U.S. TRADE NEGOTIATING OBJECTIVES FOR SERVICES AT THE SEATTLE WTO MINISTERIAL MEETING

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

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COMMUNICATIONS

U.S. TRADE NEGOTIATING OBJECTIVES FOR SERVICES AT THE SEATTLE WTO MINISTERIAL MEETING

THURSDAY, OCTOBER 21, 1999

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

The hearing was convened, pursuant to notice, at 2:18 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the subcommittee) presiding.

Also present: Senator Baucus.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE

Senator GRASSLEY. I would thank everybody for accommodating the U.S. Senate while we conducted a vote just now, and hopefully we will not be interrupted for the rest of the hearing.

I welcome everybody to this hearing, but particularly our witnesses who always have to go to extra work and have a lot of down time, like the last 15 minutes, to come up and make the process of participatory democracy work, particularly in Congressional oversight.

This is our second hearing examining the administration's trade negotiation objectives. Today we are going to look at trade and services. In any global trade organization involved in negotiations, we must play to our strengths. Like agriculture, services is one of America's strengths in international trade.

My own State of Iowa services account for about one- half of the total non-farm earned income, about $14.5 billion. Trade and services is a highly dynamic source of jobs and a powerful engine of economic growth.

Last year, the United States exported $258 billion worth of services abroad. This amount, which is roughly the ~~size~~ of our entire GDP in 1948, makes the United States the largest exporter of services.

Our services industries have proven over and over again that they can compete in the world, because they are the best. Clearly, U.S. service providers are winning the competitiveness challenge, but there is another, more important challenge. That is what we call the contestability challenge, the ability of even small firms to have a global reach and to compete for work anywhere in the world.

We have a recent study on the value of world production that is globally contestable, and that will soar by more than 500 percent in just 5 years, from $4 trillion in 1995 to more than $21 trillion next year. That is an amount equal to about one-half of the total world economic output.

Services are one of the key economic sectors most affected by the contestability challenge. I will give you some examples. A new office building in Kastrees can be financed in a bank in Tokyo, designed by an architectural firm in Boston, insured by a firm in Des Moines, and constructed with Canadian materials shipped from Miami. A telephone company in Sweden uses electronic components manufactured by a United States company in Israel to build wireless communication stations in Malaysia.

All of this is made possible by a real-time free flow of consulting, data processing, architectural, legal, financial, software, Internet, shipping and delivery services, and a lot of others too numerous to mention.

Thousands upon thousands of services transactions like these occur every day and they demonstrate that, in the Internet era, local, and international markets are virtually the same. That is the contestability challenge that we have to meet. This is why the new multilateral negotiations and services are so important.

There are many issues we must address in the new round of services negotiations to make sure that we can continue to compete in this new environment.

Just a few. First, we must liberalize trade in all service sectors as much as possible. The schedules of commitments to trade liberalization made within the Uruguay Round General Agreement on Trades and Services must be broadened and deepened.

And I do not want to minimize the achievements that the GATS agreement represents. After all, services negotiations were conducted on a separate track during the Uruguay Round and faced strong opposition in many corners.

But most of the commitments obtained in the GAT represent a stand-still or a ceiling on existing trade barriers, not the reductions in trade barriers that we need now. So we can say legitimately, based on past experience, we can do better and we need to expand these market access commitments across the board.

Second, we need to reform regulations that restrict competition and services. Article 6 of the GATS agreement should be strengthened to provide for greater objectivity and transparency. The Seattle ministerial is our best opportunity since 1993 to push for that transparency.

If we get greater transparency, regulations cannot then be used to thwart market access and frustrate national treatment obligations. We must continue our efforts to reform government procurement procedures, particularly the work begun in the 1996 Singapore ministerial relating to transparency in government procurement.

In financial services, we must expand rights of establishment and ownership, and hopefully make sure that electronic commerce remains a high-speed roadway and does not become some sort of toll road littered with government-imposed obstacles. We must further liberalize trade and delivery services so that we can quickly move high-valued goods around the country.

Most importantly, we need two things. We need a vision for where we want to go. We need specific objectives that will get us to those goals, and then we think the rest of the world will follow.

Today, I hope that we will hear about specific trade liberalization objective that our negotiators will pursue in Seattle and in the subsequent negotiations.

Senator Baucus, thank you for coming.

Senator BAUCUS. Thank you, Mr. Chairman. I have no statement. I just want to hear what the witnesses have to say, and I will have a few comments later.

Senator GRASSLEY. Thank you.

Before Ambassador Esserman starts out, I would ask that a statement by Senator Hatch be entered in the record.

[The prepared statement of Senator Hatch appears in the appendix.]

The CHAIRMAN. We will start with you, Ambassador.

Senator BAUCUS. I just want to compliment both Secretary Aaron and Ambassador Esserman. They work long and hard for this country and it is not easy. They have appeared before this committee many, many times, and many other committees many, many times, in addition to all the work they have done and the travel that they do on behalf of the United States. You both are terrific public servants, and I, for one, compliment you, thank you, and I know that others who know of your good work do, too.

Senator GRASSLEY. And I associate myself with those remarks. Please proceed.

STATEMENT OF HON. SUSAN G. ESSERMAN, DEPUTY U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador ESSERMAN. Thank you very much.

Mr. Chairman, Senator Baucus, we are very pleased that you have held this hearing on the very important subject of the services trade agenda at the WTO.

As the President said last week, opening trade in services will be a central goal in the round that we expect to launch in Seattle.

As your opening statement reveals, the American service sector includes a vast array of industries, from finance, telecommunications, distribution, health, education, environmental, travel, services, construction law, engineering, architecture law, and may more.

These industries provide over 86 million jobs and over $5.5 trillion worth of production, 70 percent of U.S. GDP, and more than one dollar in seven of world production. In addition, services have an important impact on the agriculture and manufacturing economy.

As you have noted, in many services fields the U.S. is the world's leader. This sector includes some of our most sophisticated high-wage industries, drawing on the skills and talents of the American people.

The United States is the world's leading exporter of services, with $246 billion of private sector exports last year. Our service providers, ranging from some of America's largest and best-known companies to smaller and medium-sized businesses, are some of our leading exporters.

As both of our testimonies document, and your statement does as well, services industries now contribute substantially to our economic growth and to our export performance, but there is much to be gained from broad-ranging services negotiations as many services markets abroad remain highly restrictive, impeding our export potential and imposing broader societal costs as well.

As you know, services trade policy is a relatively new field. In fact, as recently as 1993, there were no trade disciplines in services. Since then, we have built a strong foundation from which to begin our work in the next round.

Through the Uruguay Round, which created the WTO, we completed the General Agreement on Trades and Services, known as the GATS, which for the first time ever established a framework of rules governing trade in this vast sector.

Our 1997 agreements on financial services and basic telecommunications have built on that, and they have both fostered competition and reduced the costs of services in these important fields, with commitments to market access and national treatment.

Our regional initiatives in Europe, Latin America, Asia, and Africa, together with our 33 accession negotiations, have helped to create models and set precedents for future opening of services. These are, though, only the first steps.

While the Uruguay Round agreement established fundamental rules, as I have said, there is much left to be done in achieving market openings. Here, I would say our goals very much match the goals that you have outlined, Mr. Chairman.

Our goal at Seattle is to launch a negotiation which enables us to secure maximum liberalization in a broad array of sectors through a broadening and deepening of the services commitments of all WTO members.

Working closely with industry, we have developed a plan which sets out our objectives and is designed to give us the flexibility to pursue a variety of negotiating approaches to achieve the greatest liberalization possible.

Specifically, we will seek to accomplish this liberalization goal through three separate types of negotiations. First, sectoral agreements developed through creation of model sets of services or GATS commitments for key sectors of interest to the United States.

These model schedules, or templates, would be roughly equivalent to the zero-for-zero tariff elimination we have already done for goods. The model schedules would, in essence, provide essentially free trade and services through removal of as many restrictions a possible in a particular sector.

We will also be examining cross-sectoral, or horizontal, methods of service sector liberalization. Here, we would seek to eliminate a restriction across a range of sectors.

An example of this type of approach would be that countries would commit not to discriminate against particular modes of delivering services, such as, for example, e-commerce. This would be a commitment that would affect all sectors.

The third type would be the request and offer approach as a supplement, as necessary to pursue specific market access liberalizations on a country-by-country basis.

In addition, our objectives would include increasing participation in the very important basic Telecommunications and Financial Services Agreement, and very importantly, ensuring that services rules are sufficiently flexible to anticipate the development of new technologies.

Finally, in order to realize these market access commitments in certain highly regulated sectors, we will seek to ensure that WTO members' regulatory frameworks are transparent and fair and do not undermine the market opening commitments they have made. This would, however, in no way diminish the ability of the United States or other governments to regulate as necessary to protect important citizen interests.

Our work in the electronic commerce area in the WTO, although separate from the services negotiations, is essential to success in services. This is because, increasingly, a number of services—for example, telemedicine, distance education, some forms of entertainment, and news—can be efficiently and easily delivered electronically. Therefore, we have been doing important work at the WTO.

Beginning in Seattle, we will seek to extend the WTO's current moratorium on application of tariffs to electronic transmissions. We are also seeking countries to commit to avoid measures that unduly restrict development of electronic commerce, to ensure WTO rules do not discriminate against new technologies and methods of trade, to accord proper treatment of digital products, to ensure full protection of intellectual property rights on the net, and capacity building in developing countries. We are also open to pursuing additional issues in an ongoing work program.

In addition to pursuing consensus on these substantive goals, we are working with other WTO members to set a 3-year timetable, with benchmarks to ensure progress that will ensure that the Round yields significant benefits rapidly.

In conclusion, the promise and opportunities in this area are immense. We very much look forward to launching an ambitious negotiation at Seattle, to working further with you and the Congress, and our industry in developing specific and comprehensive proposals for achieving the maximum liberalization possible in this important sector.

Thank you.

Senator GRASSLEY. Thank you, Madam Ambassador.

Now, to Secretary Aaron.

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

STATEMENT OF HON. DAVID L. AARON, UNDER SECRETARY OF COMMERCE FOR INTERNATIONAL TRADE, DEPARTMENT OF COMMERCE, WASHINGTON, DC

Mr. AARON. Thank you, Mr. Chairman, members of the subcommittee. I want to thank you for the opportunity to appear here today to discuss the critical role played by the services sector in our economy and the objectives we are developing in the run-up to Seattle.

American service industries are the most competitive in the world. As Ambassador Esserman pointed out, we had over $246 billion in services exports last year alone. To give you a sense of that, this number has doubled over the last 10 years. This trade surplus in services, in fact, reached $83 billion last year, which made a very important contribution, offsetting fully a third of our merchandise deficit.

However, trade rules for services have only barely begun to address the barriers that limit market access. With goods, barriers typically exist at the border in the form of tariffs or nontariff barriers.

By contrast, trade barriers in services are often less apparent and often imbedded in a country's domestic regulations. That is why, as you pointed out, Mr. Chairman, transparency is so important, and in particular, transparency in government procurement.

Services have clearly lagged behind goods in terms of global trade liberalization. Foreign markets still offer excellent prospects for future export expansion and for creating new jobs for U.S. service companies, so we have to do more.

The new General Agreement on Trade and Services, the GATS 2000 Round, offers an excellent opportunity to liberalize a broad range of services sectors and to create an open international services trading system that will continue to provide growth and prosperity into the 21st century.

The Commerce Department is taking a leading role in government's industry outreach efforts to determine the priorities and objectives for services industries in the next round of trade negotiations.

Through our advisory committees and an extensive ongoing services of services sector round tables, industry has been candid about its concerns, indicating a strong interest in achieving liberalization in most services sectors.

The U.S. objective is to broaden and deepen the commitments in the GATS. First, by increasing the number of industry sectors listed in each country's schedule so that companies in health care, energy, private pensions, and educational services industries, for example, are able to establish operations and sell their services overseas.

Second, we want to extend the coverage of commitments to all segments of a particular sector. For example, we would seek to ensure commitments in the construction services apply to the whole sector, not just to the construction of, let's say, offshore oil platforms.

Third, we must deepen the scope of existing commitments, allowing companies that are limited by equity ownership caps to fully control their foreign operations.

Fourth, to use this round to promote domestic regulatory reform so that, for example, our financial services firms can gain approval within a reasonable period of time for innovative products that they bring to a foreign market.

We also want to ensure that the new round prevents discrimination against new technologies for our particular methods of delivering goods or services, such as electronic commerce. Our goal at the WTO is to ensure that the Internet continues to be an engine of economic prosperity in the United States and around the world.

At the Commerce Department, we are working closely with USTR to extend the 1998 moratorium on Customs duties on electronic transmissions and, very importantly, to ensure that WTO members take no action to inhibit the growth of electronic commerce.

In particular, we must avoid the premature classification of electronic deliveries as a good or a service. An EU-proposed WTO principle would label all electronic deliveries as services.

Many countries, including the United States and Japan, simply do not agree. For one thing, this could extend the audio-visual prohibition on cultural grounds to software and other items delivered by electronic means.

Let me conclude, Mr. Chairman, by stressing the role that small business needs to play in setting the WTO agenda. We estimate that 97 percent of the 113,000 U.S. enterprises engaged in exporting are small- and medium-sized firms. Many of them are in the business of exporting services. We are, therefore, working to enlist the drive and creativity of America's small business sector in our work on the new trade round.

The upcoming Seattle ministerial in the new trade negotiations round provides an excellent opportunity to make great strides in the liberalization in world trade, especially in services.

It is crucial that the administration, working together with the Congress, industry, labor, and our trading partners, take full advantage of this new round to provide new opportunities for the U.S. services industry to compete around the world.

I would be pleased to answer your questions.

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

Senator GRASSLEY. Thank you very much.

Are the clocks working? If they are not, that is all right. Forget it. I will let you discipline me, Senator Baucus, so I do not take too much time.

Senator BAUCUS. Well, I hope you discipline yourself.

Senator GRASSLEY. Ambassador Esserman, one of the major problems with the GATS agreement is that the schedule of commitments lacks transparency. Another problem is that, as I indicate in my statement, most of the commitments on trade barriers are really just stand-still agreements. We have imposed ceilings on existing measures; we have not reduced or eliminated trade barriers.

Let me encourage you to be really specific with your suggestions, because it is very helpful to have general policy statements, but we are very close to the ministerial in Seattle, only a month away, so we need as much detail as we can get.

What, specifically, should the United States do in the new round to expand and enhance market access commitments in the GATS agreement?

Ambassador ESSERMAN. Senator, I very much agree with the two problems that you have noted. The first, that it is very difficult to pour through the services schedules and understand just what they mean, and what countries have committed to.

That is actually one of the objectives in our negotiations to ensure that we have a better system of classification so that we have a better and clearer understanding of, when a country makes a commitment, that we know exactly the extent of that commitment.

Second, you are quite right, there is a substantial additional need to open markets. Here, we are pursuing a variety of approaches. First of all, we have been working over the last 2 years within the WTO to build awareness within a wide variety of countries of the importance of taking services commitments, of the importance of open services sectors, to enhancing a country's attractiveness for investment, to building more competitive services sectors. So, we have been focusing on, I believe, 15 sectors in the WTO.

Also, we have been working regionally to build model approaches that could potentially be used and brought to the WTO as a basis for securing liberalization. Also, we have been trying to do that through some of our accession negotiations, working in a specific way that might be useful to our later negotiations.

As I outlined, the services area is so vast and so broad, so it is critically important that we have a number of different approaches and not simply rely on the request/offer type of approach in the past.

Given the breadth and the diversity, yet some commonality, we have come up with these three specific approaches as different and alternative means to achieve liberalization.

Senator GRASSLEY. As a follow up, has the Congress' failure to give the President fast trace trading authority been an impediment, or does it appear to be an impediment at Seattle and beyond in this area of GATS agreement so you can effectively negotiate one, or effectively negotiate, period?

Ambassador ESSERMAN. Senator, we of course would prefer to have fast track authority. However, there has been a wide-ranging interest in services liberalization, as evidenced by the fact that it was a subject for the built-in agenda.

There has been a huge amount of private sector initiatives in this area, where our private sector has been working with private sectors around the world, and a continuing work program over the past couple of years so that we would be in a position to launch negotiations.

We are building into the WTO now a series of benchmarks so that we can move ahead rapidly at the launch of the negotiations and seek to conclude within 3 years.

Senator GRASSLEY. Have you had any indication from other countries that they did not want to negotiate in this area as long as the President did not have this authority?

Ambassador ESSERMAN. I have not.

Senator GRASSLEY. You have not heard any?

Ambassador ESSERMAN. I have not heard any kind of comment like that in regard to services.

Senator GRASSLEY. Ambassador Aaron, I am concerned that there seems to be a split between developed and developing countries on liberalizing government procurement.

I have heard some reports that developing country members of WTO will oppose efforts by the United States or other developed countries to secure a global agreement on transparency in Seattle.

As you know, a WTO working group on government procurement was established in the 1996 Singapore ministerial, and they had a specific mandate to study transparency in government procurement and develop areas for inclusion in possible agreement.

How much does this opposition from developed nations undercut our efforts to liberalize government procurement?

Mr. AARON. I think, Mr. Chairman, that we have a reasonably good opportunity here to achieve an agreement on transparency in government procurement. The developing countries, many of them, are supportive of our efforts to conclude an agreement. South Korea was a co-sponsor of our initial draft text.

At a recently concluded meeting in Durben, South Africa at an annual anti-corruption conference, participants representing over 134 countries agreed that we should seek to conclude an agreement on transparency in government procurement at the Seattle ministerial meeting.

We have a number of positive developments. In particular, in September, the APEC ministers agreed to make efforts to conclude an agreement by the time of the ministerial. The OECD ministers have made previously similar comments.

So it is not clear that this is sort of a north/south issue, except in one respect. That is, that our European friends have been insisting that there somehow be some linkage or some provision in the transparency in government procurement agreement that would call for market access as well as transparency.

This has been opposed by many, and most, developing countries, and we think this is a case of perhaps the best being the enemy of the good. We, too, would like in the GPA negotiations to continue to pursue market access in government procurement, but we do not think this is the vehicle or the place to do it.

We think that transparency in government procurement is a good end in its own that will be beneficial not only to our country and to the developed countries, but even more importantly to developing countries.

They stand to benefit not only in terms of effectiveness and efficiency, but also in terms of fighting corruption and the corrosive effect that bribery and all the other things that come in train with lack of transparency do to undermine the efforts of these countries to both grow and develop viable economies and viable democracies.

So we believe this is an issue that can reach across the north/south divide and hopefully unite us all.

Senator GRASSLEY. A quick follow up, and then we will go to Senator Baucus.

Just, for instance, a few basic principles whether or not you think these can be established in these negotiations. For companies that want to bid to get enough information to do it, to be notified of opportunities and bids are announced for government procurement contracts, is that just as tough as any or are those basics very difficult as well?

Mr. AARON. Those look pretty basic, but you would be surprised how often we do not really see it. Indeed, even in some of our relationships with developed countries we can find that.

In Asia, for example, we have had experiences where even commitments made to do that often come up short. But those are precisely the issues that we need. Companies need to have information that will permit them to bid, they need notification, they need adequate information on the time scales, the criteria, things of that sort.

Senator GRASSLEY. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

I am a bit concerned about Japan. I cannot prove this, but I have a strong impression that, in the Uruguay Round, other than, say, on rice and a couple of other issues, Japan did not end up making the same kind of significant changes that were required of other partners in the round.

I am worried that this next, upcoming round is going to be the same. That is, in the last round Japan made minimal commitments, then in the uniquely Japanese way, found ways to avoid them, circumvent them, minimize, and just not live up to their obligations.

I am, again, quite concerned that this is going to happen again. In the last round, we tended to focus on Europe, I think, to the exclusion of this problem with Japan, and I am concerned in this next round we are going to focus perhaps too much on Europe or other matters, particularly when it comes to GMOs and so forth, and no really focus as much as we should on Japan, which after all is the second largest economy in the world.

