S. HRG. 101-740

OVERSIGHT OF 1988 TRADE ACT—1990

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

FEBRUARY 7, 1990

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE

80-546 ==

WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

COMMITTEE ON FINANCE

LLOYD BENTSEN, Texas, *Chairman*

SPARK M. MATSUNAGA, Hawaii
DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
DAVID L. BOREN, Oklahoma
BILL BRADLEY, New Jersey
GEORGE J. MITCHELL, Maine
DAVID PRYOR, Arkansas
DONALD W. RIEGLE, JR., Michigan
JOHN D. ROCKEFELLER IV, West Virginia
TOM DASCHLE, South Dakota

BOB PACKWOOD, Oregon
BOB DOLE, Kansas
WILLIAM V. ROTH, JR., Delaware
JOHN C. DANFORTH, Missouri
JOHN H. CHAFEE, Rhode Island
JOHN HEINZ, Pennsylvania
DAVID DURENBERGER, Minnesota
WILLIAM L. ARMSTRONG, Colorado
STEVE SYMMS, Idaho

VANDA B. MCMURTRY, *Staff Director and Chief Counsel*
EDMUND J. MIHALSKI, *Minority Chief of Staff*

CONTENTS

OPENING STATEMENTS

COMMITTEE PRESS RELEASE

ADMINISTRATION WITNESS

ALPHABETICAL LISTING AND APPENDIX MATERIAL SUBMITTED

COMMUNICATIONS

OVERSIGHT OF 1988 TRADE ACT—1990

WEDNESDAY, FEBRUARY 7, 1990

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:35 a.m., Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Moynihan, Baucus, Bradley, Riegle, Rockefeller, Packwood, Roth, Danforth, Heinz, and Symms.

[The press release announcing the hearing follows:]

[Press Release No. H-2, Jan. 19, 1990]

SENATOR BENTSEN ANNOUNCES HEARING ON OVERSIGHT OF 1988 TRADE ACT
UPCOMING DEADLINES, URUGUAY ROUND PROSPECTS TO BE DISCUSSED

WASHINGTON, DC—Senator Lloyd Bentsen (D., Texas), Chairman, announced Friday that the Finance Committee will hold a hearing on oversight of the Omnibus Trade and Competitiveness Act of 1988.

The hearing will be on *Wednesday, February 7, 1990 at 10:30 a.m.* in Room SD-215 of the Dirksen Senate Office Building.

The 1988 Trade Act was enacted on August 23, 1988, to strengthen U.S. trade laws, open foreign markets to U.S. exports and boost the competitiveness of the United States.

"Overseeing implementation of the 1988 Trade Act remains a high priority for this Committee. We will soon reach a number of important deadlines set by the Trade Act, particularly with respect to provisions aimed at opening foreign markets like Super 301 and telecommunications trade," Bentsen said.

"Furthermore, the Uruguay Round of Multilateral Trade Negotiations is entering its final year. Through this oversight hearing, we want to determine the prospects for those talks to achieve the objectives set forth in the Trade Act," Bentsen said.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. Last year this Committee insisted on having close consultation with the Administration on trade. We held regular hearings throughout the year in which the Administration participated because it knew it would have to support publicly decisions that were made under the Act. And I think the process worked out rather well.

From a low point in executive-legislative consultation about trade at the beginning of the Reagan Administration, we have at least developed a dialogue. We have a long way to go if we get to the level of competence necessary to develop a consensus on the Uruguay Round—and that is only 9 months away. We have a lot of work to do on trade. And we are again this year going to have to insist on close consultation with the Administration.

Next year, when we have to vote on this, I don't want us to find that there have been changes in the course of negotiations we did not know about; that domestic industries have been dramatically affected in a way that we might not think not equitable; that we try to flush these out ahead of time, discuss them and see if we can't achieve accommodations.

I must state that Ambassador Hills has been very good, in my opinion, in her consultations with us. We are appreciative of that and very pleased to have you here this morning.

Are there any other comments?

Senator Packwood.

OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON

Senator PACKWOOD. I think the Chairman understates it. Not only has Ambassador Hills been sensational, every now and then it gets to the place where we say, oh, God, is she coming again. [Laughter.]

If we ever get to the end of the Uruguay Round process I think Congress, or at least the Ways and Means and Finance Committees ought to be estopped from complaining that we have not been consulted. It won't stop us you understand. But you have certainly been generous with your time. And I would like to leave with you a letter signed by 36 Senators relating to the woods products industry, if I might, and your negotiations with Japan right now. And the reason I do that, Carla, there was a perpetual debate, frequently about the quality of products and whether we make automobiles as good as Japanese autos or cameras as good as German cameras. But there is no serious debate about wood products. And Japan is buying many wood products, finished lumber products. But they have a variety of trade barriers and tariff barriers—in this case, straight out tariff barriers—that make it impossible for us to sell as much finished lumber as we would otherwise sell.

You have done a dynamite job on this. But I would like to, leave this letter with you, signed by 36 Senators, encouraging you to see this to fruition so that we might have access to Japan almost without any limitations. We are quite confident that is all we need in this particular product.

Thank you, Mr. Chairman,

The CHAIRMAN. Are there further comments?

[No response.]

The CHAIRMAN. If not, I would be delighted to have your comments at this point, Ambassador Hills.

STATEMENT OF CARLA HILLS, U.S. TRADE REPRESENTATIVE, ACCOMPANIED BY DR. DAVID WALTERS, CHIEF ECONOMIST, U.S. TRADE REPRESENTATIVE

Ambassador HILLS. Thank you, Mr. Chairman.

I have filed a full written statement a day or two ago and I might just make a few remarks by way of summary before we start the questions.

I first want to say how much I have gained from the consultations that we have had. I want to continue the dialogue and to de-

velop a consensus, and would say that if ever you have a concern in between the times that we do talk, that I would encourage you and all members of this committee, your colleagues, to call me; that we want to be forthcoming on all issues dealing with trade, whether it be the Uruguay Round or 1988 Trade Act responsibilities or a bilateral issue.

And, Senator Packwood, I certainly will take under very serious consideration the letter signed by the 36 Senators.

This area of forest products is one where you know we have put a high priority.

We basically see the trading system at a crossroad. We see it either moving down one path toward a framework of open markets, expanded trade, and increased prosperity, or down another toward a framework of increased protection, trading blocs, and economic failure.

The Administration's goal is to push that global economy toward free markets. We believe that every entrepreneur should have the ability to choose how, when, where to buy or sell goods freely in an open market. And we strive for competition in our trade policy, not for any ideological reason, but because we know that competitive markets will result in increased economic growth worldwide.

To accomplish our goal, we have a three-prong strategy. First, we are committed to a successful conclusion in the Uruguay Round by the end of this year; second, we are pursuing market-opening initiatives with trading partners, including Japan, Canada, Mexico, the European Community, and the nations in the Pacific Rim; and, finally, we are using our 1988 Trade Act tools to pry open markets and to enforce the rights of American industry and agriculture.

Of top priority to us is a successful conclusion of the Uruguay Round by year's end. Right now, a third of world trade—roughly, a trillion dollars in trade in goods and services—is not adequately covered by internationally agreed rules of fair play. The Uruguay Round would seek to build out our multilateral rule, basically in four broad categories: agriculture, market access, the so-called new issues of services, investment, and intellectual property. It would also seek to achieve reform of the GATT rules that make all the other rules work better. And they are all important to us. They are linked.

We have made it quite clear to our trading partners that fundamental reform in agriculture is essential to a successful Round. We have allies in our corner calling for progressive reduction of export subsidies, substantially reducing tariff and nontariff barriers, to deal with trade distorting domestic support, and to have a good health and safety standard that eliminates the kinds of disputes that concern products and food.

The new areas of services, intellectual property rights, and investment must be brought into the GATT system, and we have made some progress. We have pressed our goal to have a single set of rules governing all nations, including the developed world.

Today, the developing world accounts for roughly a half trillion dollars worth of trade, and the developing world has benefitted massively in its prosperity from the world trading system. And we believe that it should assume more responsibility for that system, and in so doing, will guarantee the prosperity of its citizens.

We have also made the GATT dispute settlement a key objective in the Round. Success in these areas will require changes by all countries, including our own. I have said that we will put all of our restrictions on the table, and I have also said we would not unilaterally disarm.

Success requires the Administration and Congress to work together. And I could not be more grateful for the efforts by the members of this Committee in helping us to develop our negotiating position.

We value your advice and guidance, and we will ask for more in the months ahead. We value also the views of our private sector, and we want to maintain a close consultation with our many advisors and those who have concern in the areas with which we deal.

Beyond the Uruguay Round, we say quite clearly that until we have implemented the reforms that we seek, we need to reinforce our objectives, and in 1990 we will continue to pursue market-opening initiatives with Japan, Eastern Europe, the European Community, Mexico, and the nations in the Pacific Rim.

In the next few months, we have the responsibility of making determinations with respect to Super and Special 301, telecommunications, the government procurement provisions—all in the 1988 Omnibus Trade and Competitiveness Act.

It would be premature for me to comment specifically on these matters at this time. Suffice it to say we are working hard.

The interagency process is now in the midst of obtaining the views of Congress and of the private sector.

With respect to the six Super 301 investigations launched last year, we are in the midst of discussions with the three nations involved. I think we are making some progress.

I might mention some areas of activity beyond these. One is the GATT dispute settlement proceedings. We have had successful panel reports in disputes in a range of topics dealing with the EC oilseed panel, the Korea beef import restrictions, the Canadian restrictions on ice cream and yogurt, EC and Norwegian restrictions on apples. And we were pleased with a settlement agreement that we entered into recently with the EC to eliminate export restrictions on copper scrap.

We very much appreciate this Committee's support in passing legislation to comply with the Superfund panel report. That was important for our credibility.

Second, with respect to Japan, I can say to you quite honestly that no single bilateral relationship occupies more of my time. The Administration has given Japan a clear message, that Japan, as the second largest industrialized market in the world, must become as open and competitive as the U.S. market.

We are using the Uruguay Round to eliminate barriers in agriculture and services, as well as to ensure an end to government procurement practices that discriminate against foreign suppliers.

We have launched a series of negotiations to open up specific Japanese industries; satellites, supercomputers, and forest products. And we are attacking structural barriers to trade and investment through our Structural Impediments Initiative.

In Eastern Europe and the Soviet Union, the Administration and Congress have worked well together to design a package for Poland

and Hungary, worth roughly $1 billion. We are currently in negotiations with the Eastern European countries on trade and investment agreements. These agreements will aim to increase market access, to protect U.S. businesses, and to encourage market-oriented reform in those countries.

We are in the midst of negotiations on investment and business facilitation agreement with Poland, and are prepared to negotiate with Hungary, which has election scheduled next month.

Our priority is to grant Most Favored Nation status to the countries in the region that do not currently enjoy it: Bulgaria, Czechoslovakia, East Germany, and Romania. At the same time, we will begin discussions on investment agreements with those nations.

The President has directed that we negotiate a commercial agreement and a bilateral investment treaty with the Soviet Union. In addition to granting Most Favored Nation status to the Soviet Union, the commercial agreement will seek protections for U.S. businesses in the form of safeguards against import surges, intellectual property rights protection, and greater freedom in doing business in the Soviet Union. It is our anticipation that we will conclude these discussions by May.

As we move ahead in Eastern Europe and the Soviet Union, we have often sought the guidance of Congress, of this Committee, and others in Congress, and the private sector.

Turning to this hemisphere, we will continue to build on the framework agreement and understanding that we have with Mexico. We applaud the Salinas Administration's efforts to bring down trade barriers, to open the opportunities for investment, to restructure the Mexican economy, and to assume greater responsibility for the global trading system.

And we will, of course, be active in other regions of the world. We are closely monitoring the progress of EC 92. We will work with the nations of the Pacific Rim to build on the process started with the Asia-Pacific economic cooperation conference in the Asian-U.S. initiative, and we will continue to work with Canada to implement the U.S.-Canadian Free Trade Agreement.

Mr. Chairman, 1990 will be a pivotal year for trade. Together, I think we can make progress in pushing the world economy down the path of opening markets, expanding trade, and generating prosperity.

And I would be pleased to answer any questions that you may have.

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

The CHAIRMAN. Thank you.

Ambassador Hills, last fall, Secretary Baker testified before us and promised us that this committee would have full Administration consultation on any possible trade agreement with the Soviet Union. Yet, in December, the President announced negotiation of such an agreement by June 1990 without any warning. And now we see only 4 months to go.

And I saw a situation where they fought over turf for a couple of months before giving you the assignment. I am delighted that you have that assignment.

I also understand the Administration announced negotiation of the Soviet trade agreement beginning Monday.

Now as I understand it, there are those within the Administration that really want to limit any consultation with this Committee or with the Congress as much as possible if they can.

You know, if the Nixon Administration had consulted with the Congress the first time we tried to do a trade agreement with the Soviet Union, then I don't think the Bush Administration would have the kind of limitations it has on it today insofar as the requirements. But that law does require consultation. And I intend to see that those requirements are met. They are a concern to me.

One of the things in my recent trip to Moscow, a question that kept arising, was what is going to be done with Jackson-Vanik. Now as you well know, under the Supreme Court decisions in the 1980s—the constitutionality of the provisions of the 1974 Trade Act that dealt with congressional approval of trade agreement with Communist countries and with the disapproval of waivers of the Jackson-Vanik amendment—were put in question.

Now would the Administration support technical amendments to correct those defects?

Essentially what I am talking about is by making the resolutions in question joint resolutions rather than one House resolution or concurrent resolutions.

Now I will tell you, Madam Ambassador, I personally would support and would prefer a bilateral fast track. I am not sure that can be done given the time constraints. We are studying that. But at the very least I note that you have stated, as I recall, in the Journal of Commerce in January of this year that the approval of Congress is required for such an agreement. I would assume that you would support the removal of any constitutional question of the approval.

Ambassador HILLS. There is no question in my mind that I and this Administration want to work very closely with Congress and to consult. We have no problem with that issue.

As you know, I spoke to you, and appreciated speaking to you, before you left for the Soviet Union, and I have enjoyed our discussions since you have come back. And we would not be able to draft as good an agreement without the wisdom that we derived from talking to Members of Congress who have focused on these issues over a number of years, and we intend to do that.

I have not discussed within the Administration what is the appropriate means for Congress to exercise its role. The one you mentioned, of correcting the infirmity that was found by Chada decision by striking the reference to a concurrent resolution to a joint resolution is one. A free-standing joint resolution might be another. I am sure we can consult on the mechanism that is the best way to address the difficulty created by what has been found to be unconstitutional. But please do not think that the Administration wishes to refrain or is in any way wishing to avoid consultation. As this Administration's trade negotiator, it is my wish that we consult more, not less. But I don't want to get into the trap of a cumbersome mechanism.

The CHAIRMAN. Madame Ambassador, I don't either. I see my time is about to expire here. I asked for a 5-minute limitation. I

know that will not give a number of us the time that we want to explore this, so we will have a second round of questions for those that want to stay.

But I am deeply concerned that we don't see a repetition of what happened after Nixon refused to consult with the Congress and never did get that treaty approved. He took approval for granted.

Right now there is an aura of goodwill toward the Soviet Union. We want to see those things developed that will lead to a pluralism in their government and reform in their system, in getting more to a free market system. They are a long way from that. But in doing that, I do not want to see this thing turn around, and see you have serious trouble in the ratification. Therefore, I think it is terribly important, imperative, that we have consultation as we go through these next 4 months.

Ambassador HILLS. Well you can be sure that it is my intent to consult very closely with you, to work with you. And if you have a concern, as I say, all you have to do is bring it to my attention and you will have my time.

The CHAIRMAN. Well part of it will be, I hope, that you are supporting within the Administration the idea that we move forward with these two technical amendments to take care of any question about the constitutionality of approval by both bodies.

Ambassador HILLS. Well the lawyers will debate it. And what is the best method is not for me to say here today, but I can say without fear of contradiction or any kind of equivocation, we want to and will consult closely.

The CHAIRMAN. Well let's hang in there all the way so far as seeing that we have got support of the Administration on this. [Laughter.]

Senator Packwood.

Senator PACKWOOD. Carla, I understand there is pressure to negotiate a provision regarding industrial design copyrights within an intellectual property agreement. Does the United States plan on proposing an industrial design standard that would require any change to current U.S. law?

Ambassador HILLS. We would not be negotiating a standard that would affect U.S. law. We are negotiating how to have stronger copyright and patent protection. And again, this is an area where we are consulting with both the private sector and with Congress.

There are differing points of view. There are those who feel that design protections are necessary in order to recoup their costs of research and development. Very often the users feel that that kind of protection should be less because such protection reduces the cost of the ultimate product. And this is an area that is being discussed. Several nations do want design protection, and several industries in our country want design protection. We have not taken a final position.

Senator PACKWOOD. In your judgment though, is the position that you may be leaning toward going to require a change in U.S. domestic law or do you think what you are going to be suggesting will be able to be confined within U.S. domestic law?

Ambassador HILLS. So far, what we have proposed is consistent with domestic law. I will tell you this, that if we come to a point where it looks like the position that we are taking will require a

change in U.S. law, I will discuss it with you and give you ample lead time so that you know what it is that we are proposing to do, why it is we are proposing, and to get your views.

Senator PACKWOOD. For the benefit of some of the committee members, what I am driving at—this would be an example—can you get a design patent on the fender of a car? There is a debate going on right now on design patents on auto parts that are brought in from overseas, or fenders, or common parts, as to whether or not that violates U.S. law—it does not at the moment violate any U.S. law. U.S. auto manufactures would like to say that the fenders they put on the cars can be protected. And if you try to bring one in, and it is identical in terms of its making, you cannot do so, or you cannot do so except at a substantially higher price. The debate is over replacement car parts and who is going to pay for it. And, clearly, if you get a design protection on those domestically, you are going to charge a substantially higher price, and the auto repair prices go up and, in my mind, the consumer suffers.

I think that is the only question I have right now, Mr. Chairman.

The CHAIRMAN. Senator Baucus.

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

Senator BAUCUS. Thank you, Mr. Chairman.

Ambassador Hills, I believe Senator Packwood either did or is about to hand you a letter.

Senator PACKWOOD. I already did.

Senator BAUCUS. Thank you. Signed by myself as well as 36 other Senators, including the majority leader, including the minority leader and including the chairman of the committee, urging you to reach an agreement with Japan on processed forest products under 301 that, in fact, allows the American processed forest products industry to sell their products in Japan.

