

**U.S. CUSTOMS SERVICE, USTR, AND ITC
BUDGET AUTHORIZATION FOR FISCAL YEARS
1994 AND 1995**

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED THIRD CONGRESS

FIRST SESSION

—————
JUNE 28, 1993
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**U.S. CUSTOMS SERVICE, USTR, AND ITC
BUDGET AUTHORIZATION FOR FISCAL
YEARS 1994 AND 1995**

MONDAY, JUNE 28, 1993

**U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.**

The hearing was convened, pursuant to notice, at 2:07 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the subcommittee) presiding.

Also present: Senators Conrad, Packwood, and Chafee.
[The press release announcing the hearing follows:]

[Press Release No. H-25, June 21, 1993]

**INTERNATIONAL TRADE SUBCOMMITTEE SCHEDULES HEARING ON TRADE AGENCY
AUTHORIZATIONS**

WASHINGTON, DC—Senator Max Baucus (D-MT), Chairman of the Senate Finance Committee's Subcommittee on International Trade, announced today that the Subcommittee will hold a hearing on budget authorizations for the U.S. Customs Service, the Office of the U.S. Trade Representative, and the International Trade Commission.

The hearing will begin at 2:00 p.m. on Monday, June 28, 1993, in room SD-215 of the Dirksen Senate Office Building.

"The Customs Service, U.S. Trade Representative, and International Trade Commission together are responsible for the development, implementation, analysis, and enforcement of an effective U.S. trade policy. As trade negotiations and agreements like the Uruguay Round and the NAFTA place additional demands on these three agencies, it is essential that they have the funds and other resources needed to fulfill their critical missions," Baucus said.

**OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR
FROM MONTANA, CHAIRMAN OF THE SUBCOMMITTEE**

Senator BAUCUS. The hearing will come to order.

Today, we will consider the fiscal year 1994 budget authorizations for the U.S. Trade Representative's office, the U.S. Customs Service, and the International Trade Commission.

We will focus not only on their budgets, but also on their contribution to the creation and execution of U.S. trade policy.

USTR negotiates our trade agreements and administers our trade remedy laws, such as Section 301.

This tiny agency, with under 160 people, is the engine behind our efforts to secure trade agreements that have the potential to promote global economic growth, such as the NAFTA, the GATT, the Uruguay Round, and the Japan Framework talks.

We need to ensure that the USTR has the funding and the personnel it needs to do the job.

As a bipartisan, independent agency with quasi-judicial powers, the ITC serves several important functions.

It determines whether U.S. industries have been injured by unfairly priced or subsidized goods, and whether industries require import relief under our Section 301 law.

The ITC's research arm, which now includes an Office of International Competitiveness, provides valuable research analysis to this body and to the executive branch.

The U.S. Customs Service is on the front lines, collecting import duties and servicing normal flows of people and commerce across our borders, while working to keep illicit goods, such as drugs, contraband, pirated videos, unsafe food, and other items out of our country.

And just as it is important to be diligent in our trade negotiations, it is also important that we have a well-run Customs Service to meet the challenges of today's more global economy.

In a sense, our trade policy is only as good as our Customs Service. With the NAFTA and the Uruguay Round ahead, Customs will face many new demands. And I hope to discuss some of those demands this afternoon, as well as the continued need for strong enforcement along the United States-Canada border.

But each of these agencies is going to have to do more with less. President Clinton, showing his commitment to cutting our massive budget deficit, has proposed a 3 percent budget cut for every agency, including the ones before us today.

I hope to hear from each of you this afternoon about how this budget situation will affect your operations.

So with no further delays, I would like now to turn to the ranking member of the committee.

Senator Packwood.

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

Senator PACKWOOD. Mr. Chairman, thank you.

These are three disparate budgets we consider this afternoon. Customs is a big service. It has over 17,000 employees.

USTR has at the moment only 162. And I fear by the time we are done, they are going to have slightly fewer than 162. And they do a magnificent job with a few people.

And the International Trade Commission is in between the two. All three are critical.

And Customs is next to the IRS as our biggest collector of revenue.

USTR and the International Trade Commission are up to their necks in issues that absolutely are hanging large over this country in terms of the effect of our future foreign policy and our economic policy.

And I am loathed to see those agencies frankly cut below where they are because I know very well that more cases will be filed and we are going to ask the International Trade Commission for more and more of those Section 332 studies. I can just see it coming. And those are simply not turned out by pushing a computer button.

And the USTR, again, up to its neck in the Uruguay Round, NAFTA, bilateral negotiations with China and Japan, and doing it all with a small cadre.

I look forward to their testimony, but I do not think we will have three more important agencies from the standpoint of this committee ever appear in 1 day.

Senator BAUCUS. Thank you.

Senator Conrad.

**OPENING STATEMENT OF HON. KENT CONRAD, A U.S.
SENATOR FROM NORTH DAKOTA**

Senator CONRAD. Thank you, Mr. Chairman.

I want to thank you for holding this hearing. I look forward to the chance to talk to the representatives of the individual agencies. I am especially interested in our chance to visit with the USTR on pending issues.

Senator BAUCUS. Thank you.

Senator Chafee.

**OPENING STATEMENT OF HON. JOHN H. CHAFEE, A U.S.
SENATOR FROM RHODE ISLAND**

Senator CHAFEE. Thank you, Mr. Chairman.

I concur in the views that Senator Packwood said about the size of these agencies and the size of the workload they have.

I hope that we make adequate travel accommodations for the USTR when their folks travel abroad.

I remember Mr. Kantor saying here that he was leaving on a night flight for London, and then on to Brussels. He was going to be there to do business the next day, and then return the following evening. To me, it seemed crazy.

But I just hope that we provide adequate accommodations for them in their difficult flights and that they do not chinch on the hotels. [Laughter.]

I just hope the whole thing is not run on a shoestring because I do not think any human being should subject himself to a travel schedule like that. And if he is going to do it, he certainly is entitled to reasonable accommodations while he does it.

I know that nobody around in this place worries about government officials' comforts. But as I listened to Mr. Kantor tell that schedule, I was appalled.

On another topic, I note also, I have also had the privilege of recently visiting at least one of our new Customs stations on the United States-Mexican border. Every time we add one of these stations, obviously, it takes increased personnel to run it. Yet I note that Customs is proposing to cut back—well, I am a little confused.

Are they going to have more people? I guess they are going to have 100 new full-time employees to implement the Mexican border initiative. But at the same time, overall, they are going to have some cuts.

I will be interested in the testimony, Mr. Chairman.

Senator BAUCUS. Thank you, Senator Chafee.

Ira Shapiro. The first witness is Ira Shapiro, the General Counsel of the Office of the U.S. Trade Representative.

I would like for you to proceed, Mr. Shapiro.

**STATEMENT OF IRA SHAPIRO, GENERAL COUNSEL, OFFICE OF
THE U.S. TRADE REPRESENTATIVE, WASHINGTON, DC**

Mr. SHAPIRO. Thank you, Mr. Chairman.

I welcome the chance to appear before the subcommittee to present the budget authorization request of the Office of the U.S. Trade Representative.

And I appreciate the opening comments that you, Senator Packwood, Senator Chafee, and Senator Conrad made.

Very few members of Congress have been as constantly interested in the mission of the agency and the work of the agency as you all have.

I appear before you—

Senator CHAFEE. Now, when he says remarks like that, it means that we have to say for the full hearing. [Laughter.]

Mr. SHAPIRO. Actually, I am told that my part will be relatively brief.

Senator CHAFEE. Thank you.

Mr. SHAPIRO. I appear before you at a time of intense activity for USTR on the trade front. We are working hard to try to achieve a market-access package before the G-7 in order to provide the momentum needed to complete the Uruguay Round this year.

We are similarly engaged in trying to negotiate the supplemental agreements to the NAFTA and prepare the implementing legislation and the statement of administration action that will accompany the trade agreement when implementation is sought.

And we are working to build more balanced, bilateral trading relationships with Japan through our framework talks and with China, to enhance the protection of U.S. intellectual property around the world, and to grapple with difficult emerging issues, such as the intersection of trade and the environment.

To support what may be an unprecedented level of activity, the USTR is seeking an authorization of appropriation of \$20.143 million for fiscal year 1994, and \$20.419 million for fiscal year 1995.

This request is the amount that the President put in his budget. It has several important characteristics that I would like to highlight.

First, the request for 1994 represents an increase of only \$151,000 over fiscal year 1993. And the fact is, Mr. Chairman and other members of the subcommittee, fiscal year 1993 represented an 8 percent cut from what would have been a current services budget.

Under this budget, if the 1994 request is granted fully, we will still be 8 percent below the level at which we were operating in fiscal year 1991.

The budget request is part of our effort to meet the President's objective for cumulative reductions in non-personnel costs, starting at 3 percent government-wide for fiscal year 1994, and adding up to a cumulative 14 percent for fiscal year 1997.

The administration has also pledged to trim 100,000 from the Federal work force over the next 3 years, and set a target of a 4 percent increase in FTE, full-time employment, staffing by 1996.

For fiscal year 1994, we will reduce travel and other administrative spending below the levels budgeted for 1993, fully complying with the 3 percent target established for fiscal year 1994.

And similarly, our request includes 157 full-time equivalent staff, FTE, five fewer than the fiscal year 1993 level and a decrease of about 3 percent.

We are carrying out the executive orders and presidential directives that called for a more efficient and well-run government.

We have eliminated two automobiles and two drivers in Washington and Geneva, reducing our total, admittedly not that high, by 40 percent.

We are saving money on conferences and meetings by convening meetings in Federal facilities wherever possible.

We have tightened the management of employee travel, although after Senator Chafee's comment, I hate to emphasize this because the reforms that we have adopted include the prohibiting of premium-class travel, except for trips longer than 12 hours.

For fiscal year 1995, our request represents a continuation of the policies and goals of 1994. And if granted, it would constitute an increase of \$276,000, approximately 1.3 percent over 1994.

We plan to continue the reductions in administrative staffing, and plan to reduce USTR permanent staff to 156 FTE's.

Mr. Chairman, in conclusion, we are seeking to serve two important goals of the administration: to carry out a far-ranging trade policy which opens markets and breaks down barriers all over the world, while doing our best to prove to the U.S. taxpayers that we are committed to holding down the cost and size of government.

I think USTR has a well-established and well-deserved reputation for excellence and dedication. The agency has always accomplished a great deal with a relatively small contingent of professionals. And we will continue to respond to the current challenge in the same way.

I am happy to take any questions about the budget or the agency mission.

[The prepared statement of Mr. Shapiro appears in the appendix.]

Senator BAUCUS. Thank you, Mr. Shapiro.

Before I begin oversight questions, I would like for you to give us a summary of where the United States stands with respect to market access talks.

Where are we? Are we moving along? Are we going to get these completed in time for later agricultural services/intellectual property talks to conclude the round on schedule this year? Market access, where are we?

Mr. SHAPIRO. Mr. Chairman, as was reported reasonably accurately in the press, we had market-access talks in Tokyo among the quad nations. There are still some important differences to be resolved. Ambassador Kantor was quoted as saying that he had never seen a negotiation that ended any sooner than it had to. And I am afraid that this one will continue right up to the G-7 before anything is resolved.

We continue to press for what we have called a big market-access package with deep cuts in tariffs in a number of areas, including wood products, paper, scientific equipment, electronics, and other areas that you are familiar with.

The EC has continued to pursue deep cuts in textile tariffs, and a small number of other areas.

The Japanese have made certain progress in positions on financial services, but continue to be resistant in wood products and distilled spirits.

Our negotiators are going back to meet with them starting tomorrow. And we expect an intense period of negotiation between now and the summit.

We continue to be committed to trying to reach a market-access agreement that will give us momentum to finish the round this year.

Senator BAUCUS. That Japan Framework talks, where are they? I mean, given the recent developments with Japan, that is the other problem facing the LBP.

Mr. SHAPIRO. Mr. Chairman, I am at a little bit of a disadvantage on that because our negotiators were still in Japan. And I had not communicated with them today.

It is my understanding that we have not made the kind of progress we would like to make. And we will evaluate the situation when they return.

Obviously, we have been concerned about whether the change of government or the upcoming change of government in Japan would have an effect on these negotiations. We have to assess that.

Senator BAUCUS. I appreciate that, but I strongly urge the administration to seek both the market-access and the Japan Framework as if there has been no change in LOP.

I say that essentially because I believe it is the Japanese process, because it is generally consensual anyway, is not going to change dramatically, regardless of whether the LOP is still guarding that.

Even if there is a change, I think that the change is more likely to be one that is more to the liking of the United States, but other countries' point of view with respect to Japan opening up its markets to American products.

I think now is the time frankly not to back off waiting for the Japanese political situation to be more stable, but rather it is a time to press ahead even more vigorously. I think that is very much in our country's best interest.

Mr. SHAPIRO. Mr. Chairman, if I could assure you that on both of these areas, it has been our strong intention across the Executive Branch to proceed as if no change had occurred and to proceed strongly.

In fact, though, in some of these areas, one could envision a situation where a new incoming prime minister might have some effect. And as a consequence, we may or may not make as much progress as we would like.

Senator BAUCUS. How can you do your job with only 157 people? I mean, the demands are increasing, not decreasing. They are continuing to increase.

I know you have a certain line you have to give us here, but I am asking you just to be candid, to explore with us the degree to which you can get your job done with 157 people. I understand that you are borrowing from other agencies because you cannot get your job done.

Mr. SHAPIRO. Well—

Senator BAUCUS. If you can go into that a little bit? Can you tell us a little bit about the degree to which you are drawing from other agencies?

Mr. SHAPIRO. Well, in fact, USTR has for many years availed itself of people from other agencies to help. We have benefitted from having detailees over the years.

Right now, I think we have approximately 41 detailees, 16 of which are from the State Department, and the rest scattered from 11 other agencies.

To some extent, that is a continuation of normal policy. In fact, we are relying on a few more detailees than we have in the past.

Senator BAUCUS. That is the question I was going to ask: while FTE's are going down, your detailees are going up.

Mr. SHAPIRO. To some extent, that is true.

Mr. Chairman, you have pointed out that you know that I have to take a certain line. The fact is that we are working hard at USTR to accomplish what we have to do with the people we have on hand.

Senator BAUCUS. I know you are working hard. I mean, Senator Chafee referred to Ambassador Kantor flying all around the world and not stopping to get a night's sleep anywhere.