I am also concerned because I have heard many USTR witnesses in the past talk about GATT-plus. That is, well, if it does not work as well as we like to under the GATT rules, well, we will negotiate a separate bilateral agreement with Japan. Well, that plays into their hands, the Japanese.

It seems to me, what is good enough for other countries under the Uruguay Round or WTO ought to be good enough for Japan, and we should not let ourselves fall into the trap of trying to negotiate a separate, better agreement with Japan because Japan has been backsliding compared to other countries.

It is particularly disturbing because we are now in this era where we take problems to, say, the WTO. We do not utilize our own trade laws, like Section 301, for example, and things get hung up and delayed again.

So I would like your thoughts on this. Obviously, this requires a lot of deep thought. This is not a question where an off-the-cuff response can suffice.

However, I would like your initial reactions and solutions to this, and then in a few days if you could provide me with more detailed, more complete thoughts on this because I think we are not looking enough at Japan while we are focused on some of these other problems, and I am very worried because Japan is very good at this and it is going to find some way to slip off in the way that they have in the past.

Mr. AARON. Well, let me say this. I think that we are focused on Japan. I think we have been focused on Japan, for example, in the industrial goods sector all the way through the APEC process, the development of our Advanced Tariff Liberalization initiation.

We have had a lot of trouble with Japan in this regard, but we have been very focused on what that impact would be in regard to

Japan. Similarly, in the services sector I think we are clearly focused on Japan.

But, having said that, I also share your concern about Japanese objectives in this round because I certainly see no positive objectives.

So far as I can tell, their objectives in this round are simply to diminish the effectiveness of our fair trade laws and to avoid any constraints on fisheries and timber, and perhaps other agricultural products. That seems to be the sum total.

I see no positive objectives on their part. So, it is a worrisome strategy that they seem to be deploying here. I agree with you that we need to give a lot of thought as to how to deal with this.

Senator BAUCUS. Well, particularly, take services, for example. I applaud the list that you gave to Japan a couple of weeks ago, including telecommunications, for example, and competition policy in many other areas.

I mean, obviously with respect to telecommunications, the Internet, and electronic commerce, the more Japan were to open up, the more it would be a more competitive economy. It would help address a lot of their economic problems in the medium term, and perhaps in the long term.

But, given the uniquely historical Japanese reluctance to compete internally in a rather managed economy, I am not so sanguine that they are going to react very favorably to your list.

So how do we get at this? What is the solution here? Senator Grassley and I are going to be introducing a resolution soon, this week or next, a sense of the Senate encouraging your efforts and encouraging you to be vigorous in promoting a good result, access for services, telecommunications, and so forth into Japan. That is one way we can help. But just your thoughts on how we advance the ball here.

Ambassador ESSERMAN. Senator, if I could just add to what Under Secretary Aaron has just said. We certainly share your concern. I would just say that, while this question does deserve deeper thought, I would just say that I think it is critically important that we pursue a multiplicity of approaches with Japan.

You cannot just leave it to multilateral negotiations, although there are some important areas we are pursuing in the WTO that are very important to us, such as in the APEC sectors where we are seeking liberalization from Japan.

There are a number of interests that we have there, there are a number of interests that we had in the Uruguay Round. One area was intellectual property, where we did get important commitments from Japan on certain tariff areas.

But with Japan, particularly given the multiple barriers, it is very important to pursue multilateral approaches, bilateral and regional approaches, and very specific approaches that result in constant and vigorous monitoring, but we will reflect further and more deeply on that.

Senator BAUCUS. What leverage do we have? It is my experience in trade matters that no country altruistically, out of the goodness of its heart, is going to lower a trade barrier. They do not. Countries do not unless they have to.

We have just got to figure out the have tos as the leverage, or else it will not happen, or show why it is good for them. I am not all that sanguine on the speed with which Japan is going to move here, given past practices, past pattern.

That means we have got to be a little more creative and a little more thoughtful. Maybe part of the problem is it is raised up to a higher level in the administration, some of these issues, the White House, State Department, et cetera.

I know you guys try very, very hard, but I have been around here a while and I know what happens with Japan. It is very, very frustration. Very frustrating. I am just curious if you have any new ideas.

Mr. AARON. Well, one new idea, which I think is a reasonably new idea which has been pursued, I think, very effectively, particularly with USTR's leadership, has been our deregulation effort with them. I think Ambassador Fischer has done a really outstanding job in getting some very effective agreements with them bilaterally in the deregulation area.

Certainly the two that the Commerce Department is most directly involved in, medical devices and pharmaceuticals, I think the industry feels pretty good that we are getting the kind of deregulation follow-through on the commitments the Japanese have made in opening up that market.

I think in the financial services sector, the picture may be a little more mixed. But even there, there is a lot of anecdotal evidence that some of our financial services companies are finally selling stocks, finally selling product, and are finally getting into that market.

So I think there are some new ideas. We have now just put on the table some new deregulation proposals that we believe are in their interest and that they will see that are in their interest, and that are in our interest as well. But I think, as Ambassador Esserman has just said, we have got to come at them in every different way we can.

Senator BAUCUS. I wish you luck. Thank you.

Senator GRASSLEY. I have one more question for Ambassador Aaron related to this hearing. And before you go, Ambassador Aaron, I have one other thing I would ask you for a suggestion on, as long as I have your ear.

First of all, related to this hearing, it is kind of maybe too general of a question, but it is a very basic question to a complete victory to our country in these negotiations.

By the way, I am very glad to work with you on that resolution as well, the resolution he was talking about in regard to Japan.

What can we do at Seattle, and afterwards, to encourage the signatory countries that have not ratified the GATS agreement to do so? Is there a slow-down on ratification that might indicate a lack of willingness to engage in deeper liberalization in financial services? Maybe I should also direct that to the Ambassador as well, but I will start with you.

Mr. AARON. Well, I think, if I am not mistaken, roughly 60 out of the 70 countries that signed on to the agreement, the original signatories of the agreement, have joined on to it.

We have been pressing in every possible way, through demarches bilaterally, through the State Department, through our activities in Geneva, through the high-level contacts with governments as they come to Washington or as we go to their countries to get them to sign onto it. We have been making progress in it, but it is not complete. All I can say is, it takes a lot of diplomatic elbow grease to get it done.

Ambassador ESSERMAN. I would simply add that 60 of the 70 signatories have ratified, the other 10 appear to be far along in the ratification process. I believe that their ratifications are pending in their legislature.

As to persuading countries to join, we have been trying to use our bilateral initiatives and regional initiatives to persuade countries to join. We have had some successes recently in Africa, where recently two countries have joined.

But it is, I think, now hearkening back to what Senator Baucus said, the most significant modification is that this is very much in these countries' interests, and a number of these African countries, for example, are saying that it is very important for them to participate in the telecom, in the financial services agreement, because it is good for their economy.

Senator GRASSLEY. Yes. As I said, Ambassador Aaron, I have got a question, and this is in regard to the European Union. The Union has been working on an environmental directive, and this directive would result in an effective ban on the sale in European Union countries of U.S.-manufactured refrigerators and freezers. We have so many of these, like Amana, Frigidaire, and Maytag in my State of Iowa, and I think have a very negative impact.

The issue is now before the European parliament. It is my understanding that it will be voted on in committee next month. But what I find troubling about this is not their right to do it, but their unfairness of it.

The EU's action in proposing this directive is that the European manufacturers would be able to continue to export the very same products which U.S. manufacturers would be prohibited from selling in European countries, thus eliminating any potential environmental benefit.

If this proposal would go through, one of the companies in my State has estimated that it would disrupt their European distribution network and cost them $30 million in lost sales. That is just one of our companies.

I believe your department has conveyed our government's concern about this potential nontariff trade barrier to the European Union. Is there any additional action that the Commerce Department can take to engage the Europeans on this issue?

Mr. AARON. Yes, I believe there is, Mr. Chairman. We will be pursuing this issue actively at the upcoming meeting of the Transatlantic Business Dialogue, which will meet at the end of next week in Berlin, where we will have some key EU officials there, as well as representatives from industry on both sides of the Atlantic.

Interestingly enough, in this process EU industry basically opposed this regulation as well. They have much less at stake than we do, but they were on our side in this issue.

We believe that it is extremely important that we get some satisfaction by bringing this to the attention at the level of Secretary Daley when we meet with them in Berlin.

Beyond that, I think we also need to communicate to the parliament. If I might make a suggestion, I would suggest you might want to use the mechanism of the Transatlantic Legislative Dialogue which has now been established to send a communication to the European parliament about your concerns on the issue, particularly the unfairness of their continuing to permit the export of those items that they ban for their own consumption.

Senator GRASSLEY. Well, thank you. I appreciate what you will be able to do in Berlin, or at least raising the issue in Berlin. I thank you very much for doing that. Maybe we can keep our communication open on the issue and see if there is some way we can keep the heat on.

Well, in the same vein as Senator Baucus in his welcoming you, recognizing the hard work you do, I would just simply say once again, thank you for participating in this. It is another example of your hard work, and I suppose with Seattle coming up, it is just beginning, in a sense. Thank you very much.

Ambassador ESSERMAN. Thank you very much.

Mr. AARON. Thank you.

Senator GRASSLEY. I now have the privilege of calling some of our private sector witnesses. We have Stuart J. Brahs, and he happens to be vice president of Federal Government Relations, The Principal Financial Group. The Principal Financial Group is headquartered in my State capital of Des Moines, Iowa, but they are also very international in their approach in the service industry.

Then we have Catherine L. Mann. She is a senior fellow, Institute of International Economics here in Washington, DC, and a publisher and author as well.

Then a person who is well-known on Capital Hill because of previous work with this committee, J. Robert Vastine, president of the Coalition of Service Industries, Washington, DC. If I am not violating any protocol, I will just call on you the way I introduced you.

So, Stu, would you proceed?

STATEMENT OF STUART J. BRAHS, VICE PRESIDENT, FEDERAL GOVERNMENT RELATIONS, THE PRINCIPAL FINANCIAL GROUP, WASHINGTON, DC

Mr. BRAHS. Thank you very much, Mr. Chairman. I appreciate the invitation and the generous introduction.

Our written statement has been submitted for the record, so let me just go over a few brief items in the next few minutes.

As Ambassador Esserman and Secretary Aaron noted, the General Agreement on Trade and Services that was approved in December of 1997, the GATS, was a significant achievement in international trade, and under the GATS financial services companies such as The Principal are protected against foreign governmental actions which might prevent us from providing a wide range of financial products and services across national borders which would otherwise discriminate against foreign-owned banks, insurers, asset management companies, mutual funds, and the like.

GATS, I think those more knowledgeable than I would suggest, is not a perfect agreement, probably where perfection could not have been expected. But I think it has gone a long way to providing a permanent and forcible set of rules under which those of us working in the international marketplace can operate.

In this context, I would like to pick up a note that you and Senator Baucus made about our negotiators. I think it is fair to say that the U.S. financial services companies have enjoyed a very collegial relationship with our trade negotiators and other government agencies that were involved in the 1997 trade talks.

We met frequently here in Washington, Geneva, and other capitals around the world on the GATS negotiations throughout the almost 2 years of that negotiating process. I am pleased to say that this relationship continues. We remain in close communication, certainly, as our American negotiators are preparing for the Seattle ministerial.

Speaking of which, the forthcoming round of trade negotiations in Seattle is probably going to be challenging, if not more so, than the Uruguay Round.

In the context of the draft ministerial text which first came out on the 7th of October and I gather has just recently been revised, we would urge that our ministers, our trade negotiators, continue to develop a GATS regi[illegible]n to encourage the availability and choice of insurance, re-insurance, private pensions, annuity, personal retirement security plans, and the broad range of banking and securities products that are offered by American financial services companies.

We think this objective will enhance the ability of the WTO's members to develop sustainable global services trade, to strengthen the financial stability of their own national economies, and to help ensure their own citizens' personal future financial securities.

Recently, Mr. Chairman, the Senate Special Aging Committee, which of course you also chair, looked at America's retirement savings needs and private pensions. Our trading partners, whether in the well-developed, highly competitive European Union or in the economies in transition, are doing pretty much the same thing.

That is, they are assessing the enormous impact of the aging baby boom generation on their future economies and societies, and I think some are gradually waking up to the fact that their social safety nets will be totally inadequate to sustain their aging populations in the 21st century.

Parenthetically, I would like to note that I was pleased by Secretary Aaron's comments about the focus on private pensions, especially in light of the leadership that the Commerce Department has provided in the work of the OECD, the Organization of Economic Cooperation and Development.

So in this context, Mr. Chairman, I think our negotiators should address how this issue of the aging of the baby boom generation, whether it is in North America, Europe, Latin America, or elsewhere, how this and other financial services companies look at it on a prospective basis.

I understand this is very amorphous and may not have the specificity that perhaps you would like or we might advise our negotiators, but I think our negotiators should consider how to avoid impediments or potential barriers down the road to the design, the funding, the investment, the underriding management, as well as the administration, regulation, and supervision of private pensions and retirement savings products around the world.

I think in this regard, also, the negotiators ought to bear in mind how American financial services companies can actively participate in the potentially significant global pensions and asset management markets.

In my prepared statement, I also allude to the tax policy, which probably warrants consideration. You have obviously provided tremendous leadership in the Finance Committee in promoting private pensions, with the cooperation and assistance of Chairman Roth. We would hope that perhaps this could be extrapolated into the international trade context.

The Seattle ministerial, in our view, Mr. Chairman, offers the potential to set the stage for the next round of trade talks, the 2000 round, GATS 2000, the Millennium Round, whatever it may be eventually called, as well as I think it also would set the tone for the anticipated 3-year negotiating period.

I think the ministers will be able to build on the successful foundation of the 1997 GATS agreement and other components of the Uruguay Round, and strengthen the market access and national treatment commitments agreed to at Geneva.

Again, we congratulate you for holding these timely hearings and appreciate the invitation. I would be glad to respond to any questions. Thank you.

Senator GRASSLEY. Well, thank you, Stu.

Now, Dr. Mann.

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

STATEMENT OF CATHERINE L. MANN, PH.D., SENIOR FELLOW, INSTITUTE FOR INTERNATIONAL ECONOMICS, WASHINGTON, DC

Dr. MANN. Thank you very much. I appreciate the opportunity to come before the group to discuss the role of services in trade.

I would like to address two main issues. The first one, is to quantify the importance of services for U.S. and global trade and, in particular, focus on the importance of the services sector for increasing U.S. and global GDP growth—not just trade, but overall income growth.

Second, I would like to make a dramatic case for how service sector liberalization can change the trajectory of the U.S. trade deficit.

Finally, I would like to conclude by noting that these two features make service sector liberalization the high-performance strategy of service sector liberalization here and abroad, the foundation of a win-win strategy for negotiations in Seattle and beyond.

So, first, let us go through a couple of numbers. I am an economist, so I have to have numbers. Some of them have been mentioned already, but I will just put them in a slightly different perspective.

Service sector exports for the United States account for 30 percent of the total value of U.S. exports. The service sector surplus was $80 billion last year, as against a merchandise trade deficit of

$330 billion. As of 1997, the U.S. accounted for about one-quarter of the world's trade and services.

We have very competitive service sector providers, in large part because our domestic market is so competitive. In comparison to the major industrial competitors, we have higher labor productivity of about 30 percent in airlines, 30 to 40 percent in retail banking, 20 to 50 percent in telecommunications, and 10 to 15 percent in retail selling. So, our industries are worldwide competitors.

The share of services in U.S. exports should increase further as our trading partners grow and mature and demand more services as part of their consumption pattern, but of course this will only happen if markets are open.

To give you an example of how this relationship between maturity and our service sector exports is related, in the mature countries of Europe, the service sector's share of GDP is about 70 percent and the share of services in U.S. exports is about 35 percent.

For middle-income countries, say in Latin America, service sector share of GDP is about 50 percent, and the service sector share of U.S. exports about 25 percent.

Then if we consider low-income countries such as China and India, the service sector share of GDP is only 37 percent, and the service sector share of U.S. exports only 18 percent.

So as growth and maturity develops in our trading partners abroad, we can get quite a bit out of export sector, but it does require that those markets be opened to U.S. exporters.

So what is the case for service sector liberalization to improve or enhance the U.S. external deficit? I think we need a little bit of background here on, what are the forces that affect trade flows of exports abroad and imports into the United States.

Long-time empirical analysis of the behavior of U.S. trade suggests that we tend to spend about twice as much on imports as our income changes as compared to what foreigners spend on U.S. exports when their income changes.

This is a well-known asymmetry that economists call the Howtacher-McGee asymmetry, to the extent that you care about that. What this means is that, when the U.S. and foreign economies grow at the same rate, our deficit tends to increase.

Now, more recent work suggests that this asymmetry is, in fact, reversed, or at least is substantially smaller, for trade in services than for trade in goods. This is consistent with the notion that, as economies develop, they will tend to buy more services.

So what the implications for the external deficit are, is that as our economy grows, as the global economies grow, we should be able to change the trajectory of the external deficit from going and getting larger, and larger, and larger over time to, in fact, flattening out.

So the services can have a very dramatic effect on the trajectory of the U.S. external deficit. It is because of the magnitude of the service sector in the U.S. economy.

Lastly, let me just note how important the liberalization of services can be, not just for the United States, but also for the rest of the world. If, in fact, we were able to pursue an open environment for services in the U.S. and the global economies, it could raise global GDP by four to 6 percentage points, and raise the long-run global growth rate from 3.2 percent to 5 percent.

That is a big pie that a lot of the developing countries are going to be able to enjoy, but only to the extent that they participate actively in market opening measures in the next round. Thank you.

Senator GRASSLEY. Thank you, Dr. Mann.

Now, Mr. Vastine.

[The prepared statement of Dr. Mann appears in the appendix.]

STATEMENT OF J. ROBERT VASTINE, PRESIDENT, COALITION OF SERVICE INDUSTRIES, WASHINGTON, DC

Mr. VASTINE. Thank you very much, Senator. Good to see you again. Thank you very much, Mr. Chairman, for your opening remarks, which demonstrate such a good understanding of the services sector, and, of course, for this opportunity to comment on the Seattle ministerial, and more importantly, the services negotiations that will follow it.

CSI is committed to a comprehensive, highly ambitious, new multilateral services negotiation starting in 2000. We believe these negotiations are essential to expanding our global markets and building on our existing $80 billion services trade surplus.

The importance of the negotiations and our exports have been given point by the work of Dr. Mann, and she has established that open, contestable markets for services throughout the world will have a dramatic positive effect on the U.S. trade balance.

The critical message, Senator, is that the U.S. has a powerful national economic security interest in making the coming negotiations a major success. Very curiously—it does not happen very often—I got a call from Renata Ruggiero, the former director general of the WTO from his mountain retreat in Italy.

Among the matters discussed, of course, was the next round. He has actually made a suggestion that the next round should be appropriately called the Services Round, and I endorsed that 100 percent.

What must the Seattle ministerial accomplish from the point of view of the service sector? First, it must give a very strong mandate to start comprehensive negotiations in January; it must provide that this 3-year negotiation be focused mainly on services, agriculture, and industrial products and not wander off into a diversion of other areas; it must recognize that electronic commerce is an important new technique for trading, not a new sector in and of itself; and it must provide that the entire new round, we believe, should be completed by 2003 in order to force closure on the existing agenda, reap the gains, and begin with a fresh start.

We believe that the U.S. should enter the new negotiations with a bold agenda, calling for sweeping commitments to liberalization across all service sectors. We would like our negotiators to propose broad commitments to liberalization in such areas as the right to establish a business presence in foreign markets, the right to own that business, and the right to be treated like a local business, or national treatment.

This will require bold new negotiating methods, and we are pleased that USTR is developing them, as Ambassador Esserman described. We strongly support these new initiatives, which I believe have had their first public airing here today.

At the same time, we must look at areas that have not received attention as in the past. One of these, is the area of the mobility of technical and managerial business personnel.

Increasingly, large, highly competitive U.S. companies in consulting, accounting, et cetera, need to transfer personnel at short notice to service the needs of their clients throughout the world.

