayer is not required to include an amount in income until it is received. A taxpayer may not use the cash method if the purchase, production, or sale of merchandise is a material income producing factor. Such taxpayers are generally required to keep inventories and use the accrual method of accounting. In addition, corporations (and partnerships with corporate partners) generally may not use the cash method of accounting if their average annual gross receipts exceed \$5 million. An exception to this \$5 million rule is provided for qualified personal service corporations, which are corporations (1) substantially all of whose activities involve the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts or consulting and (2) substantially all of the stock of which is owned by current or former employees performing such services, their estates or heirs. Qualified personal service corporations are allowed to use the cash method without regard to whether their average annual gross receipts exceed \$5 million.

Description of Proposal

The proposal would limit the use of the non-accrual experience method to amounts that are to be received for the performance of qualified personal services. Amounts to be received for the performance of all other services would be subject to the general rule regarding inclusion in income. Qualified personal services are personal services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts or consulting. As under present law, the availability of the non-accrual experience method would be conditioned on the taxpayer not charging interest or a penalty for failure to timely pay the amount.

Effective Date

The proposal would be effective for taxable years ending after the date of enactment. Any change in the taxpayer's method of accounting necessitated as a result of the proposal would be treated as a voluntary change initiated by the taxpayer with the consent of the Secretary of the Treasury. Any required section 481(a) adjustment would be taken into account over a period not to exceed four years under principles consistent with those in Rev. Proc. 98-60.²

² 1998-51 I.R.B. 16.

B. Expand Reporting of Cancellation of Indebtedness Income

Present Law

Under section 61(a)(12), a taxpayer's gross income includes income from the discharge of indebtedness. Section 6050P requires "applicable entities" to file information returns with the IRS regarding any discharge of indebtedness of \$600 or more.

The information return must set forth the name, address, and taxpayer identification number of the person whose debt was discharged, the amount of debt discharged, the date on which the debt was discharged, and any other information that the IRS requires to be provided. The information return must be filed in the manner and at the time specified by the IRS. The same information also must be provided to the person whose debt is discharged by January 31 of the year following the discharge.

"Applicable entities" include: (1) the FDIC, the RTC, the National Credit Union Administration, and any successor or subunit of any of them; (2) any financial institution (as described in sec. 581 (relating to banks) or sec. 591(a) (relating to savings institutions)); (3) any credit union; (4) any corporation that is a direct or indirect subsidiary of an entity described in (2) or (3) which, by virtue of being affiliated with such entity, is subject to supervision and examination by a Federal or State agency regulating such entities; and (5) an executive, judicial, or legislative agency (as defined in 31 U.S.C. sec. 3701(a)(4)).

The penalties for failure to file correct information reports with the IRS and to furnish statements to taxpayers are similar to those imposed with respect to a failure to provide other information returns. For example, the penalty for failure to furnish statements to taxpayers is generally \$50 per failure, subject to a maximum of \$100,000 for any calendar year. These penalties are not applicable if the failure is due to reasonable cause and not to willful neglect.

Description of Proposal

The proposal would require that information reporting on discharges of indebtedness also be done by any organization a significant trade or business of which is the lending of money (such as finance companies and credit card companies whether or not affiliated with financial institutions).

Effective Date

The proposal would be effective with respect to discharges of indebtedness after December 31, 1999.

ESTIMATED BUDGET EFFECTS OF THE "AFRICAN GROWTH AND OPPORTUNITY ACT,"
 SCHEDULED FOR MARKUP BY THE COMMITTEE ON FINANCE ON JUNE 22, 1999

Fiscal Years 1999 - 2009

(Millions of Dollars)

Provision	Effective	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-04	2005-09	2000-09
Expansion of Generalized System of Preferences to Sub-Saharan Africa [1]	10/1/99	--	-46	-43	-44	-46	-49	-52	-56	--	--	--	-228	-108	-336
Revenue Offset Provisions:															
1. Limit use of non-accrual experience method of accounting to amounts to be received for the performance of qualified professional services	tyea DOE	12	77	60	33	28	10	12	14	16	18	20	208	80	288
2. Information reporting on cancellation of indebtedness by non-bank financial institutions	coda 12/31/99	--	--	7	7	7	7	7	7	7	7	7	28	35	63
NET TOTAL		12	31	24	-4	-11	-32	-33	-35	23	25	27	8	7	15

Joint Committee on Taxation

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

Legend for "Effective" column:

- coda = cancellation of indebtedness after
- DOE = date of enactment
- tyea = taxable years ending after

[1] Estimate provided by the Congressional Budget Office.