Mr. SHAPIRO. Ambassador Kantor likes to work that way. [Laughter.]

Senator CHAFEE. How about the aids who have to go with him?

Senator BAUCUS. Are you saying that the rest of you don't like to work that way?

Mr. SHAPIRO. No. There are some of us who prefer not to, but that is why he does not take me with him all the time.

Mr. Chairman, we are committed to doing the job and trying to meet the President's goals in terms of reducing administrative costs.

Very frankly, in fiscal year 1993, we found that we needed additional funds. And we came forward for a supplemental request.

If we find that we cannot do the job and that we have crossed the line between working harder and harder on the one hand and really reaching the point where we cannot do the job, Ambassador Kantor will not have any hesitation to come to you and to talk to the OMB director, as well as to the President, about this.

Senator BAUCUS. My time has expired. Thank you very much.

Senator Packwood.

Senator PACKWOOD. Mr. Chairman, I just have the same question. And I ask that Mr. Shapiro not hesitate to ask for help if we get down to the hard strokes. You are up against it on the Uruguay Round or in NAFTA or in China or in Japan or wherever else you are. You will have my support.

Mr. SHAPIRO. Thank you, Senator.

Senator PACKWOOD. No questions, Mr. Chairman.

Senator BAUCUS. Thank you, Senator.

Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman.

Welcome, Mr. Shapiro.

First, I want to thank you and through you thank Ambassador Kantor for the assistance that we received in the recent announcement of the aggressive expansion of the Export Enhancement Pro-

gram and for the special set aside for Mexico in order to send a message to our neighbors to the north of what has become, as you know, a very serious problem both in durum and in spring wheat. We are also beginning to see a developing problem in barley. All of those are very, very serious matters.

As I have explained to my colleagues before, our friends to the north had zero percent of the U.S. durum market before the Canadian Free Trade Agreement. Zero.

Today, they have 25 percent. And the same pattern is now repeating itself in spring wheat. We are about to see the same thing happen in barley, not because they are stronger competitors, not because they have a competitive advantage, but because of loopholes and mistakes in the Canadian Free Trade Agreement, made not by this Trade Representative, not by this Office of the Trade Representative, but by the previous Office of the Trade Representative, and specifically Mr. Yeutter.

Now that we have played the EEP card, I want to advise you that my end-use certificates bill is included in the Finance Committee package that has now passed the Senate floor.

I would like to know if the administration intends to take a position on retaining the end-use certificate provisions that are in the reconciliation bill?

Mr. SHAPIRO. Senator, to my knowledge, we are still studying that. And we have not decided that question.

Senator CONRAD. Well, I would urge the administration to come to a swift resolution, hopefully a favorable resolution, on that question.

I think the chairman would join me in that. End-use certificates ought to stay in this legislation.

The Canadians have a similar requirement on our grains. What's good for the goose is good for the gander. We ought to use this as an opportunity to put leverage on our friends to the north with respect to these issues.

My second question would be on a countervailing duty case because that has been under active discussion as well, whether or not there will be a self-initiated countervailing duty case, or whether or not the administration would help the industry bring a countervailing duty case.

Has there been any resolution of that question to your knowledge?

Mr. SHAPIRO. Senator, to my knowledge, that has not yet been resolved. Frankly, we have, as you know, spent a fair amount of time interagency with respect to the EEP Program.

This is a matter where you and Senator Baucus have done a great deal to bring out some of the issues here, which helped lead to an interagency consensus that Canada ought to be labeled a subsidizer, and that it was important to expand the program and to Canada EEP, particularly with respect to the Mexican market.

But we have not reached a decision beyond that.

Senator CONRAD. Well, let me just say that I very much appreciate what was done with respect to EEP. I know the role that USTR played. I know the role that USDA played.

And I speak for my delegation. We are extremely pleased at the aggressive approach that was taken. I think we simply have to be aggressive or the message will not be delivered.

I also want to urge the administration to make progress on the end-use certificate bill.

It has passed the Senate. We hope that stays in the package and that the administration takes a position in favor of it.

It is only fair. The Canadians have it. We ought to have it.

And CVD, we think, is another lever that is important.

And finally, I would ask you on Section 22, because I have asked personally for Section 22 action on barley. I have written to the Secretary of Agriculture with respect to that. Has there been any decision within the administration on the Section 22 action?

Mr. SHAPIRO. Senator, not yet. It is being looked at quite closely. We have had, as you know, a number of issues in the Canadian area with respect to agricultural issues. And we are looking at this one as well.

Senator CONRAD. Well, I know that this is under very, very close scrutiny and very serious consideration at the moment. I have been advised that they are very close to a decision.

And I just want to urge you to take back the message that we see this as critically important, that we invoke Section 22.

It is our right to do so. And given what is coming across our border and given the unfair nature of it, we believe invoking Section 22 is extremely important.

I think the chair. I do not want to go over my time.

Senator BAUCUS. Thank you very much, Senator.

Mr. Shapiro, I want to associate myself with Senator Conrad, particularly on the Export Enhancement Program with respect to Mexico. I think it is critical, and the end-use certificates as well.

I am a conferee. And the reconciliation bill, I can assure the Senator and assure the wheat producers in this country that I will do all I can to ensure that that is enacted.

Senator CONRAD. We deeply appreciate that, Mr. Chairman. And we are very, very pleased to see that you are a conferee.

Senator BAUCUS. Well, wait until we are through. Make sure we get it. [Laughter.]

Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Senator Conrad who is the we that you have in your editorial comment? We meaning you? I am curious. You say, "We are very pleased with that."

Senator CONRAD. We, the North Dakota delegation, the agricultural community, the larger agricultural community of which you have become almost an honorary member because of your stand on the honey program. [Laughter.]

Senator CHAFEE. Thank you. Thank you very much. I have signed you up as part of the group to get rid of the luxury tax likewise. [Laughter.]

Mr. Shapiro, I want to echo the comments that have been made here about the job that you folks do with relatively very few people.

I suppose that something comes with a small organization. You get kind of a perverse pride in how you get along without much.

The Marine Corps always has that pride, feeling that they do not get as much as the others, but they are tougher and better and leaner and more efficient.

At the same time, I think there comes a limit. However, I would think that, let's say, by the end of this calendar year that the Uruguay Round is wrapped up, that NAFTA is concluded.

Wouldn't that rather substantially reduce the burdens that your office carries?

Now, I suppose what happens is that you might send back some of those loaned employees you have. Is that the way you would respond? Or do you launch into another round immediately?

Mr. SHAPIRO. Well, there is talk about the next round. And some people in our office think about that quite a bit, as they should.

Frankly, I am more focused on this round and the NAFTA and some more problems we are dealing with right now. I think we just have to see where we are at that point.

Frankly, this is an unusual situation where we are trying both to complete the major negotiations on the Uruguay Round and then trying not only to complete the supplementals, but then to complete the implementation process of NAFTA.

I have to say, I think that our size is about right for our normal activities. And—

Senator CHAFEE. Without the loaned employees?

Mr. SHAPIRO. Well, no. I mean, our size plus a certain number of detailees would probably take care of normal workload. And we may have added some detailees to try to deal with the period that we are in now.

So I would be reluctant to prejudge where we would be at the end of the year.

Senator CHAFEE. Well, we certainly—or at least I am very impressed that you do with what you've got. You are scattered all over the world. I think you do a good job.

Mr. SHAPIRO. Thank you, Senator.

Senator CHAFEE. And I do deplore the ambassador's travel schedule. But if he thrives on it, three cheers for him. I think it would kill the rest of us off.

Thank you, Mr. Chairman.

Senator BAUCUS. Thank you, Senator Chafee.

Mr. Shapiro, I was curious. It is as difficult to grab as oranges, but what is the size of the Japanese, Canadian, Mexican, and EC numbers?

Mr. SHAPIRO. Mr. Chairman, I would have to get you those numbers.

Senator BAUCUS. Your best guess.

Mr. SHAPIRO. My best guess is that it is many times larger.

But, as you know, having thought about the question of reorganization over the years when the committee has thought about the Commerce Department and the USTR, I think if you are comparing them, some people would argue that you would have to aggregate the numbers to look at it realistically.

I just cannot give you that number.

Senator BAUCUS. One final question. How can you effectively negotiate both NAFTA and the Uruguay Round with one deputy, with

Mr. Yirsker doing both. When are we going to get the other deputy?

Mr. SHAPIRO. Well, Mr. Chairman, I think you are probably referring to the Geneva deputy.

Senator BAUCUS. That is right.

Mr. SHAPIRO. Because we obviously do have two Washington deputies.

Senator BAUCUS. That is right.

Mr. SHAPIRO. Frankly, I would like very much to have the Geneva deputy on board already. And that has not happened yet.

The truth is though, we have a very good DCM in Geneva who has been there for a number of years. It is also true that in the past, the principal deputy in Washington has often taken the lead on whatever major negotiations were going on multilaterally or in the NAFTA. Jules Katz bore that responsibility in the last administration.

So I think that Ambassador Yerxa would probably be playing a crucial role in both of those anyway.

But I agree with your point, that we ought to get around and do that.

Senator BAUCUS. Well, when are we going to get around to doing it?

Mr. SHAPIRO. Well, I would not say it is imminent.

Senator BAUCUS. Well, I urge you to push more strongly so we can get on with it.

Any more questions? I have none.

Senator Conrad.

Senator CONRAD. Mr. Chairman, if I might first of all make a comment with respect to the question at hand. I have spent a fair amount of time with Paul Tran van Thin, the EC Ambassador to the GATT. And my strong impression is that the Europeans have many more resources than do we on these efforts.

And certainly, their trade ambassador, the person that has the equivalent rank, is treated much more generously than ours.

I have visited his home. I have seen his operation. It puts our operation to shame.

So I think the chairman and the other members have made a telling point.

One other question I would have for Mr. Shapiro is this: On a Section 22 case that we might bring against Canada, the requirement is that we demonstrate that they are materially interfering with our farm programs.

I would urge you to take back to the people who are evaluating and analyzing this question, that with our new EEP announcement, I believe that we could have a clear demonstration that the pattern of Canadian activity is materially interfering with our Export Enhancement Program.

I believe the case would be quite strong in that regard. I would hope to bring that to the attention of the people who are evaluating the question.

Senator BAUCUS. Thank you, Senator Packwood, Senator Chafee, and Senator Conrad for your questions.

Thank you very much, Mr. Shapiro. We appreciate your testimony.

Mr. SHAPIRO. Thank you, Mr. Chairman.

Senator BAUCUS. Our next witness is Hon. George Weise, Commissioner of the U.S. Customs Service.

We welcome you, Commissioner. I am happy to see you here. I would like for you proceed in any manner you wish.

STATEMENT OF HON. GEORGE J. WEISE, COMMISSIONER, U.S. CUSTOMS SERVICE, WASHINGTON, DC

Mr. WEISE. Mr. Chairman, thank you very much.

It is really a great pleasure for me to be back in this room. Less than 2 months ago, as you know, you and I sat together at this table when I was the nominee for Commissioner of Customs.

And it gives me a great deal of pleasure to appear back before this distinguished subcommittee as the Commissioner of the U.S. Customs Service.

As you know, Senator, I have spent an awful lot of time over the course of my career involved in customs-related issues. And I care deeply about the agency.

And as someone who has spent 9 years on the Ways and Means staff, I know full well how much this organization, this subcommittee has done, not only to contribute to effective trade policy, but also to help the Customs Service to respond to its many demands.

Mr. Chairman, if I might, I have a statement that I would like to see submitted for the record.

And then, I would like to just talk to you a bit about some of our priorities in summary form, and about the challenges that are facing the Customs Service. If I could proceed that way, I would appreciate it.

Senator BAUCUS. Without objection. It is so ordered.

[The prepared statement of Mr. Weise appears in the appendix.]

Mr. WEISE. Mr. Chairman, I thank you for that.

I have been traveling around the country over the course of the last 7 weeks as the Commissioner of Customs.

I think we have an undaunting challenge that faces us. And I think that the members of this subcommittee recognize this in terms of resources.

We have submitted a budget request for fiscal year 1994, as you are aware which basically would reduce our budget from fiscal year 1993 by \$61 million, and would have 367 fewer personnel to carry out our mission.

If you look at the longer-term horizon in order to meet the President's targets, we are going to have to further reduce the number of employees that we have in the Customs Service, as well as continue the reduction of our administrative costs.

This is being done at a time when the workload is clearly not going down. We have seen dramatic increases in our trade over the last number of years.

And clearly, as any head of an agency, I wish I would be starting upon this assignment with increasing resources rather than decreasing resources, but I am realist.

And frankly, I believe very strongly in what this administration is attempting to do to tackle this deficit challenge.

And I respect all the members of this committee for attempting to meet that challenge. And I know that everyone wants to come before you and say, "reduce the deficit, but do not touch us."

I recognize that we have to do our part. And I think we can do our part.

But the reason I want to talk to each of you candidly and frankly is that we have some legislative initiatives that are pending that I think will help us to meet this challenge.

And I think with the legislative initiatives that I would like to discuss with you, I think we can meet the challenge and emerge as an even more effective Customs Service than we are today.

The first one that I would like to mention to you is the Customs Modernization Act. Each and every one of you are familiar with this legislation.

We worked very hard on it. I say "we" because I was personally very much involved in it as the Staff Director of the Ways and Means Trade Subcommittee during the course of the last Congress. We worked with all of the various interest groups.

I spent 9 years on Capital Hill. And there was not a single piece of legislation that I felt so proud about as the work that was done to try to ensure that every major interest group had an opportunity to input into this process.

Not everyone—frankly not anyone got every thing they were looking for, but the bill that emerged from the Congress last year and would be law today were it not for the fact that it was married up with the tax bill that ultimately was vetoed by the President, that legislation, in my judgment, was a responsible piece of legislation that meets the demands and the needs of the Customs Service in facing the challenges that lie ahead in the commercial area.

I think it also meets the demands and challenges of the predominant portion of the business community.

And I know it was even endorsed by the National Customs Brokers Association, as well as all of the major local brokers associations during the course of the last session of Congress.

That legislation, as I said before, would be law today were it not for the fact that it was married up with the wrong bill.

I am making my plea today on this legislation because once again this legislation has been introduced in this session of Congress.

There is a bill pending on both the House and the Senate side. But there is a certain number of small brokers who once again are looking at trying to reopen negotiations on this, to try to make it something different than what was agreed to in the last Congress.

I, in the course of the last Congress, was an impartial participant trying to get a bill that all parties could agree to.