As you well know, when and if that happens it is about $1 to $2 billion additional sales in Japan, with 10 to 20,000 additional jobs in America. And as you well know, too, Japan is closed to processed forest products, and you are now in the middle of negotiations.

Just to reaffirm the statement in that letter, we have very strong wishes that the Administration negotiates a comprehensive agreement with Japan. It is critical to American industry.

A second subject really addresses the process that the Administration now is going through to decide which countries should be listed as priority countries under Super 301.

As you know, Japan still, by all objective standards is the most closed market among the industrial countries in the world. And I frankly think that we would be sending the wrong signal to Japan not to continue to have Japan listed as a priority country unless it makes very substantial progress prior to the date on which the Administration must make a decision. I would like your comments on that, please.

Ambassador HILLS. We are in the course of evaluating the barriers that exist in 34 countries and two trading blocs, which includes Japan. We have not even completed that survey. I can say

that we will look very seriously at all of the nations, all of the barriers, and try to very carefully implement the 1988 bill. Super 301 has standards; we look at them carefully, and we will seek to carry them out.

Senator BAUCUS. Could you also tell me what progress you are making in negotiations with Korea to sell more American beef in that country?

Ambassador HILLS. We are in the course of negotiations there too. As you know, Korea did adopt a panel report last year, whereby the GATT panel found their restrictions on beef to be illegal. And we are negotiating to see how we can implement that panel report. We think we are making progress.

Senator BAUCUS. Well as you can tell, this is one Senator that is very interested in those negotiations, as well as the Super 301 negotiations with Japan on processed forest products. I will be watching those negotiations and their conclusions very closely. Thank you.

Ambassador HILLS. Right.

The CHAIRMAN. Thank you.

Senator Roth.

OPENING STATEMENT OF SENATOR WILLIAM V. ROTH JR., A U.S. SENATOR FROM DELAWARE

Senator ROTH. Thank you, Mr. Chairman.

When we removed, Carla, our opposition to unblocking the GATT panel report on Section 337, it was my understanding that we did so because the continued blocking was harming our credibility in the GATT.

In your opinion, what specific progress have we made in reaching an effective TRIPS agreement since the unblocking? More specifically, what are the chances of reaching a GATT TRIPS agreement that would allow us to protect U.S. patents against infringement along the lines of current Section 337, instead of having to eliminate or substantially revise that section as outlined in your recent paper?

I am sure that you are well aware that many of us believe it is very critical that we have a timely and effective mechanism for protecting U.S. intellectual property rights.

Ambassador HILLS. As you know, Senator Roth, we did cease blocking the 337 report, but we continue to implement that law to provide at border protections of our intellectual property pending the final resolution of our negotiation in the Uruguay Round dealing with intellectual property rights protection.

I don't think a snapshot in any one of the 15 negotiating groups today would be a very good indicator of exactly the final product that we will negotiate. We have roughly 800 days to go.

I do think that we have achieved progress from the beginning. There is no question that our mid-term agreement makes it clear that we will have an agreement covering intellectual property rights protections. The question prior to that time was whether we would have one. And now we are pounding out what will it look like. So it is a very high priority for the United States.

There is no doubt in the minds of our trading partners that as we indicate what we must have as a political imperative to have a successful round, that the intellectual property rights or the trade-related intellectual property right system is extremely important.

Senator ROTH. Carla, as you are well aware, there have been many calls for dramatic chances in our relationship with Japan, and they seem to be gaining both in number and respect. They are not just emanating from Congress, but are coming increasingly from all walks of life: academics, economists, as well as former trade officials. Many are calling for what they call results-oriented policy, or for a more defined Japan policy overall.

Do you believe we need a fundamental change in our trade relationship with Japan? Let me just ask you further, what role has Japan been playing in the Uruguay Round? Are their proposals converging with ours or going another direction in such areas as, again, intellectual property rights, foreign investment and services?

Ambassador HILLS. I don't believe that a result-oriented strategy works with Japan. I don't urge that upon Japan because I think that sells our entrepreneur short.

What we are trying to do is to open up the Japanese market so that they are as open as are our markets. We want our entrepreneurs to have the same opportunities for trade and investment in Japan as Japanese entrepreneurs have to trade and invest in our market.

And unless Japan opens up its market, it will sew the seeds of closing the world trading system which gave it its current prosperity. And I feel very firmly it is in their hands to destroy the system that has given all of us economic prosperity unless they open their market.

So, hopefully, we will succeed in that persuasion.

With respect to the Uruguay Round, in many areas Japan is a strong ally. It happens to want strong intellectual property rights protection, for example. And on services and investment, I do not believe they have come to full grips with those two areas to the same extent that we have. We have filed a comprehensive text in services, for example, but I do believe that they do not diverge meaningfully from our position in intellectual property rights.

Senator ROTH. My time is up, but just let me ask you this. We know that the Japanese have a very important election in the next several months, several weeks I guess, really. Do you have any reason to anticipate that once that election is behind them that that will make a change in their negotiation stance?

Ambassador HILLS. At least they will be less distracted. The members who are running for election are focusing, as I am sure you can appreciate, on the election, not on trade negotiations. So I have been assured, in fact, that meetings that have been postponed from January to immediately after the election will take place and will take place without any loss of time.

Senator ROTH. My time is up. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Danforth.

OPENING STATEMENT OF SENATOR JOHN C. DANFORTH, A U.S. SENATOR FROM MISSOURI

Senator DANFORTH. Mr. Chairman, thank you very much.

Ambassador Hills, we have a time deadline, that we are facing with respect to the telecommunications provision in the 1988 trade law. Negotiations have been underway with Korea and with the European Community. On February 18, the Administration is going to have to make a decision. And it is possible that the decision of the Administration will be to just keep the negotiations going for another year. They can be extended under the law for a year, but you have to come to Congress with a showing of substantial progress if you do this.

I do not want the Administration to be harboring any illusions about how we feel about telecommunications. This provision was introduced by Senator Bentsen and me in the early 1980's, and we felt at that time, and we continually restated this many times, that telecommunications is really a cutting edge industry, and we must insist that we have as good an access to other markets as other countries have to ours. It was something that we felt so strongly about that we introduced specific legislation dealing with that problem, and then we incorporated it in the 1988 Trade Act.

Now the point that I want to make—really more of a point than a question, although please feel free to comment—is that this is going to be a tough jury to persuade on substantial progress. This is something that we think is critically important to the competitive future of the United States. And it is, I think, a serious mistake, or would be a serious mistake, if the Administration just assumed that Congress is a bunch of humpty-dumpties willing to do whatever the Administration wants should it decide to extend the time deadline. I, for one, am going to be very hard to persuade that there should be any extension of that time deadline.

Ambassador HILLS. Well I certainly hope you will look at the facts. I don't ask you ever in any evaluation that I have to make to be a humpty-dumpty. However, you have asked me to evaluate whether a given nation has made substantial progress. And we will sweep together the facts, we will consult, as we always do, and I hope that we both on the basis of the facts reach the same conclusion. I am comfortable that we will.

Senator DANFORTH. All right. Well it is just fair warning. I mean this is a tough audience on this subject. And sometimes the Administration comes to different conclusions than we might. And oftentimes we feel, well, there is this momentum going, and we want to work with the Administration—and indeed we do—but this is something that is really important. I know that it is hard going in these negotiations. But I would not be reluctant to see the sanctions in the telecommunications provision trigger in if that is the only way we can deal with the problem. It is certainly better than no progress at all in the opinion of this member of this committee.

Just one other point that I would make, Ambassador Hills, and that is, your statement that you do not believe in a results-oriented approach with Japan.

If what you mean by that is that you do not believe in managed trade, I agree with you wholeheartedly. I hope that is what you mean.

Ambassador HILLS. That is exactly what I mean.

Senator DANFORTH. But as our chairman has said in the past, the policy of Japan is: Talk, talk, talk, ship, ship, ship. And I think that our trade policy must be results oriented. In other words, it is not sufficient for our trading partners just to keep the discussions going, just to talk a good game. They do that beautifully. They are masters at it. But the test of international trade is results. The test is that we have an opportunity to sell on the market of other countries. And the problem with Japan is that while we have been making progress with almost all of the rest of the world, we continue to have the same difficulties with Japan. We continue to have the same difficulties that Senator Packwood pointed out on wood products. For example, what kind of complaint could there conceivably be about the quality of our wood products or super computers or rice or anything else?

So I think what you meant is that you do not agree with the concept of managed trade. And I think you are quite right on that. But I would hope that our policy in dealing with any country, particularly Japan, is that talk isn't good enough. We have to get into those markets.

Ambassador HILLS. I couldn't agree more.

When Senator Roth was referring to those who would manage trade that term has become almost a term of art. But, of course, we want results as a consequence of our negotiations, without a question. But to set a target for what would be appropriate opening of the market almost always sells us short, and then you are bickering over whether the target was met. What we want are the barriers down and the market to be open in the same fashion as our market is open, so that when we talk about forest products we don't want 20 percent or 5 percent or any target share. We don't want them to manage trade with a vision or administrative guidance. We want the barriers down. We want the gates open so that we can sell our products. And I believe that our products are supercompetitive, and that we will get results.

Senator DANFORTH. Exactly. Thank you.

The CHAIRMAN. Senator Heinz.

OPENING STATEMENT OF SENATOR JOHN HEINZ, A U.S. SENATOR FROM PENNSYLVANIA

Senator HEINZ. Thank you, Mr. Chairman.

Ambassador Hills, let me ask you about the structural impediment talks and our initiative. In those areas that you are working on, I would like to know your view of what the test is as to whether our initiative at its conclusion will have been successful or not.

Now right at the top of the list, for example, is an initiative on savings and investment. And as I understand it, the U.S. initiative is to get the Japanese to spend more money, and particularly to do so on their infrastructure.

Let's say that the Japanese decide that that is a great idea, and they invest in wiring every home with fiber optics, leapfrogging

technologically ahead in that area with the result that they become an even more efficient and effective international competitor.

My question to you is this: If the SII results in a more efficient Japanese economy which, in turn, results in increased shipments to the United States and an increased trade deficit between ourselves and the Japanese, will you consider the SII successful?

Ambassador HILLS. You must understand that as we are trying to deal with structural impediments to trade, an impediment that you mentioned, which causes the Japanese consumer not to obtain the same benefits from their labor as do consumers in other countries——

Senator HEINZ. I understand that. I am just asking a very simple question. If the result of SII is to benefit the Japanese economy more than ours, and the result of that is a larger trade deficit, would that result satisfy you? That is my question. Yes or no?

Ambassador HILLS. That is not the objective of our SII nor is SII our only strategy.

Senator HEINZ. I understand that. But would you consider that an unfortunate result?

Ambassador HILLS. Yes. That is not what we are striving.

Senator HEINZ. All right. There was no trick question there. I just wanted to get that on the record.

I salute you for the answer.

And I do want to submit, Mr. Chairman, for the record a question similar to the one I asked you at our earlier briefing on antidumping and countervailing duties. I just want to get that on the record, Ambassador Hills.

The CHAIRMAN. Without objection.

Senator HEINZ. Let me bring to your attention a couple of news clips that have me concerned. I want to ask you about this particular headline which is entitled "Hills vents wrath on chip trade pact." That was from the San Jose Mercury. And another one here, entitled "New chip pact called unlikely." And the articles go on to say that you will not extend the existing semiconductor agreement.

Now, you have expressed reservations both in public and in private about the semiconductor agreement. And I am willing to be for the purpose of this discussion an agnostic about whether it is a good or a bad agreement. You have got your views on it, but since I am not as expert as you, let me just withhold my views on the substance of that agreement. But my understanding is that that agreement was the result of an antidumping complaint, and it represented a curative measure for what was found under our law to be a practice that was contrary to the GATT, and to the antidumping code and to our law. Is that correct?

Ambassador HILLS. It started out as an antidumping complaint.

Senator HEINZ. And it was a curative measure.

Ambassador HILLS. Correct.

Senator HEINZ. We did not impose duties. We did this instead. Is that right?

Ambassador HILLS. We did enter into a government to government agreement.

Senator HEINZ. Yes.

Now, my question is, what signals do we send to the Japanese when our trade negotiator says the agreement you made with us is

a bad agreement? Do you suppose that suggests to them that we are saying to them, you don't need to live up to an agreement that you made with us? Is that a message that they could reasonably take away from that?

Ambassador HILLS. I did not say that the semiconductor agreement was bad. I am sorry. Your press is a gross overstatement. What I said was that the targeting provision sold our entrepreneurs short. And I would not use a target as a form in a future agreement. I did not say that I would not extend the agreement. The question was not asked nor did I answer it. I did not say it was a bad agreement, nor have I ever criticized the dumping provisions of that agreement. I would not use a 20 percent, 5 percent, 40 percent slice of any market and regard that as an appropriate agreement.

Senator HEINZ. That is what is in the agreement though, isn't it?

Ambassador HILLS. I believe that Japan should open its market to semiconductors, open it fully, and that we should not agree that 20 percent is good enough. If we compete head to head against the Japanese in a roughly similar third market, as we did at the time, and have higher than 20 percent, it strikes me as strange indeed to agree to a 20-percent share of the market. And for that reason, I do not like the targeting provision of the semiconductor agreement.

The CHAIRMAN. Senator, if you would complete your questioning, please.

Senator HEINZ. May I just ask one brief followup, Mr. Chairman? I just wanted to clarify something Ambassador Hills said.

Is it your view, irrespective of whether or not specific targets become ceilings or floors, that the United States should insist on this agreement or not?

Ambassador HILLS. I will enforce the agreement to the hilt. It is an agreement that is in effect.

Senator HEINZ. Thank you, Madam Ambassador.

The CHAIRMAN. Thank you.

And you may want to return to it on the second round of your questioning.

Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Ambassador Hills, I just want to follow up a little bit on this idea of targeting.

It occurs to me that there is no country in this world which is more results-oriented than is Japan. And I think that has been true since the Meiji Restoration in the middle of the last century. I think they define, through their commercial system, through their advancement system, through society, a results-oriented system. Now, I applaud them for that. It has worked. They have an easier way of doing things.

Today, when people talk about results-oriented, immediately the bells go off. That means "managed trade." That means, as you said, we are selling the free market short in this country.

But the free market is having a pretty tough time with Japan. It has had a tough time for a number of years in our trading relationship.

On patent issues which you and I have discussed before, there is essentially no improvement. It is interesting that in foreign assist-

ance the Japanese have purportedly untied their aid. On the other hand, when they give foreign assistance and American companies want to take advantage of that untied system through contracts, let's say, to build a bridge or whatever, in another country, we run into great difficulties. That is not discussed very often, but it indicates that perhaps foreign assistance is not truly untied. The Japanese look for a result from foreign assistance, even as I applaud them for taking up the burden of what this country is more and more failing to do and what we ought to be doing.

Pharmaceutical standards. They have resisted change quite successfully on food additives, for example, and in a variety of other areas which have been mentioned here.

Taiwan has adjusted quite remarkably. Korea less so, but, nevertheless, quite remarkably in some ways. And as Senator Danforth pointed out, Japan simply has not. And it must if one is looking at a fair trading, free trading system.

So my question to you really is just philosophical. Why is results-oriented trade policy with Japan inherently bad if, number one, as I have indicated to you a number of times before, heads of large Japanese businesses have frequently told me that they would be much more comfortable with, they say, a Gephart-like amendment whereby you have to do this by such and such a year but you figure out how to do it, as opposed to Super 301 actions which are inflammatory and hostile and makes all of us uncomfortable and abusive at times towards each other?

Why is results-oriented trade policy with Japan so bad?

Ambassador HILLS. Partly because to open their markets is so much better. And if we adopt the strategy of a results-oriented, telling them what portion of the market we will have, we will have that spread throughout the global trading system.

The philosophic question you pose is whether we should persuade Japan to open its markets and to permit the signals of price and quality to determine purchasing patterns, or whether we should adopt their mechanism of managing the market, and which would be copied by the Koreans and the EC's and all around the world.

In my opinion, if you adopt their form of trade, you are going to have contracted trade by definition. You will have, therefore, less prosperity and wealth by definition. And I think you will have gravely diminished prosperity worldwide which will create enormous tension.

If Japan adopts our way and lets price and quality be the signal of purchase, and opens its market, you will have expanded trade, and thereby expanded prosperity worldwide.

We have a fairly good example when we look at the command economies that have failed.

What Japan has done over the years is free ride the market system while keeping its market closed. But if we all adopt their system, we will destroy the multilateral system that has, in spite of Japan, given us all enormous wealth.

I can go back to the 1960's or the 1950's shortly after we launched the GATT. In spite of the fact that trade has outgrown the GATT—we have a third of our trade that is not covered—and that is what we are addressing in our current Uruguay Round negotiations. The fact is that the GATT brought down world tariffs in

seven successive rounds of tariff cuts through multilateral negotiations, and as a result we have had 40 years of unparalleled growth in world history. So why would we go to a system that by definition is going to cause trade contraction when we know that by opening the market and persuading them to open their market will cause trade expansion?

Senator ROCKEFELLER. Thank you.

I will return in the second round if I might. Thank you very much.

The CHAIRMAN. Thank you.

Senator Riegle.

Senator RIEGLE. Thank you, Mr. Chairman.

Ambassador Hills, we have got the Banking Committee going this morning and the Budget Committee going, and there are major items there too that require some of us to go back and forth, so I apologize for not being present for your earlier remarks.

I appreciate the hard work that goes with this job. It is necessary to be, in part, a globe trotter and to have to take these issues on in every manner or place and time zone. And I appreciate the effort that you make.

May I ask, in terms of the 1989 figures, what is our final merchandise trade deficit? Could you give me either that number or a close approximation?

Ambassador HILLS. About $110 billion deficit.

Senator RIEGLE. About $110 billion deficit.

In terms of your official or unofficial internal view as to what it is likely to be for 1990, what are you projecting at this point?

Ambassador HILLS. A gradual decrease of that deficit.

Senator RIEGLE. Do you think we will come in below $110 billion?

Ambassador HILLS. I do.

Senator RIEGLE. Are there others within the government today that have responsibilities in the trade area who are making forecasts who differ from that? I mean is that a universal view or are there some who feel that we may have the same figure or a higher figure?