We have to look at our immigration laws, and we ask other countries to look at their immigration laws, to make transfers of these critical business personnel, short-term transfers, more doable than they are today.

There has been discussion by the previous witnesses of the need for pro-competitive regulatory reform and of transparency. We strongly endorse the agenda of the administration to achieve an agreement that might bring U.S. methods of openness of administrative procedure to foreign countries.

At the same time, Senator, that we pursue an aggressive trade strategy, we must be sure that our domestic policies do not inhibit the global competitiveness of our own companies. I am referring here to the act of financing exception to Subpart F of the Internal Revenue Code that expires at the end of this year.

Extension of these rules permitting U.S.-based financial services companies to reinvest earnings overseas without first being taxed by the U.S. will be an important step in the right direction as we better coordinate our trade and tax policies to improve our companies' overseas competitive position.

The effort to reduce barriers to trade and services is in its infancy. The next negotiations, Services 2000, is the first real chance to bring to bear the lessons we have learned about how to negotiate trade and services in a very complicated area.

The U.S. has a particularly big stake in this negotiation. We are already highly competitive. We can secure and enhance this advantage by removing restrictions to our exports, and at the same time make a bigger and bigger dent in our structural trade deficit.

The Seattle ministerial is a preamble to the main event, the negotiation itself. But it is essential that the Seattle declaration give an unqualified, strong mandate to countries to pursue an ambitious, achievable negotiation to expand U.S. exports.

Thank you very much.

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

Senator GRASSLEY. Thank you very much.

I will start with Dr. Mann. You have obviously made some very good observations, also some that you have written about, and you have clarified those today for the committee, that when the rest of the world grows, they consume more services, and we are in a very favored position from that in our country.

In your writings, you make a very good case that multilateral service sector negotiations have a much greater positive effect than bilateral market opening negotiations.

The obvious policy objective, of course, is to push for greater liberalization in key service sectors, to narrow our trade deficit and maintain our leadership in global trade.

So then what specific trade liberalization initiatives would you pursue, and so most importantly I am interested in knowing what initiatives would give us the biggest bang for our buck, or expenditure of time?

Dr. MANN. That is a very difficult question to answer because I am not an expert on each one of these individual sectors. But let me just say that the one area that I think has been mentioned by several of the previous speakers and really has just burst onto the international trade scene, of course, is electronic commerce. It has burst onto the scene in the negotiating arena as well.

Now, my view is that electronic commerce gives us the opportunity to get more liberalization in the other sectors without even having to explicitly negotiate for it.

Let me give you an example. Electronic commerce over the Internet would allow, for example, greater liberalization of the telecommunication sector in a country through Internet telephony. That is a liberalizing force within a domestic market that does not even have to go back to the basic Telecoms agreement to get greater liberalization.

In addition, another example is liberalization of electronic commerce, or allowing electronic commerce to proceed, offers the opportunity of cross-border financial flows in services, electronic loans, electronic stocks, electronic insurance brokerage, which again would be a way of liberalizing in the financial services arena without having to go explicitly back to the financial services commitments.

Other examples can be found in the distribution area, in the content area, audio-visual area. So in that sense, making sure that the environment for electronic commerce retains its pristine state of no trade barriers is a way of enhancing competition in these other sectors where it is more difficult to get individual sectoral agreements.

Finally, I have done a fair amount of work in developing countries, both on behalf of the governments themselves and also under the Internet for Economic Development Initiative in Taiwan, in Sri Lanka, and in Morocco.

Many developing countries see electronic commerce as their last ticket on the development train, and they know they are a vested interest in those countries that are against liberalization of their services sector, and they look upon electronic commerce as a way of weighting the positive benefits of liberalization against these vested interests. So, I see that as a very, very key area for the ministerial to address.

Mr. BRAHS. Mr. Chairman, I would just like to pick up and support and echo what Dr. Mann has said about the e-commerce issue, and perhaps try to give a practical prospective application to this.

As you may recall, at The Principal we have sort of a matrix organization, a horizontal organization, such that we are communicating with clients, whether they are in the United States or overseas, increasingly on an electronic basis, such that we envisage, in the early part of the next century, that when you purchase a pension product from Principal, it makes no difference if you are in Madrid, Spain or in Madrid, Iowa, it is going to be the same pension plan done electronically.

Senator GRASSLEY. Mr. Vastine?

Mr. VASTINE. Senator, I have a slightly different perspective. I think Dr. Mann makes an extremely important point, electronic commerce is a great technique to speed trade.

But if trade is closed, if you cannot, because of closed markets, send a package ordered electronically to a given country, if the air cargo rates are blocked, if air couriers cannot deliver or deliver fast enough, then electronic commerce cannot reach its potential.

So we need trade negotiations. It does not happen automatically. The same with cross-border trade and financial services, where there are very, very few commitments in the GATS. If you want to make a loan to a business in France from San Francisco, that might be kind of hard to do, currently, electronically.

So we really do require some very substantial hard work in a couple of critical areas, and one of those is, to get technical—unfortunately I have got to get a little technical—GATS defines four modes of supplies of services: mode 1, mode 2, mode 3, mode 4.

The first, is cross-border trade, the example that I gave you, doing a business transaction from the U.S. to France. The second, is consumption abroad, when a Frenchman comes here and buys, let us say, health services.

The third, and a really very critical one, is when a foreign company goes abroad and establishes a bricks and mortar business. The fourth, is the mobility of business personnel when a person goes and delivers a service, like an accounting service, in person.

So far in the GATS, the third, commercial presence, is the one that has received the most emphasis. In the financial services negotiations, we succeeded in achieving in the 70 signatories, but 60 ratifying countries, some pretty good gains.

We can establish pretty freely now banks, insurance companies, et cetera in many key foreign markets, and we can even own full majority ownership in those companies. But we have very few commitments in the first two and in the fourth sort of modes of supply. So, there is a lot of hard work that has to be done.

Senator GRASSLEY. I think what you just said is it takes a physical presence in another country to make this goods and services commerce really work. Is that what you are saying?

Mr. VASTINE. Often it does. Often it does.

Senator GRASSLEY. And to bring about the proper reduction in barriers. If you did not say that, say so, because I thought that is what you were saying.

Mr. VASTINE. I think you have got it right, Senator.

Senator GRASSLEY. All right. I did not mean to cut you off, but I wanted to make sure that if I said something wrong you would say so.

Mr. VASTINE. I think what we have found, is that in a number of the critical sectors you have to be there. You have to be in the country doing the business. Insurance. You cannot sell insurance very well from Des Moines, in spite of the fact that The Principal does.

Senator GRASSLEY. But you are saying, if they try to sell it from Des Moines, they are not going to be able to do it as well because of trade barriers not coming down, as if they are actually physically in the country.

Mr. VASTINE. That is what I mean. Right.

Senator GRASSLEY. But our goal ought to be to be able to do it either way, right?

Mr. VASTINE. Absolutely.

Senator GRASSLEY. All right. Now, I think that you probably have answered the question I am going to ask you, Mr. Vastine, but it comes to the second-to-last point that Dr. Mann made about this interrelationship.

Is it not the case then that liberalizing trade in one service sector will often have very significant effects in others?

Mr. VASTINE. Absolutely. For example, and I think Dr. Mann touched on it, the liberalization that was achieved in the telecommunications agreement in 1997——

Senator GRASSLEY. Helped manufacturing.

Mr. VASTINE. Pardon me?

Senator GRASSLEY. Helped manufacturing.

Mr. VASTINE. Well, it should certainly have helped manufacturing. But what it did do, was provide a magnificent stimulus to electronic commerce, and it should do that continually.

But it should also, yes, indeed, provide, because of the opening of these services markets, vast new opportunities for Lucent and some of these other companies that provide the switches and the laser cable that enables the commerce.

Senator GRASSLEY. From your standpoint of being outside of government now, and maybe all three of you would want to respond to this, but do you think that the linkage between service sectors is sufficiently understood by our policy makers?

Mr. VASTINE. No. No. Senator, that is why I so enjoyed your opening statement because it demonstrated an unusual awareness of the importance of services.

We account for something like 77 percent of U.S. employment, and that is not the hamburger-flipper job. You will recall some recent campaigns in which service sector jobs were referred to as less desirable, lower-paying, menial jobs.

Well, there are some. But increasingly, as this sector grows, these are knowledge-based, highly sophisticated workers who are making a lot of money. The average wage now in services equals that in manufacturing.

Senator GRASSLEY. And has for a decade.

Mr. VASTINE. Well, now, I do not know if that is true. I thought it had been catching up slowly.

Senator GRASSLEY. Well, maybe my definition would be the category of what we call managers, but it does not necessarily mean managing somebody else. That classification within the Labor Department of how they divide has been the fastest growing that we have had in the last 10 years.

Mr. VASTINE. I am referring to the whole range of service employment, from retail distribution to business services, to health services, and so on into financial services and the more sophisticated information technology services, lawyers, accountants, et cetera. There, the average now matches manufacturing.

Senator GRASSLEY. Do either of the two of you have a response? Dr. Mann, on my question, I assume?

Dr. MANN. Yes. I have a slightly more nuanced answer to that. I think that there is under-appreciation of the important role of services. I think there's under-appreciation of the value of services to the U.S. economy, to jobs, to wages, to productivity growth, not just in the U.S., but also around the world.

But I think that under-appreciation is perhaps not just within the administration, but also more generally throughout the policy making arena, meaning this side as well as that side.

So I think that it is very valuable that you have these hearings so as to promote and expose just how valuable the services sector is for the U.S. and the global economy moving forward.

Mr. BRAHS. This is not done necessarily, though, in a vacuum, Mr. Chairman. I mean, those of us in the pension and insurance industries have long felt like we are the Rodney Dangerfields of public policy, and therefore we are sort of accustomed to being ignored.

But, having said that, I think increasingly, as the Congress has grappled with the issue of financial services modernization, it is to be hoped that the conferees will succeed this afternoon in coming to successful closure on that legislation.

As I mentioned, as you have provided leadership, and others, in the private pensions area, that increasingly the knowledge level, the interest level, the respect level, if you will, is on the increase. So I think my response is a variation on the theme both of Dr. Mann and Bob.

Senator GRASSLEY. There might be some legitimacy to policy makers not having this understanding because, as we review from month to month the continuing growth of our economy and probably now the longest peacetime recovery we have ever had, you still have questions raised about the real impact of information technology on this growth.

But I think as time goes on, there is more of a consensus that that is a major factor, along with the globalization of the economy, of which the information technology itself has been a part of.

Mr. BRAHS. Absolutely. And especially, I do not know if you have heard from other constituents, but certainly this constituent has a real challenge in not only attracting, but retaining, employees in the high-tech electronic area.

As you know, unemployment in Iowa is extremely low, lower than the national average, and these people are very highly sought after. So they will come to Principal and work for us for a while, then go on and perhaps be attracted to the Twin Cities, or Minneapolis.

Mr. VASTINE. You should treat them better, Stu.

Mr. BRAHS. I am sorry?

Mr. VASTINE. You should treat them a little better.

Mr. BRAHS. Well, we do. Except it gets cold in the wintertime.

Senator GRASSLEY. I am going to ask you, Stu, about your bringing up the European Commission's proposal for a single private pension market. I think you pointed out that the commission has advanced three principles: fewer restrictions on investing assets, pension plan portability, tax reform.

You raise a question of whether these principles should be extended to a new round of trade negotiations. In my experience, this type of effort has a much better chance of success if there is a strong private sector consensus that this is what is needed.

Is it realistic that we can achieve such a consensus on these principles?

Mr. BRAHS. I would like to say yes. I think there is the potential for achieving success, Senator. Just prior to coming here, I attended a farewell lunch—one of many in this town—for Ambassador Hugo Paymen of the European Union who retires at the end of this month. We had a discussion about the same question.

This is the third go-around that the European Commission is trying to achieve a pensions directive so that there is, in fact, a single market for private pensions. In other words, so that Principal's company in Spain can sell an Englishman a pension, even though he is living in Portugal, let us say.

Clearly, this is a high priority for the commission. It is our hope, it is Ambassador Paymen and the people in Brussels' hope, that they can, in fact, finally come to a successful resolution of it. Regrettably, from my point of view, their time frame is within the next two or three years.

Now, this is going to be very much like Congress trying to get all of the appropriations done before you are meant to adjourn sun adai. This is always sort of a race to the finish. The 3-year time frame of the negotiations is going to track very closely to the two- or 3-year time line that the EU is looking at.

But it is important for a number of things. One, yes, to answer your question, I think a strong private sector—I must say, we are finding common cause with our European colleagues in the insurance, banking, and securities communities. They are as active to have this occur as we are, and they are working with DG-15 and others in Brussels to try to help this come to closure.

Second, there are a number of countries who are queued up to join the EU, Poland is an example. Presumably, Poland is near to joining the European Union.

The reason I mention that though, is when they instituted a private pension scheme earlier this year, April, I believe it was, they have a requirement whereby one would have to invest, if Principal, let us say, were doing business in Poland—which we are not—we would have to invest 90 or 95 percent of our investments in Polish securities. Well, we could never do that in the United States under the fiduciary responsibility provisions of ERISA.

Applying those to other countries, the premise that we operate from is the premise we operate from in the United States, and that is that the plan is there for the benefit of the participants, and this would be very difficult for many companies to limit their investments only to 5 percent outside that country.

So it is to be hoped that, if the commission is successful in getting through its green paper, if you will, on private pensions and they can come to closure, certainly this will be a major initiative, and is being reflected elsewhere around the world, as we have seen in Chile, Australia, Singapore. Japan, as we speak, is trying to put together a private pension scheme, as is China.

Senator GRASSLEY. Dr. Mann, the GATS agreement has placed some general transparency requirements on WTO members. Is this obligation sufficient or does it need to be changed, and if so, how?

Dr. MANN. The transparency requirements, I would say, are not sufficient. Just myself, trying to go through and understand what some of these commitments are, it is a morass and I do not know how anybody who actually wanted to negotiate on any of these individual sectors would have much ability to see the cross-cutting nature of the benefits of negotiation.

It seems to me that, within the GATS negotiations, as an economist as opposed to a negotiator, I see a real benefit from the horizontal approach being suggested by the administration, the belief that cross-cutting liberalizations will enhance service sector growth to a greater extent than just liberalization in one individual sector.

But in order to do that, there is a lot more information that the negotiators have to wade through, and to the extent to which they are commitments that are written down, the extent to which GATS was set up as the four modes of supply across all the sectors, and then individual commitments made or not made in these sectors, it creates a tremendous amount of detail that tends to focus the negotiators on trying to get down to the trees and negotiate on individual trees when they really, in order to get the economic benefits of the service sector liberalization, they have got to be focusing on the forest.

So, I would hope that this horizontal approach that is being suggested as part of the negotiating modalities would be viewed by other members of the WTO as a way to cut through and enhance transparency and enhance the benefits of the negotiating process.

Senator GRASSLEY. Well, that is my last question. I want to thank each of you for participating. More importantly, this could be our last hearing before Seattle, probably is.

As chairman of the subcommittee, I hope that between now and then, or even during that period of time in Seattle, you will keep in touch with us if there are any particular points of view or any sort of cooperation that we can have together to seek our mutual goals—my goals have been spelled out in my opening comments—and even beyond Seattle to keep a working relationship so we can make sure that we reap the benefits of even a little bit of progress that can be made in GATS.

Mr. Vastine?

Mr. VASTINE. Senator, we are responsible for organizing the services business day, a program on the 2nd of December, and we would like to invite you to participate with us and our program on that day. I will be sending you an invitation.

Senator GRASSLEY. All right. Thank you very much.

Meeting adjourned. Thank you.

[Whereupon, at 3:44 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

Prepared Statement of Ambassador David Aaron

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to appear before the Subcommittee today to discuss the critical role played by the services sector, an area which is gaining increasing attention in the run–up to the Seattle Ministerial November 30- December 3, 1999. In Seattle, the United States will host the largest trade event ever held in the United States, bringing together leaders from government, business and non-governmental organizations, to focus attention on our international trading system. The new round of global trade negotiations is important for determining how the United States and our trading partners will trade and compete in the world economy and for securing gains for American workers in the 21st century.

In the upcoming World Trade Organization (WTO) negotiations, 134 Members of the WTO will meet to negotiate in three key areas: agriculture, industrial goods (tariff and non-tariff barriers) and services. Ambassador Barshefsky and Secretary Glickman, in previous testimony before the Finance Committee, described the critical role of agriculture in the upcoming negotiations. Clearly, we must remove trade barriers which prevent American farmers from competing fairly in world markets. Greater liberalization in industrial goods trade is also an important component of the next trade round.

The services negotiations in the General Agreement on Trade in Services (the "GATS 2000" round) will address the vital services sector as part of the "built-in" agenda from the Uruguay Round. In services, American industries are the most competitive in the world, as demonstrated by our $246 billion in exports last year, excluding government and military sales. (Please refer to the attached charts and tables submitted for the record that describe services trade and the U.S. economy.) I would like to first discuss the vital role of services in the economy, both domestically and internationally. I would then like to focus on the efforts of the Commerce Department, particularly in key services sectors, including distribution services, energy services, express delivery, and education and training services. Finally, I would like to discuss objectives for the upcoming negotiations.

We are working very closely with USTR on these issues, coordinating our efforts and analysis in order to present the strongest possible positions in the next round. The Secretary, through his National Trade Education Tour, has been working intensively with all stakeholders to form a domestic consensus for trade which is so essential to continued trade liberalization in all sectors.

or steel export. Even so, the services sector is the most dynamic force in our economy, covering a wide range of industries including banking and insurance, travel and tourism, entertainment, distribution (retailing, wholesaling and franchising services), legal and other business services, information, telecommunications, healthcare, education, transportation, energy and environmental services.

Infrastructure services –including telecommunications, transportation, financial, information, and distribution services-- underpin all forms of international trade and all aspects of global economic activity. Efficient transport and distribution systems help farmers get products to market without spoilage and ensure that manufacturing components reach the factory in time. Open and competitive financial services markets provide cheaper capital and allocate it more efficiently to support economic growth. Legal and accounting services give businesses the contractual framework in which to function and afford protection to consumers. Energy services -- including transportation, distribution and storage services -- promote competitive energy markets, provide affordable energy for industrial, commercial and residential customers, and stimulate economic growth. Telecommunications, software, and information dissemination are essential to the functioning of all modern industries. And the rapid development of new technologies, including the Internet and electronic commerce, promises a vast increase in the efficiency and productivity of services industries and, importantly, substantially increases the potential of all economies to participate in world trade.

While services are an extremely important part of our economy, they have lagged behind goods in terms of global trade liberalization. In 1998, services industries provided over 86 million U.S. jobs and accounted for 78 percent of private sector output. Service sector jobs are expected to account for virtually the entire net gain in employment over the next decade. The dominant role that services play throughout the U.S. economy translates into leadership in technology advancement, growth in skilled jobs, and global competitiveness.

Private U.S. services exports have more than doubled over the past ten years, rising from $117 billion in 1989 to $246 billion in 1998. Last year, we had a services trade surplus of $83 billion, which offset 33 percent of the U.S. merchandise deficit. Services are helping to spur the global economy as well. Global services trade -- approximately $1.3 trillion annually -- accounts for more than 22 percent of world trade and more than one in every seven dollars of global production. Many have argued that a more liberalized global services system (particularly in financial, insurance and telecommunications services) may have lessened the effects of the Asian financial crisis of the past two years. This is an important point to reinforce with the developing countries, many of whom were affected by the financial crisis, as we begin our negotiations in the GATS. A more integrated and liberalized global services system will provide a source of stability throughout the world economy.

U.S. services compete successfully worldwide. Major markets for U.S. services exports include the European Union ($87 billion in 1998 exports), Japan ($32 billion) and Canada ($20 billion). At $12 billion last year, Mexico is currently the largest of the emerging markets for U.S. services exports. Strong and expanding new markets for U.S. services, importing over $1 billion in U.S. services each year, include Argentina, Brazil, Chile, and Venezuela in this hemisphere, and in Asia, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. In 1997, South Africa became the first country in Africa to import over $1 billion per year in U.S. services. These foreign markets offer excellent prospects for future export expansion and for creating new jobs for U.S. services companies. And we have just begun to tap these markets.