Now, I have a vested interest. I am the head of an agency that really cannot meet the kinds of challenges and demands that are put upon us unless we are able to streamline and modernize our commercial operations.

We absolutely need to have a Customs Modernization Act enacted into law as early as possible.

And I would ask your help and work with you, each and every one of you, to try to ensure that this is not an issue that languishes

until the end of this session. I think we need it. And we need it sooner than later.

The next issue is also an important issue. We have for the last at least 6 years been prohibited by Congress from looking at our organizational structure.

And, Senator, this is something that you will recall that you and I talked about personally when I was doing my courtesy calls before our hearing.

And I was pleased that the Senate Finance Committee, in reporting my nomination, went on record as saying that this prohibition that has appeared in our appropriations bill for the last 6 years that precludes us from expending any funds to study our organizational structure needs to be removed.

We need to examine our organizational structure. We have seven regional offices, 44 district offices, and over 300 port offices. This structure has been in effect for many, many years.

I think if we had the opportunity to examine our structure that we could create some efficiencies by freeing up some resources at the headquarters level, perhaps in the regional structure, and allocate those resources out to the field where we can actually carry out our fundamental mission.

I am pleased to report to this committee that after many meetings and discussions with both Senators and Congressmen in the Appropriations Committees, it now appears as if that legislation will be changed.

And there is a bill pending in terms of a Senate appropriations supplemental bill that would remove that impediment, that would allow us to study our organizational structure.

And the House Appropriations Committee has now reported legislation to the floor that would remove this impediment.

This goes a long way in helping us create efficiencies in our organizational structure that would allow us to meet this demand.

I must point out, however, that there is another provision within the jurisdiction of this committee in a related area. It is 19 U.S.C., Section 2075, paragraph G. And particularly, I refer you to the first paragraph of that Section G.

It basically says that the Commissioner of Customs must maintain existing levels of commercial services at all Customs district offices that were created by statute by April 7, 1986, and that 180 days before making any moves affecting our organizational structure that would result in a reduction in force of employees, or a reduction in our hours of operation, or that would relocate any office or eliminate any port of entry, we must report back to this committee.

I, for one, was very much involved in the crafting of that provision. I recognize the importance of it at the time it was created.

This was done about 6 or 7 years ago when we had a commissioner that was very bent on diminishing Customs allocation of resources towards the commercial side of the equation, and moving many resources into the enforcement side.

I think that all of you know with my background and experience that I come to this job from a completely different perspective.

I recognize the importance of the commercial side of the Customs Service. And I pledge to you that I am going to try to provide a balanced approach.

But we are in the process now of trying to go through an exercise of reinventing government, making government more like a business.

I am trying my best to meet that challenge, but it is very difficult when I have these kinds of restrictions that are put upon me in terms of trying to create a more efficient and effective organization.

My objective is to achieve a new level of excellence within the Customs Service. I want to make it the best Customs Service that it possibly can be.

I think we have room to improve. I wish we could do it with increasing resources. But I think even in these austere times, we can make it a more efficient Customs Service.

And I pledge to work with this committee. I know that if I were to move in a manner that would be arbitrary or capricious in terms of reallocating resources or closing offices that these kinds of impediments would immediately be put back on Customs.

So I pledge that I will work with the local business community. I will work with this committee and the Congress to try to make improvements in the Customs Service.

So I will conclude on that remark. I look forward to working with this committee over the next several years to try to achieve that common objective, making it a better Customs Service, more efficient and effective, and carrying out our trade laws and providing a balance in terms of our enforcement and commercial functions.

Thank you, Mr. Chairman.

Senator BAUCUS. Thank you, Commissioner.

With respect to your first request, the Customs Modernization Act, would you mind? Do you have any views as to whether it should be attached, say, to NAFTA on this issue?

Mr. WEISE. Mr. Chairman, I would like to get it on whatever vehicle is moving the earliest and the fastest. And I certainly would be happy to work with you.

One of the concerns that has bothered me is that in discussions on the House side, people are looking at this as a trade measure.

And I have heard concerns expressed by certain Congressmen that if the Customs Modernization Act starts moving, then all kinds of other trade policy measures should move with it.

I look at Customs modernization not as a trade policy issue at all. It simply is a way to streamline process and procedure for the facilitation of the movement of merchandise through the Customs Service.

It would benefit the Customs Service and the trading community. It is not a trade policy initiative. And I would hope that it would not necessarily be tied to other trade policy issues.

I think we ought to be able to move even more expeditiously than in NAFTA which may be coming very late in this session.

I would like to explore all avenues to try to get it moving as quickly as possible.

Senator BAUCUS. One concern I have, sir, is this. If the agency is going to have 265 with fewer people, that I understand is the cut to be, how is Customs going to be able to do its job?

I am of thinking of NAFTA, for example, other trade agreements going down the line, transshipment problems.

Let's take textiles, for example. NAFTA would enact one of the largest quota-free textile trade areas in the world. And we know instances where China is guilty of transshipment violations, other countries, too.

It would be a great temptation for many countries to transship into North America in order to achieve their objectives. And there is rules-of-origin questions, end-use certificates, questions and so forth on auditing, of end-use—I mean, rules of origin that go on the books, for example, the manifest, and so forth.

It seems to me that when the demand is greater and with fewer personnel, Americans are not going to be protected as much as they should be.

And all of the food and safety questions that NAFTA has enacted, for example. How are we going to ensure ourselves that the food coming in from other countries is going to be safe?

How can you do your job?

Mr. WEISE. Mr. Chairman, you pointed out correctly that the challenges are great. I do not think that it means that we cannot do our job. It means that we obviously have to work a lot smarter than we have in the past.

There was a tradition within the Customs Service for many, many years that we had to examine every single shipment. It is now a physical impossibility.

Even if you doubled my staff, which I know is not in the works, we could not physically examine every importation.

So we need to take advantage of computer technology. We need to do advanced intelligence work so that we can in a smart way target the high-risk shipments to give intense examinations, and allow a lot of the lower-risk shipments to be released without examination. We can do this by pooling resources within the Customs Service and cooperating with other agencies. This holds as well when you talk about the NAFTA.

At least with regard to the NAFTA, in a time of shrinking budgets, and I will point out to Senator Chafee, since you alluded to this in your opening comment, we have been mandated and I think it is an appropriate mandate by the Senate that came out of the Senate Appropriations Committee, but it was ultimately passed, to add 300 additional positions to the Southwest border.

I think a lot of this was because of the demands down there that exist today because of the narcotics threat, as well as the commercial volume of trade that is increasing dramatically, but it is also in anticipation of the NAFTA.

In addition to putting additional resources along the border, we need to work in greater cooperation with the Mexican Government.

I think that there is an opportunity now that is greater than it has been in the past, in light of this NAFTA negotiation. We are sharing intelligence. We are talking to each other.

Senator BAUCUS. I hear all these great intentions and a lot of generalities here. Can you put any numbers behind it, dates and data and deadlines? I mean, something. Abstraction is, as someone said, cruelty.

Mr. WEISE. Well—

Mr. WEISE. No, Senator. I do not have a specific target date to try to eliminate it at this point.

Senator BAUCUS. That is an immediate tool in order to address the problem. It is one thing to say that we are talking about and working on this. It is something else to say by such and such date you intend to have this either eliminated or reduced by such and such an extent.

I would like for you to come back to us with those dates and that data so that we can determine the degree to which we are getting the job done.

Mr. WEISE. I think that is a constructive suggestion, Mr. Chairman. We will be happy to provide that for you and to provide the committee with a separate briefing on this matter if it is desired.

[The information follows:]

RESPONSE FOR THE RECORD: TRANSSHIPMENT

Customs hopes that textile transshipments can be significantly reduced in 1994, but it is important to note that transshipment is an illegal activity and, as such, cannot be accurately measured. Occurrences of transshipment are subject to a number of factors, including market conditions and quota restraint levels. An improved economy will result in greater importations, which may result in quotas which fill more quickly. This would lead to an increased incentive for and possibility of illegal transshipments.

Customs is continuing to place a high priority on the interdiction of illegal transshipments of textiles. In fact, the enforcement of trade agreements such as the textile bilateral agreements is Customs number-one trade enforcement priority. The Agency's approach is to work with the importing community to achieve maximum voluntary compliance, to work with other governments, and to vigorously pursue maximum criminal and civil penalties, as in our current Q-Tip cases.

For 1993, U.S. Customs charged \$10,845,000 worth of illegally transshipped textile merchandise to China's quota restraint levels, and \$4,058,141 to Pakistan's quota restraint levels, based upon the entered value of the merchandise. These figures are based on actual entries. Customs estimates another \$150,000,000 worth of illegally transshipped textile merchandise has either been seized, denied entry, or is pending further information before charges are recommended. For 1994, the Agency estimates charging \$30,000,000 worth of illegally transshipped textile merchandise to the foreign government's quota restraint levels and another \$200,000,000 that will be seized, denied entry, or detained awaiting further information.

Senator BAUCUS. Thank you very much.

Senator Packwood.

Senator PACKWOOD. Are you considering moving the Portland headquarters to the airport?

Mr. WEISE. Well, Senator, I—

Senator CHAFEE. You are talking about, you understand, a broad, worldwide—

Mr. WEISE. Senator, you illustrate the very problem that we face. Any office that has been created in the past, there is a strong desire to keep it exactly where it is. I cannot answer your question specifically other than to say there is no current plans to change that office.

What I would like to do when my hands are untied in terms of examining our organization, is to put together a task force that is made up of representatives of headquarters, regional, district, and port offices, as well as outside management consultants to do a study and report back to me what they recommend as the most efficient allocation of our resources.

Senator BAUCUS. And I think there is a lot of truth in that. Can you give us something that is more concrete, more specific.

Mr. WEISE. Well, I am trying to be as concrete as I can, Senator. Excuse me. Specifically, 300 additional inspectors will be allocated to the Southwest border: 200 this year, hopefully 100 next year.

We have had a number of meetings on this already, even though I have been Commissioner for less than 2 months. I have met on three separate occasions with my counterpart from the Mexican Government. We have talked about sharing information and intelligence.

There has been the allegation that the NAFTA would be used as a tipoff point for narcotics smuggling. We are working to build greater cooperation with others.

We need the Customs Modernization Act so that we can streamline and use a lot of this computer technology so that we do not need so much paper in our work flow.

We can move in the direction of paperless entry, where we have computer capabilities to receive information directly from the brokers' computer directly into our computer. But we cannot implement that yet until we have the Customs Modernization Act.

While these are not specific numbers, these are specific programs that we are working on to try to do better.

Senator BAUCUS. Let's just take one area. Is there any transshipment today?

Mr. WEISE. Absolutely.

Senator BAUCUS. How much?

Mr. WEISE. Well, obviously, I will ask do we have any specific numbers on that?

No one can come forward with that. But clearly, there is too much. And if we knew exactly how much, we would be stopping it, but I—

Senator BAUCUS. How much?

Mr. WEISE. \$2 billion is estimated from China.

Senator BAUCUS. Any other countries?

Mr. WEISE. Pakistan is the other major country.

We do not have specifics, but we will for the record submit the data that we have on that issue.

Senator BAUCUS. I know that my time is up. What are we doing about the China transshipment?

Mr. WEISE. As a matter of fact, we have for the first time opened an attaché office there. We have Customs attaché offices around the world. We have never had an office in China. We are now working to open an office by September 1st.

We are also intensifying our efforts with our attaché office in Hong Kong to try to work with a lot of the business community in Hong Kong to try to get greater intelligence about these issues.

We also have been sending what we call jump teams, which are teams made up of import specialists, inspectors, and agents, that are doing surprise visits with the approval of the host government to go into plants that are in Hong Kong. And we are trying to get into China as well to deal with this issue.

Senator BAUCUS. Do you have a date by which you intend to have x percent of that eliminated?

Senator PACKWOOD. But do me a favor. I think you have investigated this. And I think you may look favorably upon it. And I know that by and large, all of the Customs brokers look favorably at it.

I do not think it is quite as not so far along as you think. Could you check that for me?

Mr. WEISE. Absolutely, I will.

Senator PACKWOOD. I would appreciate it.

Thank you, Mr. Chairman.

Senator BAUCUS. Senator Chafee.

Senator CHAFEE. Mr. Weise, I am a little confused. Regarding the Customs Modernization Act which you press for here, my first question is, does that measure have to start in the House or can that be here?

Mr. WEISE. At this point in time, Senator, there are a few provisions in the bill which would be referred to as revenue provisions. They are not the core of the bill.

Senator CHAFEE. I mean, there is enough in the way of revenue provisions to make it have to start in the House?

Mr. WEISE. There is enough to make it have to start in the House.

Senator CHAFEE. All right. Now, my next question is, is that something different from the provision that has been in these appropriation bills that have forbidden you, as I understood it, from really doing any reorganization of your department? Is the Customs Modernization Act something separate?

Mr. WEISE. Yes. It is completely separate. The provision that has been in the appropriations bills is simply one sentence. It is Section 617 of our past bill. It says Customs may spend no funds to study consolidation of any offices or reorganization of their operations.

The Modernization bill is a separate initiative that has all kinds of improvements in terms of procedural changes.

Senator CHAFEE. And as you point out, we passed that already, but it got bogged down in the tax bill that got vetoed for other reasons?

Mr. WEISE. That is correct, Senator.

Senator CHAFEE. Well, why doesn't it come quickly through again?

Mr. WEISE. This bill was reported favorably by the House Ways and Means Trade Subcommittee to the full committee with the hope that it would be married up in the reconciliation package that was reported.

Unfortunately, when it got to the full committee, this issue that I have referred to with certain small brokers saying they still do not like one provision of it, they bogged it down. So that is where it is pending now before the House Ways and Means Committee.

Senator CHAFEE. Well, I certainly hope that comes along quickly because it seems to make sense.

Now, on the other part—that is, the reorganization of the offices.

Mr. WEISE. Right.

Senator CHAFEE. I just wonder about those problems that come up whenever you want to close anything, whether it is agricultural offices, or military bases or whatever.

It applies to my State where there has been some suggestion that our Customs office be downgraded or be moved to Boston. And naturally, I vigorously oppose that, albeit without knowing totally all the facts.

Maybe in all of these things, the only way to do it is to sort of have a base-closure approach, where you put together a non-partisan commission. And then, their decision comes to us for an up-or-down, yes or no, vote.

Have you ever thought of that?