Ambassador HILLS. I cannot answer that. I cannot tell you what the economists in various departments and agencies predict. I have my economist here, and maybe I should ask Dr. Walters, how would you answer the Senator's question, if you don't mind my asking?

Senator RIEGLE. Please. No, I would welcome it.

Dr. WALTERS. Any such a progress in 1990 will most likely be small at best because you are talking about a set of very large growth flow of exports and imports. All the forecasts are close to the 1989 deficit.

Also, the projections are very sensitive to what you think about domestic economic growth in the U.S. economy in the coming year.

There seems to be consensus though that the rate of progress is gradually rolling down somewhat.

Senator RIEGLE. I appreciate your saying that. And I don't say that to try to be harsh. But I think what is happening is that for a variety of reasons it is getting tougher and tougher to make net progress. It sounds to me like we may be leveling out at about $110 billion if we are lucky. Now I mean we can be lucky and it can go

lower, but there are more and more stories and analytical pieces done that I see by outside analysts who suggest that we may see this start to move back up, that in fact we may have hit bottom at least for now and we may see a figure that is $115 billion, $120 billion or higher. No one knows for sure.

But even in your comment, if I may just make a reference to it, you indicate it looks like the rate of progress is pretty much flattened out here. So that we may be leveling out at best in an area around $110 billion as an annual deficit.

And, Mr. Chairman, that figure, without doing the precise math, that is about a billion dollars every 3 days in terms of an adverse accumulation of deficits that, in a sense, burden us for the future.

And I must say, without any disrespect to you, because I have great respect for you, but from the point of view of national strategy, if the best we can do is get the merchandise trade deficit, say, down to $110 billion or down to $105 billion, or even down to $100 billion, and we cannot break through that and cut it in half from there in a fairly short timeframe, then I would question whether the overall strategy is really sufficient.

Now I am not here to make a case for managed trade versus unmanaged trade, but I think you can start around the other way and see if the current system brings us out upside down $110 billion, and if we are on our way to a trillion dollar international debt by 1992, than maybe the strategy that we have somehow needs to change. Now that can lead off in a lot of directions. How do we really drive productivity up in this country? How are we tougher with trade barriers in foreign countries and what have you?

Is it your view, just sort of stepping back and taking this broader question in mind, if we level out in an area of, say, $100 billion plus in the merchandise trade deficit, and stay there for the next 5 years, does that pose some real problems and dangers as you would see it? Or if that is the best we can do, is it your view that we could live with that and maybe not have serious long-term effects from it.

Ambassador HILLS. I think it does create problems, and it creates problems particularly in the area in which I work. It is difficult. There are many factors that go to create the deficit. Opening markets, as you and I have talked before, is not going to necessarily fix the deficit. If a nation is going to spend or invest 16 percent of its gross domestic product and it is going to save 13 percent of its gross domestic product, then it is going to have to import foreign capital to fill the gap. So we could open all the markets all around the world, including Japan's, and if we continued to invest more than we saved, and we had to continue to borrow from abroad to finance that investment, we would indeed have a deficit.

Having said that, that does not mean that it isn't absolutely vital that we open markets, because what opening markets does is to create this prosperity and growth, so that we are more productive, so that we have the capacity to save. And so it is very important that all nations open their market so that we have this prosperity we can draw upon. But I don't think you can say that our strategy on trade is defective. It is macroeconomic strategy that we must deal with to fix the current account deficit.

Senator RIEGLE. Let me just say—I know my time is up, Mr. Chairman.

The CHAIRMAN. Senator, we have a vote; we are half way through it. But go ahead if you want to try for it.

Senator RIEGLE. No. I follow my Chairman. I thank you for that answer. I will add a comment in the record.

The CHAIRMAN. Thank you.

I have a number of questions I am going to submit to you in writing and I assume that others of the members will too.

Ambassador HILLS. I would be pleased to answer them.

[The questions appear in the appendix.]

The CHAIRMAN. We are over half way through a roll call so we will terminate the hearing. Thank you very much, Madam Ambassador.

Ambassador HILLS. Thank you, Mr. Chairman.

[Whereupon, at 11:39 a.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF SENATOR JOHN BREAUX

INTRODUCTION

Mr. Chairman, those of us who participated in developing the Omnibus Trade and Competitiveness Act of 1988 cannot help but be impressed with the way this Committee has overseen the implementation of that legislation. Thus, I greatly appreciate the opportunity to testify this morning in connection with the Administration's conduct of the current Uruguay Round of GATT negotiations.

I am here to address an issue that may seem quite narrow but which in truth has broad implications for the security of our country. I refer to the need to exclude maritime transportation from any Services Agreement which might be reached by the Group Negotiation on Services (GNS) as part of the Uruguay Round.

On August 4, 1989, I introduced S. Con. Res. 63 calling upon the U.S. Government *not to* propose inclusion of maritime transportation in any services agreement and *to oppose* any proposals by other nations to that effect, as well as any other proposals which could result in a contraction of the United States-flag merchant marine or could result in a contraction of the United States maritime policy. I am pleased to note that S. Con. Res. 63 currently has 26 co-sponsors and I have little doubt that many more will join when they realize the gravity of the current situation. (A companion measure in the House, H. Con. Res. 151 currently has 135 cosponsors.)

I had hoped that the Administration would have listened to the Congress, and learned from the prior Administration, that maritime transportation was absolutely not a subject for these talks. Unfortunately, that is apparently not the case. So this morning I feel compelled to again review the reasons why maritime transportation should be excluded from any GATT services agreement, as was done with respect to the U.S.-Canada Free Trade Agreement.

THE U.S.-FLAG MERCHANT MARINE IS A VITAL COMPONENT OF OUR NATIONAL DEFENSE SECURITY—BUT MAY NO LONGER BE ABLE TO FULFILL ITS ESSENTIAL ROLE

The United States relies upon its privately owned, commercially operated, merchant fleet as a fourth arm of defense in times of war or national emergency. In any conflict, more than 95% of dry cargo and 99% of petroleum will move by sea and it is the U.S.-flag merchant marine which will carry the vast amount of this requirement. We simply can't get the "beans, bullets and black oil" we need to our forces abroad using only government owned vessels and we cannot assure that ships from allied sources of the Effective U.S. Controlled Fleet will be available to compensate.

You do not have to take my word for it: look at the Department of Defense's contingency plans or talk to officials at the Military Transportation Command and in the Navy. They will confirm what I am telling you today. But they also will tell you something else. The U.S. maritime industry is in serious difficulty; the number of vessels and American crew members on these vessels has been steadily declining. (Moreover, under current government policies by the year 2000 the U.S.-flag fleet is projected to be only one-half the size it is today.)

As a result, right now, even if we use the entire U.S.-flag fleet, it is uncertain whether we currently have sufficient ships to meet the surge and sustaining sealift requirements of the military in fighting even a single theater war in Southwest Asia. In addition, although the prospects for a more general conflict, with its greater sealift needs, seem today—thankfully—more remote, let's keep in mind that if we

reduce our men and material in Europe we will likely become even more dependent on our sealift capability.

As Chairman of the Commerce Committee's Merchant Marine Subcommittee, I heard General Cassidy, the first head of the Military Transportation Command, call for steps to revitalize all segments of the merchant marine, to ensure its ability to meet: our national defense needs. His testimony has been echoed by that of the Chief of Naval Operations and the head of the Military Sealift Command. President Bush also has clearly stated that "it is in the interest of both the economic and national security of the United States for the Federal Government to foster the development and encourage the maintenance of a strong domestic merchant marine." They all agree that the sealift requirement must be met and the most cost-effective way to do so is by maintaining a private merchant fleet that earns most of its keep in peacetime operations.

Some of you may recall that in October 1984, the Congress created a presidential Commission on Merchant Marine and Defense (P.L. 98-525). The members were appointed by President Reagan in 1986, and they presented their final report to President Bush last year. The Commission could not have been clearer about the need for a viable U.S.-flag merchant marine fleet. The Commission warned that "there is a clear and growing danger to the national security in the deteriorating condition of America's maritime industries." The Commission called for major corrective actions to re-establish the American merchant fleet as a significant presence in international trade and to restore its ability to meet the defense needs of this nation.

INCLUDING MARITIME TRANSPORTATION IN A GATT SERVICES AGREEMENT WOULD ADD TO THE DECLINE OF THE INDUSTRY

The Agreement on a Framework for Services Negotiations in the Uruguay Round, ratified in Montreal in December 1988, sets forth numerous principles inimitable to a strong viable American merchant fleet. A services agreement based on these principles, if applied to waterborne transportation, would jeopardize longstanding promotional laws and programs necessary for the U.S. fleet to have a chance against those of other nations which receive direct and indirect assistance. Also, such a services agreement would restrain and restrict the ability of our government to *strengthen* maritime promotional measures or to adopt *new* measures for promoting the fleet in the future as called for by the Commission and many of our defense leaders.

Thus, what is required is the *total exclusion* of maritime transportation from any services agreement. Any suggestion of "grandfathering" or "freezing" some or all existing laws and programs by subjecting maritime to a standstill obligation is inadequate and unacceptable.

I have even heard it suggested that we should not worry because maritime will be included but subject only to the requirement that its laws and programs be "transparent." Transparency is the requirement to make a country's laws and regulations, here pertaining to maritime services, publicly available for review. If that's all they want then they already have it from the United States. But I think the real motivation is to subject the industry to the requirement of "progressive liberalization," such that the possibility of additional restrictions will be continually on the table.

The Omnibus Trade and Competitiveness Act provides that, in pursuing negotiating objectives regarding trade in services, "United States negotiators shall take into account legitimate United States domestic objectives including, but not limited to, . . . essential security . . . interests and the law and regulations related thereto." This is just such a case where the essential security of this country is at stake.

REGIMES ALREADY EXIST FOR REMEDYING UNFAIR OCEAN TRANSPORTATION PRACTICES

It has been suggested that inclusion of maritime transportation in a GATT services agreement might be beneficial to the U.S.-flag merchant marine for such purposes as obtaining access to foreign markets. I disagree. Since the United States already has the most open international maritime trades, there is little to be gained from action within GATT. Instead, we face the clear prospect of weakening our maritime posture.

Moreover, Title X of the 1988 Trade Act strengthened the Federal Maritime Commission's authority to respond to unfair trade practices which adversely affect U.S.-flag ocean carriers. Congress clearly and intentionally placed maritime transportation outside the parameters of trade-in-services negotiations and within the jurisdiction of this specialized independent regulatory agency. By doing so, Congress reaffirmed the policy that maritime services should be treated independently and should not be included in any multi-lateral pact.

FOR THESE REASONS, WATERBORNE TRANSPORTATION WAS EXCLUDED FROM THE U.S.-CANADA FREE TRADE AGREEMENT

In 1987, a proposal was made to open the United States maritime markets as part of the U.S.-Canada Free Trade Agreement. In response to that proposal, 55 Senators joined me in sponsoring S. Con. Res. 69, which called upon the Administration to withdraw maritime services from the negotiating table. (232 Representative co-sponsored a companion measure, H. Con. Res. 157.)

Our efforts were successful, and maritime services were deleted from the FTA prior to the adoption of the final draft.

THE ADMINISTRATION HAS YET TO EXCLUDE MARITIME TRANSPORTATION FROM THE GATT TALKS

During his election campaign, President Bush specifically called for the "establishment of maritime concerns as a priority in all international trade negotiations" and specifically stated that the "preservation of the integrity of the U.S. maritime industry shall be a priority in all international trade negotiations, including the general agreement on tariffs and trade." The National Sealift Policy, approved by the President on October 5, 1989, affirms that the U.S. Government "shall ensure that international agreements . . . protect our national security interests and do not place U.S. industry at an unfair competitive disadvantage in world markets."

The Framework Services Agreement adopted in December 1988, did provide "that certain sectors could be excluded in whole . . . for certain overriding considerations . . . I also note' that the U.S. Government did submit a lengthy paper to the GNS in July when transportation was discussed as part of the "testing" process. The paper explained in some detail the difficulties that would result from applying a services agreement to maritime (and aviation) transportation. For example, as I and others have noted, applying the concept of national treatment would require foreign crews and foreign vessel owners to agree to be bound by, and serve under, U.S. military direction in times of war or U.S. national emergency.

However, the draft legal text of a Services Agreement submitted by the U.S. Government last October was problematic in several respects, providing at best for only an initial exclusion of sectors. Moreover, the Administration *still refuses* to commit and announce that maritime transportation will not be put on the table as part of the services talks.

As this committee is well aware, we are now entering the final stages of the negotiations. During February and March, the United States and other GATT parties will be discussing whether coverage of a services agreement should be based on an affirmative list of sectors to be covered or a negative list of sectors to be excluded. Either way, the result must be to exclude maritime transportation from any agreement. Any other result would directly, immediately, and adversely affect the merchant marine and the national security of the United States.

PREPARED STATEMENT OF CARLA A. HILLS

Mr. Chairman and Members of the Committee, I am pleased to appear here today. It was just over one year ago that I first came before you as the president's nominee as U.S. Trade Representative.

At that hearing, Mr. Chairman, you remarked that I was taking on the second most difficult job in Washington. After a year on the job, I can't say for sure it is number two, but it certainly ranks among the top ten! There wasn't a dull moment in 1980. Nor are we likely to see the pace of events slacken this year.

The trading system is at a turning point. Down one path lies a world of open markets, expanded trade, and increased prosperity. Down the other is a world of increased protectionism, trading blocs, and economic failure.

- The world's trading nations may achieve sweeping reform of the trading system in the Uruguay Round, or reform may be blocked by a combination of narrow interests;
- Japan may open its market to others, or start to be closed out of other countries' markets;
- Europe's effort to create a single market may continue on the path of an open-outward looking Europe, or veer toward a Europe that is closed and inward-looking;
- The drive to lift the heavy hand of government from Eastern Europe and the Soviet Union may succeed or fail; and
- Developing countries may become full participants in and beneficiaries of free market economics, or face another decade of economic stagnation.

In each instance, the Administration's goal is to support the move toward free markets. Everyone should have the ability to choose how, when, and where to buy or sell goods and services freely in a fair market. That is competition, and it is what we strive for in our trade policy.

The president has designed, and we are vigorously executing, a three-pronged strategy to achieve our goal.

- First, we are committed to conclude successfully the Uruguay Round of trade negotiations by this December.
- Second, we are pursuing market-opening initiatives with America's key trading partners, such as Japan, Canada, Mexico, the European Community, and the Pacific Rim.
- Finally, we are using our domestic trade laws, including the Trade Act of 1988, to open markets and enforce the rights of American industry and agriculture.

THE URUGUAY ROUND

Of greatest importance is the Uruguay Round. The reason is simple. Right now, one-third of world trade—or over $1 trillion each year—is not adequately covered by internationally agreed rules of fair play. This means chemical manufacturers in Texas, wheat farmers in Kansas, high tech firms in California, and a host of our most competitive entrepreneurs from coast to coast are denied the chance to do what they do best—compete fairly and squarely in international markets.

That is why the United states—with bipartisan support from this Committee—helped launch the Uruguay Round in 1986. It is why President Bush has made the Round's successful conclusion by December 1990 our highest trade priority.

The negotiations fall into four broad categories: agriculture; market access; the so-called "new issues" of intellectual property rights, services and investment; and reform of the GATT's rules. *All* are important to us. We cannot trade progress in one area against foot-dragging in another. I want to briefly highlight where the talks stand in some critical areas.

- We have made it clear that fundamental reform of *agriculture* is essential to a successful Round. Our call for progressively eliminating export subsidies, substantially reducing tariff and nontariff trade barriers and trade-distorting domestic supports, and resolving health and safety issues, has received substantial support.

How we achieve these goals, and in what time frame, is, of course, subject to negotiation. Hard bargaining lies ahead, but I am encouraged that a number of key players have tabled proposals in Geneva, even if we have substantial disagreements over the contents of the proposals.

- Our position on the new areas of *services, intellectual property rights,* and *investment,* is well known—these must be brought into the GATT system. Services alone account for $560 billion in world trade, and intellectual property and investment make up hundreds of billions of dollars in additional transactions.

We have made much progress on each of these issues. It is not now a question of *if* there should be agreements, but rather how extensive such agreements should be. The United states has already tabled draft texts on services and investment. We continue to work on a draft intellectual property rights text.

- We have strongly pressed our goal of achieving one set of trading rules for all GATT members, including the *developing world.* We are building a trading system for the future, a future that must include developing countries. They account for over half a trillion dollars in trade and are no longer on the fringes of the system.

The world trading system is the Third World's ticket to prosperity; it should assume more responsibility for that system, a responsibility that, if shouldered, will benefit its citizens and ours. We must eliminate rules that create one set of obligations for developed and another for developing countries. We must improve market access both for and in developing nations. And we need to persuade developing countries to bind themselves to those commitments and to refrain from claiming exemption from those commitments on the basis of balance-of-payments trouble.

- We have made improved GATT *dispute settlement* a key objective in the Round.

The new rules that result from the Round will be only as effective as the dispute settlement mechanism that enforces them.

In these areas and others, we are working hard to hammer out agreements. We have but 10 short months before trade ministers meet in Brussels to conclude the Round.

Success will require changes in all countries, including the United States. We will put our own restrictions on the table. But we will not unilaterally disarm. Trade reform means reform by all. The Round is important, but I have made it clear to

my counterparts that I would rather walk away from the table than bring home a package that is not in America's best interest.

Success will also require the Administration and the Congress to work together. I would like to thank this Committee for its instrumental role in developing our negotiating positions. I hope the Members of the Committee will continue to visit Geneva, observe the negotiations, and provide the feedback that is essential to refining a successful package. We value your advice and guidance and will need more of both in the coming year. We also need private sector views and will intensify our already close consultations with our many advisors in the months ahead.

ACTIONS BEYOND THE URUGUAY ROUND

While the Round is vitally important, we need actions outside the Round that complement and reinforce our objectives there. That is why we will continue in 1990 to pursue market-opening initiatives with Japan, Eastern Europe, the European Community, Mexico, and the nations of the Pacific Rim.

In the next few months, we will make determinations with respect to super and special 301 and the telecommunications and government procurement provisions of the Omnibus Trade and Competitiveness Act of 1988. It would be premature for me to comment specifically on these matters at this time. However, the Administration is committed to using the trade policy tools at its disposal to further our goals of opening markets, expanding trade and creating a fair, effective system of international trade rules.