Staff Document

Chairman's Proposal --

**THE GENERALIZED SYSTEM OF PREFERENCES EXTENSION
ACT**

**Prepared by the Staff of the
Senate Committee on Finance
JUNE 18, 1999**

On Tuesday, June 22, 1999 at 10:00 a.m. in Room 215 Dirksen Senate Office Building, the Committee on Finance will meet to mark up the Generalized System of Preferences Extension Act. 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 expires on June 30, 1999.

II. Chairman's Proposal

The Chairman's mark extends the GSP program from June 30, 1999 to June 30, 2004. Refunds of any duties paid between July 1, 1999 and the date of enactment will be provided upon request of the importer. This provision is effective upon the date of enactment.

There will be a pay-for which has not yet been determined.

Staff Document

Chairman's Proposal --

**THE TRADE ADJUSTMENT ASSISTANCE REAUTHORIZATION
ACT**

**Prepared by the Staff of the
Senate Committee on Finance
JUNE 18, 1999**

On Tuesday, June 22, 1999 at 10:00 a.m. in Room 215 Dirksen Senate Office Building, the Committee on Finance will meet to mark up the Trade Adjustment Assistance Reauthorization Act. 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 import competition.

- 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 NAFTA Transitional Adjustment Assistance 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 imports from or production shifts to Canada and/or Mexico.

All three programs expire on June 30, 1999. 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, 2001. This provision is effective on the date of

enactment. There will be a pay-for that has not yet been determined.

Staff Document

Chairman's Proposal --

THE U.S. - CARIBBEAN BASIN TRADE ENHANCEMENT ACT

Prepared by the Staff of the
Senate Committee on Finance
JUNE 14, 1999

On Wednesday, June 16, 1999 at 10:00 a.m. in Room 215 Dirksen Senate Office Building, the Committee on Finance will meet to mark up the U.S. - Caribbean Basin Trade Enhancement Act (CBTEA). The following memorandum outlines the Chairman's CBTEA proposal, which is substantially similar to the version reported out by the Committee in the 105th Congress as an original bill (S.1278) on October 9, 1997, and again as a part of a larger trade bill (S.2400) on July 21, 1998. The only changes are in the tariff treatment of non-textile and non-apparel import sensitive products, the effective dates, and the addition of a pay-for provision.

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 December 1992, the United States, Canada and Mexico signed the North American Free Trade Agreement, which entered into force following Congressional approval on January 1, 1994. Among the commitments made by the United States to Mexico were the sharp reduction in duties and quantitative limits applicable to products ineligible 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.

-- Textile luggage 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; and

-- Textile luggage cut and assembled in an eligible CBI beneficiary country from U.S. fabric formed from U.S. yarn and sewn in such country with U.S. thread.

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 the preference afforded imports of similar articles from Mexico under NAFTA.

C. Eligibility

Eligibility for the program is left to 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 from October 1, 2000 through September 30, 2002.

V. Pay-for

The Chairman's proposal will include a pay-for that has not yet been determined.

Staff Document

Chairman's Proposal --

Legislation Authorizing a New Trade Policy for Sub-Saharan Africa

**Prepared by the Staff of the
Senate Committee on Finance
JUNE 14, 1999**

On Wednesday, June 16, 1999 at 10:00 a.m. in Room 215 Dirksen Senate Office Building, the Committee on Finance will meet to mark up the Sub-Saharan African Growth and Opportunity Act. The following memorandum outlines the Chairman's proposal.

I. Background

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 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 title of Chairman's mark is 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.

COMMITTEE ON FINANCE

MODIFICATIONS TO CHAIRMAN'S PROPOSALS

JUNE 22, 1999

(1) GENERALIZED SYSTEM OF PREFERENCES EXTENSION ACT

The modification to the Chairman's mark on the Generalized System of Preferences Act would add a new provision at the appropriate place that would allow the operator or user of a foreign trade zone, at their option, to file a single estimated entry covering goods withdrawn from the zone for consumption during any seven-day period and would treat such weekly entry as a single entry for purposes of assessing the merchandise processing fee paid upon the filing of entry documents.