Mr. WEISE. Yes, I have, Senator. I think it is a very analogous situation. And that is the reason I was thinking at least as a first step is to try to get an independent review—although it would not be on the part of the Customs staff, but with some outside advisors to make a preliminary analysis or assessment as to what would be the most efficient allocation of resources without my getting into it.

Then, I would hope that I could begin the process of working with the local communities and Senators and Congressmen to see if we can reallocate resources.

But let me give you an example of that.

Senator CHAFEE. But you know, Mr. Weise, you have been around this place a long, long time. And there is no way anybody is going to give up anything.

It is losing their manhood or womanhood if they consent to any kind of a deal, no matter how sensible it is if it ends up taking away a—I forget the category in the Customs.

Mr. WEISE. A regional office, you mean.

Senator CHAFEE. A regional office.

Mr. WEISE. Yes.

Senator CHAFEE. So I do not know how government does any of this kind of reorganization. I mean, most of us recognize, for example, that we have to have more people down there on the Mexican border. As I mentioned, I went down to the new Los Indios Customs station. I do not know whether you have had a chance to visit it, but there cannot be a more modern facility down there. And you have a Customs Director, Mr. George Flores, who showed us around, and was very, very helpful. That station will be needed.

But I do not know how we are going to consolidate unneeded Customs stations, because of the politics of this. The one thing that seems to work is the base-closure approach, painful though it may be.

Mr. WEISE. Senator, I agree with you. Perhaps that is the only way that would work.

But let me give you one illustration which I think can work. Each of the seven regional offices that we have, is in a city where we also have a major district operation.

What I am hoping that we could do is reduce the size of the headquarters office, and we would not need any congressional authority to do that.

We could free up resources out of each of the seven regional offices, keep them in the very same city they are in, just put them in the district operations where they are actually interfacing directly with the public so that we do not have this middle layer of management.

If we do it uniformly across all seven regions and we are not reducing the number of people in any of those cities because they all would then be allocated to that district operation right there in that city, perhaps I am being naive, but I would hope that we would at least have the opportunity for discussions about moving in that direction. But I recognize—this will be very different—I have been around a long time.

Senator CHAFEE. So under your proposal, the regional districts, or whatever the terminology, would basically remain the same. Is that it?

Mr. WEISE. Right now under our structure, in the seven places where we have a regional office, we also have a district operation.

The district operation interfaces directly with the trading community. The regional office is an intermediate level of management.

What I am suggesting is that in each of those seven areas, assuming that this is what the recommendations are of this group, we would close down one of the two offices, the regional office, and put all those resources in that very same city in a district operation, which in effect has the benefit of directly impacting the service that we are providing to the trading community.

It eliminates a layer of middle management that now exists today, but it does not reduce the number of people in a particular Senator's or Congressman's home town or district.

Senator CHAFEE. Well, you know more about the proposal than I do. I have just become more and more convinced that no matter what the agency is, the only way to handle it is a base closure approach. Congress seems congenitally unable to agree to any reductions on its own. And painful though that whole base-closure business might be, I think most people who have been involved with it think on the whole it is fair.

Thank you.

Senator BAUCUS. Thank you, Senator.

Mr. Weise, what can you tell me about the recent GAO study which suggests certain inefficiencies of the Customs Service. It basically is suggesting that the Customs has not done a good job auditing its operation, particularly with respect to fee collection and other revenue collection matters.

Mr. WEISE. Senator, I have looked at that study as well. I think that we can do a lot better. We are carefully analyzing all of the recommendations.

As a matter of fact, a number of the recommendations that were set forth in that study were in the process of being implemented even before I came down to Customs.

When I first went down there about 2 months ago, I got the sense, with my years of experience in the Ways and Means Committee, that there was an awful lot of defensiveness within the Customs Service when outside auditors, whether they be from the Congress or from the GAO, came in to examine their operations. And they felt that we ought to defend the way we are doing business.

My impression on the first 6 or 7 weeks that I have been down there, and this is something that I have been trying to stress, is

that we ought to look at this as an opportunity to improve our operations.

And I think that you are seeing a lot of tangible changes that are being made that are responding to these concerns.

For example, there is a new office now that came out of recommendations of Blue Ribbon Panel report called the Office of Organizational Effectiveness.

This office did not exist until 2 years ago. It was created in response to one of these studies. And I think that this office has been tremendously helpful to me in overseeing the implementation of a lot of the specific recommendations that have come out of that GAO report.

I think we are making good progress, but I think we can do a lot better. It is going to be a top priority for me as Commissioner.

Senator BAUCUS. Before we have a Customs office commission closing commission—[Laughter.]

I would like to ask you a little bit about the Customs Service policy of attrition. I ask that with respect to the small ports along the northern border.

Montana, for example, we border three provinces. One state has, I think, about 10 ports.

And obviously and logically, the degree to which the Customs Service reduces its employees through a policy of attrition, it may be that in these one-person ports, someone might leave. I mean, we want to make sure that that person is replaced rather than the port closed.

Mr. WEISE. Absolutely, Mr. Chairman. We do have an ongoing freeze, as do most agencies now to try to meet the President's target of reducing our full-time equivalent positions.

And we also have a promotional freeze on for GS-14's and above. But we do have a policy where exceptions can be made under extenuating circumstances. And the one that you have illustrated would be one.

If we reduce in any area, whether it be a northern border port or any other area, because of the need for a level that provides the most efficient operation, we would certainly look at reallocating resources that we have within the Customs Service or perhaps even authorizing a new hire in that area, and then asking another office that perhaps is doing better on their attrition rate to absorb that loss.

So we are trying to take a national perspective on this, as well as look at each individual local need as well.

Senator BAUCUS. I appreciate that because it is my view that frankly all Federal agencies, including congressional offices, including mine, do a better job if more of our people spend more time out in the field, talking to people, seeing first-hand what is and is not happening.

And that is not to say that our Customs Service should be at the border. That obviously is foolish. But it is say that I suspect that some personnel who are sitting in some offices at some mid-management level could probably do themselves a favor and the Customs Service a favor and the American taxpayers a favor if they kind of got up from behind their desks and get out in the field a little bit and see more what, in fact, is going on.

I would just encourage you to pursue that as much as you possibly can.

Mr. WEISE. Mr. Chairman, I agree with you 100 percent. As you know, I started my career as a GS-5 Import Specialist in the Port of Baltimore. So I understand and relate to the concerns of the working people in Customs.

And I have spent more than half of my first 6 weeks as Commissioner traveling around the countryside trying to talk to and meet as many of our Customs officers as I can, as well as the business community that they are interfacing with.

It is absolutely essential to me as Commissioner to get that perspective.

Senator BAUCUS. Have you had a chance yet to look into the end-use certificate and requirement and what burden that would have on the Customs Service if enacted?

Mr. WEISE. Mr. Chairman, I have not as Commissioner of Customs. However, that was an issue that was pending before the House Ways and Means Committee last year, so I am somewhat familiar from my background and experience with that issue.

But from a Customs perspective, it has not been enacted into law yet. It is something that I have some people within Customs taking a look at.

I have not had the opportunity to personally reexamine the issue, but I am familiar with it, as I said, from working on that issue in the Congress last year.

Senator BAUCUS. Do you have anything to tell us about drug interdiction, that is, the degree to which Customs is helping DEA to solve that?

Mr. WEISE. Obviously, there is a lot of debate today as to whether interdiction is working or how successful it is being, and a lot of talk about perhaps reducing the allocation of resources from interdiction and moving it over to the education and treatment area.

My perspective is that interdiction is an important component of dealing with our drug problem, and that we cannot look at it as either/or. And we need to do the best job we possibly can in Customs to carry out the interdiction function regardless of the resources that are allocated.

And I think one of the ways that we can do better is to work together—and I have talked already as Commissioner with other agencies. I have talked to DEA. I have talked to the FBI.

I have also, as I said, met with various government officials in Mexico because I think the only way we are going to be able to deal better with the problem is to work cooperatively, stop squabbling among each other and try to allocate our resources efficiently against the traffickers.

So I am optimistic that we can do better than we have. I am very pleased that in the environment that we have now, the aftermath of the slaying of a cardinal in Mexico recently, the environment among Mexican government officials is better than it ever has been in terms of trying to work with us to share information, to try to bring down the drug traffickers. So I am optimistic that we can do better than we have.

Senator BAUCUS. I agree with you on that. I am impressed to the degree to which the Mexican officials want to cooperate much more and are, in fact, cooperating, not only on drug interdiction enforcement issues, but environmental issues in more ways.

But the main point is the longer they can go on, they want very much to work to reach common solutions to problems.

You are very right there. I think the assassination of the cardinal, too, I think—I can think of two when I was down in Mexico City a couple of weeks ago. They are very concerned about that, and want to do something about it.

Senator Chafee.

Senator CHAFEE. Mr. Weise, I just want to say, I think you have a service of which you can be proud. You have a lot of wonderful people working for you. As I say, you and they have good reason to be proud of that organization, the Customs Service.

Mr. WEISE. Thank you, Senator. I agree.

Senator BAUCUS. Thank you very much, Mr. Weise. We appreciate your testimony.

Mr. WEISE. Thank you.

Senator BAUCUS. The final witness. I guess we have two now from the International Trade Commission: Don Newquist, Chairman and Hon. Peter Watson, the Vice Chairman of the U.S. International Trade Commission.

Senator CHAFEE. Mr. Chairman.

Senator BAUCUS. Senator Chafee.

Senator CHAFEE. Mr. Chairman, unfortunately, I have to leave. And if I could have a minute just to say a word or two to these folks, I would appreciate it.

Senator BAUCUS. Absolutely.

Senator CHAFEE. First, gentlemen, I want to thank you, Mr. Newquist, for a mackerel study which you did. It is a section 332 study which I requested that you undertake. And you just recently completed it. I want to thank you for it.

Mr. NEWQUIST. You are welcome, sir.

Senator CHAFEE. Another subject that I want to mention is a frustrating series of delays that—well, I guess this really first same before the Customs Service. Let's see.

[Pause.]

Mr. NEWQUIST. Are you talking about the jewelry boxes, Senator?

Senator CHAFEE. Yes. That did come up before you.

Mr. NEWQUIST. Yes, sir. I believe it will be about August the 16th. It is economic advice on change or revision to an HTS heading, as my memory serves me.

Senator CHAFEE. Well, let me just briefly—I do not want to take too much of the chairman's time. But after a long series of delays, the Customs Service issued a ruling this past March that reclassified imported jewelry boxes under the heading 4202 of the Harmonized Tariff Schedule.

That decision made sense. It was something that we had been looking for. What it did was it just put our classification in line with what other nations are doing. We are very satisfied with that.

Actually, the Customs Cooperation Council in 1988 had suggested this change. And so in March of 1993, our Customs Service got around to following the CCC recommendation.

Now, the problem that has come up is that the importers are not pleased. They have petitioned you to carve out a subheading under 4202. I just hope that that will not come about.

The way it is now under the Harmonized Tariff Schedule is something we have been looking for. We arrived at it—finally. I hope that it will not be changed.

Mr. NEWQUIST. I appreciate your comments. I know we have had correspondence on this. And I believe we have advised your office as to the status of our investigation. But our recommendations or comments to the President will be delivered on August the 16th.

Senator CHAFEE. All right. Fine.

Mr. NEWQUIST. Thank you, Senator.

Senator CHAFEE. Thank you very much.

Senator BAUCUS. Thank you, Senator Chafee.

Chairman Newquist, why don't you begin?

STATEMENT OF HON. DON E. NEWQUIST, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION, WASHINGTON, DC, ACCOMPANIED BY HON. PETER S. WATSON, VICE CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION, WASHINGTON, DC

Mr. NEWQUIST. Good afternoon, Mr. Chairman.

I appreciate you allowing time for Vice Chairman Watson and I to be able to visit with you about our budget for 1994 and 1995.

I have asked Vice Chairman Watson to visit with you just briefly about our Office of International Competitiveness which you mentioned so very kindly in your opening statement.

I think the details of all of our requests are in both Peter's and my formal statements, if they can just be adopted into the record.

What I would like to do is not take up too much of your time, but just summarize some of the key points that I think are particularly relevant.

First, at the end of 1992, the Commission returned \$228,000. This compares with approximately \$1.5 million returned in 1991.

We, in fact, carried a larger balance toward the end of 1992 as a primary result of savings relating to a hiring freeze at the agency during most of the fiscal year.

Where does the Commission stand regarding 1993 funds? Congress approved a fiscal year 1993 appropriation of \$44.852 million. That was an increase of 5.7 percent over fiscal year 1992. This was \$300,000 below the Commission request.

Probably the most important aspect of our 1993 budget process was the addition of language in our appropriation for 1993 which provides for amounts not expended in fiscal year 1993 to be carried into subsequent fiscal years.

We are mindful that while this may afford some degree of fiscal flexibility, the amount carried over will affect the appropriation level arrived at in response to our 1994 request.

We expect funds carried over from 1993 to be used to cover some of our 1994 expenses. Thus, we monitor each month where we stand in terms of unexpended and uncommitted funds.

Our estimates indicate that about \$660,000 of funds will remain unexpended at year end.

What do anticipate to be our needs for 1994? Even though the Commission is an independent agency, a Commission majority approved my proposal for an amended 1994 budget request and authorization request, and approved a 1995 authorization request which comply with the President's budget reduction initiatives.

The Commission's amended request for 1994 totals \$45.888 million in funds, 474 work years or full-time equivalents, 12 below those funded by the 1993 appropriation.

For fiscal year 1995, the Commission's request totals \$47.41 million, and funds 467 work years or full-time equivalent positions, a reduction of 7 below the 1994 request.

So if you add those up, we are fundamentally reducing staff by some 19 equivalent positions.

When the general pay increases are deducted from these amounts, these requests represent a net increase for 1994 of 1.26 percent, and for 1995, 1.23 percent.

These requests conform with the personnel reductions and reductions in administrative expenses sought by the administration.

We hope that the personnel reductions will be accomplished by attrition at the agency. And we do not expect any reduction in force unless we really have an adverse appropriation.

The modest increases in each fiscal year includes increases in space rental charges which are really not within the control of the agency. They do not include any program increases.

We believe that this level of funding will still enable the Commission to carry out its workload.

My prepared statement provides more detail regarding our anticipated investigative workload. I would stress, as in past years Mr. Chairman, that unlike some agencies, the Commission is a reactive agency.