As we did last year, we are seeking comment and advice from a broad range of parties. The interagency process is now in the midst of obtaining the views of the Congress and the private sector. We are also reviewing the information obtained in the course of preparing the *National Trade Estimates* report, due to you in March.

With respect to the six super 301 investigations launched last year, we are in discussions on which I am reluctant to comment publicly. We have held several meetings with our trading partners about these issues, and we will continue to work toward a satisfactory resolution over the next several months.

Beyond the specifics of our trade laws, we are working around the world to open markets and support a free and open trading system. I would like to briefly mention some of our areas of activity.

• While we are working in the Round to improve the dispute settlement process, we have been active participants in GATT dispute settlement proceedings during the past year and have witnessed the improvements already made at the Montreal Mid-Term Review. We were pleased with the favorable panel rulings in disputes over EC oilseed subsidies, Korea beef import restrictions, Canada's restrictions on ice cream and yogurt, and EC and Norwegian restrictions on apple imports. We were also pleased with our agreement with the EC to eliminate EC export restrictions on copper scrap—a settlement that was facilitated by convening a GATT panel.

Dispute settlement is an important process for both the complainant and the defendant. Where we have been the party to whom a panel ruling is addressed, we have taken those rulings seriously. We appreciate the Committee's assistance in passing legislation to comply with the Superfund panel report. We look forward to working with you on a trade bill this spring that should include a modification of the customs user fee law.

• Concern with *Japan* ranks high in all corners. No single bilateral relationship occupies more of my time. The Administration has given the Japanese a clear message: Japan, the world's second largest industrial market, must become as open and competitive as the U.S. market. Decisions on whether to import or export must be based on signals of price and quality and not administrative guidance, industrial targeting, or exclusionary business arrangements.

To achieve this end, the Administration is pursuing a broad array of initiatives. First, we are using the Uruguay Round to seek the elimination of barriers in agriculture and services as well as to ensure an end to government procurement practices that discriminate against foreign suppliers. Second, the Administration has launched a series of negotiations to open up specific Japanese industries, in areas such as satellites, supercomputers and forest products. Finally, we are attacking structural barriers to trade and investment through the Structural Impediments Initiative.

• In *Eastern Europe and the Soviet Union,* millions of people are choosing to live their lives without the heavy hand of government. Not surprisingly, along with political freedom, they are demanding economic freedom; the two are inextricably linked.

The United States has given a strong, positive response to the changes in Eastern Europe and the Soviet Union. The Administration and the Congress worked together to design an aid package for Poland and Hungary worth almost $1 billion.

We now are in negotiation or are moving toward negotiations with Eastern European countries on trade and investment agreements. These agreements will aim to increase market access, to protect U.S. businesses, and to encourage market-oriented reform in those countries. We have already entered into negotiations on an investment and business facilitation agreement with Poland and plan to do so shortly with Hungary. Our next priority is to grant most-favored-nation (MFN) status to the countries in the region that do not currently enjoy it: Bulgaria, Czechoslovakia, East Germany, and Rumania. At the same time, we will begin discussions on investment agreements with those nations.

With respect to the Soviet Union, the President has directed that we negotiate a commercial agreement and a Bilateral Investment Treaty. In addition to granting MFN to the Soviet Union, the commercial agreement will seek protections for U.S. businesses in the form of safeguards from import surges, intellectual property rights protection, and greater freedom in doing business in the Soviet Union. We hope to complete the discussions by early May.

As we have moved ahead in Eastern Europe and the Soviet Union, we have sought the advice of the Congress and the private sector. We have consulted with this Committee on Poland, Hungary, and the Soviet Union and will look for your guidance as we turn our focus on other countries in the region.

• We will build on the framework agreement and understanding with *Mexico.* The Salinas Administration is in the midst of a bold effort to tear down trade barriers, open the doors to investment, restructure the Mexican economy, and assume greater responsibility for the global trading system.

We will work with Mexico in its efforts. The new understanding signed last fall establishes a clear mechanism for increasing trade opportunities between our two countries.

We now are studying the areas of petrochemicals and standards for possible negotiations to start this spring and end in November. In addition, talks continue under the 1987 Framework Agreement on liberalizing trade and investment in areas such as agriculture, industry, tariffs, services, intellectual property rights and investment. In each case, agreements leading to more open markets will benefit *all* nations, not simply the United States and Mexico.

We will, of course, be active in other regions of the world. We are closely monitoring progress in the EC 1992 exercise, to ensure the exercise creates new opportunities to trade and investment. We will work with the nations of the Pacific Rim to build on the process started in the Asia Pacific Economic Cooperation Conference and the ASEAN-U.S. Initiative. And we will continue to work with Canada to implement the U.S.-Canadian Free Trade Agreement.

CONCLUSION

Mr. Chairman, 1990 will be a pivotal year for trade. We must do all we can to ensure that the forces favoring free trade and open markets prevail.

Working together, the Administration and the Congress can ensure the United States speaks clearly and forcefully as we explain to the world what open trade means and why it must be nurtured. Working together with our trading partners, we can take a world now full of possibilities and make it a world of certainties, the certainties of expanded trade and increased prosperity.

RESPONSES TO A QUESTION FROM SENATOR RIEGLE

Question. To what extent is civil aviation subject to the negotiations on trade in services in the Uruguay Round? I understand that the price for merely taking a reservation on aviation may be a freeze on current regulations. In other words, current regulations could only become more liberal, not more restrictive, placing the U.S. at a disadvantage with respect to countries that have more restrictive regulatory regimes. Has the "price" of excluding aviation from GATT coverage increased?

Answer. Discussion in the GATT Group on Negotiations on Services (GNS) currently is focusing on how a services agreement should be structured. In addition the U.S. proposal, presented to the GNS last October, several more recent proposals are being considered. Specific service sectors have not yet been discussed. Thus, all service sectors remain under consideration in the GNS. We have no reason to believe that the "price" of excluding aviation or any other sector has changed.

Under the U.S. proposal, countries would have the option of dealing with sector problems through "exclusions" or "reservations." We still support this approach.

Other countries have put forward other proposals, however, one of which involves a "standstill" or freeze on current restrictions. Even under the standstill proposal, exceptions would be possible, enabling countries to retain flexibility in the regulatory regimes. All these proposals and their ramifications are being explored and debated by the pertinent countries. Much work remains to be done in these negotiations. Regular monthly meetings are scheduled from now through July.

RESPONSES TO QUESTIONS FROM SENATOR ROCKEFELLER

Question. The glassware, ceramicware, kitchenware, and commercial chinaware industries have been under incredible import pressure throughout the last decade. In West Virginia, over two-thirds of the glassware plants that were in operation in 1976 have closed. That is 23 closures out of a total of 36 plants.

The statistics provide strong evidence that import competition is the source of the industries' problems. Domestic shipments have fallen, almost 75 percent in the case of the ceramicware industry. Imports have increased rapidly.

As a result, these industries have all lost market share to import competition, with the glassware industry's import competition ratio growing from 24 percent in 1980 to 44 percent in 1988 and, in the case of ceramicware, growing from 34 percent to 80 percent. These industries have also all lost a significant number of jobs from their peak in 1978.

Would you agree, Ambassador Hills, that these industries are indeed import sensitive?

Answer. You may be sure, Senator, that we will examine these four industries very carefully as we continue our interagency preparations for conducting the Uruguay Round market access negotiations. We have not yet concluded our analysis of any of the sectors that you have cited.

The interagency Trade Policy Staff Committee (TPSC) Subcommittee on Tariffs has recently begun analyzing the various industrial sectors of the U.S. economy to assess their relative sensitivities to imports, and thus to potential reductions in U.S. duty rates. We also have asked the Industry Sector Advisory Committees (ISACs) to assist us in this "sensitivity" evaluation effort also. They will provide us their product-by-product advice on the relative sensitivity of each item in their relevant sector during March.

As we have stated previously, the United States will proceed in these negotiations on the basis of a product-specific "request/offer" approach. We believe, and our private sector and labor advisors strongly agree, that this approach will enable U.S. negotiators to achieve maximum market access abroad in areas of interest to U.S. exporters, in exchange for selected U.S. concessions.

If our trading partners were to request that the United States reduce its duty rates on selected glassware, ceramicware, kitchenware, or chinaware items, our negotiators would weigh each request against the likely effects of the particular tariff reduction being sought on domestic producers and workers. Typically, we are most likely to receive requests from other trading partners on particular products of specific export interest, rather than on entire sectors.

As we proceed with our internal analysis of the relative import sensitivity of all industrial sectors in the U.S. economy, we are seeking information from a variety of sources. These include, but are not limited to, information supplied by industry representatives through TPSC public hearings on modifications in the U.S. tariff schedule, the views of industry experts at the Departments of Commerce and Labor, the advice from the U.S. International Trade Commission (USITC) on the probable economic effect on U.S. producers and workers of possible U.S. tariff reductions, and the specific views of our private sector and labor advisors. This effort has produced a wealth of information which we are continuing to evaluate.

We also will evaluate the implications of the relatively high U.S. duties for these sectors. While the average U.S. duty rate for all products is 4.2 percent, tariffs on ceramicware and chinaware range as high as 35 percent, and those on certain glassware are as high as 38 percent.

I might point out that statistics on the import penetration levels affecting the industries that you cite may often vary considerably. In the case of the domestic glassware industry specifically, figures just updated by the Bureau of the Census indicate that the import penetration ratio for the domestic glassware industry was 31.0 percent in 1988, down slightly from the 1987 level of 31.4 percent. I note that these levels differ considerably from those that you cite for this industry. I would be happy to have my office discuss this matter with your staff in greater detail so that we can seek clarification of this apparent disparity.

In addition, we have been advised by some industry analysts that the level of import sensitivity in the chinaware and kitchenware industries varies by type of product and intended market. We continue to seek to increase our understanding of the present market conditions in each of the industries of interest to you. Where possible, we also will refine general information so that we can evaluate the competitive situation of specific products.

We would welcome the opportunity to consult further with you and your staff as we review the information available to us on each of these sectors, and as the Uruguay Round market access negotiations proceed during the balance of this year.

Question. Because of the import sensitivity of these industries, they were spared from substantial duty reductions during the Tokyo Round. Unfortunately, despite the moderate tariff cuts, both of these industries have suffered from intense import competition over the last decade. Does the Administration plan to reduce the duties on glassware, ceramicware, kitchenware, and commercial chinaware in the Uruguay Round, which would, no doubt, further exacerbate the industries' financial condition, forcing many to shut their doors and adding to the unemployment problem in many of our small towns in America?

Answer. As you know, the United States will be conducting market access negotiations on a "request/offer" basis. Consequently, we will consider possible tariff reductions on those items for which our trading partners formally request liberalization of tariffs and/or nontariff measures in the U.S. market. This will enable us to conduct the Uruguay Round market access negotiations in the most selective manner possible.

It is likely that our trading partners will request that the United States reduce its tariffs on items for which the U.S. duty rate is significantly higher than the average rate for all products. The average U.S. duty rate for all products is 4.2 percent, while the tariffs on ceramicware and chinaware range as high as 35 percent, and those for glassware range as high as 38 percent.

If we should receive any requests from trading partners to reduce U.S. duties on these products, we will work closely with our private sector and labor advisors to formulate an appropriate response. Clearly, we must weigh carefully the domestic effects of any intended tariff reductions before responding to other governments. We will not reduce tariffs on any items where we conclude that it is not in the economic interest of the United States to do so.

Question. What special effort is being undertaken by the Administration to work with the industries to ensure that tariffs on the most import sensitive items are not reduced during the negotiations?

Answer. The use of a "request/offer" process, as opposed to a "formula," in the Uruguay Round market access negotiations was supported overwhelmingly by both our private sector and labor advisors. This procedure allows us to look at both requests and offers on a product-by-product basis.

In addition to the advice from the U.S. International Trade Commission on the probable domestic economic effect of reducing tariffs, and frequent consultations with our private sector and labor advisers, my staff has met individually with a number of representatives from the four industries that you cite. Such companies include Indiana Glass, the Newell Company (on behalf of Anchor-Hocking) Corning Glass Works, the American Restaurant China Councils and Libbey, Inc., as well as the American Flint Glass Workers Union.

These and other companies testified during hearings before the Trade Policy Staff Committee (TPSC) at its October 31-November 3 public hearings on possible modifications to the U.S. tariff schedule. We will thoroughly evaluate all information submitted during these hearings, and that received through individual industry consultations, in considering responses to trading partners' requests for reductions in U.S. duties.

We also will be consulting regularly with our advisors on the Industry Sector Advisory Committees (ISACs) and the labor advisory committees during the market access negotiations. The ISAC that generally deals with the industries you have cited is Consumer Goods (ISAC 4). We will seek their advice when formulating U.S. responses to specific requests from trading partners in these sectors. We also will rely heavily on their views in assessing the value of concessions being offered to the United States by other governments.

The ISACs and our labor advisors have played an extremely constructive and central role in identifying numerous products of U.S. export interest in the markets of our trading partners. As we turn to the task of identifying appropriate products for U.S. duty reductions, their cooperation is vital and necessary if we are to achieve the important gains in market access abroad that will enhance the ability of U.S. exporters to compete most effectively.

After all of this advice has been received and analyzed, a final decision on a possible offer must be made. This decision will be based on the overall national interest of the United States.

Question. I understand that the Administration is considering granting GSP treatment on 17 glassware items as part of the President's Andean Pact Initiative. Although I certainly agree with the President's desire to be helpful to Colombia, I am concerned that this will benefit other GSP countries, not Colombia, and will do serious harm to our domestic industry. I have been told that Colombia does not even supply 11 of the 17 items that it identified. Isn't there a better, more direct, way to benefit Colombia by means of a trade initiative without creating a major problem for the domestic glassware industry?

Answer. On November 1, 1989, the President announced his Andean Trade Initiative, which was intended to help create sound economic alternatives to drug production and trafficking. An important component of this initiative was a directive to initiate a special and expedited GSP review for four Andean countries. On January 16, we received 162 petitions from Colombia, Peru, Bolivia and Ecuador to grant GSP for 150 products.

The Administration is *not* currently considering whether to grant GSP duty-free treatment to glassware. Rather, it is considering which of the 162 petitions received should be accepted for review. As you point out, 17 of Colombia's petitions requested that GSP treatment be extended to household glassware items. A list of those products accepted for review will be published in the *Federal Register* in early March. A decision to accept a petition for review will not prejudice the final outcome of the review.

If a decision is made to accept Colombia's glassware petitions for review, we will assess the impact of GSP on domestic industry and the competitiveness of Colombia, as well as other GSP suppliers.

We appreciate your advice regarding the need to identify other ways that the Andean Trade Initiative might benefit Colombia, Peru, Bolivia and Ecuador. We are in the process of developing further ideas on how we can help the Andean countries improve their trade performance and would appreciate any thoughts you might have.

COMMUNICATIONS

STATEMENT OF THE ALUMINUM ASSOCIATION, INC.

INTRODUCTION

The 87 member companies of the Aluminum Association, Inc. have a strong interest in the outcome of the Uruguay Round. On a number of occasions and in a number of forums, we have expressed our support for an open international market for aluminum ingot and mill products.

The members of the Aluminum Association are domestic producers of primary and secondary ingot, aluminum mill products and castings. Mill products include sheet and plate; foil; extrusions; forgings and impact extrusions; electrical conductor; and wire, rod and bar. The Association's membership also includes producers of master alloy and additives. Aluminum Association member companies operate 300 plants in 40 states.

The Association is a primary source for statistics, standards and information on aluminum and the aluminum industry in the United States.

U.S. ALUMINUM INDUSTRY URUGUAY ROUND OBJECTIVES

The primary trade objective of the U.S. aluminum industry is to achieve an open international market for aluminum ingot and mill products. In presentations discussing our GATT trade negotiation objectives, we called for:

(1) remove tariff barriers;

(2) eliminate non-tariff measures (buy national requirements and programs, local content rules, etc.);

(3) eliminate export and domestic subsidies which unfairly advantage home industry or disadvantage foreign competitors;

(4) end "special and differential treatment" accorded to developing countries with highly competitive aluminum production operations; and,

(5) end special arrangements for the purpose of protecting national aluminum production as "infant industry" or restructuring older industry except under strict GATT discipline.

These objectives are laid out and supported in the following Aluminum Association publications—

Fair Trade for the U.S. Aluminum Industry (June 1987)
Uruguay Round Aluminum Sector Objectives
- Market Access (January 1988)
- Developing Countries (April 1988)

These publications were distributed to all members of the U.S. House of Representatives and the Senate, and to Committee and personal staff dealing with trade issues, and disseminated broadly to all presidential appointees and civil service employees handling trade matters.

The objectives and supporting arguments and data have been presented to the U.S. International Trade Commission (April 7, 1989), at a hearing on the possible economic effects of reductions in U.S. tariffs, and to the Trade Policy Staff Committee (May 16, 1989), at a hearing on reduction or elimination of foreign tariff and non-tariff measures.

ALUMINUM ASSOCIATION URUGUAY ROUND MESSAGE

Our position is based on the following assessment:

• The world's aluminum industry regardless of its geographic location is a high tech, state-of-the-art industry which neither needs nor requires trade protection or special treatment.
• The U.S. aluminum industry is the world's largest, most technically advanced.
• The U.S. aluminum market is the world's largest, most sophisticated and most open.
• Most foreign markets are protected by high tariffs which are backed up by non-tariff measures, primarily strong preference for local production.
• The E.C. is among the worst offenders—while it is the world's second largest market for aluminum and aluminum products, its tariffs in every category of ingot and mill products are at the highest level among developed countries.
• The present status of aluminum trade with Japan is a study in contradiction with its tariffs on ingot, sheet, and plate at parity with the U.S. and its tariffs on all other mill products at the levels of the E.C.
• Among the more advanced developing countries, with growing aluminum production capabilities, restricted home markets are the entrenched norm. Korea, Taiwan, Venezuela and Brazil have highly competitive, technically capable production operations which neither need nor deserve protection. The aluminum industries in these countries tend to be government-owned or influenced and benefit from preferential financing. These countries also tend to offer subsidies to support their aluminum exports, and current GATT rules on subsidies are largely negated by the concept of "special and differential treatment" which these countries have exploited.

Experience over the past five years with Japan and the E.C. demonstrates that where tariffs are eliminated and governments make clear their support for an open trading system in aluminum, trade increases and U.S. producers are competitive; and, where high tariffs and non-tariff measures are maintained and there is an unwillingness to open markets that trade does not expand despite a high valued local currency and a low valued dollar.