(2) UNITED STATES-CARIBBEAN TRADE ENHANCEMENT ACT

(a) The first modification to the Chairman's mark on the U.S.-Caribbean Trade Enhancement Act would modify the effective dates of the Chairman's mark to extend the time-period for which benefits would be available from the current July 1, 2000 to November 30, 2002 to a period running from October 1, 1999 through December 31, 2004. The modification would also substitute a modification of the installment method and a prohibition on the use of the installment method by accrual method taxpayers in lieu of the pay-for provisions contained in the Chairman's mark.

(b) The second modification to the Chairman's mark on the U.S.-Caribbean Trade Enhancement Act would add a new provision at the appropriate place increasing the amount of excise taxes collected on rum brought into the United States that is "covered over" (i.e., rebated) to Puerto Rico and the U.S. Virgin Islands from the current \$10.50 per proof gallon to \$13.50 per proof gallon. The higher cover over would apply for a period of three months, from July 1, 1999, to September 30, 1999.

CONRAD/GRASSLEY AMENDMENT
Amendment to the TAA Extension Act

①
TAA

Issue

The TAA program, as currently structured, provides assistance to workers when they suffer the effects of import competition but does not generally provide assistance to farmers when they are hurt by imports. When imports cause layoffs in manufacturing industries, workers are eligible for TAA. But when imports cause agricultural commodity prices to drop, farmers lose income but not their jobs, and therefore do not qualify for the current TAA benefit. Although trade is extremely important to US agriculture, this lack of adjustment assistance when liberalized trade causes greater import competition has undercut support for trade among family farmers.

Amendment

The Conrad/Grassley amendment creates a new TAA for Farmers program housed at USDA. Under TAA for farmers, a commodity would be certified as eligible for assistance if --

- (1) the national average price for the commodity for the year dropped more than 20% compared to the average price in the previous five years; and
- (2) imports "contributed importantly" (the standard from the underlying TAA program) to the price reduction.

If these two criteria are met, individual producers could apply for assistance. Farmers would receive a cash assistance payment equal to half the difference between the price for the year and 80% of the previous five years average price multiplied by the number of units the farmer had produced. These cash benefits would be capped at \$10,000 per farmer. Training and other TAA benefits available to workers under TAA would also be available to farmers, but would not be required. Overall annual payments under this proposal would be capped at \$100 million.

2
GSP

Grassley/Kerrey Amendment to the bill extending the Generalized System of Preferences

Description:

This amendment will provide additional trade benefits under the GSP Program to countries that comply with the provisions of ILO Convention No. 138 concerning the Minimum Age for Admission to Employment.

The aim of the 1973 Convention is to abolish child labor throughout the world by establishing a minimum age at which children may be employed.

The amendment will give the President the authority to grant a country that complies with the Minimum Age Convention up to a fifty-percent tariff rate cut on items produced in that country that would not otherwise be eligible for preferential tariff rates.

These items include textile and apparel articles, electronic articles, footwear, handbags, luggage, and semi-manufactured and manufactured glass products, and other products determined by the President under Section 503(b)(1)(G).

It will also permit the President to waive current limitations on the amounts of additional goods that countries complying with the Minimum Age Convention may export to the United States.

In the event the President finds that domestic industries are hurt because of these special, targeted trade benefits, the President has the authority to suspend, limit, or withdraw the benefits. The standard is if the President determines that imports of the article to which such additional benefits have been granted have increased in such amounts as to cause, or threaten to cause, injury to a domestic industry producing an article like or directly competitive with the article.

Effective date: 2001

Termination date: This program will terminate in 2006.

Phase-in of benefits: Benefits are phased in over a five-year period after the President determines that a country shall be eligible for the program.

Benefits cap: Total benefits for this program are capped annually at \$50 million.

The White House,

FIN
PN341

JUN - 7 1999

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To the

Senate of the United States.

I nominate

Lawrence H. Summers, of Maryland,

to be Secretary of the Treasury, vice Robert E. Rubin.