And therefore, we cannot budget with certainty the number of requests for 332 investigations, petitions for dumping and countervailing duty relief, and other requests for assistance.

As you know, Mr. Chairman, I asked our staff to consult with this subcommittee staff, with the Ways and Means subcommittee staff, and USTR to have a coordinated basis to maybe be a little bit anticipatory of what 332 studies might be coming from all three of our clients so that priorities might be agreed upon. And that process is going on at the present time.

Just for your information, Mr. Chairman, the House Committee on Appropriations is recommending \$44.391 million for the Commission. They just marked up last week for fiscal year 1994, which is \$1.497 million below our request. So much for budget and numbers.

Vice Chairman Watson and Commissicner Nuzum have done a lot of work in the area of international competitiveness. And I asked Peter to come along today.

With your permission, Mr. Chairman, I would like for him to give you a briefing as to where we are on that project.

[The prepared statements of Mr. Newquist and Mr. Watson appear in the appendix.]

Senator BAUCUS. Fine.

STATEMENT OF HON. PETER S. WATSON, VICE CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION, WASHINGTON, DC

Mr. WATSON. Thank you for the opportunity to appear before the committee today, Mr. Chairman.

As Chairman Newquist mentioned, we have a fuller statement that we have introduced into the record, but very briefly, I might mention to you that with respect to the Office of International Competitiveness, on January 12th of this year, the ITC publicly announced the establishment of its Office of International Competitiveness.

The office was created to enhance the capability of the Commission to monitor and analyze the issues relating to the international competitiveness of U.S. industries in order that we may better respond to requests from Congress and the USTR.

Mr. Chairman, you will be familiar with the interests of your former chairman, Mr. Bentsen, in this respect.

The office, which is still in the planning stage, will provide the ITC with the ability to analyze the impact of cross-sectoral factors, such as environmental issues, intellectual property rights, labor, and technology policies on the American industries' ability to compete in the international global market place.

A list of the specific functions of this office can be found in my prepared written statement. But in closing, I would like to note that in creating the office, the Commission has reallocated existing financial resources and personnel slots into a new structure in order to enhance certain capabilities of the Commission.

And we look forward to working closely with you and the other members of the subcommittee and staff with respect to the operation of the office.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Watson appears in the appendix.]

Senator BAUCUS. Thank you both very much.

I would like to turn first to the Office of International Competitiveness. A couple of weeks ago when I was in Mexico City, I met with Mayor Camacho.

And he made no bones about telling me first about this very large project in Mexico City, addressing environmental problems. It is just not air pollution. It is water pollution and so forth.

And as the world's largest city, you can understand why they are so concerned about it and involved with it, very large, massive environmental projects.

Second, he said that he is quite concerned that they consult with a lot of countries that are helping these environmental projects, that is, they consult with a lot of countries essentially, but for one. And that is the United States.

Now, it is true that the U.S. Embassy has one EPA person attached to the embassy. He has been down there for a couple of years. I have seen this person the last couple of times I have been to Mexico City.

But the mayor relayed the story of how EPA wanted to send an environmental technical advisor down to Mexico City to help advise that city's government, but the government canceled the trip because the government did not want to pay for it apparently. At the

same time, there are a good number of other countries who have their representatives there, paid for by their governments or their companies, to advise Mexico City on the steps to be taken in meeting their environmental objectives.

Well, you can guess what happens. When they decide to order equipment, processes or whatever, they know a lot more about environmental technologies, to some extent Japanese environmental technologies. They do not know very much about American environmental technologies.

This story he told me I know is not the exception. All around the world—all around the world, countless times I have been talking to American ambassadors of other countries they tell me of the massive efforts other countries take on certain technical matters.

I am thinking of one, Saudi Arabia is installing a very large new telephone system. A German company is there advising Saudi Arabia on how to install them and what procedures to follow in setting up a new telephone system. Who do you think got the contract?

Mr. NEWQUIST. If you write the specs for a contract, it is a pretty good chance you have a better—

Senator BAUCUS. And so I just urge you very strongly in this competitiveness office of yours to dig into questions like this: to what degree are we Americans hurting our international competitiveness because we are so shortsighted and being pennywise and pound foolish in disallowing the airfare for an EPA technical person to go to Mexico City, for example, to advise that city or government on how they can solve environmental problems?

Mr. NEWQUIST. If I could mention, one of the dimensions on competitiveness is the special skills in the environmental area because I think it is going to be much more of a consideration that we have the ability to deal with the environment as a competitive economic issue, as well as just an issue standing on its own.

Senator BAUCUS. Before you answer, I do not want to create an international incident here, but I asked the question: would you rather have Americans advising you on this or other countries? They said they would rather have Americans.

Mr. NEWQUIST. I think that is very interesting.

Senator BAUCUS. They said they would rather have Americans. I tell you, there is another reason because Mexico has pretty much lock, stock, and barrel adopted U.S. environmental standards. In 1988, they adopted an environmental statute.

Mr. NEWQUIST. It is patterned a great deal after our own.

Senator BAUCUS. That is right.

Mr. NEWQUIST. As a body of law.

Senator BAUCUS. And so there is a natural there, at least with respect to the United States and Mexico in developing analogies of Mexico and Mexico City.

And he said, again, the mayor said, Camacho said they very much prefer to deal with Americans, but there are no Americans there.

Mr. NEWQUIST. That is very interesting, Senator Baucus. I think Peter can amplify on that.

But a former staff member of mine runs the Texas Department of Commerce office in Mexico City.

He was telling me the other day that he would guess that 75 percent of the Texas people he assists are relatively small businesses trying to sell environmental technology or services. And those are the people who as individuals are coming down trying to market their services.

Senator BAUCUS. That's great.

I am talking about the efforts, the major efforts that other governments take to help their companies, their business. We do not take.

Mr. NEWQUIST. But these small business people see it as a business opportunity. What you are saying is the government ought to be doing something complementary.

Senator BAUCUS. In the appropriate way.

Mr. Watson. I think what I would like to add is, that the first full-time professional member of the Office of International Competitiveness, Mr. Dave Ingersoll, is our environmental specialist.

And we, Commissioner Nuzum and I, have had several conversations with him concerning his activities. He participates in the interagency discussions at USTR.

The new OIC office is very well capable of participating and contributing in any way that the executive branch may care to call upon it through the section 332 process.

But clearly, in terms of the competitiveness issue, there is a very real juxtaposition between environmental technology and the competitiveness of the United States, which increasingly depends on these high technology exports. And this is a very important construct that we ensure that we maintain our competitiveness in this area.

Senator BAUCUS. That is really true. There is a \$200 billion world market in environmental technology. It is estimated to be \$300 billion by the end of this decade. It is growing at 10 percent annually.

Mr. Watson. Again, I would just say that the environmental specialist is the first full-time person in our office, concentrating on these issues.

Senator BAUCUS. Your budget request, as I understand it, is you want—you have asked for a cost of living in addition to a request of \$45.8 million. Is that correct?

Mr. NEWQUIST. Are you talking about 1994?

Senator BAUCUS. Yes.

Mr. NEWQUIST. The 1994 total is \$45.888 million.

Senator BAUCUS. But are you asking for a cost of living in addition to that?

Mr. NEWQUIST. A pay increase?

Senator BAUCUS. Apparently.

Mr. NEWQUIST. It was included in there.

Senator BAUCUS. You included it?

Mr. NEWQUIST. Right.

Senator BAUCUS. And the Ways and Means reported out what, \$45.3 million? Is that correct?

Mr. NEWQUIST. The Appropriation Committee reported out \$49.3 million.

Senator BAUCUS. The appropriation.

Mr. NEWQUIST. Yes, the appropriation. It was marked up. They reduced it. Actually, the Ways and Means Committee backed out the pay increase, and approved the total of \$45.4 million for 1994. Actually—it is really a \$472,000 reduction when you back out that pay increase and that is what they reduced us by.

And assuming how we can use the carry forward from 1993, if it does not net against that, then we would actually be about whole. People have been pretty generous with us.

I think when you said that you have to do more with less, we are prepared to do that. And if we can stay somewhere in this ball game and not have just some brand new dimension thrown upon us, I think we are going to be okay.

Senator BAUCUS. The former USTR Ambassador Carla Hills apparently requested a title VII Study. Is that correct? On dumping.

Mr. NEWQUIST. It is a 332 investigation on our Title VII law.

Senator BAUCUS. 332. All right.

You are expanding that to include the effects of dumping on U.S. industries. Is that correct?

Mr. NEWQUIST. Well, we are not really expanding it. We received that request shortly after the new administration came in.

And I will be very honest with you, Mr. Chairman, some people are very critical of what I did, and accused me of a certain element of partisanship.

But I looked at it. And it was mainly looking at one side of the dumping and countervailing duty laws, what it costs downstream. And also I looked at the circumstance that the client had changed.

To me, USTR is not like this committee or the Ways and Means Committee where it has an institutional identity carrying on. And I withdrew the request from the Commission, and resubmitted it to Ambassador Kantor.

And now, Ambassador Kantor has sent it back with these changes really looking at both sides of the coin, so to speak, had the dumping and countervailing duty laws in a sense done what they were supposed to in assisting domestic industries. And that is before the Commission now.

Senator BAUCUS. Ambassador Kantor also requested the studies on the impact of the Uruguay Round. Is that correct?

Mr. NEWQUIST. He talked about the two things that they will do. One is some tracking on trade compliance by Japan with previous trade agreements.

And the second, some of the tools that will be needed to evaluate the Uruguay Round if and when it does come to fruition.

Senator BAUCUS. All right. So your timetable, it depends upon whether the Uruguay Round is concluded?

Mr. NEWQUIST. Right. And we have not yet received those requests—that was just in Ambassador Kantor's letter coming back on the other 332, saying that they were going to do these other two at some point in time.

Senator BAUCUS. Now, there are some areas that you think we ought to be looking more at. I mean, you have been there awhile.

You see currents, changes in patterns around the world. What are we not focusing on here in the Congress that we should be? What should we be paying more attention to that we are not in your judgment?

Mr. NEWQUIST. The early warning system in a sense. When I look at the expertise in people, and actually the expertise in people are all that we have at the International Trade Commission, perhaps our people could be used better in trying to be that early warning indicator for the Congress.

And I think some of the things that Peter mentioned in the competitiveness area, part of the competitiveness area is a section that is called monitoring: monitoring of foreign governments, monitoring of what is happening in our competitor foreign industries.

If we are really aggressive in that and do an adequate amount of intelligence gathering, then I think that would be one of the better services that we could provide.

To know what to look for though, I think you have to have some feel for what the flow is. Those are areas that I think that would be very important.

Senator BAUCUS. In your judgment, how could we better utilize early warning?

Mr. NEWQUIST. Working more with some of the other parties. I mean, that is probably one of things, just having come from the business community.

The fragmented organizations that you find in government. For example, at USTR.

You have one place that has a lot of responsibility, but not all of the manpower and resources to be a MITI or to be what, in a sense, I might think we need as a government, but perhaps we being bipartisan could be a central collecting point to work on an interagency basis.

One area that we visited with your committee staff and with several members about is to try to get some cooperation from the Central Intelligence Agency so that we could utilize their information, working closely with the Department of Commerce.

Those other areas of the government that have an interest in trade and perhaps under them, monitoring of our competitiveness area, we could be a good focal point to be able to identify some of these opportunities as well as problem areas.

Senator BAUCUS. Besides competitiveness and environmental technologies and intelligence, are there any other early warning areas that might deserve early warnings?

Mr. WATSON. I do not have any additional comments or thoughts. I think, Mr. Chairman, the whole function and rationality of the Office of International Competitiveness was to ensure that our agency was able to, in fact, anticipate the emerging issues that were arising in the contemporary trade arena.

And we are looking at such things as the evolving question of competition law, the law of technology policy, and investment policy. These are the questions I think are going to be the new trade agenda.

In an era of globalization, we have to be conscious of the emerging interactions, as you suggested. One level is indeed environmental technology. Another area is investment policy.

And we are working very closely with the USTR to ensure that we can be of use to them in identifying these emerging trade issues and ensuring that we are ahead of the curve.

Senator BAUCUS. Yes. It just seems to me that I would take advantage of your independent nature, take the initiative a little more, and suggest other areas more aggressively that you think this country needs to address.

Mr. NEWQUIST. I think in the past though, the Commission really has not wanted to be aggressive, to be very honest. The politics of the matter is there has been a divided—

Senator BAUCUS. I understand.

Mr. NEWQUIST. It is very hard to move forward. I think perhaps we may have the opportunity in the future.

Senator BAUCUS. To be creative.

Mr. NEWQUIST. Let me just mention two things. I do not know how you do it. The ability to finance now always is the in question. It needs to be asked.

When you look at whether it is in Title VII or anything else, ultimately, the ability to finance becomes the in question.

And some of the routine ways you look at industries and what have you just do not make it anymore. A skill we cry for is an innovative investment banker or merchant banker who knows really what the market place takes.

No matter whether you get into the Airbus issue, we are looking at large civilian aircraft, you know, walk away leases. It is not just a buy/sell anymore. It is never a simple deal.

The ability to finance and understanding those commercial transactions is a dimension that many times we have a hard time dealing with.

The second is environment. I am convinced so much that environmental issues are going to become more and more of an economic and competitiveness arena that we have to be able to deal with with the skills on the technical side as well as the skills on the economic side.

Like, I think it has been your suggestion that you look at the next round, it should probably be a green round from a competitiveness standpoint because that—if we are going to enforce and have good, strong environmental laws in this country, we do put our businesses and manufacturers at a sizable competitive disadvantage.

So the hope that we have is to bring the world community on a multilateral basis along with us.

Senator BAUCUS. I very much agree with you. I just encourage you to focus more on those areas. I agree with you on financing, too. I have run across a good number of instances where it seems like the Americans do a better job. We have better ways to finance a lot of projects, creative ways.

Mr. NEWQUIST. You use Mexico as an example and PEMEX as an example that I am personally aware of. In many cases, we have some of the best technology in the oil refining petrochemical businesses.

Our people work very hard to try to sell to PEMEX. Nine times out of 10, that does not discourage Japan because they can bring a financing package along that our guys just do not have access to. And that is the real world.

Senator BAUCUS. You are right about Airbus, too. You do a good job.