WTO Services Negotiations: GATS 2000

With this understanding of the services sector's vital and ever expanding role, both domestically and internationally, achieving concrete results in the next WTO round becomes even more important. A new round of services negotiations is mandated in the GATS, the first multilateral agreement for services, concluded as part of the Uruguay Round in 1994. While the GATS established a framework for rules applicable to trade in services and used most-favored-nation (MFN) treatment as its standard, the Uruguay Round negotiations did not bring about the kind of broad-based, significant services trade liberalization necessary for open and competitive services trade. Many countries made only a limited number of specific commitments, frequently only "standstill" commitments rather than expanded market access. Commitments were made in telecommunications and financial services following the Uruguay Round.

The new GATS round offers an excellent opportunity to liberalize a broad range of services sectors and to create an open international services trading system that will continue to provide growth and prosperity for the 21st century.

The primary objective of the GATS 2000 negotiations is to liberalize trade in services, by expanding market access and broadening and deepening services commitments made by WTO members. This means making improvements in the schedules of specific country commitments in each of the 150 or so services sectors and sub-sectors. U.S. objectives for improving the schedules of specific commitments focus on:

1) Increasing the number of industry sectors listed in each country's schedule;
2) Extending coverage of commitments to all segments of the sector. For example, we would seek to ensure that commitments in construction services apply to the whole sector, not just to the construction of off-shore oil platforms;
3) Deepening the scope of existing commitments. For example, removing limitations like caps on foreign equity ownership that restrict market access and national treatment for U.S. companies; and
4) Promoting regulatory reform among our trading partners, so that domestic regulations do not undermine the value of our partner's commitments.

Another important objective for the negotiations is to promote increased transparency among all WTO countries. Transparency requires that countries publish their rules and regulations, so that service providers can comply with stated requirements. Transparent procedures would also require notification in advance of proposed changes in rules and regulations and, in most cases, provide an opportunity for companies to comment. Greater transparency serves several important functions. It increases predictability by expanding the flow of information, which is crucial for creating a favorable business climate.

Equally important, greater transparency in WTO proceedings would help dispel the perception that the WTO operates "in secret", without sufficient accountability. Greater transparency will increase accountability which, in turn, should expand public support for global trade liberalization efforts in GATS and other WTO negotiating groups.

Furthermore, the United States wants to be certain that the new WTO round will avoid restricting the development of new technologies for use in delivering services, such as colleges that can operate over the Internet, home entertainment products delivered by satellite, and healthcare services delivered via telemedicine. We also want to ensure that the new round prevents discrimination against particular methods of delivering services, such as electronic commerce and the right of establishment.

Having outlined a number of objectives for the new round, I think it is important to highlight specific trade barriers that U.S. services companies face in foreign markets. This will provide some understanding of the challenges we will face in the upcoming negotiations.

Electronic Commerce and the WTO

The Internet and electronic commerce are central to continued economic growth in United States and around the world. The information technology companies now account for one-third of U.S. economic growth. In the United States, e-commerce totaled just over $50 billion in 1998, and it is projected to reach $1.4 trillion by 2003. By 2006, almost half of the U.S. workforce will be employed by industries that are either major producers or intensive users of IT technology, according to a recent DOC study. Worldwide, the number of people using the Internet has grown from 3 million in 1995 to 200 million users today, and may reach nearly 1 billion by 2005.

Our goal at the WTO is to insure that the Internet continues to be an engine of economic prosperity in the United States and around the world. Specifically, the United States is seeking to extend the 1998 moratorium on customs duties on electronic transmissions, ensure that WTO members take no action to inhibit the growth of e-commerce, and ensure that developing countries benefit from the expansion of e-commerce.

While we believe there is a role for the government in working out the complex issues associated with the development of e-commerce, we think our biggest challenge will be to resist the temptation to interfere with e-commerce's vast potential. The European Union has not proposed outright to impose duties, but it has made its support for continuing the moratorium contingent on WTO adoption of nine ambitious principles, which could pave the way for duties in the future.

For example, one of the EU principles would label all electronic deliveries as "services." Many countries including Japan and the United States do not agree. For one thing, this would extend the audiovisual prohibition on cultural grounds to software and items delivered by electronic means. Another EU proposed principle would begin the process of extending regulation to the Internet worldwide. The United States and others in the world reject this as a dangerous precedent. It could lead to restrictive regulation by individual governments that could seriously threaten e-commerce. Whatever rules that may be required can largely be accomplished using international fora such as the Organization for Economic Cooperation and Development (OECD) and the World Intellectual Property Organization (WIPO), as well as self-regulatory mechanisms such as the Global Business Dialogue on Electronic Commerce. Building consumer confidence is a priority for the success of electronic commerce and the Internet. But this should be accomplished through international agreements and self-regulatory mechanisms.

Trade Barriers that Impede Services Trade

With goods trade, barriers typically exist at the border, in the form of tariffs and non-tariff barriers, such as standards and licensing procedures. These barriers have been greatly reduced or eliminated in the trade negotiations rounds conducted in the GATT and the WTO. By contrast, trade barriers in services are less apparent, often embedded in a country's domestic regulations. Common barriers to services trade include restrictions on the establishment and operation of a commercial presence by foreign firms, limitations on foreign ownership, and requirements that economic needs be met as a condition to establishing a local subsidiary or branch (a so-called "economic needs test"). Additional trade barriers include the lack of transparency in the requirements for acquiring permits and licenses.

Let me illustrate some of the trade barriers that services companies face in overseas markets:

- In Asia and Latin America, U.S. insurance firms encounter non-transparent regulations, informal government guidance, and obstacles to the introduction and approval of new products, that limit market access and competition.

- Throughout Asia, U.S. services providers of all types must confront highly restrictive investment laws, lack of transparency in administrative procedures, and arbitrary application of regulations and laws.

- U.S. telecommunications services providers cannot compete on a fair and non-discriminatory basis when countries fail to adopt regulatory policies that break up inefficient state-run companies and fail to promote competition in international services.

- Subscription television service providers face numerous barriers to market access, such as numerical limits on channels, investment restrictions, content quotas, local uplink requirements, advertising prohibitions, and piracy of satellite signals.

- Express delivery firms have expressed concern with their inability to wholly own or control express firms in Asia, obtain courier licenses, truck licenses, customs brokerage licenses of bonded warehouse licenses and to self handle their aircraft.

- Medical services such as telemedicine and remote diagnostics, which have recently emerged as cost-effective alternatives to the maintenance of expensive facilities, can be subject to limitation as roughly one-third of GATS members generally did not make commitments in these services.

- U.S. energy services firms have experienced market entry difficulties such as restrictive regulatory practices, markets closed to private investment, requirements that firms purchase energy sources from one supplier, high licensing fees for foreign firms, and restrictions on mobility of business personnel, all of which severely restrict market entry.

The Commerce Department's Role in Services 2000

The Commerce Department has taken a leading role in the government's industry outreach efforts to determine the market access priorities and objectives for services industries in the next round of trade negotiations. We have been working directly with representatives of hundreds of U.S. services companies. Our overall outreach message has gone out to over 7,000 services providers and their representatives nationwide. Many of these companies are small and medium sized enterprises that comprise the majority of the services sector. We launched our outreach at the Commerce Department-sponsored conference and dialogue, "Services 2000," held a year ago this month. At this conference, industry made clear that it wants the negotiations to produce liberalization of services trade. There was also agreement that definitions of many services sectors need to be more descriptive and precise, which would enhance GATS negotiations.

Necessary preparations for the services negotiations will require knowledge of foreign barriers and industry's needs, sector-by-sector and country-by-country. To meet this need, the Commerce Department's Office of Service Industries organized over 10 industry-specific roundtables, and more are planned. At these roundtables, industry representatives from both services companies and trade associations meet with government officials to present their goals and objectives for the sector as well as to advise about specific barriers that impede their activities in foreign markets. Recent roundtables have covered distribution services, education and training services, energy services, express shipping (a type of courier services in the GATS terminology), healthcare services, hotel management and operations, and subscription television services. Upcoming roundtables will be dedicated to legal services, accounting and management consulting services, and architectural and engineering services.

The Department of Commerce also consults regularly with the two services-related Industry Sector Advisory Committees: Services (ISAC 13) and Wholesaling and Retailing (ISAC 17). The Department also works closely with leading services trade associations, such as the Coalition of Service Industries (CSI), the newly formed Energy Services Coalition, the American Council of Life Insurance, the International Insurance Council, and others that are aggressively organizing to meet the challenges and opportunities of the new round. Our business outreach efforts will continue throughout the round and will be important in shaping international trade agreements that meet the needs of services industries in the 21st century.

We have already learned a lot from our interaction with industry at these roundtables. Industry has a strong interest in achieving liberalization in most services sectors. In express shipping, commitments are needed to cover most aspects of providing services, including intermodal transportation and trucking, distribution, warehousing, customs, telecommunications, logistics, brokerage, insurance and freight forwarding. In the energy services sector, industry is seeking coverage for a broad range of energy and energy-related services, including oil and gas development services, natural gas sales, transportation and distribution services, electricity project development, generation, transportation and distribution services, and mining services. In insurance, the industry would like improved commitments from a number of key countries.

In audiovisual services, primarily distribution of filmed entertainment, the United States would like to increase the number of commitments, and move these commitments much further towards free trade. In the Uruguay Round, only 13 countries made commitments in audiovisual services. In distribution services, industry has expressed concerns with such issues as customs clearance and trade facilitation, as well as local equity requirements in GATS schedules, which set caps on foreign investment. Distribution services companies want these equity caps eliminated. Finally, in education services, very few countries made commitments in the Uruguay Round. The United States would like to increase the number of commitments and their value to U.S. suppliers.

One thing that has not been stressed enough in previous rounds is the role of small business in global exports. We estimate that 97 percent of the over 209,000 U.S. enterprises engaged in exporting are small and medium-sized firms. We are, therefore, working to enlist the drive and creativity of America's small business sector in our work on the new trade round.

One important way to bring the advantages of trade to American firms and workers is to ensure that they obtain all of the benefits and opportunities intended by the trade agreements we have negotiated and by U.S. trade laws. Commerce's Trade Compliance Center is specifically designed to move aggressively when it encounters restrictions in access to foreign markets or violations of agreements or U.S. trade law. In short, we are moving forward on a number of fronts to help ensure the success of the next round and to meet U.S. objectives that will further strengthen U.S. economic and social health.

Conclusion

Meeting these important objectives and reducing global services trade barriers can best be advanced if we coordinate our positions both with U.S. services industries and with our major trading partners. Such coordination preceded the successful round of negotiations in both basic telecommunications and financial services. As an example of this type of coordination, the International Trade Administration will participate in the upcoming World Services Congress 1999 in Atlanta November 1-3, the flagship industry forum, to further coordinate with industry on services trade liberalization.

The upcoming Seattle Ministerial and the new trade negotiations round provide an excellent opportunity to make great strides in the liberalization of world trade, especially in services. It is crucial that the Administration, working together with the Congress, industry, labor, environmental and other NGO's, and our trading partners, takes full advantage of the possibilities of this new round. It should provide new opportunities for U.S. industry to compete around the world and for our workers to have access to the high quality jobs provided by international trade.

We anticipate that services will remain a crucial part of the U.S. economy and world trade. A successful new round will enhance this vital role.

I would be pleased to answer your questions.

Services Exports and the U.S. Economy

Office of Service Industries
October 1999

The United States is the world's premier producer and exporter of services. Encompassing all economic activity other than agriculture, manufacturing, and mining, the service sector is by far the largest component of the U.S. economy, accounting for 78 percent of private sector output and for 82 percent of private non-farm employment (over 86 million jobs in 1998). These service sector jobs come from an enormous range of industries, including banking and insurance, travel, entertainment, wholesale and retail trade, legal and other business services, information, telecommunications, healthcare, education, transportation, and energy and environmental services, as well as architecture, construction and engineering services -- just to name a few!

Looking into the future, the service sector looms ever larger in the U.S. economy. Service sector jobs are expected to account for virtually the entire net gain in employment over the next decade. This services-driven business expansion is overwhelmingly led by small, entrepreneurial firms. Although small services firms comprise most of the service sector, many of the most prominent U.S. services exporters are large firms. Eight of the thirty companies that comprise the widely cited Dow Jones index of industrial stocks are services firms.

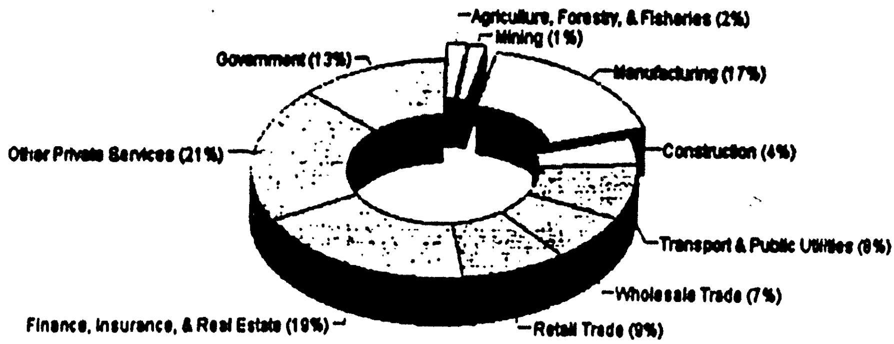
The dominant role that services play throughout the U.S. economy translates into leadership in technology advancement, growth in skilled jobs, and global competitiveness. U.S. services exports more than doubled over the past ten years, rising from $117 billion in 1989 to $246 billion last year. In 1998, U.S. services exports exceeded imports by $83 billion (offsetting 33 percent of the U.S. merchandise deficit); despite relatively open access to U.S. markets.

U.S. services compete successfully worldwide. Major markets for U.S. services exports include the European Union ($87 billion in 1998 U.S. exports), Japan ($32 billion), and Canada ($20 billion). At $12 billion, Mexico is currently the largest of the emerging markets for U.S. services exports, but notably, there are now numerous emerging markets around the world that import over $1 billion in U.S. services each year -- in 1997, Argentina, Bermuda, Brazil, Chile, and Venezuela in this hemisphere, and, in Asia, China, Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. Also in 1997, South Africa became the first country in Africa to import over $1 billion per year in U.S. services.

These foreign markets offer incredibly bright prospects for further export expansion and for creating new jobs by companies exporting U.S. services, and we have barely begun to tap these markets. Notwithstanding last year's historically low level of growth in U.S. services exports (two percent, compared to an average export growth rate of 11 percent per year during the previous ten years) service exports are currently forecast to reach nearly $400 billion in 2004, just five years from now. The possibilities beyond that are almost limitless: with new global services trade negotiations scheduled to begin in Seattle this November, each 1 percent increase in exports due to trade liberalization will add $4 billion or more to U.S. exports, supporting well over 55,000 new U.S. jobs.

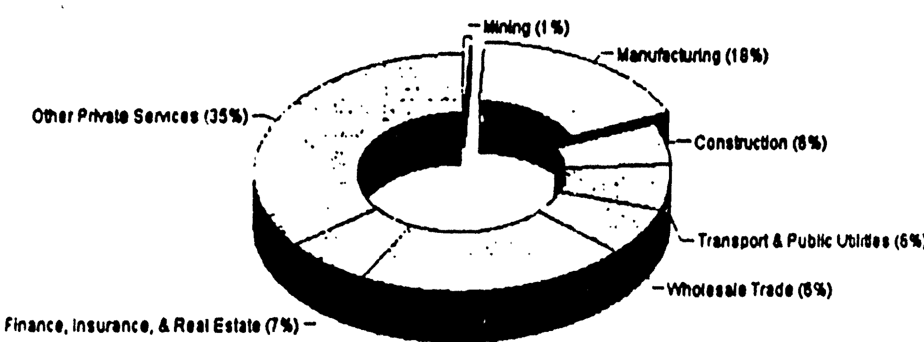
The largest component of the U.S. economy, the service sector includes all economic activity other than agriculture, mining, and manufacturing ...

Gross Domestic Product, 1997



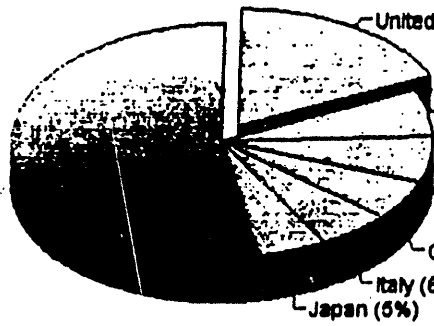
... and now accounts for about 80 percent of U.S. GDP and private non-farm employment.

Employees on non-agricultural payrolls, 1998p



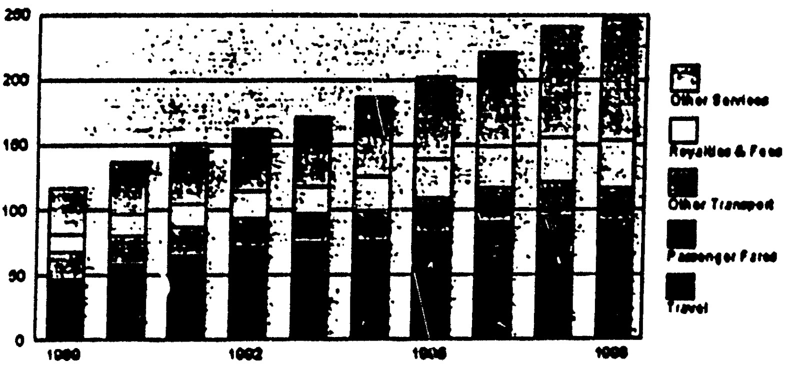
The world's premier services exporter, the United States presently accounts for 18 percent of global services exports.

Shares of worldwide services exports, 1997

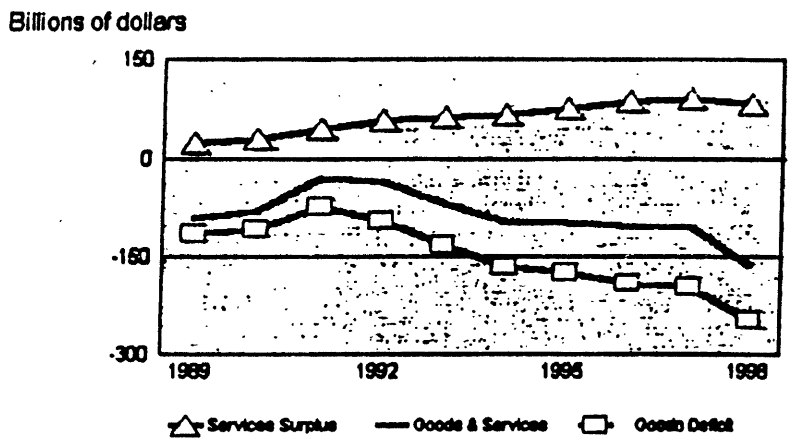


Exports have more than doubled over the past ten years, increasing from $117 billion in 1989 to $246 billion last year.

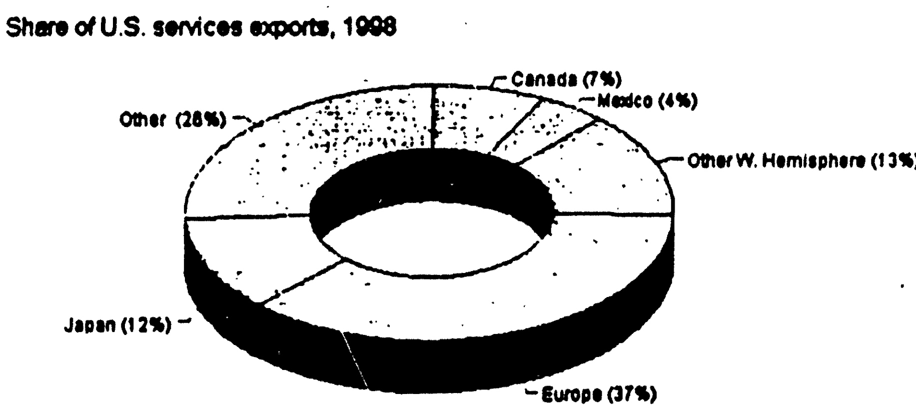
U.S. exports of private services
Billions of dollars



In 1998, U.S. services exports exceeded U.S. imports by $83 billion, generating a surplus that offset 33% of the merchandise trade deficit.