WILLIAM J. CLINTON

**SENATE FINANCE COMMITTEE
STATEMENT OF INFORMATION REQUESTED OF NOMINEE**

The Committee requests the nominee provide the following information in a single written statement by typing each question in full followed by the nominee's response. Please provide **three** copies of your typed statement to Jane Butterfield, Chief Clerk, 219 Dirksen Senate Office Building, Washington, D.C. 20510.

A. BIOGRAPHICAL INFORMATION

1. Name: (Include any former names used.)

Lawrence Henry Summers

2. Position to which nominated:

Secretary of the Treasury

3. Date of nomination:

June 7, 1999

4. Address: (List current residence, office, and mailing addresses.)

5409 Falmouth Road
Bethesda, MD 20816

Department of the Treasury
1500 Pennsylvania Avenue, Room 3326
Washington, D.C. 20220

5. Date and place of birth:

POB: New Haven, Connecticut
DOB: 11-30-54

6. Marital status: (Include maiden name of wife or husband's name.)

Married to Victoria Perry Summers

7. Names and ages of children:

Pamela M. Summers DOB: 6/12/90
Ruth P. Summers DOB: 6/12/90
Harry C. Summers DOB: 7/29/93

8. Education: (List secondary and higher education institutions, dates attended, degree received, and date degree granted.)

Ph.D, Harvard University, 1975-1979, awarded 1982
S.B., Massachusetts Institute of Technology, 1971-1975, degree awarded May, 1975
Harrington High School, 1968-1971, diploma awarded June, 1971

9. Employment record: (List all jobs held since college, including the title or description of job, name of employer, location of work, and dates of employment.)

8/11/95 to Present	Deputy Secretary of the Treasury Department of the Treasury Washington, D.C. 20220
4/1/93 to 8/11/95	Under Secretary of the Treasury for International Affairs Department of the Treasury Washington, D.C. 20220
1/93 to 4/93	Senior Deputy Assistant Secretary of the Treasury for International Economic Policy Department of the Treasury Washington, D.C. 20220
1/91 to 1/93	Vice President and Chief Economist The World Bank 1818 H Street, N.W. Washington, DC 20433
7/83 to 1/93 (on leave 1/91 to 1/93)	Nathaniel Ropes Professor of Political Economy Harvard University Cambridge, MA 02138
7/79 to 1/91	Research Fellow National Bureau of Economic Research 1050 Massachusetts Avenue Cambridge, MA 02138

9/82 to 6/83

Domestic Policy Economist
Council of Economic Advisors
Old Executive Office Building
Washington, DC 20500

9/79 to 9/82

Assistant Professor of Economics
Massachusetts Institute of Technology
Cambridge, MA 02139

10. Government experience: (List any advisory, consultative, honorary, or other part-time service or positions with Federal, State or local governments, other than those listed above.)

None other than those listed above.

11. Business relationships: (List all positions held as an officer, director, trustee, partner, proprietor, agent, representative, or consultant of any corporation, company, firm, partnership, other business enterprise, or educational or other institution.)

1989-1993: Director, Thermo Energy Systems, Waltham, MA – an energy conversion company

1989 - 1990: Consultant for American Express, Goldman Sachs, Kodak, and NBC

12. Memberships: (List all memberships and offices held in professional, fraternal, scholarly, civic, business, charitable, and other organizations.)

Fellow of Econometric Society

Fellow of American Academy of Arts and Sciences

Member of Council of Foreign Relations

Member of American Economic Association

13. Political affiliations and activities:

- a. List all public offices for which you have been a candidate.

None

- b. List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Served as an economic advisor to Michael Dukakis in 1987 and 1988.

- c. Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 10 years.

None

14. Honors and Awards: (List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognitions for outstanding service or achievement.)

John Bates Clark Medal – Given by the American Economic Association every two years to outstanding economist under age 40.

Alan Waterman Award – NSF Outstanding Scientific Achievement

David Wells Prize -- Outstanding Ph.D. Thesis Harvard University

National Tax Association, Outstanding Thesis Award

15. Published writings: (List the titles, publishers, and dates of all books, articles, reports, or other published materials you have written.)