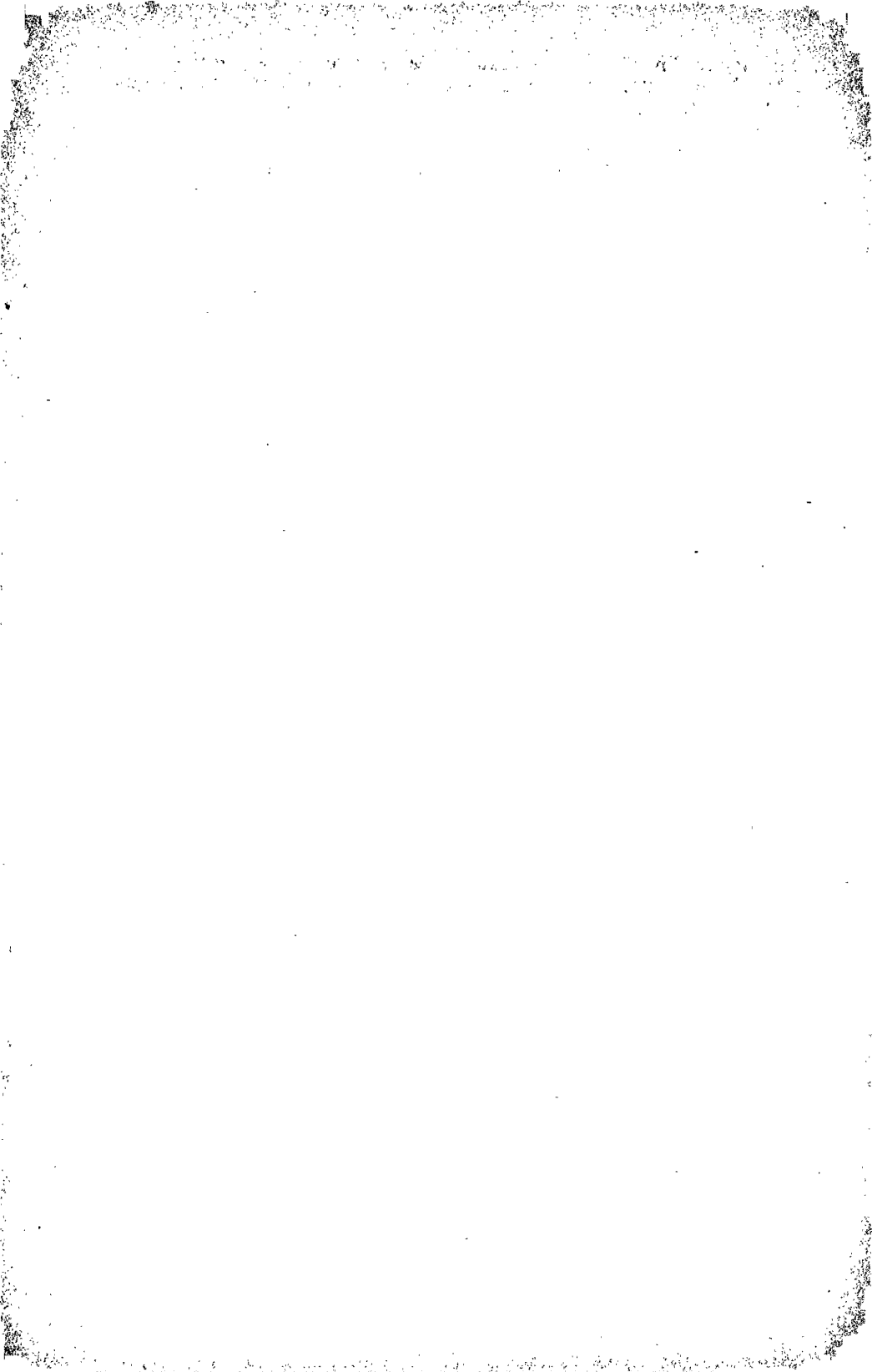
All right. Thank you very much. I appreciate it very much.

Mr. NEWQUIST. Thank you very much, Mr. Chairman. I enjoyed visiting with you.

Senator BAUCUS. Thank you.

The hearing is adjourned.

[Whereupon, at 3:37 p.m., the hearing was concluded.]



APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

Mr. Chairman, a fundamental function of committee oversight of federal agency operations is to ensure that the taxpayers' interests are protected. We do this by examining the way agencies employ the resources and authorities that Congress provides.

Article I, Section 1 of the Constitution grants Congress the so-called "legislative powers;" but the next nine sections delineate the "fiscal powers" by which Congress authorizes taxes and spending. This same article also justifies the oversight functions of congressional committees, although the word "oversight" appears nowhere in the Constitution.

Forgive me for the brief diversion into the constitutional bedrock of this meeting. However, I wanted to set the stage for my next comment: the operations of the three agencies before us.

The so-called "foreign trade" agencies under review today are probably the most productive in our government.

—The USTR's "return" on the taxpayers' \$20 million investment is stunning. Regardless of what you may think of a particular negotiation outcome—and I have my own share of disagreements with many of them—the USTR team is guiding us into the next century where our economy's expected dependence on foreign trade will rise from an arguable 14 percent to over 40 percent by as soon as the year 2020.

—Customs represents still another remarkably efficient agency. We cannot forget that they collect nearly \$20.00 for each \$1.00 that we provide in their annual budget. What company wouldn't like that type of earnings margin.

—Finally, ITC's \$45 million budget has generated tens of millions of corporate earnings through its import relief investigations and recommendations. Without ITC's sound and fair analyses of charges of unfair trade practices, the U.S. would also risk an onslaught of frivolous charges against our trading partners.

Of course, Mr. Chairman, perhaps like every other member, I do have some suggestions for streamlining the work of these agencies.

In the case of Customs, we need the Customs Modernization Act. Without it, we will remain the world's most industrialized nation with the world's most laughable import processing structure, one that is being crippled by unjustifiable resistance to enlightened automation—and this from the *country that has led the world in software development!*

But for all three agencies, I would like to see better cooperation on the streamlining of the Harmonized Tariff Schedule. While Section 1205 of the 1988 Act seems to delineate the respective, tariff-related functions of the three agencies, some of my constituents have had grave difficulties, in practice, in getting tariff adjustments that take into consideration significant technology changes.

—One such company is the IOMEGA Corporation of Roy, Utah. This company has been unnecessarily, in my judgment, paying over \$500,000 annually in duties on computer drive components which the tariff schedule treats as generic plastic parts, and which various Customs Ports in the U.S. will code differently.

—My problem, and that of my constituents, is that when we consult the law, we find the HTS responsibilities split between USTR, which negotiates, Customs which implements, and ITC which advises—looking further at Sec. 1205(a)(3), the law tells us that ITC's role is to, among other things:

"... ensure that the Harmonized Tariff Schedule is kept up-to-date in light of changes in technology or in patterns of international trade."

My point is that our own law, that of this committee, is not providing guidance to either our agencies or our private trade community. I would like to urge the three agencies to get together and make it work better and, if necessary, recommend appropriate amendments.

Mr. Chairman, thank you for the opportunity to comment; and I welcome and commend our witnesses for the fine work their agencies are doing under such difficult circumstances.

PREPARED STATEMENT OF DON E. NEWQUIST

Mr. Chairman and members of the Subcommittee, I am pleased to have this opportunity to meet with you today to discuss the International Trade Commission's budget authorization request for fiscal years 1994 and 1995. The Commission appreciates the Committee's continued strong interest in, and support of, the Commission's work.

BUDGET REQUEST

The Commission amended its earlier approved FY 1994 budget authorization request to voluntarily comply with the President's budget reduction initiatives. The Commission's amended request for FY 1994 totals \$45,888,000 and funds 474 workyears or full-time equivalent positions, 12 below those funded by the FY 1993 appropriation. For FY 1995, the Commission's request totals \$47,041,000 and funds 467 workyears or full-time equivalent positions, a reduction of 7 below the FY 1994 amended request. These requests, exclusive of general pay increases, total \$45,416,000 for FY 1994 and \$45,974,000 for FY 1995, and represent net increases of \$564,000 or 1.26% and \$558,000 or 1.23% respectively.

The Commission's budget requests are based on a projection that our workload will remain at approximately the current level. However, let me stress that the Commission is essentially a reactive agency and that much of our workload cannot be predicted. Unlike some agencies, we cannot budget with certainty the unanticipated requests for investigations or petitions for trade relief. An example of this was the Title VII caseload increase as a result of the expiration of the steel Voluntary Restraint Agreements. Other current examples would include the requirement of the draft Uruguay Round Agreement that injury reviews be conducted of every outstanding Title VII order over five years old, and the possible requests for studies on various sectoral issues as well as a possible probable economic effects study in parts or all of any final trade agreement implementing legislation.

IMPORT RELIEF INVESTIGATIONS

The Commission's primary responsibilities are to conduct investigations under the import relief statutes and to undertake studies under section 332 of the Tariff Act of 1930 (19 U.S.C. §1332). Our total investigative case load has recently risen from 79 new investigations in fiscal year 1990 to 146 in fiscal year 1991 and to 211 in fiscal year 1992.

The major portion of our case load consists of investigations under the antidumping and countervailing duty statutes (section 303 and title VII of the Tariff Act of 1930, 19 U.S.C. §1303, 1671 et seq.). The title VII case load increased from 44 in FY 1990 to 174 in FY 1992, when the Commission was faced with a large increase in workload as a result of the expiration of the steel Voluntary Restraint Agreements. We are projecting a decline to 150 new title VII investigations in the present fiscal year and a return to a more normal level of 100 in FY 1994 and 100 in FY 1995. As I noted above, if the draft Uruguay Round Agreement is implemented, it may require injury reviews to be conducted of every outstanding Title VII order over five years old; this would substantially increase our workload as we project that there will be approximately 240 such orders in FY 1994.

It should be noted here that the number of investigations instituted is not a complete measure of workload; the complexity of the investigation and the required level of staff participation are other important considerations in assessing resource demands. Petitions filed with the Commission often involve diverse industries and requires the assessment of complex conditions of trade. Recent investigations covered such products as uranium, minivans, sulfanilic acid, stainless steel pipes, potassium hydroxide, portable seismographs, steel wire rope, sulfur dyes, several types of steel bars, dynamic random access memories (DRAMs), steel rails, limestone,

stainless steel pipe fittings, ferrosilicon, professional power tools, carbon steel flat-rolled products, lockwashers, and softwood lumber.

Among the Commission's more publicized investigations are the so-called fair trade or escape-clause cases filed under section 201—or, for non-market countries, section 406—of the Trade Act of 1974 (19 U.S.C §§2251 and 2436). They require the Commission to determine whether domestic industries are eligible for import relief and to recommend appropriate action to the President. The Commission instituted two such import-injury investigations during FY 1992, a 201 investigation on extruded rubber thread and a 406 investigation on fans from China. We expect that at least two import-injury investigations will be instituted in FY 1993, and three import-injury investigations will be instituted each year in FY 1994 and in FY 1995.

The Commission expects that significant resources will continue to be devoted to investigations under section 337 of the Tariff Act of 1930 (19 U.S.C. §1337). These investigations are based on complaints alleging unfair methods of competition and unfair acts in the importation or sale of articles into the United States. Typically, they involve alleged infringement of an intellectual property right, such as a patent, trademark, or copyright. While the spectrum of products and intellectual property rights addressed by section 337 investigations is quite broad, many investigations involve sophisticated technologies. In the intellectual property area, the Commission recently completed section 337 investigations involving a wide range of imported products including semiconductors and other computer related products, medical equipment, and various consumer goods.

We are projecting 18 new section 337 investigations in FY 1993 and 18 in FY 1994 and in FY 1995, compared to 12 in fiscal year 1992. The complexity of the technology at issue in a 337 case, the number of alleged unfair acts, and the level of staff participation required in each investigation must be taken into account. Moreover, complaints that include requests for temporary relief require significant additional effort because the Commission must decide, on an expedited basis, whether preliminary relief should be granted in advance of the Commission's decision on violation. There were three such complaints filed during FY 1992 and one filed so far this fiscal year. Perhaps it bears note that last year, the Commission assessed and began collection of the first civil penalty imposed in connection with a section 337 order. Finally, amendments to the section 337 statute could occur in conjunction with Uruguay Round implementing legislation which could affect the scope and number of cases filed. However, it is not yet possible to predict the impact of these changes.

STUDIES AND REPORTS

Another important responsibility of the Commission is to prepare fact-finding reports and analyses for use by the Congress and the President in the development of trade policy. This is one of the Commission's most important and demanding tasks, because trade policy makers need access to expert independent analysis of international trade matters. Many factors make careful, deliberate analysis a high priority. These include vigorous competition in the world market; disagreements among nations on appropriate government intervention in the market place; the fact that the spread of technology is accelerating the rate at which comparative advantages shift among industries and countries; and the broadened scope of multilateral trade negotiations as countries seek agreements on services, intellectual property, and other non-traditional trade areas.

The Commission receives frequent requests from the Congress and the President to conduct investigations on trade and tariff issues under section 332 of the Tariff Act of 1930 (19 U.S.C. §1332). With the emphasis placed on trade negotiations, we expect that demand for such Commission studies will continue. The Commission instituted 19 section 332 studies in FY 1991, 21 section 332 studies in FY 1992, and projects 20 new section 332 studies in FY 1993 and 22 new section 332 studies in FY 1994 and in FY 1995.