Elimination of "special and differential treatment" for developing countries with advanced aluminum production operations should provide increased access to world markets on the basis of their comparative advantage. Acceptance by developing countries of the full disciplines of the marketplace and the GATT should be matched by the elimination of tariff and non-tariff impediments to trade imposed by developed countries.

Not only have these subjects been raised with U.S. trade authorities, but they have been discussed directly with the governments of Australia, Canada and with the European Community with varying degrees of success as to acceptance.

CONCLUSION

We urge the Committee on Finance to support the Aluminum Association's goals and objectives and to work with the U.S. negotiators to help us bring them to fruition.

AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS,
New York, NY, February 26, 1990.

Hon. LLOYD BENTSEN,
U.S. Senate,
Committee on Finance,
Washington, DC

Dear Senator Bentsen: On behalf of the more than 300 members of the American Association of Exporters and Importers (AAEI) involved in textile trade, and pursuant to Press Release No. H-2, we would like to take this opportunity to comment on the progress of the textile negotiations under the GATT Uruguay Round.

The Association has for many years maintained a position in favor of phasing out the artificial and disruptive trade restrictions on textiles and apparel under the Multi Fiber Arrangement, as was most recently set forth in an October 25 letter to U.S. Trade Representative Carla Hills from AAEI's Textile and Apparel Group. The AAEI was encouraged by the December 13, 1989 United States proposal to members of the Negotiating Group on Textiles and Clothing in that it articulated as one of the negotiating objectives full integration into the GATT of all trade measures affecting trade in textile and clothing.

The AAEI was, however, extremely dismayed by the suggestion in the December 13 communication and elaborated on in a February 5 communication that, during the "integration process," a viable alternative would be the conversion of "existing restraints both MFA and other types, into another form, e.g. a multilaterally agreed system, tariff rate quotas or 'global-type' quotas." The AAEI wishes to go on record in opposition to any form of quota globalization and suggests that the U.S. Congress urge the U.S. Administration to withdraw such proposals from the United States negotiating team's draft agenda proposals.

It is undisputed that quotas, and their restriction of open trade and associated market forces, impose far higher costs, and damage, on the United States economy than do tariffs and other temporary foreign trade regulation measures. They are the least transparent form of import restraint since they conceal from the public the cost of protection being afforded to domestic industry. As Professor John Jackson observed in a case book entitled *Legal Problems of International Economic Relations:*

> In contradistinction to non-prohibitive tariff and tariff like measures . . . QR's completely break the link between domestic and world prices.

This observation was confirmed by the recent United States International Trade Commission study on *The Economic Effects of Significant U.S. Import Restraints, Phase 1: Manufacturing,* USITC publication 2222, October, 1989, when the Commission estimated that the hidden charge for textile and apparel quota rents in 1987 was 5.16 billion dollars, of which over 92 percent was charged on apparel imports and would have been even higher but for the fact that a substantial volume of trade in textiles remains unrestrained (page 4-7). The ITC then concluded that:

> Overall, the removal of MFA quotas and tariffs will result in a net United States welfare gain in the range of $2.6 billion, $2.5 billion, depending upon the domestic supply elasticity (ID. at 4-19).

Numerous studies have shown that, overall, high tariffs and quotas under the MFA on textiles and apparel cost U.S. consumers more than $20 billion annually, or $240 per average family. Moreover, the costs to consumers of the MFA are regressive, with the poorest 20 of U.S. families experiencing a 8.6% decline in their standard of living, or nine times the burden of an average household.

Since globalization of quotas represents an expansion of the present textile import quota arrangements, it is clear that said proposal would have a direct and dramatic increase in cost to consumers and a concurrent decrease in net welfare benefits. Any expansion of present textile import quota arrangements would also undermine the existing multilateral opportunity for relaxation and progressive reduction of quantitative trade restraints that substitute the role of government into market mechanisms that thrive on more openness in trade, rather than greater restriction of the same.

Because of these concerns, we would like to ask your support in urgently requesting that the United States government refrain from pursuing any proposal in the Uruguay Round which contemplates globalization of quotas on textiles and apparel.

Sincerely,

EUGENE J. MILOSH.

STATEMENT OF THE AMERICAN IRON AND STEEL INSTITUTE

This statement on congressional oversight of the Omnibus Trade and Competitiveness Act of 1988 (the "1988 Act") is submitted to the Senate Finance Committee on behalf of the domestic members of the American Iron and Steel Institute (AISI), who account for approximately 80 percent of the raw steel produced in the United States.

AISI's comments in this statement will focus on one of our most important trade policy concerns in 1990: to ensure that GATT Uruguay Round negotiations on the Antidumping and Subsidies Codes result only in Code changes that are fully consistent with the Uruguay Round negotiating objectives in these areas that the Congress established in the 1988 Act.

As the Committee knows well, strong and effective laws against dumping and trade-distorting subsidies are necessary to maintain a liberal, free trade regime. Such laws promote free trade and genuine comparative advantage. That, of course, is precisely why the Congress has consistently endorsed improvements in U.S. antidumping (AD) and countervailing duty (CVD) laws, most recently in 1988. Dumping and trade-distorting subsidies are unfair practices, and have been recognized as such by international trade policy and rules for over 100 years. The laws that exist here and elsewhere to counter the harmful effects of these pernicious practices serve the

public interest by reducing market-distortions worldwide and providing support for the free trade regime.

Less than two years ago, in agreeing to drop certain antidumping and countervailing duty trade bill provisions that some alleged had "GATT consistency" problems, Congress set goals for the Uruguay Round. In Section 1101 of the 1988 Act, it established, as the "principal U.S. government negotiating objectives with respect to unfair trade practices," efforts to improve current GATT discipline in such areas as "resource input subsidies, diversionary dumping, dumped or subsidized inputs and export targeting practices." AISI fully supports these negotiating objectives.

The issue of preserving and strengthening U.S. AD/CVD laws is of critical importance to domestic steel producers, and we believe that steel's view in these matters has special credibility. First, our companies have used the AD/CVD laws more than any other U.S. industry. We filed over 300 cases in the 1980s alone. Second, both Congress and the Administration have affirmed that steel's unfair trade problem due to dumped and subsidized imports is particularly pervasive. In July of last year, for example, in announcing the decision to extend steel Voluntary Restraint Arrangements (VRAs), USTR estimated that foreign government steel subsidies since 1981 alone totaled over $60 billion.

For these reasons, we are gratified that Administration officials have repeatedly told us and the Congress that they "would neither offer nor support any proposals in the Uruguay Round that would make U.S. antidumping or countervailing duty laws less effective tools for combating unfair trade practices" (cite: Senate Finance Committee Report No. 101-206, November 1989). We are pleased that this "Committee supports that position" as well (cite: ibid).

This pledge of no weakening of existing AD/CVD laws is particularly important to steel insofar as we have been told on numerous occasions by the Administration that, after March 31, 1992 (when extended VRAs are set to expire), we will have to rely solely on the trade laws to resolve our unfair trade problem. In addition, the "Steel Consensus" agreements to end foreign government steel subsidies, which some VRA countries have signed, do not resolve this problem. That's because: they don't eliminate all steel subsidies; they don't deal with dumping at all; and many steel-producing countries have not signed these agreements. Thus, domestic steel firms will continue to need *strong and effective* AD/CVD laws.

For this reason, we are gratified that the proposals on reform of the GATT Dumping and Subsidies Codes that the United States has tabled in Geneva are in line with the negotiating objectives established by Congress. They would strengthen existing international disciplines against unfair trade practices. By way of contrast, the dumping and subsidy proposals of most foreign governments would *weaken* international disciplines and U.S. law and the U.S. interests who are supporting those proposals are undercutting our own government's negotiating position and are acting contrary to the directions Congress set forth in the 1988 Act.

With respect to the U.S. government proposals, we support them. Yes, we think they could be further improved (e.g., the track on diversion should not be limited to "related" parties, and we are uncomfortable with the notion of any "green light" subsidies). But at least government's proposals are a step in the right direction. They are constructive. And, as stated earlier, they are consistent with the negotiating goals of Congress.

With respect to other proposals, which have been floated by foreign governments and some U.S. interests, we are strongly opposed. We're opposed, for example, to such AD proposals as: public interest determinations, automatic "sunsets," capping of duties to the level of injury, use of the discredited "business cycle" and weighted averaging concepts, insertion of a "short supply" provision, allowing drawbacks for penalty duties, emasculating cumulation and raising the *de minimis* level. Each of these proposals would weaken current law. Most have been discussed and rejected by the Congress in consideration of earlier trade legislation (e.g., 1984 and 1988). And *all* are contrary to the negotiating objectives established by Congress in the 1988 Act.

Such proposals would: create major new loopholes and incentives to engage in unfair trade; cause unwarranted injury to U.S. producers; narrow the universe of those who can use the laws; make the laws more complex; turn them into highly politicized proceedings; raise significantly the costs to petitioners; create new layers of bureaucracy; and increase substantially the administrative cost burden to our government. AISI believes that such results would be *totally contrary* to the historic position that both the Administration and Congress have taken on AD/CVD laws.

We therefore urge that the Committee let our government negotiators know in clear and unmistakable terms that it favors strong and effective AD/CVD laws and

that it will not support Code changes that would have the result of weakening in any way existing U.S. laws.

We urge also that the Committee reject the rationale that supposedly lies behind these so-called "technical" changes being advocated by foreign governments and some U.S. interests. The alleged rationale is the view that current U.S. laws—and the Commerce Department's administration of these laws—are somehow "tilted" in unfair ways against respondents and in favor of petitioners. This clearly has not been the experience of domestic steel producers, and we have used these laws more than anyone else. As the Committee undoubtedly knows, we have frequently told Congress that we think current laws and implementing regulations are tilted *the other way.*

In sum, AISI's domestic member companies join with many other U.S. industries and labor groups (see attached) in saying that the Administration is basically on the right track in putting forward the dumping and subsidy proposals it has tabled in Geneva. We would like to see our government go even further in the direction of trying to establish greater discipline against unfair trade. We would be strongly opposed to any backtracking by our negotiators. And we think that the Congress has a special role to play. That role, in our view, is to ensure that U.S. negotiators *remain* faithful to the Congressional mandate in Section 1101 of the Trade and Competitiveness Act of 1988.

Accordingly, as the Uruguay Round negotiations wind toward completion, we urge the Committee to continue to support fair and effective laws against unfair trade. In so doing, we ask the Committee to think about the reason why those opposed to the U.S. government's GATT Round positions on dumping and subsidies are trying to achieve greater discipline on *use of AD/CVD laws* than on unfair trade itself. We think the *real* reason has nothing to do with such laudable goals as making the laws more "balanced" and "effective." What is really behind these proposals is a concerted effort to obtain Code changes that would eliminate or significantly reduce liability under U.S. unfair trade laws. It is the desire of foreign producers to engage in more dumping and to receive more trade-distorting subsidies; and it is the desire of certain U.S. companies to gain what they feel is their right under "normal business practices" to unrestricted access to dumped and subsidized products. The domestic steel industry joins with other U.S. industries in urging the Committee to resist all attempts in the current GATT Round to weaken our existing unfair trade laws.

AISI's domestic member companies appreciate the opportunity to submit written comments on this vital issue.

COMMITTEE TO SUPPORT U.S. TRADE LAWS

DRAFT PARTICIPANTS LIST

Alliance of Metalworking Industries
Allied Products Corporation
Aluminum Association
Amalgamated Clothing and Textile Workers Union
American Apparel Manufacturers Association
American Couplings Coalition
American Fiber Manufacturers Association
American Fiber, Textile, Apparel Coalition
American Iron and Steel Institute
American Textile Machinery Association
American Textile Manufacturers Institute
American Yarn Spinners Association
ASARCO, Incorporated
Association of Cold Rolled Strip Steel Producers
Association of Synthetic Yarn Manufacturers
Automotive Parts and Accessories Association
Automotive Service Industry Association
Beaumont Industries
B.F. Goodrich Company
Bicycle Manufacturers Association of America, Inc.
Carpet and Rug Institute
Cast Iron Soil Pipe Institute
Chrysler Corporation
Clothing Manufacturers Association of America
Cold Finished Steel Bar Institute
Committee on Pipe and Tube Imports
Communication Workers of America

Copper and Brass Fabricators Council, Inc.
Council of American Lock Manufacturers
Cycle Parts and Accessories Association
Energy Fuels
Floral Trade Council
Footwear Industries of America, Inc
Forging Industry Association
Knitted Textile Association
International Brotherhood of Electrical Workers
International Ladies' Garment Workers Union
International Leather Goods, Plastics and Novelty Workers Union
International Trade Action Council
Libby Glass, Inc.
Luggage and Leather Goods Manufacturers of America, Inc.
Micron Technologies, Inc.
Motorola
Municipal Castings Fair Trade Council
National Association of Hosiery Manufacturers
National Cotton Council
National Farmers Union
National Industries, Inc.
National Knitwear Manufacturers Association
National Knitwear and Sportswear Association
National Machine Tool Builders Association
National Wool Growers Association
Neckwear Association of America
Non-Ferrous Metal Producers Committee
Northern Textile Association
Roses, Inc.
Smith Corona
Specialty Steel Industry of the United States
Steel Manufacturers Association
Steel Service Center Institute
Textile Distributors Association, Inc.
The Timken Company
The Torrington Company
UMETCO
United Steelworkers of America
Uranium Producers of America
U.S. Battery Trade Council
U.S. Business and Industrial Council
Valve Manufacturers Association
Vemco
Work Glove Manufacturers Association

The COMMITTEE TO SUPPORT U.S. TRADE LAWS is a broad-based, ad-hoc coalition of American companies, trade associations and labor organizations committed to preserving our nation's unfair trade laws. The coalition represents a broad cross-section of the American economy and includes companies, associations, and labor unions in: basic manufacturing (aluminum, auto parts, bearings, steel and textiles); consumer products (personal word processors and typewriters); high tech (semiconductors); mining (uranium and other raw materials); and agriculture.

Strong and effective unfair trade laws—antidumping, anti-subsidy or countervailing duty, Section 301 and Section 337—are an essential foundation of our market-based trading regime. These laws are designed to safeguard free trade and genuine comparative advantage against those countries which seek an unfair competitive advantage in international trade.

The COMMITTEE TO SUPPORT U.S. TRADE LAWS has one purpose: achieving the benefits of global free trade and ensuring our overall economic security through strong and effective unfair trade laws.

As such, the Committee has been formed to coordinate the activities of those who support the U.S. negotiators in the GATT Uruguay Round against attempts to weaken U.S. unfair trade laws.

A number of foreign governments have launched a campaign in the GATT to weaken existing unfair trade laws—this nation's front line defenses against unfair foreign trade practices. Effective use of these laws has preserved American competitiveness in a number of key domestic industries injured by unfair foreign trade

practices. Particularly in today's global marketplace, our unfair trade laws are critical to the future competitiveness of the U.S. industrial base.

The foreign governments working to weaken America's unfair trade laws enjoy record trade surpluses with the U.S. Their unfair trading practices have contributed to record trade surpluses with the U.S. in spite of the substantial strengthening of various currencies against our dollar.

STATEMENT OF THE COPPER & BRASS FABRICATORS COUNCIL, INC.

This statement is made on behalf of the Copper Brass Fabricators Council, Inc. ("Council"), whose eighteen member companies account for more than eighty percent of production in the United States of semi-fabricated copper and copper alloy sheet, strip, plate, foil, bar, rod, pipe, and tube. The Council welcomes this opportunity to contribute its views regarding implementation of the Omnibus Trade and Competitiveness Act of 1988 and particularly of that law's amendments to section 301 of the Trade Act of 1974. The Council's experience in a recent case under this revised statutory regime has been encouraging, and the Council feels it is important to recount this experience to the Committee on Finance. In the Council's judgment, certain amendments to section 301 that were effected by the 1988 Act significantly facilitated the favorable outcome of the Council's case.

As producers of a wide range of copper-based, semi-fabricated products, the Council's member companies rely heavily upon copper scrap and copper alloy scrap as a critical source of their raw materials in addition to virgin metal. Beginning in the early 1970's and continuing through 1989, the European Community ("EC") annually renewed quotas on the amount of copper scrap and copper alloy scrap that could permissibly be exported from the EC to destinations outside the EC. These quotas typically represented approximately one percent of the EC's consumption of semi-manufactured copper products and were extremely restrictive. The reason given by the EC for its quotas was that refiners in the EC were continuing to experience supply difficulties over the entire spectrum of copper materials. Prior to the issuance of these quotas under the EC's auspices, comparable quotas had been imposed by individual countries that were members of the EC under their respective domestic laws.

By means of these quotas, the EC was able to build a reservoir of copper scrap and copper alloy scrap for use by its copper and brass mills. Coupled with the openness of the United States market for this scrap, the EC's export restrictions caused demand to be diverted from the EC to the United States, especially demand from East Asian nations such as Taiwan, Japan, and South Korea, and correspondingly lower prices for copper scrap and copper alloy scrap in the EC than in the United States. This relative cost advantage for these raw materials in turn translated into a price advantage by the EC mills over the Council's member companies for sales of the copper-based, semi-fabricated products that incorporated the comparatively inexpensive scrap. Commencing in the late 1970's and early 1980's, the volume of imports into the United States of copper-based, semi-fabricated products from the European Community began to rise dramatically.

On November 14, 1988, the Council petitioned the Office of the United States Trade Representative ("USTR") for relief from the EC's quotas under section 301 of the Trade Act of 1974. An investigation was initiated on December 29, 1988, and a public hearing was held by USTR on January 27, 1989. Thereafter, consultations with the EC were conducted on April 26, 1989, under Article XXIII:1 of the General Agreement on Tariffs and Trade ("GATT"). A GATT dispute settlement panel was formed on July 19, 1989, and its first meeting took place in November 1989. At this meeting, USTR aggressively submitted that the EC's quotas and its members' corresponding licensing systems violated Article XI of the GATT and were not justified by any exceptions to Article XI. After this meeting, at the EC's request consultations were resumed. These consultations culminated in an exchange of letters dated January 18, 1990 between the EC and the United States.

Under the terms of this trade agreement the EC committed not to reimpose its export restrictions in 1990. The EC conceded that the present situation in the market for copper scrap and waste does not necessitate or justify renewal of quotas. The EC further stated that it does not expect fundamental changes in the market for copper scrap and waste in the foreseeable future that would necessitate or justify the reintroduction of export restrictions on copper scrap and waste or the imposition of a system of licensing that would have a restrictive effect on international trade.