Major services markets include Canada ($20 billion in 1998 exports), the EU ($87 billion), and Japan ($32 billion). At $12 billion, Mexico is currently the largest emerging market for U.S. services exports.



Top Ten Services Exports, 1997

U.S. Exports. Millions of Dollars

Travel		73,268
Transportation		62,943
Includes:	Passenger fares	20,895
	Freight services	26,911
	Port services	15,137
Commercial, professional, and technical services*		14,831
Includes:	Accounting, auditing, and bookkeeping services*	256
	Advertising services*	581
	Construction, engineering, architectural, and mining services*	4,064
	Franchising fees*	463
	Industrial engineering services and industrial processes*	4,370
	Legal services*	2,086
	Mailing, reproduction, and commercial art services*	29
	Management, consulting, and public relations services*	2,139
	Personnel supply services*	63
	Research, development, & testing services*	862
Financial services*		13,455
Includes:	Financial services*	11,064
	Insurance (premiums received net of losses paid)*	2,391
Education and training services*		8,662
Includes:	Education*	8,278
	Training services*	384
Entertainment services		6,955
Includes:	Books, records, and tapes*	339
	Broadcasting and recording of live events*	267
	Motion picture and TV film and tape rentals	6,175
	Sports and performing arts*	174
Telecommunications services*		3,771
Equipment installation, maintenance, and repair services*		3,466
Information services*		3,047
Includes:	Computer and data processing services*	1,616
	Database and other information services*	1,431
Healthcare services*		921
Includes:	Management of healthcare facilities*	33
	Medical services*	888
Other services (including affiliated sales for most categories above)		47,794
U.S. Private Services Exports, Total		238,218

* For categories marked with an asterisk, U.S. exports to affiliated parties abroad are estimated separately.

Prepared by ITA's Office of Service Industries, based on Bureau of Economic Analysis estimates.

U.S. Services Exports to Europe, 1997

Millions of dollars

Total (private services)	86,966
Travel	23,287
Passenger fares	6,807
Other transportation	8,146
Freight	2,999
Ocean freight services	1,450
Air freight services	1,445
Other freight services	104
Port services	5,147
Ocean port services	2,878
Air port services	2,269
Royalties and license fees	16,544
Transactions between affiliated parties	13,768
U.S. parents' receipts from their foreign affiliates	12,753
U.S. affiliates' receipts from their foreign parents	1,015
Transactions between unaffiliated parties	2,776
Industrial processes	807
Books, records, and tapes	201
Broadcasting and recording of live events	125
Franchise fees	188
Trademarks	358
Other	1,098
Other private services	31,199
Transactions between affiliated parties	13,302
U.S. parents' receipts from their foreign affiliates	8,154
U.S. affiliates' receipts from their foreign parents	5,149
Transactions between unaffiliated parties	17,897
Education	1,438
Financial services	4,710
Insurance, net	785
Premiums	2,371
Losses	1,588
Telecommunications services	1,092
Business, professional, and technical services	8,690
Advertising services	273
Computer and data processing services	609
Database and other information services	877
Research, development, and testing services	337
Management, consulting, and public relations services	907
Legal services	1,098
Construction, engineering, architectural, and mining services	439
Industrial engineering services	230
Equipment installation, maintenance, and repair services	901
Other business, professional, and technical services	1,218
Other unaffiliated transactions	3,184
Addendum: Motion picture and TV film and tape rentals (includes both affiliated and unaffiliated transactions)	4,122

International Trade Administration, based on Bureau of Economic Analysis estimates.

U.S. Services Exports to Asia and the Pacific, 1997

Millions of dollars

Total (private services)	73,822
Travel	21,874
Passenger fares	7,392
Other transportation	10,745
Freight	4,134
Ocean freight services	1,749
Air freight services	1,977
Other freight services	408
Port services	6,611
Ocean port services	3,621
Air port services	2,990
Royalties and license fees	11,334
Transactions between affiliated parties	7,263
U.S. parents' receipts from their foreign affiliates	6,452
U.S. affiliates' receipts from their foreign parents	811
Transactions between unaffiliated parties	4,071
Industrial processes	2,249
Books, records, and tapes	60
Broadcasting and recording of live events	53
Franchise fees	164
Trademarks	492
Other	1,064
Other private services	22,477
Transactions between affiliated parties	6,591
U.S. parents' receipts from their foreign affiliates	3,747
U.S. affiliates' receipts from their foreign parents	2,844
Transactions between unaffiliated parties	15,886
Education	4,730
Financial services	1,982
Insurance, net:	432
Premiums	888
Losses	456
Telecommunications services	1,087
Business, professional, and technical services	6,168
Advertising services	117
Computer and data processing services	472
Database and other information services	356
Research, development, and testing services	330
Management, consulting, and public relations services	444
Legal services	634
Construction, engineering, architectural, and mining services	1,244
Industrial engineering services	507
Equipment installation, maintenance, and repair services	1,236
Other business, professional, and technical services	828
Other unaffiliated transactions	1,487
Addendum: Motion picture and TV film and tape rentals (includes both affiliated and unaffiliated transactions)	1,239

International Trade Administration, based on Bureau of Economic Analysis estimates.

U.S. Services Exports within the Western Hemisphere, 1997

Millions of dollars

Total (private services)	62,665
Travel	24,937
Passenger fares	6,122
Other transportation	6,076
Freight	3,928
Ocean freight services	781
Air freight services	1,082
Other freight services	2,065
Port services	2,148
Ocean port services	409
Air port services	1,586
Other port services	153
Royalties and license fees	3,877
Transactions between affiliated parties	3,047
U.S. parents' receipts from their foreign affiliates	2,922
U.S. affiliates' receipts from their foreign parents	124
Transactions between unaffiliated parties	831
Industrial processes	161
Books, records, and tapes	42
Broadcasting and recording of live events	86
Franchise fees	69
Trademarks	113
Other	171
Other private services	21,843
Transactions between affiliated parties	5,861
U.S. parents' receipts from their foreign affiliates	3,862
U.S. affiliates' receipts from their foreign parents	2,011
Transactions between unaffiliated parties	15,982
Education	1,359
Financial services	3,787
Insurance, net	1,081
Premiums	2,443
Losses	1,362
Telecommunications services	1,258
Business, professional, and technical services	4,979
Advertising services	184
Computer and data processing services	431
Database and other information services	289
Research, development, and testing services	71
Management, consulting, and public relations services	452
Legal services	279
Construction, engineering, architectural, and mining services	841
Industrial engineering services	286
Equipment installation, maintenance, and repair services	744
Other business, professional, and technical services	1,401
Other unaffiliated transactions	3,509
Addendum: Motion picture and TV film and tape rentals (includes both affiliated and unaffiliated transactions)	875

International Trade Administration, based on Bureau of Economic Analysis estimates.

U.S. Services Exports to Africa and the Middle East, 1997

Millions of dollars

Total (private services)	11,091
Travel	3,370
Passenger fares	674
Other transportation	1,412
Freight	698
Ocean freight services	583
Air freight services	106
Other freight services	9
Port services	714
Ocean port services	200
Air port services	514
Royalties and license fees	379
Transactions between affiliated parties	162
U.S. parents' receipts from their foreign affiliates	157
U.S. affiliates' receipts from their foreign parents	5
Transactions between unaffiliated parties	217
Industrial processes	57
Books, records, and tapes	14
Broadcasting and recording of live events	3
Franchise fees	40
Trademarks	33
Other	72
Other private services	5,355
Transactions between affiliated parties	374
U.S. parents' receipts from their foreign affiliates	205
U.S. affiliates' receipts from their foreign parents	168
Transactions between unaffiliated parties	4,981
Education	752
Financial services	371
Insurance, net	22
Premiums	69
Losses	48
Telecommunications services	334
Business, professional, and technical services	3,141
Advertising services	7
Computer and data processing services	104
Database and other information services	109
Research, development, and testing services	120
Management, consulting, and public relations services	293
Legal services	73
Construction, engineering, architectural, and mining services	1,559
Industrial engineering services	75
Equipment installation, maintenance, and repair services	580
Other business, professional, and technical services	221
Other unaffiliated transactions	381
Addendum: Motion picture and TV film and tape rentals (includes both affiliated and unaffiliated transactions)	115

International Trade Administration, based on Bureau of Economic Analysis estimates.

RESPONSES TO QUESTIONS FROM SENATOR BAUCUS

Question. The topic of this hearing is trade negotiating objectives for services at the Seattle Ministerial. And I would like to hone in today on one specific concern—Japan.

I can't prove this, but I have the strong impression that in the Uruguay Round, other than on rice, and perhaps a couple of other issues, Japan did not have to make the kind of significant changes that were required of many of our other major trading partners. I am worried that in the next Round, the Japanese system will be able, once again, to minimize the commitments they make in the multilateral negotiations, and then, in a uniquely Japanese way, circumvent those commitments and obligations. I think we were so consumed with European problems in the Uruguay Round that we missed a lot of opportunities to focus on Japan. I am concerned that the same thing may happen again. I certainly don't want to take away from the agriculture priorities of the next Round, and that means, of course, a major focus on Europe. But I want to be sure that we don't let Japan off again.

Buttressing my worry about how the WTO actually helps us in opening up Japan, I recall that, in the past, USTR witnesses have told this committee about what they called "GATT plus" agreements with Japan. That is, in order to open a particular market in Japan, such as satellites or medical equipment procurement, it was necessary to negotiate bilateral agreements that went beyond Japan's GATT obligations. That is, GATT commitments were not sufficient to open Japan's markets.

I find the whole idea of GATT plus disturbing. If GATT, or the WTO, works, why would it not work in Japan? And if it doesn't work, why are we negotiating with the Japanese? This issue is more troublesome than ever in this era where disputes are thrown into the WTO rather than dealt with bilaterally and our ability actually to use the power of Section 301 and other US trade laws vis-a-vis Japan is very problematic.

So, my question is this. And I don't really want an off-the-cuff answer, because it will require some thought. So, why don't you give me your initial reaction to this, and then provide me with a more detailed written answer in a few days.

How do our trade negotiating objectives in services in the next Round relate to access problems in Japan? How are you going to ensure that the demands you will make on Japan in the next round include significant obligations on Japan to liberalize its trading regime? How are you going to insist that Japan's concessions match those of our other major trading partners? And how are you going to ensure that Japan fulfills the obligations it makes?

Answer. We have worked very closely with our business advisory groups and garnered information as well from other business groups and companies to determine which Japanese barriers are most costly to U.S. exporters. As a result, one of our key objectives in the new round is to ensure that our access to Japan's market is improved to a meaningful degree in a wide range of goods and services areas. One area on which we are focusing is the Advanced Tariff Liberalization (ATL) initiative, a global tariff reduction package worth $1.5 trillion in world trade in eight sectors. Japan has been especially firm in its opposition to reducing tariffs in two areas of the ATL sectors—the forest products and fisheries sectors—but we are working other WTO members to strengthen the forces supporting the package.

Japan has been playing a more active role in preparatory work leading up to the new round and has been primarily working with the EU to shape the agenda and coordinate strategy. Many of Japan's priorities—investment, antidumping, competition and labor—are issues on which the U.S. does not want to see work undertaken. At the same time, Japan is a U.S. ally on a variety of issues, including e-commerce and transparency in government procurement. Here again, we are working closely with like-minded countries to ensure that Japan and others do not succeed in shaping the new round agenda in such a way as to damage U.S. export interests.

In Seattle, the U.S. wants the Ministerial Declaration to call for negotiations to broaden and deepen obligations in such key service sectors as finance, telecommunications, construction, transportation, environment, information, legal, accounting, energy and distribution services; to ensure growth for such new service sectors as telemedicine; and to prevent discrimination against particular modes of delivering services. U.S. services compete successfully worldwide U.S. exports of services to Japan were $32 billion in 1998. We will work to ensure that Japan—as well as others—makes the commitments necessary for us to secure and maintain access to Japan's vital services sector.

Regarding Japan's obligations arising out of the new round, we will continue to closely monitor Japan's actions and will fully employ all means available to us—including U.S. trade law and the WTO—to ensure that Japan fulfills all of its obligations. Commerce's Trade Compliance Center (TCC) was created two years ago for this exact purpose. It relies on Commerce Department country and industry desk expertise, contacts in the field and in our Embassies abroad, and the business community to identify and resolve compliance problems quickly. It works closely with the Trade Enforcement Unit at the office of the U.S. Trade Representative and coordinates advocacy efforts aimed at full foreign implementation of trade agreements, short of dispute settlement, wherever possible. The TCC supports USTR in developing information and strategies when dispute settlement cases are necessary. We are firmly committed to working toward complete market access for U.S. companies across all goods and services sectors throughout the world and to use all tools available to us to enforce those foreign obligations.

PREPARED STATEMENT OF STUART BRAHS

Mr. Chairman:

I am Stuart Brahs, a vice president of Principal Financial Group and a Director of Principal International Espaa, S.A. de Seguros de Vida, a subsidiary insurance company in Spain. The Principal, headquartered in Des Moines, has over $105 billion in assets under management; we are America's fourth largest insurance company ranked by premium income. Serving more than ten million customers worldwide, Principal has subsidiaries in Australia, Spain, Mexico, Argentina, Indonesia, Hong Kong and Chile. The company also maintains offices in China, India, Japan and the United Kingdom.

Thank you very much for your invitation to appear this afternoon. We commend you for holding these very timely and pertinent hearings in the run up to the forthcoming WTO Ministerial in Seattle. We in the insurance and financial services industry are especially encouraged by this afternoon's discussion focusing on the United States' trade negotiating objectives for services. As in the Uruguay Round, we envisage that trade in services will again be a major focal point for our negotiators, especially as services account for 22 percent of America's world trade.

1997 GATS AGREEMENT

The General Agreement on Trade in Services (GATS), concluded in Geneva in December 1997, was a significant achievement in international trade. Financial services firms—banks, insurers, asset managers, securities firms and similar entities—are now protected against governmental actions which might prevent us from providing a broad range of financial products and services across national borders or which would discriminate against foreign owned financial services firms. This historic agreement locked-in important multilateral trade understandings which were hammered out over many months. Those of us observing the negotiations from the sidelines in Geneva envisaged the pact would help nurture and strengthen the financial services industries of developing nations and economies in transition, strengthen the presence of U.S. insurers and other financial services companies, provide predictability in the international financial services marketplace, and serve as a mechanism to address outstanding trade problems which might remain.

I might add, parenthetically, that our negotiators—USTR, Treasury, State, ITC, and other U.S. government agencies—did a commendable job in Geneva in 1997. They demonstrated great perseverance, knowledge and dedication.

While not a perfect agreement—when perfection could not realistically have been expected—GATS established a basic set of rules among international financial services companies. When it came into force in March 1999, GATS created a floor of specific insurance and financial service market access, national treatment, and transparency commitments, below which WTO member countries will not be able to lower their level of liberalization without facing adjudication and possible sanctions. It is now incumbent upon our negotiators to ensure these commitments are adhered to by all parties to the GATS and to continue to work toward the accession to this pact by the remaining ten signatories who have not yet ratified it.

2000 ROUND OF NEGOTIATIONS

The forthcoming round of trade negotiations will be as challenging, if not more so, than those of the Uruguay Round. Market access and transparency alone do not guarantee trade liberalization or the opening of markets. Further, since 1997 the world economy has witnessed serious economic dislocations in Southeast Asia, South America and economies in transition in Central Europe. This development has added further political, economic and psychological pressures to the negotiating equation. Without question, the so-called Millennium Round of trade negotiations should facilitate the opening of new markets and expanding trade in services as a way of sustaining economic growth and increasing standards of living by our trading partners and their citizens.

We are encouraged by the tone of the first draft of the text from the Seattle Ministerial, dated 7 October 1999, which focuses, in part, on the services aspects of the negotiations. In this context, we urge the ministers to continue to develop a GATS regimen to encourage the availability and choice of insurance, reinsurance, private pensions, annuity, and retirement security products to consumers. Such an objective will enhance the ability of WTO's members to develop sustainable global services trade, to strengthen the financial stability of their national economies, and to help ensure the future personal financial security of their populations.

Further, financial services commitments made by participants in the 2000 negotiations should not only broaden market access but, also, lead to the development of sound regulatory and supervisory systems which will, in fact, ensure open, fair and competitive insurance, reinsurance, private pensions, annuities and personal retirement security markets in all WTO member nations. WTO regimens, for example, can help strengthen supervisory structures, focusing on solvency and prudential regulation rather than on product regulation. Also, in seeking further liberalization in insurance and financial services, American negotiators should—through WTO mechanisms—assist member nations in their ongoing privatization of public sector safety net programs in such areas as disability income, long-term care, and workers' compensation products.

PRIVATE PENSIONS

Former U.S. Commerce Secretary Pete Peterson, in his thoughtful analysis of global aging (Gray Dawn, New York: Times Books, 1999) very aptly observes that "(T)he challenge of global aging, like a massive iceberg, looms ahead in the future of the largest and most affluent economies of the world." Certainly our trading partners throughout the world are assessing—as you have done, Mr. Chairman, in the Senate Special Committee on Aging—the enormous impact of the aging baby boom generation on their future economies and societies. Most of these nations understand that their current social safety nets will not be adequate to sustain their aging populations in the 21st century. In Italy, for example, the number of those in the public pension system currently exceeds the number of contributing workers.

At the U.S. Commerce Department's initiative and with its leadership, the Organization for Economic Co-operation and Development (OECD) has launched, through its insurance committee, a Working Party on Private Pensions. This panel is chaired by the United States. Among its initiatives are a survey of the private pensions systems in the 29 OECD member nations, the formulation of recommendations to OECD members on various approaches to prudent private pension regulation and supervision, and the launch of a policy dialogue on private pensions issues with non-member countries, such as Brazil, India and China which are at work on developing their own, country-specific private pension systems. In India, for example, the Old Age Social & Income Security (OASIS) Committee, chaired by Dr. S.A. Dave, is in the midst of developing a pension system for that dynamic and growing nation. The Dave Commission is in close communication with the OECD private pensions group in this important undertaking.

The foregoing underscores the need for our negotiators to address the future of private pensions around the world—their development, funding, investment, underwriting, management, administration, and supervision. They must also consider the manner in which American financial services companies can be active participants in the potentially significant global pensions and asset management markets.

American companies, such as Principal, have the knowledge, expertise, and systems not only to provide quality pension products and services worldwide but also to help foster and strengthen local pension and asset management companies. Most country and/or regional entities will benefit from the presence of American firms and products. With appropriate market access, transparency and prudential regulation trade commitments, domestic pensions and asset management companies of WTO members will flourish in competition with American and European firms.

The Principal is a leading provider of a wide range of financial products and services globally to businesses and individuals, especially in private pensions, retirement savings, and investment products and services; our company provides administrative services to more 401(K) plans than any other provider—insurer, bank, mutual fund—in the United States. My colleagues in Iowa and elsewhere in this country and abroad have tremendous knowledge and experience which they are anxious to share with potential joint venture partners and even future competitors in markets throughout the globe. We are not unique in this regard and many U.S. financial services firms have developed creative and effective educational and training programs for their international markets.

As in the United States and other nations, the advantage of providing private pensions or retirement schemes often depends on favorable tax treatment. WTO disciplines can be utilized to provide for reasonable notification periods which must be permitted before imposing taxes on private pensions, individual retirement, insurance, reinsurance or similar products.