Currently, the Commission has 7 section 332 studies underway or being considered, with two requested by the President and five by the Congress. Studies currently being conducted or being considered at the request of the President include:

- Economic Effects of Import Restraints Under Title VII
- The Economic Effects of Significant U.S. Import Restraints

Studies completed for the President during FY 1992 and FY 1993 to date have included:

- Regional Economic Trends and Likely Effects of a Hemispheric Free Trade Zone
- Dynamic Effects of Trade Liberalization

- **Central and Eastern Europe: Export Competitiveness of Major Manufacturing and Services Sectors (Final Report)**
- **Alfalfa Products: Conditions of Competition Between the U.S. and Canadian Industries**
- **Services: U.S. and Mexican Sector Profiles and Mexican Impediments to Trade, Phase II**
- **President's List of Articles Which May be Designated or Modified as Eligible Articles for Purposes of the U.S. Generalized System of Preferences—Annual Report**
- **President's List of Articles Which May be Designated or Modified as Eligible Articles for Purposes of the U.S. Generalized System of Preferences—Eastern Europe**
- **Probable Economic Effects of Immediate Tariff Elimination Under the U.S.-Canada Free Trade Agreement**
- **Economy-wide Modeling of the Economic Implications of the Free Trade Agreement with Mexico and a North American Free Trade Agreement with Canada and Mexico**

Studies currently being conducted at the request of the Congress include:

- **Proposed Reorganization of U.S. International Trade Relief Laws**
- **Global Competitiveness of U.S. Advanced-Technology Manufacturing Industries: Large Civil Aircraft**
- **Global Competitiveness of U.S. Advanced-Technology Manufacturing Industries: Computers**
- **The Effects of Greater Economic Integration Within the European Community on the United States: Sixth Follow-up Report**
- **Metallurgical Coke: Baseline Analysis of the U.S. Industry and Imports**

Congressionally requested studies completed during FY 1992 and so far in FY 1993 include:

- **Mackerel: Competitiveness of the U.S. Industry in Domestic and Foreign Markets**
- **Trade and Investment Patterns in the Crude Petroleum and Natural Gas Sectors of the Energy-Producing States of the Former Soviet Union**
- **Global Competitiveness of U.S. Advanced Technology Industries: Cellular Communications**
- **East Asian Economic Integration: Implication for the United States**
- **Dry Peas and Lentils: Conditions of Competition Between the United States and Canada in Third-Country Markets**
- **The Effects of Greater Economic Integration Within the European Community on the United States: Fifth Follow-up Report**
- **Potential Impact on the U.S. Economy and Selected Industries of the North American Free Trade Agreement**
- **Quarterly Report on the Status of the Steel Industry**
- **The Effects of Greater Economic Integration Within the European Community on the United States, Fourth Follow-up**
- **Tuna: Current Issues Affecting the U.S. Industry**
- **Rules of Origin Issues Related to the North American Free Trade Agreement and the North American Automotive Industry**
- **Shipbuilding Trade Reform Act of 1991: Likely Economic Effects of Enactment**
- **U.S. Market Access in Latin America: Recent Liberalization Measures and Remaining Barriers**
- **Macadamia Nuts: Economic and Competitive Factors Affecting the U.S. Industry**
- **Live Cattle and Beef: U.S. and Canadian Industry Profiles, Trade, and Factors of Competition**

OTHER COMMISSION WORK LOAD

The Commission provided considerable technical support to United States Trade Representative (USTR) in fiscal year 1992 and continues to do so in fiscal year 1993. During fiscal year 1992 Commission staff members were detailed to the USTR's Washington office to assist in a wide variety of activities, including the U.S.-Canada Free Trade Agreement, the Uruguay Round negotiation, the North American Free Trade Agreement, and the multilateral steel negotiations. Currently six staff members are detailed to provide this support.

A continuing activity is our responsibility associated with the Harmonized System. The Omnibus Trade and Competitiveness Act of 1988 designated the Commis-

sion as one of three Federal agencies responsible for formulating official U.S. positions on technical and procedural issues addressed by the Harmonized System Committee. Section 1205 of the 1988 Act also provided that the Commission advise the President on modifying the HTS to implement internationally agreed HTS changes, to promote uniformity, to ensure modernization, to alleviate administrative burdens, and to make technical corrections. In FY 1993, extensive Harmonized System modifications are expected to be adopted by the Customs Cooperation Council; the Commission has taken preliminary steps to generate the required reports to the President.

Finally, in addition to maintaining and publishing the Harmonized Tariff Schedule of the United States the Commission chairs the interagency Committee for Statistical Annotation of the Tariff Schedules (the 484(e) Committee), which considers requests regarding statistical annotations, many of which are intended to improve comparability between U.S. import and export data.

The Commission provides background reports on proposed legislation to its oversight committees, as well as considerable informal assistance. During FY 1992 the Commission provided assistance on almost 400 miscellaneous tariff bills and responded to numerous letter and telephone inquiries.

The Commission's responsibilities also include our continuing role in the preparation of periodic reports. Reports on specific commodities included autos, steel, footwear, rum, synthetic organic chemicals, and ethyl alcohol. Other reports included an annual report to the Congress on the operation of the trade agreements program of the United States (OTAP); a quarterly report on Trade Between the United States and China, the Former Soviet Union, Central and Eastern Europe, the Baltic Nations, and other Selected Countries; and an annual report on the Caribbean Basin Initiative.

Finally, in responding to interest expressed by both our appropriation and authorization oversight committees, the Commission, in approving a FY 1994 budget request, authorized the establishment of an Office of International Competitiveness, using existing employees and vacancies. Workload and staffing are in their initial stages. This office will identify and analyze the factors, including government policies and commercial practices, that affect the ability of U.S. industry to compete in the international marketplace in comparison with its foreign competitors. In addition, an environmental working group has been established to assure environmental issues are addressed in Commission reports. This working group is headed by the Office of International Competitiveness, and includes economists, trade specialists and attorneys from other Commission offices.

TRADE REMEDY ASSISTANCE OFFICE

During FY 1992, the Commission's Trade Remedy Assistance Office (TRAO) responded to 421 public inquiries, a 55 percent increase from FY 1991. In response to a Congressional request the Commission instituted an outreach program to make small businesses more aware of the assistance which Congress intended for them in pursuing remedies under the trade laws. To date, the Commission has mailed outreach information to over 300 Government agencies, trade associations, chambers of commerce, and Congressional offices; some responses already have been received asking for additional information. The number of requests for technical assistance by small businesses has continued to increase, as has the number of certified small businesses given continued assistance by TRAO. Since TRAO was established as an independent office in 1988, the number of Commission cases in which TRAO has assisted increased from 1 in FY 1989 to 11 during the last fiscal year.

OFFICE OF INSPECTOR GENERAL

Pursuant to the Inspector General Act Amendments of 1988, the Commission established an independent Office of Inspector General. The Inspector General is responsible for directing and carrying out audits, inspections and investigations relating to Commission programs, and for commenting on proposed regulations and procedures regarding their economy, efficiency, and effectiveness. During FY 1992, the Office of Inspector General conducted numerous audits, investigations and inspections of Commission operations, and will continue to ensure that Commission administrative and program activities are in compliance with Federal regulations and practices.

The Commission has allocated 3½ full-time permanent positions to this Office and has authorized temporary assistance, as appropriate. In addition, the Commission has included in its budget request \$75,000 to be used for contractual audit and review services.

CONCLUSION

International trade concerns will likely remain in the forefront of public debate during the coming years. Each new round of trade negotiations and new trade legislation will create new requests for technical assistance and analysis and for fact-finding studies. The Commission has a sound reputation for providing independent, timely and effective data in response to requests from the President and the Congress. I feel that this budget request is necessary for the Commission to maintain its ability to meet these demands, and the confidence of those it serves.

I believe our estimates of future needs are prudent and that this budget request represents the funds necessary to meet our responsibilities. However, we have not requested funds for a number of possible workload expansions that could occur during FY 1994 and FY 1995. If all these possibilities come about, this budget could fall below our manpower requirements.

Mr. Chairman, I would like to again thank you for the opportunity to discuss the Commission's budget request with you today.

 PREPARED STATEMENT OF IRA SHAPIRO

Mr. Chairman: I welcome this opportunity to appear before the Subcommittee today to present the budget authorization request for the Office of the United States Trade Representative.

The Subcommittee has consistently supported USTR's mission to open markets and expand trade throughout the world, and we look forward to your continued support in the years ahead.

TWO-YEAR AUTHORIZATION REQUEST

On April 19, USTR transmitted to the Congress a draft bill to provide authorization of appropriations for the Office of the United States Trade Representative for fiscal years 1994 and 1995. The requested level for fiscal year 1994 is \$20,143,000 and for fiscal year 1995 it is \$20,419,000.

For each of these fiscal years, the representation fund authority would remain at \$98,000, and for each year we are also proposing to continue the existing authority allowing USTR to carry over up to \$2,500,000 of its annual budget until expended.

In short, Mr. Chairman, the Administration is recommending straightforward extensions of existing authorizations. We are proposing only modest increases in the annual authorizations for appropriations—\$20,143,000 in fiscal year 1994 and \$20,419,000 in fiscal year 1995—which are the same levels presented in President Clinton's Budget.

FISCAL YEAR 1991 REQUEST LEVEL

As the Subcommittee members know very well, the mission of the Office of the United States Trade Representative is to develop and coordinate U.S. international trade, commodity and trade-related direct investment policy, to articulate trade policy for the Administration, and to lead negotiations with other countries on these matters.

The mission is global, it is challenging and it is enormous. USTR carries out this mission with a small but highly motivated and professional staff that is dedicated to promoting U.S. economic interests.

USTR's budgetary resources are also small, by Federal standards. Yet, we are able to draw on the resources of other Federal agencies, chiefly through personnel details. We also make efficient use of student and volunteer interns. We are fortunate to acquire these additional resources at little or no cost to USTR.

USTR's fiscal year 1994 budget request includes \$20,143,000 and 157 Full Time Equivalent (FTE) staff. The \$20,143,000 is \$151,000 more than the fiscal year 1993 appropriation level, an increase of 0.7 percent. The 157 FTE staff are 5 fewer than the fiscal year 1993 level, a decrease of about 3 percent.

The resource levels recommended for fiscal year 1994 represent a blend of two important priorities of the Clinton Administration. The first is to reduce Federal administrative expenses over the next four years. The President has proposed cumulative reductions below the fiscal year 1993 level in non-personnel cost categories, starting at 3 percent in fiscal year 1994 and building to a cumulative 14 percent reduction by fiscal year 1997. The Administration has also pledged to trim 100,000 positions from the Federal workforce over the next three years, and has set a target of a 4 percent decrease in FTE staffing by fiscal year 1996.

For fiscal year 1994, we will reduce travel and other administrative spending by \$237,000 below the amounts budgeted in fiscal year 1993, fully complying with the

3 percent target established for fiscal year 1994. Similarly, the proposed 157 FTE staffing level in fiscal year 1994 represents a decrease of 3 percent below the 162 FTEs authorized for fiscal year 1993, accomplishing in one year all but one percent of the 1 percent target set for fiscal year 1996.

For fiscal year 1994, USTR is also carrying out those Executive Orders and Presidential directives that call for a more efficient and well-run Government. For example, in response to the directive to reduce driving and transportation services, we have eliminated 2 automobiles and 2 drivers in Washington and Geneva, which represents a 40 percent decrease for the agency. In response to the directive to reduce conference and meeting expenses, we are convening meetings in Federal facilities, whenever possible, and reducing the overall number of such conferences, saving the agency several thousands of dollars. Finally, we have also tightened management of employee travel, with improvements which we estimate will save over \$200,000 a year, including prohibiting all premium class travel except for trips longer than 12 hours of flight time.

The Clinton Administration priority reflected in the USTR budget authorization request is furthering the theme that expanded international trade is an integral part of this country's economic strategy and future security. The President's trade agenda for this year and for fiscal years 1994 and 1995 is a mix of enforcing commitments, reaching closure on negotiations begun and found to potentially advance U.S. interests, protecting U.S. creativity from piracy, fighting to open markets to U.S. goods and services, grappling with the complex issues posed by the intersection of trade and the environment, and moving ahead with initiatives to strengthen our trading ties with the rapidly-growing nations of the Asian Pacific.

The budget authorization proposed for fiscal years 1994 and 1995 maintains an adequate resource base for USTR to meet and carry out its global mission, and it preserves the management tools and authorities needed to formulate and coordinate trade policies, conduct trade negotiations and enforce trade agreements.

FISCAL YEAR 1995 REQUEST LEVEL

The \$20,419,000 authorization proposed for fiscal year 1995 represents a continuation of the policies and goals for fiscal year 1994. For fiscal year 1995, the authorization would increase by \$276,000, approximately 1.3 percent over the proposed fiscal year 1994 amount. We plan to continue the reductions in administrative spending, complying with the reduction target established by the President.

We will also reduce USTR's permanent staffing to 156 FTEs, which will fully achieve the 6 percent target called for in the Administration's program to decrease Federal employment.

CONCLUSION

Our authorization request represents a balance between the need to reduce the size of the Federal Government and the need to have a strong international trade program that is a critical part of the U.S. economic program.

During this year and through fiscal year 1995, USTR will continuously be tasked with new challenges in concluding trade agreements, in breaking down trade barriers and in opening up markets throughout the world. This agency has enjoyed a well-deserved reputation for success, in great part due to the hard work of its employees and the support of the Committee. The challenges that lie ahead in the next two years will be great, but I am confident that working together with the Congress, we will meet them successfully.

PREPARED STATEMENT OF PETER S. WATSON

Mr. Chairman And members of the Subcommittee, it is a pleasure to appear before you and your staff today to report very real progress in developing the ITC's competitiveness capabilities. On January 12 of this year, the International Trade Commission publicly announced the establishment of an Office of International Competitiveness. The Commission agreed to the creation of this new office during our deliberations last fall on the annual budget request, expenditure plan, and staffing plan for the Commission. The office was created to enhance the capability of the Commission to monitor and analyze, in a more comprehensive fashion, the issues relating to the international competitiveness of U.S. industries.

As you know, the Commission has long been providing both the Congress and the President with advice and analysis on the competitiveness of U.S. industries vis-a-vis foreign industries. The new Office of International Competitiveness will complement, in particular, the existing industry-focused expertise in the Office of Indus-

tries and general economic expertise in the Office of Economics. Indeed, the Competitiveness Policy Council (CPC), chaired by Dr. C. Fred Bergsten, has identified the appropriateness of an expanded role for the International Trade Commission in this area, in both its initial report to the president and the Congress last year, as well as its more recent report of March 1, 1993. Over the past year, the Commission has had numerous consultations with the CPC to explore their suggestions, and we have taken their views into account in establishing this new Office of International Competitiveness.

The Office's main functions include:

- (1) identify and analyze cross sectoral factors that directly affect the ability of United States industry to compete in the international marketplace relative to industries in foreign countries;
- (2) monitor and periodically issue reports on developments, particularly with respect to commercial application or impact, in critical technologies in the United States and foreign competitor nations;
- (3) monitor and periodically issue reports on economic and policy developments in the major trading partners of the United States, with particular emphasis on foreign government policies and commercial practices which significantly affect United States competitiveness; and
- (4) contribute to industry studies that may analyze the impact of hypothesized changes in certain competitive factors to gauge the possible effects of such changes on performance in the global market.

The staffing of the office will comprise 11 positions (again, all from existing vacancies)—9 professional and 2 support. The areas of specialization will include R&D, capital formation, the environment, competition policy, labor and technology, with other areas to be determined. Four permanent and temporary staff members are currently working in the office, with recruitment efforts proceeding for the others.