In consideration of this trade agreement with the EC, the United States has withdrawn its complaint from the GATT dispute settlement panel and will shortly publish a notice of the investigation's termination. It is the Council's understanding that USTR will monitor the EC's compliance with this trade agreement and shall determine what further action to take in the event that the EC does not satisfactorily implement the agreement. For its part, on the strength of this resolution of the matter, the Council on Feb. 26, 1990 withdrew its petition for relief under section 301.

Although the copper and brass mill industry of the United States is not as large as other domestic industries that produce different metal products, such as the steel industry, it plays a central role in our national economy. The automotive, construction, and electrical/electronic segments of the United States' economy rely extensively for their well-being upon semi-fabricated copper and copper alloy products. At the same time, it would be difficult to overstate how debilitating the cumulative effect of the EC's quotas has been over the years to the Council's member companies and the copper and brass mill industry in the United States generally. Except for small fluctuations due to arbitrage, there should be a global price for each grade of copper scrap and copper alloy scrap just as there is for virgin copper. And yet, as best the Council can estimate, the EC's export restrictions resulted in an annual cost to United States copper and brass mills that was in excess of $150 million more than EC mills were paying for their copper scrap and copper alloy scrap.

Under these circumstances, it can be appreciated how important to the Council this case has been and why the Council is so pleased that the EC has removed its export restrictions. With the EC's quotas no longer in place and unimpeded trade in this scrap restored after many years, the United States domestic industry should be that much better able to compete in the world's markets and sustain its needed capabilities and place in the United States economy. In short, the trade agreement with the EC is one that should have a most beneficial impact upon the United States.

To the Council's best knowledge, this case was one of the first investigations, if not the first investigation, to be initiated and the second investigation to be concluded under section 301 since the 1988 Act was passed. In good measure, the Council attributes the constructive handling of this dispute to changes in the law wrought by that Act. In a period of slightly more than fourteen months it has proven possible to eliminate in an efficient and reasonably collaborative manner with the EC a problem that has persisted for nearly two decades.

It is the Council's belief that the 1988 Act's provisions for procedural deadlines in each of the various phases of a case and for mandatory action by the United States in specified situations have impressed upon our trading partners in a responsible way the United States' conviction that serious international trade disputes deserve serious deliberation and expeditious action by the parties. Certainly in the investigation that is about to be concluded with respect to the EC's export restrictions on copper scrap and copper alloy scrap, the new law has worked very well. Without the provisions just noted, the Council is doubtful that so positive an agreement would have been reached as quickly or perhaps even at all. Moreover, the Council anticipates that the law as strengthened by the 1988 Act and USTR'S monitoring will serve as incentives to the EC to abide by its trade agreement with the United States in this matter in the future.

Statement of the Independent Refiners Coalition

This statement is submitted by the Independent Refiners Coalition ("IRC") which includes 25 independent petroleum refiners representing approximately 30 percent of domestic independent refining capacity. (Exhibit 1). The IRC is alarmed that the United States Trade Representative ("USTR") has proposed to include U. S. tariffs on crude oil and petroleum products among the measures for possible reduction or elimination in the Uruguay Round of negotiations under the General Agreements on Tariffs and Trade ("GATT"). We believe that submitting these long-standing tariffs for multilateral negotiations would establish a precedent which could limit the ability of the United States to protect its national security against petroleum imports.

Our nation has historically regulated petroleum imports unilaterally as a matter of national security and has not offered petroleum tariffs for multilateral negotiation pursuant to the GATT. This historical treatment is consistent with Article XXI of the GATT, which allows participating countries to restrict imports which affect their essential security interests. Five U.S. presidents have used the "national secu-

rity clause" in our trade laws to restrict petroleum imports. Three inter-agency studies conducted pursuant to the national security clause in 1975, 1979, and 1988 have all concluded that rising volumes of petroleum imports threaten U.S. national security.

Removal of the present petroleum tariffs would eliminate the current differential of 42 cents to 47.5 cents per barrel between rates for crude oil and motor fuel, which is the only restraint against imports of gasoline, jet fuel, and other motor fuels. This tariff structure reflects the principle that finished products should be dutiable at a higher rate than raw materials used to manufacture the product. Elimination of the tariffs would leave the U.S. refining industry with no safeguard against lower-cost foreign refiners.

Two pieces from *The Washington Post* (attached as Exhibits 2 and 3) indicate that rising U.S. imports are helping the oil producing nations of the volatile Persian Gulf region regain control over the world oil market. This growing dependence on Persian Gulf oil includes a dangerous increase in product imports. As shown in Exhibit 4, product imports now account for nearly a quarter of U.S. imports from the region.

Increasing product imports are particularly threatening to independent refiners, which account for about 30 percent of U.S. operating capacity. Independent refiners provide a competitive alternative to the major integrated oil companies and are the principal suppliers of independent distributors and marketers. Independent refiners also provide 50 percent of the specialty fuels used by the U.S. military. Compared with the majors, however, independent refiners have limited financial resources, do not have offsetting earnings from crude oil sales, and are especially vulnerable to depressed profit margins or loss of market share caused by increasing product imports.

Imports of finished petroleum products represent a more serious threat to our national security than the same volume of crude oil imports. Product imports displace domestic refining capacity and hamper the ability of our refining industry to convert crude oil into the finished products required to meet civilian and military needs. Without adequate refining capacity, domestic crude oil supplies—including the Strategic Petroleum Reserve—cannot be processed into usable products, such as gasoline, jet fuel and heating oil.

A cutoff of product imports would affect actual U.S. product supplies much more quickly than a cutoff in crude oil imports. In the case of a crude oil disruption, oil already en route to the U.S. as well as crude oil inventories of refiners can cushion and delay the impact on product supplies. However, a disruption in product supplies would be felt at once and the shortfall could not be replaced from refinery inventories. Furthermore, a shortfall could not be replaced by processing alternative crude oil supplies—such as the Strategic Petroleum Reserve—if imports have been allowed to displace domestic refining capacity.

During the 1980's, imports of gasoline—which is the principal product of the U.S. industry—have increased dramatically from less than one percent to more than six percent of U.S. gasoline demand. During this same period, more than three million barrels per day of domestic refining capacity was closed and lost because of import penetration, regulatory changes, and decreased demand. Attached is a table showing the increase in gasoline imports from 1980 to 1988 (Exhibit 5) and a chart illustrating the decline in domestic refining capacity over the same period (Exhibit 6). Demand for petroleum products has recovered and is expected to continue growing modestly, but domestic refining capacity has contracted to marginal adequacy.

A myriad of U.S. environmental laws and regulatory policies place U.S. refiners at a competitive disadvantage. We calculate that the annual cost of compliance for the domestic industry as a whole ranges from $18.9 billion to $22.2 billion annually. This cost burden could force the closing of additional U.S. capacity. The current motor fuel tariff does at least partially offset these higher costs for domestic refiners.

Removal of the tariffs on petroleum would exacerbate the shift of new refining capacity to foreign sites where environmental regulations are far less stringent than in the United States. Since foreign plants are beyond U.S. environmental regulations, the results will be a step backward in addressing global pollution. Exportation of refining capacity would also result in the loss of well-paid manufacturing jobs in the United States.

Under these circumstances, it would be a serious error for the United States to act as if it no longer regards oil imports as a matter of national security. The effect of such a policy reversal could reach far beyond the current tariffs on crude oil and petroleum products. Negotiating the elimination of petroleum tariffs would indicate that the United States is not concerned that oil imports threaten its security and

would signal that our domestic market will be open to further increases in import levels. In addition, the loss of tariff revenues would adversely affect the nation's trade deficit.

The implications of such a fundamental policy change are sure to be noticed by our trading partners, including those with state-owned oil companies capable of building or expanding refineries to target the vast U.S. market for petroleum products. Foreign state-owned refineries—especially those owned by oil-producing countries—have considerable flexibility to price their exported products low enough to assure penetration of the U.S. market. Aggressive pricing policies by foreign refiners, combined with the environmental and regulatory cost disadvantages of the domestic industry, could make it impossible for U.S. refiners to compete with imported products.

The Department of Energy ("DOE") has lodged an objection with the USTR opposing inclusion of either crude oil or petroleum products in the GATT negotiations. The opposition of DOE is based on current conditions in the world and domestic oil markets and on the "unique status" of crude oil and refined petroleum products in relation to the nation's energy security. The position of DOE is well-founded and should be followed by the USTR in formulating the U.S. negotiating position.

EXHIBIT 1

INDEPENDENT REFINERS COALITION

	Refining Capacity (MB/CD)*
Ashland Oil, Inc. (3)	346.5
Clark Oil & Refining Corporation (2)	128.2
Crown Central Petroleum Corporation (2)	150.0
Diamond Shamrock Refining & Marketing Company (2)	156.0
Fina Oil & Chemical (2)	165.0
National Cooperative Refinery Association	75.6
Tesoro Petroleum Corporation	72.0
Tosco Corporation	126.0
Valero Refining Company	20.0
American Independent Refiners Association	
Berry Petroleum Company	3.7
Calcasieu Refining Company	13.5
Chemoil Corporation	14.2
Edgington Oil Company, Inc.	41.6
Fletcher Oil and Refining Company	29.5
Frontier Oil and Refining Company	38.7
Golden West Refining Company	42.0
Huntway Refining Company (2)	14.1
Laketon Refining Corporation	8.7
National Cooperative Refinery Association	
Newhall Refining Company, Inc.	13.0
Oxnard Refining	4.0
Paramount Petroleum Corporation	46.5
San Joaquin Refining Company, Inc.	14.3
Southland Oil Company (2)	16.8
U.S. Oil & Refining Company	32.0
Witco Golden Bear Division	10.0
TOTAL	1,581.9

*Crude oil distillation capacity as of January 1, 1989, as published by the U.S. Department of Energy, Energy Information Administration, Petroleum Supply Annual 1988, Volume 1, May 1989.

Exhibit 2

38

4 Arab States Seen in Position To Reclaim World Oil Control

Gulf Nations Could Dominate Market in '90s

By Jim W. Lagerson
Washington Post Staff Writer

U.S. demand for oil in Asia and the West and dwindling reserves in many producing countries are combining to put four Arab nations on a position to reassert control over worldwide oil prices and supply, according to experts' analyses of current oil data.

Only Saudi Arabia, Iraq, the United Arab Emirates and Kuwait have both the large reserves and the outsized delivery capacity to be able to increase their output at will. Over the next five to 10 years, all other oil-producing nations—with the possible exceptions of Mexico, Libya and Iran—apparently will be unable to increase exports substantially because of falling output, limited production capacity, increased domestic demand or all three.

Moreau "could easily expand production capacity to a much higher level," according to the U.S. Energy Information Administration's International Energy Outlook, but only if "the price of crude oil is high enough to stimulate production."

With demand rising, these trends inevitably will concentrate market power in the Arab states along the Persian Gulf, experts agree. Most Arab-producing states, led by Saudi Arabia, undergirded oil exploration in the United States and many other countries, withered after the Arab-Israeli War of 1973, throwing the oil market into turmoil and triggering

See OIL, A13, Col. 1

Arab Nations in Position to Reassert Oil Power

OIL, From A1

ing the first of two waves of price increases that pushed early in the decade. Oil prices today are well below their peaks.

But analysts said it is not clear whether these nations will use their power to drive prices by limiting production as well respond to increased demand by boosting output in the interests of market share and revenue and political stability.

"At any reasonable price assumption, the shares of Middle East oil supplying the world's export markets will grow significantly from 1988 through the 1990s," John H. Lichtblau, president of the Petroleum Industry Research Foundation, wrote in the newly published "The Oil Market in the 1990s." "Once the Middle East has reconstituted its position as the world's economical producer, the essential over virtually all actual and potential spare capacity, its exporters would collectively be in a position, by the mid-1990s to once again temporarily almost at will if they so choose . . . to what extent Middle East exporters will actually use this power is of course the \$64 billion question."

To an unnerved and unloving to recall that the 1973 oil embargo was effected by countries controlling just 6 percent of U.S. oil supply," said Charles Ebinger, a senior associate at the Center for Strategic and International Studies in Washington. "Today the US depends on those same Middle Eastern exporters for about 20 percent of its oil supply. With over 70 percent of Free World reserves located in the Middle East, the U.S. will become increasingly dependent on that region if an energy policy is not formulated to reduce our oil imports."

World oil production reached 61.7 million barrels per day in 1988, while production capacity was 71.4 mbd," according to a report published this month by the East-West Center of the University of Hawaii. "Of the almost 10 mbd of excess production capacity, 8.2 mbd or 85 percent was in OPEC," the Organization of Petroleum Exporting Countries.

"Following the current production trend and the projected price profile, it is expected that the market share of OPEC oil production will continue to increase and the impact of OPEC on the world oil market could be dominant again in the late 1990s," International Energy Outlook said.

Those references to the oil power of the Middle East and OPEC diagram a new reality of the oil market. Many nations within OPEC are reaching the limits of their output and capacity, leaving only the major growers such as Saudi Arabia able to exert successes in world demand. Once-prominent OPEC producers such as Algeria and Libya no longer have enough oil to respond substantially to increased demand. Iran has vast reserves but its output is constrained by the domestic demand of an extremely large population and by damage to ports and pipelines suffered during an eight-year war with Iraq.

Within a few years, the United States will be a net importer of more than half its oil, figures show. Import dependence is not an small crapshoot, experts point out—Japan, for example, imports nearly all its oil—but the United States is unique among industrialized nations in that it already has a massive trade deficit that would be exacerbated by more oil imports, especially if prices rose.

The policy implications of the uncomfortable position are expected to be addressed in a comprehensive National Energy Strategy that the Energy Department is to submit to the White House next spring. President Bush told small gas explorers at a White House briefing last week he is "absolutely determined" to cut U.S. dependence on imported energy, but he offered no details.

Figures extensively compiled by the U.S. Energy Information Administration, the Organization for Economic Cooperation and Development (OECD), the American Petroleum Institute, Cambridge Energy Research Associates and the East-West Center, the pictures of the oil supply situation emerges:

Current total production in non-communist countries is about 54 million barrels per day, including OPEC's 22.3 million. A barrel contains about 42 gallons. The Soviet Union produces about 12.8 million barrels daily, China about 2.8 million. This industrialized countries hold about three months' worth of inventory, the rest of the oil is consumed as fast as it is produced.

Consumption in non-communist nations this year "is expected to increase by 1.2 mbd, or 2.4 percent over 1988, to 52.1 mbd," according to the OECD "End-September Oil Market Report." Total world demand "is expected to rise from 62 million barrels a day in 1987 to 70.6 mbd in 1995 and 74.5 mbd in 2000," the East-West Center study said. Consumption is increasing fastest—8.2 percent yearly—in booming nations of the Far East such as South Korea and Taiwan.

In 2000, this "gap between what the oil countries produce and what they could produce at maximum output is expected to be 3.7 billion barrels a year (about 10 million barrels a day). Both the United States, the Soviet Union, Mexico and Iran are producing at roughly 80 percent of maximum capacity number in the Arab states along the Persian Gulf.

The reason that an demand continues to increase, the market power of OPEC producers is found in numbers such as Venezuela and Norway are the only other countries with enough installed production capacity to boost their output by an extra 1 million barrels a day and only Kuwait and Mexico have enough total reserves to sustain the increased output over several years. But Mexico would have no reason to pump flat-out.

Venezuela's reserves are 58.1 billion barrels, Mexico's 54.1 billion. By comparison, Saudi Arabia has reserves of 170 billion barrels and possibly much more not yet discovered. Iraq has 100 billion barrels, while the United Arab Emirates and Kuwait have more than 90 billion each.

Oil industry observers generally agree that the coming surplus of capacity over demand and the entry into the market of new exporters such as North Yemen and Brazil will keep oil prices stable for the next few years. What happens after that may depend on whether OPEC's economic-and members, and especially on Arab members, increase output to respond to increased demand, keep their production to increase their potential leverage or work out production quotas that will keep prices stable.

Saudi Arabia and Iraq are believed to want to keep prices relatively low because they do not want a repetition of the economic flight from oil that drove demand down after price shocks of the 1970s.

Cambridge Energy Research analysts Joseph Stanislaw and Peter Hayes, in a report to clients over the weekend, said OPEC's annual meeting on production quotas last month "sent a strong message from the Gulf countries that market share is critical to them because of their significant current capacity and huge reserves. Why, they are implicitly saying, should they make room for another by giving up a bit share or by holding back volume to push prices higher to help those who are capacity-constrained, and in doing so possibly hinder the strong growth in oil demand . . . . The point was that [spare capacity now want to ensure there is a market for their oil now and also in the future."

In the analysts' estimation, it is clear that the Saudis, the strong partner, within OPEC and on the world would market, less with the Arab countries around the Persian Gulf.

CRUDE REALITY

Country	Reserves (billions of barrels)	Current Production	Estimated 1990 Production Capacity (in millions of barrels per day)
Saudi Arabia	170.0	5.0	8.5
Iraq	100.0	2.0	4.5
Kuwait	98.5	1.9	2.2
United Arab Emirates	90.2	1.9	2.2
Mexico	54.0	2.0	2.2
Soviet Union	58.5	12.7	12.8
Venezuela	58.1	1.7	2.5
Libya	31.1	1.9	2.0
Iran	93.0	2.2	3.0
United States	28.5	9.4	9.5
China	24.5	2.8	3.0
Other	22.5	1.1	1.5
Algeria	22.5	1.2	1.5
Nigeria	16.0	1.7	2.0
Norway	8.4	1.2	1.7
Angola	8.4	0.7	0.8
Indonesia	8.0	1.3	1.5
Canada	6.0	1.5	2.0
India	5.4	0.5	0.8

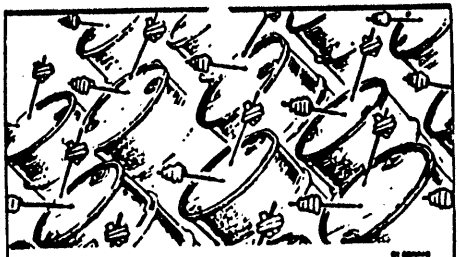
Total world production, 1988: 61.7 million barrels per day

Estimated total world capacity, 1990: 71.4 million barrels per day

Sources: Energy Information Administration, Organization of Petroleum Exporting Countries, Petroleum Intelligence Weekly, American Petroleum Institute, Cambridge Energy Research Associates, East-West Center

Exhibit 3

THE WASHINGTON POST
Tuesday, October 24, 1989



James Schlesinger

So Hungry for Oil

OPEC's best friend? It's us.