In this regard, Mr. Chairman, it is encouraging to note that, last Spring, the European Commission issued a communication in which it outlined plans for a single private pensions market in the European Union. This document contains recommendations for creating an EU framework for supplementary pensions. In particular, the Commission envisages three primary principles: fewer restrictions on investing assets, pension plan portability, and tax reform. We urge the American negotiators to pursue these goals with their EU counterparts with a view toward extending such principles to the new trade agreement, although we reckon the tax reform issue may be as nettlesome in the trade talks as it oftentimes is in the Congress.

CONCLUSIONS

In conclusion may I suggest that a process be initiated to identify various forms of regulatory impediments utilized by countries to impede or otherwise undermine fair and open competition in the services sector. Such a process should be utilized to develop appropriate GATS provisions barring domestic regulations which are not legitimately base on prudential requirements as well as fashion regulatory guidelines on transparency. Such an undertaking will contribute immeasurably to unfettered access to free and open markets in the services sector.

Mr. Chairman, the Seattle Ministerial in late November/early December offers the potential not only to set the stage for the 2000 Round of trade talks but also the tone for the anticipated three-year negotiating period. Services are to be an integral part of this process and its conclusion. There will be the unique opportunity to build upon the successful foundation of the 1997 GATS agreement and other components of the Uruguay Round and to build on the market access and national treatment commitments agreed to at Geneva.

The United States can—and must—continue to provide leadership in this critical area. It is not an understatement to suggest that America's moral authority to lead on trade issues is questioned in some quarters; Seattle and the 2000 Round provide the time and place to recapture the high ground.

Thank you again for your invitation to appear. I will be pleased to respond to your questions.

APPROACHING THE NEW ROUND: AMERICAN GOALS IN SERVICES TRADE

Ambassador Susan Esserman
Deputy United States Trade Representative

Senate Finance Subcommittee on Trade
Washington, D.C.

October 21, 1999

Mr. Chairman, Members of the Subcommittee thank you very much for inviting me to testify before the Subcommittee on our services trade agenda.

We are rapidly approaching the WTO Ministerial Conference in Seattle next month, and the new Round of international trade negotiations we expect to launch at the event. And as the President said in his address on the WTO last week, in this Round, opening trade in services will be a central goal.

SERVICES IN THE U.S. ECONOMY

Let me begin with some basic observations on the services industries, their place in our economy, and the rules we have developed thus far at the WTO to facilitate trade in these fields.

The American services sector includes a vast array of industries: from finance and telecommunications to distribution, health, education, environmental, travel and tourism, construction, law, engineering, architecture and more. These industries provide 86 million private-sector jobs and over $5.5 trillion worth of production -- more than 75% of America's private-sector economic production, and more than one dollar in seven of world production. Our service providers range from some of America's largest and best-known companies – in addition to telecommunications firms, movie studios, financial services companies, software firms and others, a number of industrial companies such as the Ford Motor Company, IBM and General Electric earn more from their services than from their manufacturing branches – to smaller and medium-sized firms like the Stanley Group in Iowa, Morrison-Maierle in Montana, and others competing successfully in engineering, environmental and construction services worldwide.

In addition to this productive capacity, services play a subtle but essential role in our industrial economy, to which they directly contribute about 2.1% of GDP in the form of construction, and provide the infrastructure which allows manufacturing industry and farmers to function.

– Efficient transport and distribution allows farmers to get their products to market without spoilage, and ensures that auto parts reach the plant in time for efficient production.

- Strong insurance, accounting, finance and legal industries ensure that farmers and manufacturers have access to capital; that contracts guarantee predictable, transparent and reliable business decisions; and that consumers have high standards of protection.

- Telecommunications, software and news dissemination are essential to the functioning of all modern industries.

- And new technologies now developing, in particular but not only the Internet and electronic commerce, promise a vast increase in the efficiency and productivity of American service industries in the years ahead.

In many of these fields, the U.S. is the world's leader. As a general matter, our success rests on our openness to both domestic and foreign competition, combined with guarantees of high standards of consumer protection through transparent, fair and impartial regulation where relevant. The competition this creates speeds innovation and helps develop a productive, efficient economy.

SERVICES IN AMERICAN TRADE

American services industries are highly successful exporters. In fact, the United States is by far the world's leading exporter of services, with $246 billion worth of private-sector services exports last year (the U.S. government also exported approximately $18 billion in services) as compared with $165 billion in private sector services imports. To cite some specific examples, this includes:

- $71.3 billion in travel services;
- $36.8 billion in royalties and licensing fees from audiovisual services, software, copyright payments, franchise fees and other sources;
- $25.5 billion in freight and port services;
- $24.3 billion in business, professional and technical services, including among others:
  - $4.1 billion in construction, architecture, engineering and mining;
  - $3.7 billion in equipment installation, maintenance and repair;
  - $2.4 billion in legal services;
  - $2.0 billion in computer and data processing;
  - $1.2 billion in medical services;
  - $0.9 billion in research and development;
  - $140 million in sports and performing arts
- $13.7 billion in financial services.
- $9.0 billion in education;
- $3.7 billion in telecommunications services exports.

Altogether, our two-way services trade makes up over 16% of the total $1.4 trillion in world services trade. The pattern of U.S. trade in these industries is somewhat different from our trade in goods. In particular, the European Union and Japan take 46% ($114 billion) of our private services exports, as opposed to 30% of our goods exports.

DEVELOPMENT OF SERVICES TRADE POLICY

These figures indicate how much services industries now contribute to our economic growth, and to our export performance. Our goal in services trade policy, speaking very broadly, is to open markets and foster competition, transparency, and efficiency in the world economy, as in our domestic services markets.

Open markets for services will facilitate American exports of services, and also have potential to help create a more stable, efficient and productive world economy. In contrast to goods trade policy, however, trade policy in services is a relatively new development. In fact, as recently as 1993, the world trading system had no rules for trade in services.

Thus, a major achievement of the Uruguay Round trade negotiations was completion of General Agreement on Trade in Services (GATS), which for the first time established a framework of rules governing trade in this vast sector. Since then, we have made substantial additional progress-- while the GATS created rules and set some precedents for market access commitments as well, our 1997 agreements on Financial Services and Basic Telecommunications brought us further, with commitments to market access and national treatment in two of the highest-value service fields.

The Basic Telecom agreement, in effect for a year and a half, is already showing benefits. Through commitments on market access, national treatment and regulatory safeguards by 70 WTO Members, it has encouraged billions of dollars in international investment in new telecommunications facilities, much of it led by U.S. firms. As a result, low-cost telecommunications services are removing geography (and borders) as a constraint on the delivery of a broad range of services and products.

Enforcement of the WTO agreement has weakened the ability of dominant carriers in foreign countries to keep rates artificially high and depress demand for telecommunications services and electronic commerce, helping to bring down rates by one-half on calls between the United States and countries such as Japan and Mexico in the 18 months since the WTO Telecommunications agreement went into force – benefitting consumers in both the U.S. and foreign countries. At the same time, as a result of the broader market access and increased investor stability provided by WTO commitments, new investment in undersea fiber optic cables may result in a fifty-fold increase in capacity by the end of 2001, compared to mid-1999. Such expansion has created competition for investment to develop regional data and electronic commerce hubs, encouraging many WTO members – e.g. Hong Kong, Korea, Japan, India, Singapore and Jamaica – to unilaterally improve their market access commitments.

Likewise, the 1997 Financial Services Agreement represents a successful effort by the

United States to open global financial services markets to U.S. suppliers of insurance, banking, securities and financial data services. The Agreement has already contributed to the ability of U.S. service suppliers to expand existing operations and find new market opportunities across a wide spectrum of developed country and emerging markets, including Asia, Europe, Eastern Europe and Latin American. The improvements encompass the ability to supply services through investment in foreign markets or via cross-border trade. And, as in other WTO agreements, these benefits are "locked in" through recourse to GATS dispute settlement mechanism, if necessary, to protect existing rights. Growth potential for competitive U.S. financial services suppliers is high, including to help emerging markets modernize their financial services systems and to improve their infrastructure for trade in goods and services. The Agreement will provide an effective launching pad for further negotiation of financial services trade issues in GATS 2000.

THE WORK AHEAD

These are, however, only the first steps. While the 1990s have seen a fundamental change for the better, services trade remains highly restricted in many areas. In the Uruguay Round, most countries committed to "standstills" -- that is, committed not to further restrict their markets rather than affirmatively liberalizing. And a number of countries have made no commitments at all in some important services sectors.

This significantly inhibits American exports, and the new Round therefore has the potential to help our services industries achieve much more. But the costs to the world of closed markets in services are far greater than lost exports.

Inefficient, pollution-prone power and transport reduce efficiency, worsen the quality of life and waste investment.

Telecommunications markets reserved for government monopolies make service worse for consumers and business more difficult for firms. Monopolies in distribution reduce the efficiency of farms, fisheries and manufacturers throughout economies.

And the recent financial crisis has highlighted the need to work to strengthen the world's financial systems, and make them more open. Measures like those exemplified by the Financial Services Agreement are important steps in that direction. Foreign participation with fair competition in financial services is a key ingredient in building a reliable and durable financial system. This in turn builds confidence, fosters growth, and is thus critical for stability.

PREPARING FOR THE ROUND

Our agenda for the Round will help us address these problems as we open new opportunities for Americans. Since the WTO's last Ministerial in 1998 reconfirmed that we would open negotiations in services this year, in consultation with the Subcommittee, U.S.

industries, and trading partners interested in services trade, we have been developing an agenda that will bring significant liberalization, opening of markets, and reforms throughout the world services economy. I should say here that the Commerce Department's work with the business community has been essential to our development of these objectives, and we have worked very closely together throughout the past year. The result of this work is as follows:

1. Services Objectives

First, as we prepare for the Seattle Ministerial, our goal is to launch a negotiation which enables us to secure maximum liberalization in a broad array of sectors from all WTO members, through a broadening and deepening of the services commitments of all WTO countries. In preparation for these negotiations, we have tabled a paper at the WTO in Geneva which sets out our objectives, and is designed to give us the flexibility to pursue a variety of negotiating approaches to achieve the greatest liberalization possible. This includes:

- Liberalizing substantially a broad range of service sectors: This should include deeper commitments in finance and telecommunications, together with fundamental improvements in the commitments of existing WTO members on distribution, audiovisual, construction, travel and tourism, the professions, education and training, health, express delivery, energy and environmental services. (Liberalization of distribution services is also a critical aspect of liberalizing trade in goods, helping ensure that agricultural goods and manufactured products reach markets as rapidly as possible.) This would include several different types of negotiations, capable of achieving substantial liberalization in many industries, as follows:
  - Sectoral agreements, developed through creation of "model" sets of GATS commitments for key sectors of interest to the United States. These model schedules, or "templates," would be equivalent to the zero-for-zero tariff elimination we have already done for goods. The model schedules would, in essence, provide practically free trade in a services sector through removal of as many restrictions in that sector as possible.
  - Examining cross-sectoral or "horizontal" methods of service liberalization, by improving regulatory policies across industries, for example, for all countries to provide transparency and good-government practices to ensure that domestic regulations do not undermine the value of our trading partners' commitments. This could also include across-the-board commitments to services liberalization, such as agreeing to common levels of ownership across sectors.
  - And "request-offer" talks like those under the Uruguay Round, in which we selected top priorities for liberalization of services in particular trading partners.
- Increasing participation in the Basic Telecommunications and Financial Services

Agreements: As noted earlier, many WTO members have not yet joined these agreements. Increasing participation is a goal in several of our regional initiatives, notably in Africa, and will also be a focus in the Round.

- Ensuring that services rules anticipate the development of new technologies. Examples of the potential of new telecommunications, information technologies and the Internet to support trade in services are obvious in almost every field, from colleges which can teach, hold examinations and grant degrees via the Internet; to home entertainment products delivered by satellite; long-distance environmental monitoring of air and water quality; and advanced health care delivered directly to the home or to rural clinics via telemedicine. Service providers in years to come will find many new opportunities to use new technologies to deliver their products overseas, and should not encounter discrimination based on choice of technology.

- Preventing discrimination against particular modes of delivering services, such as electronic commerce or rights of establishment.

2. Electronic Commerce

Separate from the services negotiations, but essential to success, are the U.S. goals in electronic commerce. While we believe broad classification of digital products as goods or services is premature, clearly a number of services -- telemedicine, distance education, some forms of entertainment, news -- can be efficiently and easily delivered electronically. We therefore have a broad program underway at the WTO to help ensure unimpeded development of electronic commerce.

This begins at the Seattle Ministerial with our "duty-free cyberspace" program, in which by the Ministerial we are seeking extension of the WTO's current moratorium on application of tariffs to electronic transmissions. We are seeking countries to commit to avoid measures that unduly restrict development of electronic commerce; to ensure WTO rules do not discriminate against new technologies and methods of trade; to accord proper treatment of digital products under WTO rules; and to ensure full protection of intellectual property rights on the Net. We are open to pursuing other issues in an ongoing work program. Together with this is a capacity-building program, to help developing countries develop their ability to use the Internet, speeding their development and technological progress.

3. WTO Reform: Trade Facilitation and Capacity-Building

At the same time, we are developing ideas for reforming and improving the WTO in some of the areas directly related to services.

One example is trade facilitation, with a special focus on ensuring timely and reliable customs procedures. This is especially important in the context of distribution services – an efficient distribution network can lose much of its value if long delays let food spoil in transit or delay shipment of auto parts and semiconductors for factories.

A second is upgrading the WTO's capacity-building function, to ensure that members are able to make and comply with commitments in the services field. Services trade is a new and highly complicated issue for many WTO members, especially the least developed countries. The National Statements circulated by many of these nations at the WTO's 1998 Ministerial Conference in Geneva, for example, showed a widely shared concern that domestic regulatory agencies are having trouble meeting even existing WTO commitments. As we seek greater participation in the Basic Telecommunications and Financial Services agreements, and liberalization of further sectors, it is essential to address these concerns to ensure that services commitments will have meaning in the real world.

4. Timetable

In addition to building consensus on these substantive goals, we are working with other WTO members to set a three-year timetable that will ensure that the Round yields significant benefits rapidly. At this point, most WTO members agree with us on the three-year schedule.

In practical terms, the schedule would be as follows. At Seattle, the Ministers will take decisions launching the Round, agreeing on the subject matter, and setting out in specific terms the objectives of the three-year negotiations. Negotiations should begin in earnest at the beginning of 2000, with, as some WTO members suggest, tabling of initial negotiating proposals by the middle of the year. Further benchmarks to ensure progress would follow, such as a possible "mid-term" Ministerial review at the 18-month point.

5. Consultations at Home

Finally, we are consulting intensely at home on specific objectives for each sector with Congress, industry, labor, and civil society groups, as well as Governors, state regulatory officials, and state legislators. This will continue, of course, once the Ministerial is concluded.

Consultations with state officials are especially important if the Round is to succeed. In America as in some other countries, service standards and regulations are often established by state governments or private professional associations rather than national governments; and there are often good reasons for this. Trade policy must respect and work with the relevant bodies.

6. Toward Seattle

Finally, we are working toward consensus on several specific achievements, to be completed by the Ministerial, that will yield concrete benefits, build momentum for the services negotiations and help us achieve our broader goals. These include progress toward an agreement on transparency in government procurement, which is a major purchaser of services worldwide; and as I noted earlier, in electronic commerce, work toward extension of the moratorium on tariffs applied to electronic transmissions.

ROLE OF ACCESSIONS AND REGIONAL INITIATIVES

Finally, let me note our services initiatives in two other areas -- the 33 separate negotiations on accessions to the WTO now underway, and the regional initiatives we have begun in Europe, Africa, Asia, the Middle East and the Western Hemisphere. These offer their own immediate benefits for American service providers; but also help us set precedents and develop models for the goals we have set in the Round.

1. WTO Accessions

With respect to the WTO accessions, in the past year we have completed the accessions of Latvia and Kyrgyzstan. Estonia's accession is completed and awaiting parliamentary approval. We have completed bilateral negotiations with Albania, Croatia, Georgia and Taiwan; and made significant progress on a number of other accessions, including those of Armenia, China, Jordan, Lithuania and Oman. In each of these accessions we have sought commitments in broader ranges of service sectors, and agreement to participate in the Financial Services and Basic Telecommunications agreements. These set baselines for future accessions, an example for improving the commitments of today's WTO members, and a foundation from which we can work in the WTO Round.

To take the most recent example, we concluded our bilateral negotiations with Albania on September 30th. This includes high-quality service commitments, which guarantee U.S. suppliers the right to provide services through establishing presence in the Albanian market or cross-border supply, and contribute to Albania's economic reform, technological progress and long-term growth. The commitments provide market access and national treatment for many U.S. industry sectors, including financial services (insurance, banking and securities); basic and value-added telecommunications services; professional services including foreign legal consultancy, accounting and auditing, architecture and engineering; computer and related services; advertising; management consulting; courier; audiovisual; construction and engineering; distribution, including wholesale and retail trade and franchising; environmental services; hospital and other health care facilities; and tourism and travel-related services; with appropriate flexibility on time-frames where needed.

2. Regional Initiatives

Regional initiatives also play an important role, again for their direct and intrinsic benefits but also as models for what we might hope to achieve worldwide.

An especially important case is the work toward establishment of a Free Trade Area of the Americas. These talks include a Negotiating Group entirely devoted to trade in services, which like the other FTAA Groups has completed an "annotated outline" of an FTAA services chapter this fall. This will both help us create an early model for worldwide liberalization of services trade, and build a Western Hemisphere consensus on shared goals as the Round approaches. Likewise, the FTAA has established a special Committee to advise us on ways to develop electronic commerce in the hemisphere.

The Transatlantic Economic Partnership (TEP) with the European Union – our largest overseas services market, taking over a third of our private services exports last year – offers another forum. Here, we aim to make it easier for U.S. professionals and firms to operate in Europe, safeguard U.S. interests as the EU expands, and set an example of bilateral liberalization which the world can follow in the Round. Under the "TEP Action Plan," we are working with the EU toward an agreement setting a framework for negotiating Mutual Recognition Agreements -- that is, agreeing to recognize accreditation or licensing granted by one another's regulatory standards -- in services fields.

Our bilateral work in Japan has similar goals. Our initiatives are aimed at improving access for US firms and professionals to Japan's vast market, through negotiation and enforcement of agreements covering such sectors as insurance and telecommunications. During Prime Minister Obuchi's visit to Washington this summer, through the Enhanced Initiative on Deregulation and Competition Policy we agreed that Japan will take concrete deregulatory measures in sectors including telecommunications, financial services, energy and distribution services, as well as broader horizontal issues such as transparency.

The President's Africa initiative offers another dimension of experience. This encourages deeper services commitments -- Ghana and Uganda have this year agreed to join the Financial Services Agreement -- and includes a major capacity-building component helps African nations develop regulatory, legislative and technical capabilities in high-tech sectors. One prominent example is USAID's Southern Africa Regional Telecommunications Restructuring Program, which helps promote modern telecommunications laws and regulation in six southern African nations through technical advice, seminars for regulatory officials and suggestions on legislation. Another is the Leland Project, which has helped eight African countries develop Internet gateways and enter electronic commerce. This experience will help the WTO strengthen its own capacity-building work, and is crucial to ensuring strong developing country support for a Round.

CONCLUSION

In conclusion, Mr. Chairman, the task ahead of us in services trade is very challenging, and will offer immense rewards both in terms of new export opportunities for American service providers, and for the development of a more stable, efficient, and environmentally sustainable world economy. We look forward to close consultation and cooperation with the Subcommittee as the Round begins, and as the negotiations proceed in the year ahead.

Thank you very much.

Responses to Questions From Senator Baucus

Question: The topic of this hearing is trade negotiating objectives for services at the Seattle, Ministerial. And I would like to home in today on one specific concern—Japan.