Author of the Book, Understanding Unemployment, MIT Press, 1990; co-author of Reform in Eastern Europe, MIT Press, 1991; and Editor of the series Tax Policy and the Economy, MIT Press, 1987-1990 editions. Also author of more than one hundred articles – see attached resume.

16. Speeches: (List all formal speeches you have delivered during the past five years which are on topics relevant to the position for which you have been nominated. Provide the Committee with two copies of each formal speech.)

In my positions at the Treasury Department, I have given numerous speeches over the years on many different subjects. On many occasions, I have a prepared text, but on other occasions I have spoken without prepared text. Attached are copies of my public speeches from the past six months. For speeches prior to then, please see Treasury's web site: <http://www.treas.gov/press/releases/archive.htm>

17. Qualifications: (State what, in your opinion, qualifies you to serve in the position to which you have been nominated.)

As Deputy Secretary of the Treasury and Under Secretary of the Treasury for International Affairs, I have had broad experience in assisting and working with the Secretary of the Treasury in the formulation and execution of policies encompassing the full range of issues facing the Department.

Prior to joining the Treasury Department, I have had extensive experience in teaching, writing, and practicing in the general area of macroeconomics and international economics at Harvard University and the World Bank.

B. FUTURE EMPLOYMENT RELATIONSHIPS

1. Will you sever all connections with your present employers, business firms, associations, or organizations if you are confirmed by the Senate? If not, provide details.

Not applicable.

2. Do you have any plans, commitments, or agreements to pursue outside employment, with or without compensation, during your service with the government? If so, provide details.

No.

3. Has any person or entity made a commitment or agreement to employ your services in any capacity after you leave government service? If so, provide details.

No.

4. If you are confirmed by the Senate, do you expect to serve out your full term or until the next Presidential election, whichever is applicable? If not, explain.

Yes.

C. POTENTIAL CONFLICTS OF INTEREST

1. Indicate any investments, obligations, liabilities, or other relationships which could involve potential conflicts of interest in the position to which you have been nominated.

None.

2. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None.

3. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat, or modification of any legislation or affecting the administration and execution of law or public policy. Activities performed as an employee of the Federal government need not be listed.

I testified before the FCC on behalf of NBC in connection with the financial interest syndication rules during 1990.

4. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Provide the Committee with **two** copies of any trust or other agreements.)

I do not foresee any potential conflict of interest. Should any potential conflict issue arise, I will consult promptly with the Treasury Ethics Officials.

5. **Two** copies of written opinions should be provided directly to the Committee by the designated agency ethics officer of the agency to which you have been nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position.
6. The following information is to be provided only by nominees to the positions of United States Trade Representative and Deputy United States Trade Representative:

Have you ever represented, advised, or otherwise aided a foreign government or a foreign political organization with respect to any international trade matter? If so, provide the name of the foreign entity, a description of the work performed (including any work you supervised), the time frame of the work (e.g., March to December 1995), and the number of hours spent on the representation.

D. LEGAL AND OTHER MATTERS

1. Have you ever been the subject of a complaint or been investigated, disciplined, or otherwise cited for a breach of ethics for unprofessional conduct before any court, administrative agency, professional association, disciplinary committee, or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged, or held by any Federal, State, or other law enforcement authority for a violation of any Federal, State, county or municipal law, regulation, or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so, provide details.

No.

4. Have you ever been convicted (including pleas of guilty or *nolo contendere*) of any criminal violation other than a minor traffic offense? If so, provide details.

No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

None.

E. TESTIFYING BEFORE CONGRESS

1. If you are confirmed by the Senate, are you willing to appear and testify before any duly constituted committee of the Congress on such occasions as you may be reasonably requested to do so?

Yes.

2. If you are confirmed by the Senate, are you willing to provide such information as is requested by such committees?

Yes.

AFFIDAVIT

Louise H. Sanders, being duly sworn, hereby states that he/she has read and signed the foregoing Statement of Information Requested of Nominee and that the information provided therein is, to the best of his/her knowledge, true, accurate, and complete.

L.H. Sanders

Subscribed and sworn before me this 3rd day of JUNE, 1999.

Ronald Levy

Notary Public

RONALD LEVY

Notary Public, District of Columbia

My Commission Expires November 14, 2000