America's appetite for oil is once again steadily growing. In four years time it has rebounded by some 15 percent from the comparatively low level of 15 million barrels a day in 1985 now approaching the peak reached before the second Oil Shock. At the same time America's ability to satisfy that appetite from her domestic resources has been shrinking. The result has been a growth in imports that has recently accelerated. By the end of 1990 they will have grown by some 4.5 million barrels a day—roughly doubling in the five-year period. Demand continues to rise. Production continues to fall—though the volume of the decline must diminish with time. Nonetheless, by the mid-'90s imports will again have grown by a sizable volume.

There is nothing that compels import growth to occur at this pace. Yet despite the persistent political rhetoric, not to say handwringing, regarding national security, nothing has been done to arrest the growth of imports—and precious little is likely to be done in the foreseeable future. In this era the United States appears wedded to reliance upon "free market forces." Despite a deep-seated public myth or conceit regarding the robustness of America's energy industry (a conceit not significantly extending into the energy industry itself), America has in Ricardian terms virtually no comparative advantage in the production of crude oil. Indeed, it has an impressively high-cost oil industry, getting higher as depletion proceeds.

To be sure, there exist the usual possibilities of enhancing domestic oil production or achieving fuel substitution and limiting oil consumption through a variety of fiscal or regulatory measures. But fiscal options are drastically limited by the budgetary stalemate and by the political constraints that have led to that stalemate. Discouraging oil consumption or directing usage to other fuels through regulatory devices is highly suspect at this time—save for motives of environmental protection. Thus, in brief, imports will continue to grow and to grow rapidly—because the measures required to restrain such growth are not in accord with the prevailing national psyche.

Despite the continuing declamations regarding the villainy of the OPEC cartel—which curiously enough reached their peak at precisely the moment of the cartel's greatest weakness—the United States has now unquestionably become the best ally that OPEC has. The growth in U.S. import requirements (followed by a corresponding rise in OPEC production) has done far more to remove excess slack from the market than any other force. Though it will have much outside assistance, all by itself the United States will dissipate much of the remaining surplus capacity and make the market quite snug by the middle 1990s.

The United States has become the main engine for the restoration of OPEC power. From the perspective of the cartel, actions should speak louder than words. A friend in need is a friend indeed. The United States has been such a friend.

It is not my primary purpose today to speculate on the rate at which prices might be pushed up. If OPEC has learned a lesson from its overreaching at the end of the '70s, it will exhibit restraint and will allow the price to rise sufficiently gradually that it attracts only minimal public attention. Nor is it my purpose to delve deeply into the financial repercussions of the growing oil trade for the balance of payments of importing nations. Suffice it to say that the strong will survive and the weak will be hurt. The main point is to emphasize the steadily growing dependency on OPEC and upon the Persian Gulf, a region of the world not noted for its political stability.

As the outside world becomes increasingly dependent upon the gulf, the principal nations of the region will become far more influential than today—with its (temporarily) slack supply conditions and low prices. Their financial difficulties will rapidly or gradually come to an end. Their place in the sun will be restored—along with their self-esteem. They will become increasingly cocky. They will also become more tempting as a target.

What I have outlined, I believe, are the major forces that will be at work. No one can precisely gauge the strength—or the interactions—of these specific forces. That will vary with time and circumstance. No one can predict the future with any confidence. The uncertainties are simply staggering. But where does this all lead us?

We can foresee a world that has grown increasingly and perhaps excessively dependent on the gulf region for its energy resources and for the performance of its economies. The Middle East will thus become the cockpit of contending world forces—a potential tinder box. If there is a major conflict, the Middle East is likely to be its vortex. "If there ever is a World War III," an oil industry analyst has hyperbolically observed, "it will be fought over the Middle Eastern oil reserves."

The writer has served as secretary of energy, secretary of defense and director of the CIA. This article is an excerpt from a speech he delivered last month to the World Energy Conference in Montreal.

Exhibit 4

IMPORTS FROM ARAB OPEC

(Thousands of barrels)

Year	U. S. Demand	Crude Oil Imports	% of U. S. Demand	Total Product Imports	% of U. S. Demand
1981	5,381,761	647,410	12.0	27,001	0.5%
1982	5,094,576	268,689	5.3	43,194	0.8
1983	5,034,553	194,639	3.9	35,861	0.7
1984	5,177,495	231,949	4.5	67,630	1.3
1985	5,185,544	109,533	2.1	62,764	1.2
1986	5,444,720	311,728	5.7	112,428	2.1
1987	5,518,448	352,219	6.4	112,705	2.0
1988	5,718,758	517,757	9.1	155,362	2.7

Source: U. S. Department of Energy, Petroleum Supply Monthly.

Exhibit 5

U. S. GASOLINE IMPORTS AND DEMAND

(Thousands of barrels per day)

Year	Imports	Demand	Imports as a % of Demand
1980	55	6,579	0.8%
1981	91	6,588	1.4
1982	126	6,539	1.9
1983	212	6,622	3.2
1984	276	6,693	4.1
1985	348	6,831	5.1
1986	372	7,034	5.3
1987	419	7,206	5.8
1988	455	7,314	6.2
Increase 1980-1988	+400	+735	

Sources: Imports--U. S. Department of Commerce, Import Series IM 145-X, as published by Platt's Oil Export/Import Report; Demand--U. S. Department of Energy, Petroleum Supply Monthly, Table S4.

Exhibit 6

U.S. REFINING CAPACITY

(Thousands of barrels per calendar day)

Year	Operable Capacity	Number of Operable Refineries
1981	18,621	324
1982	17,890	301
1983	16,859	258
1984	16,137	247
1985	15,659	223
1986	15,459	216
1987	15,500	218
1988	15,847	212
1989	15,576	203
Decrease from 1981	3,045	121
% Decline from 1981	16.4%	37.3%

Source: U.S. Department of Energy, Energy Information Administration, Petroleum Supply Annual. Capacities are crude oil distillation capacities as of January 1st.

STATEMENT OF THE MARITIME INDUSTRY COALITION

As the members of the Senate Committee on Finance exercise their oversight responsibilities in the area of international trade and, in particular, the ongoing discussions in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the Maritime Industry Coalition, representing all those who operate, crew and build U.S.-flag vessels engaged in the nation's foreign and domestic shipping trades including the Great Lakes and the inland waterways, wishes to express its strong and unequivocal opposition to the inclusion of marine transportation in a services agreement negotiated in the Uruguay Round of the GATT negotiations. Attached to this statement is a listing of those companies, labor unions and related organizations highly supportive of a healthy U.S.-flag merchant fleet capable of meeting the Nation's economic and security needs who comprise the Maritime Industry Coalition.

We urge the U.S. Government not to propose, and not to accept, the inclusion of waterborne transportation in any services agreement reached during the current Uruguay Round of GATT negotiations. To do otherwise would be disastrous both for our industry and this country's national security.

The Commission on Merchant Marine and Defense, whose members were appointed by President Reagan in 1986, presented their final report to President Bush just one year ago. The Commission could not have been clearer about the need for an active U.S.-flag merchant fleet manned with American crews that is strong enough to fulfill essential national defense and economic security sea lift needs in times of war or national emergency. The Commission warned that "there is a clear and growing danger to the national security in the deteriorating condition of America's Maritime industries." Accordingly, the Commission called for major corrective actions to reestablish the American merchant fleet as a significant presence in international trade and to restore its ability to meet the defense needs of this nation.

For several years, the nations engaged in the ongoing GATT negotiations, have been debating the text of a framework on a services agreement based on GATT principles. A services agreement based on these principles, if applied to waterborne transportation, would jeopardize longstanding existing U.S. promotional laws and programs and provide no benefits to U.S. carriers in other countries. Just as importantly, such an agreement also would restrain and restrict the ability of our Government to strengthen maritime promotional measures or to adopt new measures promoting the fleet in the future—as called for by the Commission and many of America's defense leaders. For these reasons, any suggestion of "grandfathering" some or all of existing U.S. laws and programs is inadequate and unacceptable. Further, any suggestion that maritime transportation be treated as a "reservation" is unacceptable as it will subject our industry to the uncertainty of future negotiations and potential tradeoffs. In fact, the U.S. submission on a draft framework agreement calls for further negotiations, on those areas treated as a reservation, to begin within three years. Such uncertainties only serve to jeopardize the financial conditions of U.S. operators and impedes their ability to raise necessary capital for future investments.

It has been suggested that perhaps a services agreement would be of benefit to the U.S. merchant marine in obtaining access to foreign markets. None of us believes that is the case. Moreover, existing U.S. law (Section 19 of the Merchant Marine Act of 1920, Shipping Act of 1984, and Title X of the 1988 Trade and Competitiveness Act) already ensures that the U.S. Government can effectively address unfair foreign barriers in maritime and maritime-related services. We would not want the ability to take action under these statutes compromised in any way.

It is worth noting that the U.S. maritime industry is not alone in its view that marine transportation should not be included in a multilateral services agreement. In recent months, the maritime industries of our allies have begun to express their vocal opposition to inclusion in a GATT services agreement. Given these expressions, the U.S. negotiators have some formidable allies in making a case for the exclusion of marine transportation.

President Bush has clearly stated that "it is in the interest of both the economic and national security of the United States for the Federal Government to foster the development and encourage the maintenance of a strong, domestic merchant marine." For these reasons, he has called for the "establishment of maritime concerns as a priority in all international trade negotiations" and specifically has stated that the preservation of the integrity of the U.S. maritime industry shall be a priority in all international trade negotiations, including the General Agreement on Tariffs and Trade."

As the Members of the Finance Committee are aware, a majority of the Congress also believes strongly that waterborne transportation should be excluded from international services agreements. Indeed, they reacted quickly and firmly to the proposed inclusion of maritime services in the Free Trade Agreement negotiated with Canada. Many felt compelled to take preliminary legislative action to ensure the opportunity to offer an amendment deleting maritime services (even though they knew this would disrupt the integrity of the "fast track" approval process). Fortunately, maritime services were deleted from the Agreement prior to the adoption of the final draft.

As presently crafted, the draft framework services agreement contains bracketed language allowing countries specifically to exclude sectors. We urge the U.S. Government to insist upon the *complete exclusion* of waterborne transportation from the coverage and applicability of any services agreement. We further urge that the U.S. Government resist any suggestions that the various components that make up a nation's promotional program (i.e. cabotage, government cargo preference, subsidies, etc.) be treated individually. The future growth of the U.S.-flag merchant fleet both in its domestic and international operations depends on its programs to be treated as a whole. Diminution of these programs in any area will harm the fleet and its ability to respond to the economic and national security needs of the American people.

Merchant Marine Subcommittee Chairman John Breaux has introduced S. Con. Res. 63 expressing the belief of the U.S. Congress that marine transportation should be excluded from a GATT services agreement. The Maritime Industry Coalition urges the members of the Finance Committee to endorse this measure as further evidence of their commitment to a strong U.S.-flag merchant fleet and in recognition that the inclusion of maritime transportation could necessarily complicate the Congressional approval process of the Uruguay Round package.

AFL-CIO MARITIME COMMITTEE
AFRAM LINES (USA), LTD
A&S TRANSPORTATION CO
ALASKA HYDRO-TRAIN
ALCOA/TRE
ALOHA PACIFIC CRUISES, INCORPORATED
ALLIED TOWING CORPORATION
ALPHA TECHNICAL SERVICES, INCORPORATED
AMERICAN AUTOMAR, INC
AMERICAN FOREIGN SHIPPING CO., INC
AMERICAN HAWAII CRUISE LINES
AMERICAN HEAVY LIFT SHIPPING COMPANY
AMERICAN INSTITUTE OF MERCHANT SHIPPING
AMERICAN MARITIME CREWING CO., INC
AMERICAN MARITIME OFFICERS SERVICE
AMERICAN MARITIME TRANSPORT, INC
AMERICAN OVERSEAS MARINE CORPORATION
AMERICAN PILOTS ASSOCIATION
AMERICAN PRESIDENT LINES, LTD
AMERICAN STEAMSHIP COMPANY
AMERICAN TOWING & TRANSPORTATION CO., INC
AMERICAN TRANSPORT LINES, INC
AMERICAN WATERWAYS OPERATORS
AMERSAND STEAMSHIP COMPANY
APEX MARINE CORPORATION
ARCORP
ARNOLD TRANSIT COMPANY
ASIAN TUG & SALVAGE, INC
ASSOCIATION OF MARYLAND PILOTS
ATLANTIC MARINE INC
AVONDALE INDUSTRIES, INCORPORATED
B & B DREDGING CORPORATION
BARBER STEAMSHIP LINES
BATH IRON WORKS CORPORATION
BAY HOUSTON TOWING COMPANY
BAY TANKERS INC
BAY TRANSPORTATION CORP
BELL STEAMSHIP COMPANY
BETHLEHEM STEEL CORPORATION
BIGANE VESSEL FUELING COMPANY
BIRD-JOHNSON COMPANY
BUCKLEY TOWING INC
BULKFLEET MARINE CORPORATION
C G WILLIS, INCORPORATED
CAPE FEAR TOWING COMPANY, INCORPORATED
CAPITAL MARINE CORPORATION
CEMENT DIVISION-NATIONAL GYPSUM COMPANY
CEMENT TRANSIT COMPANY
CENTRAL GULF LINES, INCORPORATED
CHRISTIANA MARINE SERVICE, CORP
CLEVELAND TANKERS INC
CLIPPER CRUISE LINE
COASTAL BARGE CORPORATION
COLEMAN'S LAUNCH SERVICE
COLT INDUSTRIES, INCORPORATED
COMBUSTION ENGINEERING INCORPORATED
CONTINENTAL MARITIME INDUSTRIES, INCORPORATED
COVE TANKERS
CRESCENT TOWING & SALVAGE COMPANY
CROWLEY CARIBBEAN TRANSPORT
CROWLEY MARITIME CORPORATION
CURTIS BAY TOWING COMPANY OF VIRGINIA
CURTIS BAY TOWING COMPANY OF PENNSYLVANIA
DANAHY MARINE SERVICE
DELTA QUEEN STEAMBOAT COMPANY
DISTRICT NO 1—MEBA/NMU
DIVERSIFIED MARINE INT INC
DIXIE CARRIERS INCORPORATED
DUNBAR & SULLIVAN DREDGING COMPANY
EDWARD E GILLEN COMPANY
ENERGY TRANSPORTATION CORPORATION
ERIE NAVIGATION COMPANY
ERIE SAND STEAMSHIP COMPANY
EXPRESS MARINE INCORPORATED
FALCON CARRIERS INC
FALCON MARINE COMPANY
FARRELL LINES INCORPORATED
G&H TOWING
GARTLAND STEAMSHIP CO
GASTRANS, INCORPORATED
GELLETHIN BARGE LINES
GENERAL DYNAMICS CORPORATION
GENERAL ELECTRIC COMPANY
GENERAL SHIP CORPORATION
GEORGIA MARINE WAREHOUSE CO
GOULD INCORPORATED
GREAT LAKES DREDGE & DOCK
GREAT LAKES INTERNATIONAL INCORPORATED
GREAT LAKES TASK FORCE
GREAT LAKES TOWING COMPANY
GULF ATLANTIC TRANSPORT CORPORATION
GULF MARINE
H & M LAKE TRANSPORT LTD
HANNAH MARINE CORPORATION
HENRY DUBOIS & SONS CO
HIGMAN TOWING COMPANY
HOPEMAN BROTHERS, INCORPORATED
HVIDE SHIPPING INC
I B C COMPANY
IMO DELAVAL INCORPORATED
INDUSTRIAL UNION OF MARINE & SHIPBUILDING WORKERS OF AMERICA
INGALLS SHIPBUILDING DIVISION
INLAND BOATMEN'S UNION OF THE PACIFIC
INLAND LAKES MANAGEMENT, INC
INLAND STEEL COMPANY
INTERLAKE STEAMSHIP COMPANY
INT'L BROTHERHOOD OF BOILERMAKERS IRON SHIPBUILDERS BLACKSMITHS, FORGERS & HELPERS
INTERNATIONAL LONGSHOREMEN'S ASSOCIATION
INT'L LONGSHOREMEN'S AND WAREHOUSEMEN'S UNION
INTERNATIONAL MARINE CARRIERS, INC
INT'L ORGANIZATION OF MASTERS MATES AND PILOTS
INTEROCEAN MANAGEMENT CORP
INTERSTATE OIL
JJH INCORPORATED
JACKSONVILLE SHIPYARDS INCORPORATED
JAMES RIVER TOWING COMPANY
JAMESTOWN METAL MARINE SALES INCORPORATED
JERED BROWN BROTHERS INCORPORATED
JOHN J MCMULLEN ASSOCIATES, INCORPORATED
JOINT MARITIME CONGRESS
KEYSTONE SHIPPING COMPANY
KIEWIT EASTERN
KINSMAN LINES, INCORPORATED
LSC MARINE INC
LAKE CARRIERS ASSOCIATION
LAKE SHORE, INCORPORATED
LIBERTY MARITIME CORPORATION
LITTON GREAT LAKES CORPORATION
LOCKHEED SHIPBUILDING COMPANY
LUEDTKE ENGINEERING COMPANY
LYKES BROS STEAMSHIP COMPANY, INCORPORATED
LYNNHAVEN SERVICES, INC
M ROSENBLATT & SON, INCORPORATED
MACGREGOR-NAVIRE (USA), INCORPORATED
MAERSK LINE, LTD
MARINE CONTRACTING AND TOWING COMPANY
MARINE CONTRACTING COMPANY
MARINE ENGINEERS BENEFICIAL ASSOCIATION DISTRICT 2
MARINE ENGINEERS BENEFICIAL ASSOCIATION DISTRICT 3
MARINE OIL SERVICE, INCORPORATED
MARINE TRANSPORT LINES
MARINETTE MARINE CORPORATION
MARITIME OPERATIONS, INC
MARITIME OVERSEAS CORPORATION
MARITIME TRADES DEPARTMENT, AFL-CIO
MARITIME TRANSPORT LINES, INC
MARITRANS OPERATING PARTNERS, L P
MATSON NAVIGATION COMPANY, INC
MARITIME INSTITUTE FOR RESEARCH AND INDUSTRIAL DEVELOPMENT
MCALLISTER BROTHERS INCORPORATED
MCDERMOTT CORP
MCLEAN CONTRACTING COMPANY
MEDUSA CORPORATION
METAL TRADES DEPARTMENT, AFL-CIO
METRO MACHINE CORPORATION
MOORE MCCORMACK BULK TRANSPORT, INC
MORAN TOWING AND TRANSPORTATION COMPANY, INC
MORAN TOWING OF TEXAS INCORPORATED
MORMAC MARINE GROUP, INC
MORMAC MARINE TRANSPORT, INC
NATIONAL ASSOCIATION OF DREDGING CONTRACTORS
NATIONAL ASSOCIATION OF PASSENGER VESSEL OWNERS
NATIONAL MARINE ENGINEERS BENEFICIAL ASSOCIATION
NATIONAL MARINE SERVICE
NATIONAL STEEL & SHIPBUILDING COMPANY
NEWPORT NEWS SHIPBUILDING
NEW YORK AND NEW JERSEY DRY DOCK ASSOCIATION
NEW YORK TOWING LINE, INC
NORFOLK SHIPBUILDING & DRYDOCK CORPORATION
NORTH AMERICAN TRAILING COMPANY
NORTHEAST TOWING COMPANY
O L S TRANSPORT, LTD
OMI CORP
OSG BULK SHIPS, INC
OCEAN CARRIERS, INC
OCEAN TOWING COMPANY
OCEANTRAWL INC
OGLEBAY NORTON COMPANY
ORGULF TRANSPORT COMPANY
PACIFIC GULF MARINE, INC
PACIFIC MARITIME ASSOCIATION
PACORD, INCORPORATED
PETERSON BUILDERS, INC
PILOT SERVICES CORPORATION
POTEN & PARTNERS, INCORPORATED
PRINGLE TRANSIT COMPANY
PUERTO RICO MARINE MANAGEMENT INCORPORATED
PUERTO RICO MARITIME SHIPPING AUTHORITY
PUGET SOUND TUG & BARGE CO
RADCLIFF MATERIALS, INC
RAINBOW NAVIGATION
RAYTHEON SERVICE COMPANY
RED CIRCLE TRANSPORT COMPANY
ROBERT E DERECKTOR OF RHODE ISLAND, INCORPORATED
ROUGE STEEL COMPANY
SP-MARINE
STC HOLLY'S COMPANY
SAN DIEGO TRANSPORTATION CO
SEACOAST ELECTRIC SUPPLY CORPORATION
SEAFARERS INTERNATIONAL UNION
SEAHAWK MANAGEMENT, INC
SEALIFT, INC
SEA LAND SERVICE INC
SEA MOBILITY INC
SEATRAIN TANKERS INC
SELF TOWING COMPANY INCORPORATED
SHERIDAN TRANSPORTATION COMPANY
SHIPBUILDERS COUNCIL OF AMERICA
SOUTH TIDEWATER ASSOCIATION OF SHIP REPAIRERS INCORPORATED
SOUTHWEST MARINE, INCORPORATED
STANDARD MARINE SERVICES, INC
STEUART TRANSPORTATION COMPANY
TANKER SERVICE COMMITTEE, INC
TEXTRON MARINE SYSTEMS
THE AMERICAN SHIP BUILDING COMPANY
THE BAKER-WHITELY TOWING COMPANY
THE BINGHAM GROUP
THE INTERLAKE STEAMSHIP COMPANY
THE JONATHAN CORPORATION
TODD SHIPYARDS CORPORATION
TOPGALLANT GROUP, INC
TOTEM OCEAN TRAILER EXPRESS
TRAILER MARINE TRANSPORT CORPORATION
TRANSOCEANIC CABLE SHIP CO
TRANSPORTATION INSTITUTE
TRINIDAD CORPORATION
TURECAMC COASTAL & HARBOR TOWING CORP
UNITED SHIPOWNERS OF AMERICA
UPPERLAKES TOWING CO
USS GREAT LAKES FLEET, INC
VESSEL CHARTERS INC
WATERMAN STEAMSHIP CORPORATION
WEST CHESTER MARINE SHIPPING COMPANY
WEST COAST SHIPPING
WESTERN TOWING COMPANY
WESTINGHOUSE ELECTRIC CORPORATION
WORTHINGTON PUMP DIVISION
YORK INTERNATIONAL CORPORATION
ZENITH DREDGE CO