I can't prove this, but I have the strong impression that in the Uruguay Round, other than on rice, and perhaps a couple of other issues, Japan did not have to make the kind of significant changes that were required of many of our other major trading partners. I am worried that in the next Round, the Japanese system will be able, once again, to minimize the commitments they make in the multilateral negotiations, and then, in a uniquely Japanese way, circumvent those commitments and obligations. I think we were so consumed with European problems in the Uruguay Round that we missed a lot of opportunities to focus on Japan. I am concerned that the same thing may happen again. I certainly don't want to take away from the agriculture priorities of the next Round, and that means, of course, a major focus on Europe. But I want to be sure that we don't let Japan off again.

Buttressing my worry about how the WTO actually helps us in opening up Japan, I recall that, in the past, USSR witnesses have told this committee about what the), called "GATT plus" agreements with Japan. That is, in order to open a particular market in Japan, such as satellites or medical equipment procurement, it was necessary to negotiate bilateral agreements that went beyond Japan's GATT obligations. That is, GATT commitments were not sufficient to open Japan's markets.

I rind the whole idea of GATT plus disturbing. If GATT, or the WTO, works, why would it not work in Japan? And if it doesn't work, why are we negotiating with the Japanese? This issue is more troublesome than ever, in this era where disputes are thrown into the WTO rather than dealt with bilaterally and our ability actually to use the power of Section 301 and other US trade laws vis-a-vis Japan is very problematic.

So, my question is this, And I don't really want an off-the-cuff answer, because it will require some thought. So, why don't you give Me Your initial reaction to this, and then provide me with a more detailed written answer in a few days.

How do our trade negotiating objectives in services in the next Round relate to access problems in Japan? How are you going to ensure that the demands you will make on Japan in the next round include significant obligations on Japan to liberalize its trading regime? How are you going to insist that Japan's concessions match those of our other major trading partners? And how are you going to ensure that Japan fulfills the obligations it makes?

Answer: Liberalization of Japan's trading regime is a principal U.S. objective in the new round. We are seeking to improve market access in a wide range of goods and services areas. High on our agenda is reducing Japan's agricultural subsidies, further liberalizing its tariffs, and eliminating remaining non-tariff barriers in this sector. Such reforms would improve U.S. export prospects on a number of commodity areas, including rice, fruit, and vegetables. In addition, we continue to seek the elimination of Japan's high duties on key U.S. exports such as forestry and fishery products in the WTO through the Advanced Tariff Liberalization initiative.

Regarding liberalization of services in particular, Japan is one of the world's largest importers of services, and the United States sells more services to Japan than to any other nation. We ran a $20 billion services trade surplus with Japan last year. Further multilateral liberalization will create enormous new opportunities for U.S. services providers in Japan. We are launching negotiations to further key services sectors, like finance, telecommunications and construction; to ensure growth for new services, like telemedicine, satellite entertainment and on-line instruction; and to prevent discrimination against particular modes of delivering services, including electronic commerce.

We are working closely with other WTO members to ensure that Japan will make significant concessions, particularly in the areas of agriculture, fishery and forestry products and services, that match those being made by other WTO members. We do not intend to conclude the Round without a package that balances the interests and obligations of all member countries.

We will closely monitor Japan's actions and will use the range of tools available to us to ensure that Japan fulfills its WTO obligations. Over the past few years, we have been successful in utilizing the WTO dispute settlement process to resolve problematic Japanese trade practices that violate. Japan's WTO commitments. In 1996, for example, we won all important WTO case related to Japan's discriminatory liquor tax system. Late last year, a WTO dispute panel ruled in favor of the United States against Japan's varietal fruits testing policies. We will continue to use this process aggressively as well as other trade tools as appropriate to ensure Japanese compliance with its WTO obligations.

NEWS RELEASE

ORRIN HATCH

United States Senator for Utah

October 21, 1999

Contact: Paul Smith 202/224-9854

SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE

Mr. Chairman, I join you in welcoming our distinguished witnesses today. Allow me to move directly to my concerns.

I would like to hear from Ambassador Esserman and Secretary Aaron on two points.

First, Ms. Esserman has been reported as saying that the US is reviewing several options for expanded market access, and that the least developing questions enjoy a priority in your review process. I would appreciate an elaboration on the objectives of your review. I am especially interested in just how this process would affect our already vastly expanded access for the Caribbean and other developing states, many of which are beneficiaries of expanded access to U.S. market provided in other legislation recently reported out of this committee. I also want to know the specific business sectors which might be affected by expanded access and whether or not the appropriate US private sector advisory committees.

Second, I am eager to hear from Mr. Aaron concerning the Draft *Declaration for the WTO Seattle Ministerial*, written by the Chairman of the WTO General Council, Ali Mchumo. This seems to amount to little more than a laundry list of attacks on US anti-dumping laws and our statutory remedies, which were legitimated by the Uruguay Round and other GATT/WTO agreements.

Given the recent WTO dispute panel's ruling against our use of countervailing duties to compensate for the very substantial steel subsidies in the United Kingdom, it would seem that the WTO and Mr. Ali Mchumo have decided that they can assume the prerogative of the U.S. Commerce Department in determining whether or not the review standards agreed to in Article 17.6 [WTO *Antidumping Agreement*] ought to apply in anti-dumping cases.

The WTO Seattle Ministerial should not become a showdown or contest between the developing and developed nations. Yet that is precisely the direction that the highly contentious Chairman's Draft is dragging us. I would suggest an alternative approach be considered by the distinguished Chairman of the WTO General Council. And I refer to the recent proposal offered by the U.S. along with Nigeria, Bangladesh, Lesotho, Nigeria, Senegal, and Zambia urging the developed nations to provide technical assistance to the lesser developed trading nations in developing the economic capacity which will enable them to enter the global commercial mainstream.

Simply eliminating tariffs does not answer the needs of these countries. They constitute too small a share of total US trade, even though the US imports more from developing countries than their next their largest export markets combined. Rather, the developing nations will benefit in perpetuity if provided the tools of trade. By that I mean guidelines for what I would call a "civil infrastructure." This means a financial sector with banking, insurance and other merchandise management capabilities; a judicial sector where contracts are protected and enforced; and modern management and manufacturing techniques that secure indigenous benefits, such as employment, ownership and even environmental improvements.

The current approach taken by the WTO leadership will not help those of us in the US who strongly support and promote the WTO. And I hope that Seattle does not reflect differences of opinion among national leaders in a way that could in any way cause that support to flag.

PREPARED STATEMENT OF CATHERINE L. MANN

Liberalizing trade in services is key to faster global growth and the sustainability of the US trade deficit. As a country grows and matures, services tend to increase as a share of GDP, as does the share of services in US exports to the country. The United States has global comparative advantage in services, yet services remain highly protected abroad. Multilateral and broad-based negotiations on trade in services will help to ensure that US exporters have access to growing markets. In addition, liberalizing policies will enhance competition and efficiency and raise productivity and growth in all the world's economies. Such a "high performance" strategy offers a win-win negotiating platform.

Don't underestimate the rising importance of trade in services for the US and the world.(2)

The importance of the service sector for the US economy, for our trade position, and for global trade should not be underestimated. Services exports account for about 30 percent of the total dollar value of US exports (up from 20 percent in 1975). On the import side, the share has been about stable at somewhat less than 20 percent. The trade surplus in services is about $80 billion as against a merchandise trade deficit of about $330 billion.(3) As of 1997, the US accounted for about one-quarter of the whole world's trade in services.

The demand for high-quality services at home contributes to a global comparative advantage in the delivery of many different services industries and professional services. Studies by McKinsey Global Institute of selected service-sector industries suggest that labor productivity in the United States exceeds that of its major competitors (Germany, France, United Kingdom, and Japan) by 30 percent in airlines, 30 to 40 percent in retail banking, 20 to 50 percent in telecommunications, and 10 to 50 percent in retail selling. In part because the domestic market is so well developed, the United States is also the world's leading exporter of business and professional services.

The share of services in US exports should increase further as our trading partners grow, mature, and demand more services. For example, in the mature economies of Europe, the service share of GDP is about 70 percent and the share of services in US exports is about 35 percent. For middle-income countries in South and Central America, the service sector share of GDP is about 57 percent and the service share of US exports is 25 percent. But in low-income China and India, the service share of GDP is only 37 percent and the service share of US exports is only 18 percent. Opening markets abroad is crucial to ensure that net trade in services contributes positively to the overall US trade balance, even as we would also expect greater imports of some services. Yet, liberalization of services trade has barely begun, and many barriers face US exporters of services. (4)

Rising services could diminish the "asymmetry" in response of trade to changes in income.(5)

Empirical analysis of the behavior of US trade suggests that there are systematic differences in how goods flows and services flows respond to changes in US and foreign income. Decades of empirical work show that when US and foreign incomes rise, the US tendency to spend additional income on imports is about one and one-half to two times the foreigners' tendency to spend their additional income on US exports. Therefore, when US and foreign economies have grown at the same rate, the US trade balance has tended to worsen.

Recent work suggests that this asymmetry is much smaller or even reversed for trade in services. That is, the US tendency to purchase service imports when our income increases is about the same as or is less than the foreigner's tendency to purchase US service exports when their income rises.(6) Over time, as the share of services in total trade increases, the asymmetry of responsiveness of total trade to changes in income likely will diminish. Consequently, as other countries develop and demand more imports of services, the US surplus in services trade is likely to expand; but only if markets abroad are open and growing.

The case for services liberalization is dramatic for the US and for the world.(7)

My analysis suggests that the constellation of consensus projections for economic growth here and abroad, of exchange rates and relative prices, and of standard estimates of the income asymmetries yields a trajectory for the US trade and current account deficits that will be unsustainable in two or three years and certainly are unsustainable in the longer term. An unsustainable trade deficit could mean abrupt changes in exchange rates and interest rates with deleterious effects on US and global growth.

An on-going program of service sector liberalization in trade and deregulation and competition in domestic markets here and abroad changes that picture dramatically. Together, faster growth and a more liberal environment for services trade keep the

US external accounts from worsening, and indeed they start to narrow in the long-term (10 years out).

How could multilateral service-sector negotiations have such a big impact? First, the impact on global growth is substantial. Comprehensive liberalization of services could raise global GDP by 4 to 6 percentage points—twice that credited to the Uruguay Round—as well as raise the long-run global growth rate from 3.2 to 5.0 percent. (8) Second, as a multilateral effort, the impact on US firms and workers would be broad-based. In 1998, service exports constituted 30 percent of US total exports, 55 percent of corporate profits, 75 percent of US real GDP, and 80 percent of non-agricultural payroll employment. No bilateral or sectoral trade negotiation will affect this share of US exports, nor this share of the US economy. For example, one of the most hard-fought market-opening negotiations was the US-Japan agreement on autos and auto parts. In 1997 these sectors accounted for only 6 percent of US total exports and less than half that as a share of real GDP. By ensuring that services exports grow as rapidly as they have been, the asymmetry in income elasticities is reduced enough to radically change the trend in the US trade deficit.

Liberalization of trade and of domestic markets go hand-in-hand, particularly for the services sector, but multilateral liberalization of services has barely begun.(9) The United States must move quickly to launch and encourage wide participation in a new trade round with a clear focus on services.

A cautionary note: Services liberalization is not a short-run fix, nor a long-run panacea.

The trade and current account deficits are large right now partly on account of the cyclical factors of global financial crises and robust US domestic demand; so, resumption of global growth is a necessary ingredient to narrowing the US external deficits in the near-term. However, in addition to the long-term impact of services liberalization, there are structural factors in the US economy that underpin the trend external deficits that need to be addressed, including the low US household savings rate and the insufficient preparedness of US workers for current and future jobs. All told, a combined agenda that emphasizes macroeconomic policies for global growth as well as longer-term services trade liberalization and domestic policy initiatives will reap great benefits for the US and the global economies.

ENDNOTES

(1) This testimony draws extensively from my book, Is the US Trade Deficit Sustainable? Washington: Institute for International Economics, September 1999.
(2) This section draws on Chapter 3 of my book, "Has US Comparative Advantage Changed? Does This Affect Sustainability?"
(3) Based on data for January-August 1999.
(4) See "The Globalization of Services: What Has Happened? What Are the Implications?" by Gary Clyde Hufbauer and Tony Warren, IIE working paper no. 99-12, October 1999.
(5) This section draws on Chapter 6, "Is the US Deficit Caused by Unfair Trade Practices" and Chapter 8, "Is the United States 'Living Beyond Its Means' or an 'Oasis of Prosperity'?"
(6) See analysis in Simon Wren-Lewis and Rebecca Driver, Real Exchange Rates for the Year 2000, Policy Analyses in International Economics 34. Washington: Institute for International Economics, 1998; and "Forecasting US Trade in Services" by Alan V. Deardorf, Saul H. Hymans, Robert M. Stern, and Chong Xiang, University of Michigan: mimeograph, October 15, 1999.
(7) This section draws on Chapter 10, "Is the US External Deficit Sustainable?"
(8) See Hufbauer and Warren, op. cit. and OECD, The World in 2020: Towards a New Global Age, Paris:OECD, 1997.
(9) For more on what needs to be done, see Jeffrey J. Schott, The World Trading System: Challenges Ahead, Washington: Institute for International Economics, 1996.

PREPARED STATEMENT OF ROBERT VASTINE

It is a pleasure to appear today to present the views of the Coalition of Service Industries (CSI) on United States Trade Negotiating Objectives for services at the Seattle WTO ministerial meeting, and the Services 2000 negotiations scheduled to begin this coming January.

CSI was established in 1982 to create greater public awareness of the major role services companies and their workers play in our national economy; promote the expansion of business opportunities abroad for US service companies; advocate an increased focus on liberalization of trade in services in international trade negotiations; and encourage US leadership in obtaining a fair and competitive global marketplace.

CSI members include an array of US service industries including the financial, telecommunications, professional, travel, transportation and air cargo, and information technology sectors. Included in the broader coalition of sectors with which we work are energy services, entertainment, retail distribution, and education.

CSI has been active in multilateral trade negotiations since before the Uruguay Round and played an aggressive advocacy role in writing the General Agreement on Trade in Services and obtaining successful WTO negotiations in telecommunications and financial services.

SERVICES 2000 NEGOTIATIONS

We are equally committed to a comprehensive, highly ambitious new multilateral services negotiation starting in 2000. We believe that these negotiations will further expand our global markets, enabling our sector to increase its 77 percent share of US employment, its 79 percent share of GDP, and its trade surplus of about $80 billion (about 30 percent of US exports). Because foreigners have a high propensity to consume US services, we believe that negotiations that reduce barriers across a wide range of highly protected foreign services markets could materially stimulate US trade. The US is very competitive in virtually every category of services trade, examples of which are given in the appendix to this statement.

It has recently been suggested that US services exports could offset the structural goods deficit as a result of successful multilateral negotiations. Catherine L. Mann, in a study for the Institute for International Economics [1] wrote:

> ". . . as income in a foreign country grows, its imports of US services tend to rise disproportionately. Successful broad-based negotiations on trade in services will likely increase US exports of services even further, with a positive effect on the trade deficit. The long-term trajectory of the US external balances could be altered significantly by the combination of successful service-sector negotiations and broad-based liberalization and deregulation at home and especially abroad. These together would unleash higher productivity and faster growth at home and abroad, which would narrow the US current account deficit."

In her prepared statement for this hearing, Dr. Mann cites earlier estimates that comprehensive liberalization of services could raise global GDP by 4 to 6 percentage points, and raise the long-run global growth rate from 3.2 to 5 percent.[2]

My point is that the United States has a powerful national economic security interest in making the coming services negotiations a major success. But so does the rest of the world economy.

THE SEATTLE MINISTERIAL

Because we need highly successful new services trade negotiations, we need a successful Seattle WTO Ministerial Meeting. What defines success? For the service sector a successful Ministerial must:

- give a very strong mandate to the start of comprehensive services negotiations in 2000
- provide that this 3 year negotiation be focussed mainly on services, agriculture, and industrial products so that there is a real chance that negotiators can focus on services trade and complete an ambitious agenda of liberalization in areas where the likelihood of liberalization exists.
- Recognize that electronic commerce is an important new technique for trading, not a new sector in and of itself; extend the existing moratorium on duties on electronic transmissions, call on countries to refrain from adopting measures that would unnecessarily restrict electronic commerce, provide that electronic delivery of services falls within the scope of the GATS, and that there be no discrimination among foreign and domestic providers in their access to electronic networks.
- provide that the entire new "round" be completed by December 31, 2002, in order to force closure on the existing agenda, reap what gains can be garnered, and begin again with a fresh agenda that could include items like investment.

CSI has been very actively engaged in the preparations for the Seattle Ministerial. We are organizing a day of activities to demonstrate the importance of the service sector to the 21st Century, knowledge based, "third wave" economy. At our major

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[1] Catherine L. Mann, "Is the U.S. Trade Deficit Sustainable?" Institute for International Economics, 1999, p. 9.

[2] Gary Clyde Hufbauer and Tony Warren, "The Globalization of Services, What Has Happened?" Institute for International Economics, 1999

"World Services Congress" in Atlanta on November 1-3 we will propose a series of recommendations, endorsed by leaders from many countries, to support the Ministerial and the negotiations to follow. And at Atlanta we are forming a Global Services Network to link organizations and individuals in all parts of the world to provide a support system for the services negotiations.

AMBITIOUS US GOALS FOR SERVICES 2000

CSI believes strongly that the US should enter the new negotiations with a bold agenda, calling for sweeping commitments to liberalization across all service sectors.

We would like our negotiators to propose broad commitments to liberalization in areas such as the right to establish a business presence in foreign markets (commercial presence), the right to own all or a majority share of that business, and the right to be treated as a local business (national treatment).

If we are to succeed, our negotiating methods will need to be bold and innovative. We support the efforts of US services negotiators, joined by their colleagues in the Quad and a group of other countries with strong interests in services trade, to find new approaches to services trade liberalization. These are designed to supplement the usual "request-offer" approach, save time, and bring better results.

These new approaches could include commitments applying "horizontally" across all service sectors, the negotiation of transparency and other pro-competitive regulatory commitments for service sectors under negotiation, then the negotiation of model schedules for each sector under negotiation. Countries would have the right, as they do now, to list exceptions to the model schedules and pro-competitive regulatory commitments. Once the models had been adopted, countries could engage each other in negotiations to improve the scope and depth of other countries' commitments.

MOBILITY OF BUSINESS PERSONNEL

One of the areas requiring fresh, bold thinking here and abroad, are the provisions used by countries, including the US, for the temporary entry of foreign managerial and technical personnel. Increasingly large, highly competitive US companies such as consulting, accounting, legal, architectural, and engineering firms need to transfer personnel at short notice to service the needs of their clients throughout the world. Delivering services via transfer of natural persons is known in GATS parlance as "mode 4" of supply. The WTO has been unable to make any progress on achieving liberalization of this form of supply of services. Because it is of increasing importance to US firms, and to some other countries, it should be an important element of the coming negotiations.

THE NEED FOR "PRO-COMPETITIVE" REGULATORY REFORM

Foreign companies entering new markets often face formidable barriers in the form of arbitrary and non-transparent regulations and regulatory institutions. Such regulations too often deny foreign companies the opportunity to compete on an equal basis with domestic firms. They can effectively negate the benefits of trade liberalization commitments.

Pro-competitive regulatory reforms mean abandoning forms of regulation by which governments limit the introduction of new products, restrict use of market-based pricing, and in other ways constrain competition.

Transparency of regulatory processes is an important element of pro-competitive reform. This means adopting many of the procedures embodied in our more open system of government, such as the publication of existing and proposed regulations, and the right to comment and to be heard in administrative proceedings. It also means applying higher principles of how companies operate, such as regulations ensuring solvency, promoting transparency in intra-company transactions and financial reporting, and improving the reliability of financial data that would allow customers and investors to make better informed judgments.

THE NEED FOR INTEGRATED US INTERNATIONAL ECONOMIC AND TAX POLICIES

At the same time that we pursue an aggressive trade strategy, we must be sure that our domestic policies do not inhibit the global competitiveness of our own companies. A case in point is the active financing exception to Subpart F that expires at the end of the year.