Mr. Chairman, in establishing this office we have been very conscious of the overall personnel, budget and other constraints on this agency. In short, we believe that we have, with the support of this Subcommittee, established a very important capability—but you can rest assured that we will proceed judiciously with the work of the new office to ensure that we have the confidence of your subcommittee in its activities. Thank you.

PREPARED STATEMENT OF GEORGE J.-WEISE

Mr. Chairman and Members of the Committee, it is indeed a pleasure to be here this afternoon before the Senate Finance Subcommittee on International Trade to present the FY 1994 requirements for the United States Customs Service. I am extremely proud to appear before this Committee as the new Commissioner of Customs, which is an agency that is not only very special to me, but very important to this country in terms of both border enforcement and revenue collection. Mr. Chairman, both the Customs Service and I greatly appreciate the strong support that you and the Members of this Committee have provided over the years.

With me today are Sam Banks, Assistant Commissioner, Office of Commercial Operations; C. L. Brainard, Assistant Commissioner, Office of Management; John Hensley, Assistant Commissioner, Office of Enforcement; Peter Baish, Deputy Assistant Commissioner, Office of Inspection and Control; and Wayne Hamilton, Director, Budget Division.

I am here today seeking authorization for the FY 1994 Customs budget. Customs FY 1994 budget request, which totals \$1.4 billion and 17,229 FTE, is a net reduction of \$61 million and 367 FTE from our FY 1993 proposed authorized level. This budget request is a reflection of the Administration's policies to reduce Federal employment and administrative costs, improve productivity, and foster economic growth. Customs has a great deal to contribute to these important goals.

At this time I would like to summarize what I believe is the role of the Customs Service in contributing to this Nation and in functioning as a member of the Executive Branch of Government, and to articulate Customs approaches to its mission in the recent past, and then perhaps most importantly, to outline what Customs approach will be in the future.

Customs was created by the first Tariff Act of 1789, becoming a separate bureau of the Department of Treasury in 1927. The agency was renamed the U.S. Customs Service in 1973. I wish to state clearly and proudly that we regard ourselves as this Nation's primary border agency. In that role as border agency, we enforce the Tariff Act of 1930 and more than 500 laws for some 40 other agencies. This involves collecting appropriate duties and taxes on imported merchandise, determining the ad-

missibility of commodities to protect the health and safety of the citizens and industries of this country, detecting and preventing the illegal entry of drugs, and investigating instances of money laundering and trade fraud.

Throughout our Nation's history, Customs, as the primary border agency, has responded to a variety of challenges, threats, and national priorities. I would like to review some of the recent challenges and Customs responses to them.

Unfortunately, in the 1980's our Nation's budget deficit and total national debt grew dramatically. It is of particular significance, therefore, that in the decade from 1981-1991 Customs collected \$159 billion due to this government from taxes and import duties. Last fiscal year, Customs collected \$19 billion!

Also during the 1980's, this country's position as the world's number one industrial and economic leader began to be seriously challenged. Competitiveness became an issue. Customs mounted programs to ensure that our industries and our country did not suffer from unfair and illegal competition. For example, Customs developed an Intellectual Property Rights program to stop the piracy of American inventions, copyrights, and trademarks. In addition, efforts were intensified to detect illegal transshipment of quota merchandise from one country to another in order to avoid agreed upon quotas. Analytical capabilities were enhanced in order to detect fraudulent merchandise and fraudulent country of origin markings. And an interdisciplinary, team approach brought varied Customs resources and expertise to bear on this problem.

Customs endeavored to ensure that this Nation's economy and industries had the benefit of the most innovative commercial importing systems available anywhere in the world. Through the development of the Automated Commercial System and the use of electronic interfaces with the importing community, Customs was able to release over 90 percent of all commercial merchandise electronically within minutes after its arrival in the United States. These approaches helped enable our industries to implement just-in-time inventory systems to reduce the cost of production and to develop greater efficiencies in industrial sectors.

Drug interdiction has been a significant part of Customs mission. During the 1980's, cocaine became the primary illegal drug of choice. In the decade from 1981-1991, Customs seized 855,334 pounds of cocaine. Last fiscal year alone, 244,597 pounds were seized. Customs was able to achieve these successes through the integration of investigative, inspectional, and intelligence programs with an aggressive interdiction strategy that includes interdiction of air smuggling aircraft, interdiction of marine vessels, improved selective targeting at ports of entry, expanded use of canine teams, and the development of high technology methods of conducting drug detection examinations.

The source areas for narcotics, especially cocaine, shifted in the 1980's to Mexico, the Caribbean, and South and Central America. Customs responded by deploying significant, additional resources to the Southwest border, enhancing the Southwest border facilities through a comprehensive capital improvements initiative, and providing the very latest in detection technology to that border area.

Also during this period, the country began to experience an increase in unauthorized exportation of critical technology desired by foreign countries to build weapons of mass destruction. Customs responded with the EXODUS program, which led to dramatic successes during the Gulf War, as it was able to detect and interdict technology desired by the Iraqis for development of nuclear weapons technology.

Also, as international trade became more complex, Customs responded by launching a series of efforts to train foreign customs services in both the merchandise processing approaches and enforcement methodologies. Training and assistance were also provided in the areas of automation and the standardization of customs operations, as a means of facilitating international trade. This has led to a very high degree of mutual respect and cooperation between U.S. Customs, the Customs Cooperation Council in Brussels, and other customs services around the world.

In part, based upon the knowledge obtained through this Customs interchange, as well as through other sources, we became aware that Japan was, in fact, slowing or prohibiting the imports of commodities into their country through structural impediments. Customs, therefore, participated in the Structural Impediments Initiatives (SIIs) and focussed on changes that Japan's customs service needed to make to provide the same level of service for imported merchandise from U.S. exporters that we provide to Japanese producers shipping to the U.S.

Through the 1980's, Customs endeavored to maintain an appropriate balance between its drug enforcement and commercial missions. However, it was perceived by the importing community that Customs had tilted too much away from its commercial mission. Accordingly, in the late 1980's and early 1990's, Customs launched a comprehensive and successful campaign to improve the trust, cooperation, and coordination between Customs and the importing community. This campaign has re-

sulted in the highest level of mutual trust and cooperation between Customs and the importing community that has existed in our recent history. We hope to build on this trust and cooperation to move forward with our strategic goal of full "informed compliance" by the importing community.

Customs has also been responsible for enforcing a number of trade sanctions against foreign countries, such as Cuba, Haiti, and Iraq during this period, as determined by the global situation and national priorities.

Finally, the country's balance of payments picture in relation to other nations became a source of great national concern. While not yet complete, Customs has initiated a concerted effort to improve the quality of our trade statistics so that we could better supply information that can become the basis for accurate projections of this country's balance of payments situation and provide the background for effective policy initiatives and trade negotiations.

To this point, I have briefly outlined Customs response to the many challenges the Nation has faced over the past decade, a period in which this agency has accomplished many things of which it can be proud. I have emphasized its contributions to budget deficit reduction, to this Nation's competitiveness, and to the prevention of violations of commercial and related laws. I have also outlined our approaches and successes in drug interdiction.

We cannot, however, based upon the pride in those initiatives, conclude that we have no problems or challenges remaining. In terms of the internal management of the Customs Service, we obviously need to provide more institutionalized approaches to improving our strategic planning. We must redesign the aging Automated Commercial System, and also effectively implement a new Trade Enforcement Strategy. We also need to improve the long-term, systematic methods by which we develop automated information systems. And we must have a human resource plan that makes the strongest possible use of our personnel. It should be noted that these initiatives are, in part, based upon the findings and recommendations proposed by the GAO General Management Review of Customs completed in September 1992.

While we are proud of our achievements in the 1980's and are eagerly building the managerial infrastructure to continue to contribute to national priorities, we believe our focus now must be clearly upon how we can contribute to the goals of the Clinton Administration. We have thought long and hard on this issue, and I would like to address our plans in this regard.

In this time of shrinking resources and budgets, we must continue to rely even more heavily on automated systems to reduce the paperwork burden on both the public and this agency. As you are aware, in order to do this, a major legislative initiative is necessary: the Customs Modernization Act. If I accomplish nothing else as Commissioner, achieving passage of this legislation would be a gratifying legacy for me. Our two hundred years of service to this Nation have left many of our most important statutory authorities mired in nineteenth—and even eighteenth—centuries. If we are to fulfill our obligations to the trade community and to the general public, we must bring our body of laws into alignment with current technology and modern, highly-efficient business practices.

This bill, passed by Congress last year, only to be included with other legislation and eventually vetoed by President Bush, provides Customs with the necessary statutory authority and flexibility to move forward with our mission in the 1990's and beyond. I pledge to work closely with Congress to achieve enactment of this legislation.

Building on the trust and cooperation established with the business community by the past Customs administration, we intend to move forward on a path of "informed compliance," relying on these businesses to comply with the necessary procedural requirements for the commercial entry of goods, based on the education which Customs has and will continue to provide to the importing public. Once Customs is assured that an importer has had the opportunity to become "informed," should he then fail to comply with our laws and regulations, Customs will forcefully deal with the violator. There should be no surprises, but there will be consequences for non-compliance.

In this regard, we will work cooperatively with the business community and other agencies of government. In my view this kind of teamwork is essential. Too often in the past there have been "turf battles" and posturing by all parties. This is one of the first practices that must give way if we are to "re-invent government."

The President has emphasized the need for international trade to be fair, for the United States to be competitive, and for other countries and their industries to play by the same rules as we do. In that regard, we can:

- Ensure the fair and effective implementation of the North American Free Trade Agreement (NAFTA) if enacted by Congress.
- Respond to the textile industry's concerns over unfair competition, by continuing to improve the enforcement of the multi-lateral textile agreements to reduce illegally transshipped importations. We have taken action on \$850 million in transshipped goods over the past two years.
- Continue to improve our efforts with U.S. industry and other agencies to detect and prevent the occurrence of violations under Intellectual Property Rights (IPR) protection; aggressively enforce, investigate, and aid in the prosecution of violators; refuse entry of the goods; and impose appropriate penalties. IPR violations rob U.S. industries of the benefits of their research and development and strike at the very core of our competitiveness.
- Working with the U.S. Trade Representative and other agencies, keep the pressure on Japan and China to remove impediments to U.S. exports into their countries.
- Continue our enforcement efforts to prohibit the importation into this country of goods produced by forced or prison labor. Continue to expand, as appropriate, our help to the customs services of foreign nations to assist them in facilitating imports into their country and to provide safeguards for trade compliance and enforcement. These efforts currently include support to the countries of the former Soviet Union, emerging democracies in Eastern Europe, and the Arab Gulf nations of Saudi Arabia, Kuwait, Oman, and Bahrain.

In the aforementioned areas, our goal is to ensure that U.S. industries have a level and fair playing field with their competitors internationally, that all competing industries and countries obey U.S. law and regulation, and that foreign countries do not prohibit or impede exports of U.S. goods into their countries.

Also emphasized by this administration are environmental concerns, as well as concerns about the health and safety of the citizens of this country. By ensuring that merchandise admitted into this country conforms to the laws the Customs Service is directly charged with enforcing, as well as to the more than 500 other laws Customs enforces, we fulfill our responsibility to the public daily, as we examine merchandise and release it into the commerce of the United States. Specifically in this area:

- We are continuing to emphasize our key role in protecting the environment by examining, identifying, and interdicting imported and exported illegal hazardous materials. We work closely with EPA to do this.
- We are continuing to play the primary role at the border in prohibiting the entry or export of contraband, including drugs. We carry this out by emphasizing technological approaches and intelligence information, as well as employing multiple detection and interdiction systems and assets. We enjoy unprecedented cooperation with commercial industry, State and local agencies, State National Guards, and our sister Federal agencies.
- While our primary mission at the border is supply reduction, we do play a role in regard to reducing the demand for narcotics, especially among our high school population. The Treasury Department's Project Outreach is a school-based community drug education program, in which Customs is an enthusiastic participant.

I am sure you are familiar with the President's policies to reduce the size of the Federal workforce and cut back on overhead. I am convinced that, given the tools it needs, Customs can not only meet the target reductions but actually improve its operations. There are unnecessary restrictions in Customs authorization and appropriations legislation, which tie our hands and keep Customs from reviewing the current regional and district structure and from reducing entry processing or duty assessment locations, whether or not they are now necessary. This legislation has been in place for many years, and really predates many of our present ways of doing business, especially with our use of automation.

Mr. Chairman, during my recent confirmation process, I met with you, with Chairman Moynihan, and many other members of this Committee. We recognized that, as commissioner of the Customs Service, I needed the authority to reorganize this venerable Agency to reflect current needs and to insure that, in light of impending budget reductions, Customs was organized in the most efficient manner. We discussed legislative impediments which precluded such reorganization, and we agreed to make it a first priority to remove them. We agreed that this was "good government" at its most obvious.

The prohibition which has been in Sec. 617 of our Appropriations Act is being repealed in the FY 1993 Spring Supplemental Senate bill, which will be in conference

shortly. This prohibition has similarly been deleted by the House Committee in the FY 1994 appropriations bill. There remains only one further barrier: the language contained in 19 U.S.C. 2075(g), which is under the purview of this Committee. I urge you to repeal it in this bill, and to fight for that position in conference.

In close consultation with the Committee, we will develop a plan to streamline the organization while responding to changing workloads in geographical areas and providing more efficient and cost-effective service. This could be accomplished by closing purely administrative offices and consolidating duplicative support functions. This may be particularly appropriate in our regional offices, where we could actually enhance service to the public by freeing up regional staff to work in districts. By consolidating the locations where the support work is done, FTE reductions could be achieved in support functions, and we could improve our ability to provide direct public services. Recognizing the political sensitivity of such an initiative, we would work closely with the Congress and the local communities which would potentially be affected by such organizational changes.

In summary, the Customs Service will continue its role as the Nation's primary border agency. We believe we are very effectively poised to contribute to national goals related to ensuring a level playing field and fairness in international competition, to improve the economy and reduce the Federal deficit, and to provide for protection of the environment and the health and safety of the American people. We believe that we can carry out this role effectively, having laid the foundation with advanced technology and automated systems to perform our mission in the most efficient and effective manner possible. We can, with your help, make this the best Customs Service ever.

We hope that these remarks have provided you with insight into the U.S. Customs Service, its border mission, achievements, and plans for contribution to the Administration's goals. I look forward to responding to any questions, advice, and guidance you might have.