A STRONG UNITED STATES MERCHANT MARINE IS VITAL TO OUR NATIONAL DEFENSE AND ECONOMY.

STATEMENT OF MARITIME TRADES DEPARTMENT, AFL–CIO

The Maritime Trades Department, AFL–CIO, representing 42 national and international unions with 8.5 million members, wishes to indicate its strong support for S. Con. Res. 63, urging that maritime transportation be excluded from the discussions on a services agreement in the General Agreement on Tariffs and Trade (GATT).

As members of the committee are well aware, the U.S. maritime industry has been in an advanced state of decline for many years. This course of events has had grave implications for our economy and national security. American maritime policy is predicated on the determination that a strong and healthy merchant marine and shipbuilding base is essential to provide strategic sealift and mobilization capability during times of emergency. Including maritime services in a multilateral agreement such as GATT would have the effect of undermining this essential national resource, further exposing the present weakness in our defense policy of forward deployment of military capability.

Any industry revitalization is largely dependent on a number of promotion programs administered by the Federal Government. In fact, much of the industry's recent decline is coincident to a parallel decline in these programs during the last decade. Efforts are currently underway in Congress to revise the subsidy process and find ways and means to implement the recommendations of the presidentially appointed Commission on Merchant Marine and Defense. All such efforts could be scuttled and all existing programs be jeopardized should GATT coverage be extended to include the maritime sector, or if existing programs are "grandfathered." Additionally, treating waterborne transportation as a reservation, to be renegotiated later, would only destabilize an already fragile industry, threatening the ability of the industry to raise the necessary capital for future growth.

Why U.S. trade negotiators have persistently refused to take maritime off the GATT bargaining table defies reason. Surely they must realize that the current mechanisms for resolving questions over unfair foreign barriers—Section 19 of the Merchant Marine Act of 1920, the Shipping Act of 1984, and Title X of the 1988 Trade and Competitiveness Act—would in effect be scrapped, only to be replaced by a new bureaucratic agency ill-informed and ill-suited for resolving disputes involving complicated international admiralty law and maritime policy.

Left in place would be the current regime of restrictive trade practices that have been victimizing the U.S.-flag fleet for decades, while guaranteeing access to our largely open ports. This would benefit not the United States, but all of its trading partners, including heavily subsidized and potentially hostile fleets, to whom the pursuit of hard currency and fleet development normally takes precedence over the concept of competitiveness and free trade. Instead of increasing access to foreign markets, GATT coverage would deprive us of the tools we need to combat unfair trade practices.

Access to the domestic trade would also have a substantial destabilizing effect on its business environment. In as capital-intensive a field as shipping, investment decisions are made on the basis of projected risk, including the permanence of cabotage laws. If future expansion of the domestic fleet is to be realized, existing statutes must be shielded from the arbitrary challenges of other countries.

This raises what is perhaps the most dangerous feature represented by GATT. We must ask ourselves whether we really want to subject an essential national security component to the veto power of foreign states. We must ask whether trading partners can be allowed to determine our future maritime policy, while enjoying free and unfettered access to our trades. It is ironic that some of these trading partners are arguing for exclusion of maritime transportation from the GATT negotiations, and could be our allies in that effort, at precisely the time we appear willing to drop the ball.

Keeping maritime services out of GATT is the only sensible course of action. It would support our national security, preserve flexibility in our policies and save tens of thousands of American jobs. Further, such an exclusion should be complete and comprehensive, not a piecemeal waiver for individual programs. The Maritime Trades Department pledges its full cooperation in working toward adoption of S. Con. Res. 63, and urges the members of the committee to give it its fullest and most enthusiastic consideration.

STATEMENT OF THE NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION

Mr. Chairman and Members of the Committee, the National Marine Engineers' Beneficial Association, our nation's oldest and largest maritime union, and the

American Maritime Congress, representing more than 100 U.S.-flag ship operating companies in the domestic and international trades, recognize the vital legislative leadership and oversight roles that this Committee plays on all aspects of U.S. trade and appreciate the Chairman's desire to discuss GATT and its prospects at today's hearing.

We are deeply disturbed by the course the U.S. Government appears to be pursuing in the GATT Negotiating Group on Services (GNS). We would like to express to the Committee the strong opposition of our organizations to the inclusion of maritime transportation in any services or other agreement reached at the GATT negotiations. We also urge that no other measures be taken in any GATT agreement, such as in the government procurement or subsidies areas, that might adversely affect the maritime industry, regardless of whether such measures fall under the services sector or not.

Inclusion in GATT would, quite simply, destroy our industry and every job in it. It would open up, sooner or later, our domestic trades, inland waterways, and all maritime promotional laws and programs to foreign vessels, foreign crews, and foreign ownership. All investment in the U.S.-flag fleet would be deep-frozen, with investors unwilling to make the necessary commitment when the U.S. Government would have clearly signaled that it had no commitment of its own. And our defense capable sealift would dwindle to a fleet of aging reserve vessels, slowly running out of spare parts, expertise, and crews to operate them.

During the period of negotiations of the U.S./Canada Free Trade Area Agreement, the position of our industry and the Congress against the inclusion of maritime in that agreement was made abundantly clear. And we are deeply grateful for the strong support our industry received then from the chairman and Members of this Committee. Already, many members of Congress have made clear their same strong views on GATT and maritime services, because the threat to us posed by inclusion in GATT makes the U.S./Canada FTAA pale by comparison. To this end, Senator John Breaux on August 4, 1989 introduced S. Con. Res. 63. It now has 28 cosponsors, and this number is growing. This resolution, which we strongly support, urges the President not to include maritime transportation in the GATT negotiations.

There is no reason why the objective of this resolution cannot be achieved if our negotiators have the will and the inclination to do so. The United States has formally proposed that the GATT Framework Services Agreement provide for the exclusion of certain sectors. We have, however, the clear sense, based on the negotiating history of these talks to date, that it is our negotiators, as much as those of any other nation, who want maritime services kept on the table. We, therefore, strongly urge that the U.S. remain steadfast to its initial commitment to sectoral exclusions.

We should note, at this point, that the U.S.-flag shipping industry is not alone in its view that maritime transportation should be excluded from GATT. There is worldwide opposition—by groups such as the Council of European and Japanese Shipowners' Associations, the Committee of Associations of Shipowners of the European community, the Commission on Sea Transport of the International Chamber of Commerce, the Business and Industry Advisory Committee to the organization for Economic cooperation and Development, and the Baltic and International Maritime Council. These groups fear the growth of an enormous international regulatory bureaucracy that will stifle maritime free trade. Their concern is different from ours, but it is one which proves our central point: including maritime in GATT does no good for anybody—except for our negotiators who desire to use our industry as a bargaining chip for their own negotiating objectives.

We feel compelled to speak bluntly on this issue, because it appears that if it is at all possible, our negotiators would like to make our industry a bargaining chip in these negotiations and a bargaining chip that is intended to be dealt away in exchange for some other goal entirely unrelated to maritime. There simply would be no reason to make maritime part of these negotiations unless this were the case.

If there were anything to be gained for the U.S. maritime industry in GATT, then we could understand why it might be wise to be a part of these negotiations. The truth, however, is that there is nothing to gain and everything to lose for our entire industry.

Some have argued that inclusion in GATT will help our industry in dealing with market entry and unfair maritime/trading practices of other nations. Such argument holds no water, since existing laws, most notably Section 19 of the 1920 Merchant Marine Act and Title X of the 1988 Trade Act, which the Committee is examining today, already provide substantial authority if the representatives of the United States desire to exercise it.

Others argue that all existing laws and programs will be protected so our industry need not worry. Our trade negotiators talk of "grandfathering" and use words such as "flexible freeze" or "flexible standstill." Under such concepts, existing maritime programs and laws would be kept intact at present but would, in the future, be subject for negotiation, inclusion, and elimination. These arguments also are of no comfort whatsoever. Grandfathering would still prevent any new programs, or expansion of old programs, to strengthen our merchant fleet—which all observers, military and civilian, believe needs to be strengthened. But more insidious is the fact that once established, a GATT services agreement that included maritime transportation, would, year by year, be used to whittle away at our industry under the guise of "liberalization." This is a development that the use of the word "flexible" by U.S. negotiators makes clear would be a certainty. The position of the U.S. maritime industry under such a system would be as meaningless as that into which Soviet negotiators used to attempt to force our government by acting as if "what's mine is mine, and what's yours is negotiable."

Anything less than complete exclusion would also subject ship owners and investors to a stifling degree of uncertainty. No owner or investor is going to want to take on the added degree of risk, in an already risky business, of investing in an area where the rules might be changed disastrously three or five or even ten years down the road.

The maritime industry has been called, and still is, our nation's "fourth arm of defense." In any conventional conflict, ninety-five percent of the support would have to go by sea. Already, this fleet has shrunk alarmingly in recent years, and the fleets of our NATO allies have shrunk even more. From a national defense point of view, it would be foolhardy to sign away this defense capability—all under our control—for some real or imagined trade benefit in another sector. This would equate, for example, paper services with a tangible national defense capability—as if one can stop an enemy tank with fast food in Tokyo or American Express cards in Taiwan.

In 1988, President Bush gave our industry a solemn commitment: "Preservation of the U.S. maritime industry shall be a priority in all international trade negotiations, including the General Agreement on Tariffs and Trade." The only way to "preserve" our industry in the GATT context is to exclude it altogether. Anything less is merely a choice between immediate destruction and a slow death.

We hope that the Committee will follow this matter carefully and will urge our negotiators to drop maritime transportation from the GATT negotiations. We thank the Chairman for allowing this statement to be included in the record of this hearing.

STATEMENT OF THE TRANSPORTATION INSTITUTE

The Transportation Institute is taking this opportunity to express its strong opposition to the inclusion of maritime services in the current round of multilateral negotiations under the General Agreement on Tariffs and Trade (GATT). The Institute is a trade association representing over 140 U.S.-flag vessel operating companies engaged in all aspects of marine transportation in the domestic and international trades.

Out of the fifteen service sectors on the table for negotiation, the inclusion of maritime under the transportation services sector has tremendous potential for irreparable damage. While there may be considerable merit to including certain service sectors in an international agreement, the maritime industry because of its unique nature to the economy and more importantly, national security, should not be lumped together with other service sectors on the negotiating table. Although the United States has been in the forefront in promoting the inclusion of services under a GATT framework, it does not appear that full consideration has been given to the detrimental impact of this position on the U.S. maritime industry. Unfortunately, the U.S. position is only encouraging developing nations to push forward with their own specific goals in mind, such as preferential access to the markets of industrialized countries and protection from foreign inroads for their own service sectors.

Because the GATT seeks to abolish trade barriers, the inclusion of maritime transportation in multilateral negotiations would threaten longstanding U.S. promotional programs, such as the Jones Act (the nation's cabotage policy), cargo reservation statutes, subsidy programs and the Title XI ship mortgage loan guarantee program. Under the GATT framework and in particular if existing programs were "grandfathered," it would be difficult to strengthen programs or to adopt new promotional programs without violating the agreement.

Chipping away at existing promotional policies and laws will only serve to undermine the U.S.-flag merchant fleet's ability to serve in its legally mandated capacity as a naval auxiliary during a national emergency. One year ago in its final report to the President, the Commission on Merchant Marine and Defense concluded that "both our strategic sealift capability and our shipyard mobilization base today fall significantly short of defense requirements." The Commission recommended a number of promotional policies designed to enable the nation to increase "strategic sealift capability by fostering an active merchant marine . . . to sustain that capability during mobilization or war." To include marine transportation in a services agreement will only serve to prevent the United States from moving forward with the Commission's recommendations.

The Congress overwhelmingly recognized the futility of including maritime services in an international agreement when more than half of both chambers endorsed legislation expressing their strong opposition to its inclusion in the U.S./Canada Free Trade Agreement. Subsequently, President Bush, in acknowledging that his administration will stress the maintenance of a strong U.S. maritime industry for national security purposes, included in his maritime plank the provision that "preservation of the integrity of the U.S. maritime industry shall be a priority in all international trade negotiations, including the General Agreement on Tariffs and Trade."

For economic and political reasons, nearly every nation in the world supports their fleets, often in a pervasive manner. The direct and indirect assistance given to the merchant fleets of 87 nations is illustrated in a 1989 Transportation Institute report (copy attached). The Congress and the Reagan Administration in enacting omnibus trade legislation, P.L. 100-418, acknowledged the difficulty in uncovering the maritime practices of our trading partners and therefore reaffirmed in Title X of that Act the principle that maritime services need to be treated independently, by a dedicated agency with specific remedies.

Maritime shipping is one of the oldest forms of international trade, the regulation of which is amongst the most structured in the world. It is monitored internationally by the International Maritime Organization and the United Nations Conference on Trade and Development and at home by the Department of Transportation, the Coast Guard, the Maritime Administration, the Customs Service and the Federal Maritime Commission. With these forums in place, it is unnecessary to subscribe to yet another multilateral agency with no history of experience with the complexities of shipping.

Without a doubt, the future preservation of the U.S. industry is conditioned upon its complete exclusion from all rounds of multilateral discussions. The U.S. Government has within its power and authority the ability to exclude maritime services from a GATT agreement. Under the draft text of a framework for a services agreement, which the United States offered for discussion last summer, if allowed to stand, certain service sectors will be permitted to be excluded from an agreement. With this provision still in the draft text, shortly the U.S. Government must determine its position on which sectors it will favor for exclusion. We urge the Government not to delay but to make a positive statement that marine transportation is not a negotiable item.

Pending before the Finance Committee is S. Con. Res. 63, introduced by Merchant Marine Subcommittee Chairman John Breaux, calling for the exclusion of marine transportation from a GATT services agreement. Similar legislation is pending in the House of Representatives. The Transportation Institute asks the Committee to give favorable consideration to this resolution as a clear indicator of the continued recognition of the Congress that the U.S.-flag merchant marine is vital to the nation's economic and military security and must be given the full support of the U.S. Government if it is to prosper in the future.

○