Extension of these rules permitting US-based financial services companies to reinvest earnings overseas without first being taxed by the US will be an important step in the right direction as we better coordinate our trade and tax policies to foster the ability of our companies to compete in foreign markets. CSI wishes to thank

Senators Hatch and Baucus for their long standing efforts to improve and simplify the international tax laws and Chairman Roth for extending this important provision in his most recent tax bill. We urge you to pass this vital extender.

THE WTO AND SERVICES

The reduction of barriers to trade in goods began many decades ago with the 1934 reciprocal trade agreements program of the Roosevelt era. The reduction of barriers to trade in services is in its infancy. The Uruguay Round wrote the "constitution" or legal framework for liberalization of trade in service: the GATS. But countries' actual commitments to liberalization were disappointing. The actual work of liberalization was advanced in the successful 1997 Basic Telecommunications and Financial Services negotiations. The next negotiation, services 2000, is the first real opportunity to bring to bear the lessons we have learned about the complex process of negotiating freer trade in services and to broaden binding commitments across all sectors and deepen commitments within product categories and sub categories.

As I said at the outset, the United States has a particularly big stake in a successful multilateral negotiation. We are already highly competitive in services. We can secure and enhance this comparative advantage by removing restrictions to our exports, and at the same time make a bigger and bigger dent in our structural trade deficit.

The Seattle Ministerial is a preamble to the main event, the negotiation itself. But it is essential that the Seattle Declaration give a strong impetus to an ambitious, achievable negotiation in services. As the evidence adduced by Dr. Mann demonstrates, such a result is essential to our national economic interest and to global prosperity.

APPENDIX I

Examples illustrating the stake of US service industries in expanded global markets.

- Travel and tourism contributed over $25 billion to the services trade surplus in 1997. This is the largest sectoral contribution to the overall services surplus. In addition, travel and tourism are estimated to support over seven million direct jobs and generate roughly $71 billion in tax revenues for federal, state and local governments.
- Business, professional and technical services is a largely unrecognized powerhouse in American trade. In 1997, we exported more than $21 billion in these services and we had a $16 billion trade surplus. These data do not include the earnings from foreign investments and foreign affiliates, which are very substantial. Trade in business, professional and technical services—such as accounting, legal, engineering, architectural and consulting services—is especially important because it frequently paves the way for trade and investment in other service and manufacturing sectors.
- Telecommunications services are an integral component of operations of all businesses, and are essential in promoting domestic and global growth. Telecommunications services provide the necessary infrastructure for the development and continued expansion of the information society and electronic commerce. An estimated $725 billion in revenue was generated in 1997, and projections for the next five years indicate that traded telecommunications services will increase at about 20 percent annually for outbound calls from the US to foreign markets.
- The information technology industry is also dependent on trade and trade expansion. The WTO estimates that over the next five years, sales over the Internet will double each year.
- The US asset management industry is the largest in the world. It is estimated that by 2002, 51% of total asset management revenue of $160 billion will come from abroad, not the US. Today, US-domiciled investment managers manage 14% of the total of non-US retirement plan assets and 5% of non-US mutual fund assets.
- US law firms, when billing foreign clients, produce services exports. Overall US legal services exports approach $1.0 billion.
- Foreign students coming to American schools, net after scholarship and local assistance, spent $8.3 billion in the US, which is a US services export. We have a surplus in trade in education services of $7.0 billion.
- Although few doctors imagine themselves as US exporters, medical services rendered in the US to foreign citizens produced an export surplus of $0.5 billion.
- Air cargo transport accounts for well over a third of the value of the world trade in merchandise. However, restrictions on market access (including cabotage),

ownership and control, the right of establishment, capacity, frequencies, intermodal operations in connection with air services, wet leasing, customs, groundhandling, the environment in particular local airport access times, all limit the ability of cargo carriers to plan their operations purely on the basis of commercial and operational considerations. A WTO framework could provide cargo carriers with clear rules addressing these problems and resulting in enhanced delivery options to the benefit of businesses, shippers and consumers worldwide.

- Energy services have received little attention in trade negotiations to date. But drastic changes in the international and domestic business climate for this industry—which in the US accounts for 1.4 million jobs and about 7% of US GDP—have shown the need for global trading rules, which can provide new, common understandings on such key matters as monopoly power, anti-competitive practices and discrimination against new market entrants, including of course US companies. Thus the energy services industry looks to the coming round as a critically important opportunity to map out a blueprint for market access and free competition in energy service.

COMMUNICATIONS

STATEMENT OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE

[SUBMITTED BY CARLOS MOORE, EXECUTIVE VICE PRESIDENT]

This statement is submitted by the American Textile Manufacturers Institute (ATMI), the national trade association of the textile mill products industry.

ATMI's member companies range from small, specialized family-owned enterprises to diversified, multi-billion dollar public corporations. On their behalf, we would like to state ATMI's position that the United States negotiating objectives in the upcoming World Trade Organization (WTO) Seattle Ministerial meeting and subsequent Round should be focused on completing the job that was begun but not finished during the Uruguay Round negotiations.

The Uruguay Round generally sought to extend the scope of the (then) GATT. Specifically, it endeavored to bring international trade in services, agriculture and textiles/apparel under GATT disciplines and to forge international agreement on measures granting intellectual property protection. After seven years, only two of these objectives have been realized: those with respect to textiles/apparel and intellectual property. In services and agriculture, only half measures and agreement to continue negotiations as part of a "built-in agenda" in these sectors were adopted. The Uruguay Round, though resulting in nearly a thousand pages of text ratified on April 15, 1994, remains an unfinished work.

With regard to trade in textiles and apparel, profoundly far-reaching decisions were taken in the Uruguay Round. Agreement was reached to gradually phase out quantitative restraints on imports of textiles and apparel which had been maintained since 1974 pursuant to the GATT-sanctioned International Arrangement Regarding Trade in Textiles (the "MFA"). All such restraints are being gradually phased out over a ten-year "transition period" and completely eliminated effective January 1, 2005, as provided for in the Uruguay Round Agreement on Textiles and Clothing (ATC).

To further add to its contribution to liberalizing world trade, the United States agreed to tariff cuts on essentially all textile and apparel products, completely eliminating tariffs on some.

It is difficult to overstate the magnitude of this concession by the United States and the other textile/apparel importing countries. The result of these measures is reflected in the data: U.S. imports of textiles and apparel, not including imports from our NAFTA partners, Canada and Mexico, and from Israel, increased by $13.3 billion or 36.5 percent in just the four years (1995-1998) since the Uruguay Round Agreements went into effect.

It is safe to say that no other sector of U.S. industry was required to make as many concessions in the Uruguay Round Agreements as the domestic textile and apparel industries. But our industry had reason to expect at least partial reciprocity in the form of market opening initiatives by the exporting developing countries which, for two generations, have kept their domestic markets closed to foreign competition [1] while exporting over $100 billion worth of textiles and apparel worldwide annually (1997). Indeed, Article 1 of the Uruguay Round Agreement on Textiles and Clothing (ATC) states "Members should allow for—increased competition in their markets." This is reinforced by Article 7 which states, "—all (emphasis added) Mem-

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[1] Except, of course, Hong Kong and Singapore, which somehow manage to export increasing quantities of textile products despite rapidly declining employment in the sector. It is possible that the openness of their markets plays a role in the growth of their exports by facilitating illegal transshipments.

bers shall take such actions as may be necessary to abide by GATT 1994 rules and disciplines so as to:

(a) achieve improved access to markets for textile and clothing products—"

There can be no question that the United States has fulfilled not only the spirit, but the letter of this requirement (and has a $13.3 billion increase in textile and apparel imports to prove it). Most regrettably, however, many of the large textile and apparel exporting nations have ignored their commitments under the Agreement and have utterly failed to provide meaningful, real market access. (In this context, Pakistan's sole market access concession to remove knitted ski suits from its list of banned imports is not only meaningless, but insulting.)

ATMI has shown the larger textile/apparel exporter developing countries (along with the EU and the U.S.) in Exhibit A, attached. It shows those countries with highly protected markets in the upper right and those with open markets in the lower left. Not surprisingly, India is clearly the most protected, followed closely by Brazil, Egypt, Pakistan and Argentina. The U.S. and the EU are the least protected, and by 2005, when quotas will have disappeared, will be by far the most open markets. Exhibit B (attached) lists ranges of tariffs and descriptions of non-tariff barriers used in placing these countries on the diagram.

Until the major textile and apparel exporting nations provide a degree of access to their domestic markets comparable to what the United States has provided, no further concessions should be made by the U.S. The United States' negotiating objective in the Round should be, clearly and simply, to require these recalcitrant exporting nations to abide by the ATC—five years after the fact—and provide real, effective access to their domestic markets. Should they fail to do so, the United States should then move to deny them further trade liberalizing elements as provided for in Article 2 of the ATC. What the United States should not do, what it must not do, in the Round, is to agree to further reduce U.S. apparel and textile tariffs. To reduce U.S. textile and apparel tariffs would validate the refusals of the major exporting countries to provide improved, effective access to their markets. Such action would make a travesty of a balanced trade negotiation and cause irreparable harm to U.S. textile jobs and production.

Cuts of U.S. tariffs would also undermine the preferential access to the U.S. which Mexico, Canada, and Israel enjoy under our free trade agreements, as well as any future benefits which may be realized under CBI enhancement legislation. Until equitable conditions of market access in textile and apparel trade are granted by all WTO members, the best approach for the U.S. is to stand pat.

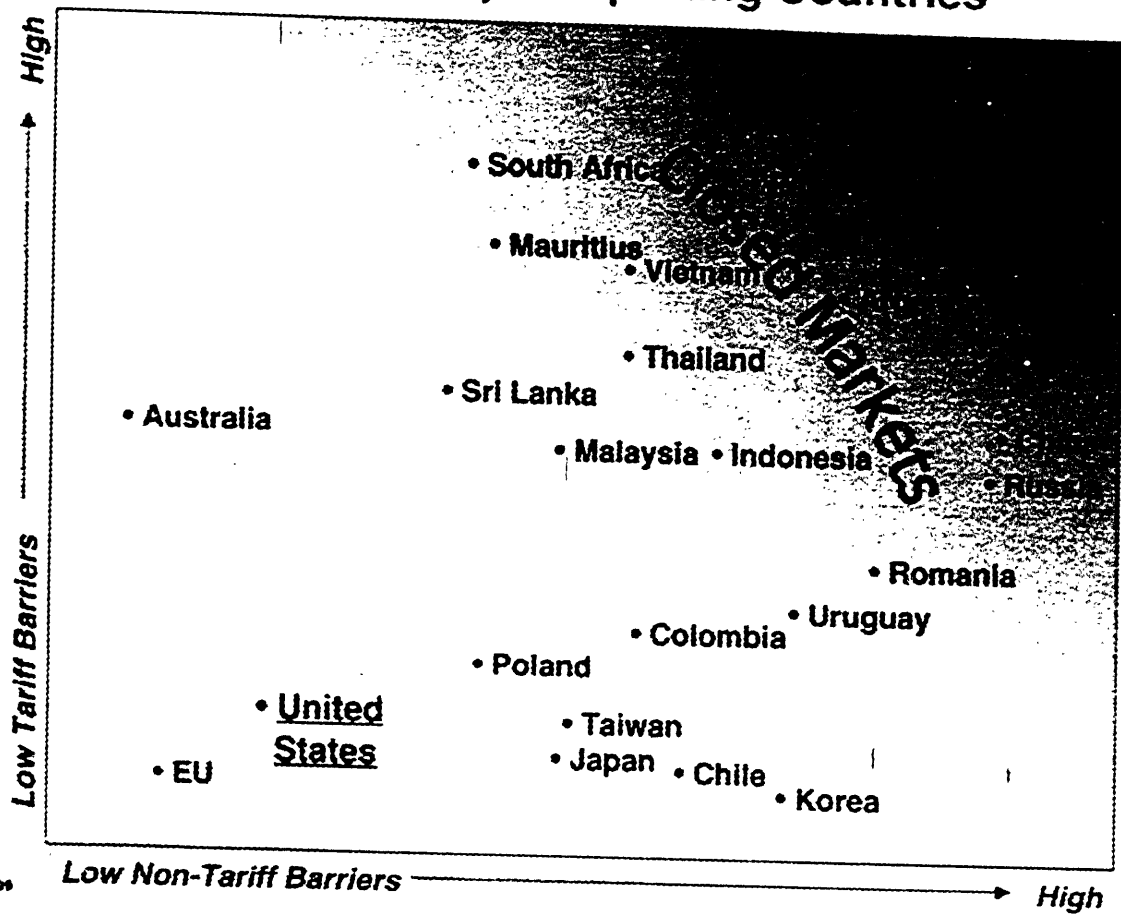
We would also like to call to the Committee's attention position papers recently submitted to the WTO by India on behalf of a number of textile/apparel exporting developing countries, most of whom appear in Exhibit A in the "closed market" category. Those papers have been incorporated into a draft of the ministerial statement being prepared for Seattle. The India paper is relevant to this hearing because it is a developing country blueprint to undercut U.S. trade laws, the WTO Agreement on Textiles and Clothing, U.S. positions on agriculture trade, standards, investment, intellectual property, rules of origin, and just about every other trade policy objective of the U.S. The documents should be dismissed out of hand, but because the WTO General Council Chairman, acting on his own, incorporated them into the draft Ministerial Declaration, prompt action is needed by the Senate Finance Committee and U.S. negotiators to denounce the provisions in the paper and have a new draft proposed without them. It is possible that the Indian paper was submitted to deflect attention from India's (and others') prohibitive tariffs and non-tariff barriers. But the obviousness of that ploy is yet another compelling reason to reject the paper and the draft declaration that incorporated it out of hand.

This effort by certain developing countries to undercut U.S. trade objectives reflects ATMI's two other concerns about the WTO Round. First, the U.S. must insist that the Agreement on Textiles and Clothing should not be weakened. All WTO members agreed in 1993 on an approach to phase out quotas and the U.S. has fully complied with the Agreement. Second, the U.S. should oppose any weakening of WTO provisions on unfair trade practices or the escape clause. The WTO document makes it clear that many developing countries want to make just such changes—changes that would have the effect of weakening U.S. antidumping, countervailing and Section 201 statutes, and possibly others. ATMI supports initiatives in the Congress to provide guidance to U.S. negotiators to reject attempts to negotiate changes that could weaken unfair trade practices statutes.

Much good can be accomplished for our industry in a new WTO round if the U.S. is committed to real opening of foreign markets. However, much harm will result if the terms of the ATC are weakened, developing countries escape market opening disciplines, U.S. textile/apparel tariffs are cut, and U.S. trade laws are weakened. We urge the Committee to support our views and to so advise U.S. negotiators.

Exhibit A

Current Market Access Conditions For Textiles and Apparel: Major Exporting Countries



V. 4A: 3-Nov-99

Exhibit B

Back-up for Chart: *Current Market Access Conditions For Textile and Apparel Products: Major Exporting Countries*

Average Tariff Ranges on Textile and Apparel Products (1998)[1]	
Argentina	40% - 50+%
Australia	25% - 35%
Bangladesh	60% - 300+%
Brazil	40% - 70+%
China	20% - 36%
Chile	11+%
Colombia	15% - 20%
Egypt	25% - 54%
EU	4% - 13%
India	50% - 70%
Indonesia	20% - 30%
Japan	7% - 16%
Korea	8% - 11%[2]
Malaysia	20% - 30%
Mauritius	0% - 80%
Morocco	40% - 50%
Pakistan	40% - 60%
Poland	11% - 25%
Romania	12% - 32+%
Russia	20% - 30%
South Africa	28% - 78+ %
Sri Lanka	25% - 35%
Taiwan	5% - 20%
Thailand	20% - 45+%
Ukraine	Volatile
Uruguay	17% - 24+%
Vietnam	25% - 50+%
United States** *(as a baseline)*	16%

1998 U.S. Textile and Apparel Trade Balance ($ Mil)	
Argentina	55
Australia	45
Bangladesh	-1,670
Brazil	3
China	- 5,800
Chile	87
Colombia	- 75
Egypt	- 460
EU	- 2,400
India	- 2,300
Indonesia	-1,950
Japan	480
Korea	- 2,530
Malaysia	- 750
Mauritius	- 235
Morocco	- 80
Pakistan	- 1,400
Poland	- 30
Romania	- 129
Russia	- 135
South Africa	- 66
Sri Lanka	-1,470
Taiwan	-2,800
Thailand	- 1,900
Ukraine	- 75
Uruguay	- 11
Vietnam	- 30

+ = Imports subject to specific duty valuations when specific duties are higher than ad valorem rates.

Non-Tariff Barriers	
Argentina	Customs: difficult and cumbersome certificate of origin rules (requires a visa from the local Argentine consulate); long delays at customs; difficulties dealing w/customs officials. IPR problems. Tariff unpredictability: use of minimum specific duties on textiles begun in 1995 (note: WTO ruled against duties in 1997); increases in tax rates effecting imports (statistical tax rates imposed and ad valorem tax rates increased for some textile products); also, in 1997, Argentina increased its tariffs across the board by 3% after losing a WTO case regarding its

[1] Applied tariff rates at the MFN/NTR level. Where relevant, includes additional taxes/duties/charges levied on imported products only. For more information, see "Non-tariff barrier section."

[2] Carpet imports are taxed nearly 50% (special consumption and education tax applied).

Non-Tariff Barriers	
	3% statistical tax; numerous export subsidies and in 1995 imposed an "Additional VAT" of 9-10% which de facto is applied only on imports. Also, imports of clothing and home furnishing products are subject to an "Anticipated Income Tax" amounting to 3-11%. Corruption, including bribe taking and kick-backs at many levels of government, is a major problem. Note: 1996 marking rules require chemical composition statements for carpets and clothing.
Australia	Some export subsidies. Some tariffs as high as 66 – 84% (man-made fiber fabrics, carpets, knitted goods.)
Bangladesh	Export subsidies. Customs: lengthy, burdensome and time consuming customs procedures; also, non-transparent customs regulations – changes in regulations often issued only partially or after implementation or both. Tariff unpredictability: tariffs may change without notice; minimum specific tariffs often employed. Import restrictions: some fabrics and made-ups are banned.
Brazil	Customs: difficult import licensing procedures. Tariff unpredictability: valuation problems when dealing with Brazilian customs; minimum/specific duties may be imposed; in 1997, Brazil increased its tariffs by 3% across the board; also, following an increase in imports from 1990-95, tariffs on many textile products were increased to 50 and 70%. Unpredictability regarding financing – in 1997, Brazil instituted up front payment requirements for textile products and banned letters of credit. Numerous export subsidies and specific credit programs. IPR problems. Import restrictions – often lengthy non-automatic import license procedures for many textile and made-up products. Other taxes: numerous add-on taxes for imports, including union tax, brokerage tax, forwarding agent tax, harbor tax, storage tax. Corruption, including bribe taking and kick-backs at many levels of government, is a major problem.
Chile	Tariff unpredictability: minimum import prices may be used for textile and apparel imports; also, import surveillance by the Central Bank of Chile which may block imports that do not meet "normal international market prices". Some export subsidies.

Non-Tariff Barriers	
China	Customs: difficult, time consuming and non-transparent import documentation procedures. Tariff unpredictability: non-transparent customs valuation procedures – use of unofficial reference price lists to hike effective tariff rates and which may be used to offset "agreed upon" declines in applied tariff rates; also, tariffs differ depending on port of entry and importing agents – tariffs often "negotiated" with local customs agents. Other taxes: VAT taxes applied in discriminatory manner. Import restrictions: importing of textile products restricted to foreign trading companies (FTC) (mandatory "importing licensing" by MOFTEC) which are also producers and exporters of similar products; distribution channels for textile products controlled by state agencies – dual pricing system in effect and importers may receive lower price offers than domestic producers. Standards/inspections/ marking: expensive, time consuming and discriminatory technical/quality testing procedures for imported goods – imported goods subject to higher standards than domestically produced goods; also previously independent inspection agencies have recently been put under the control of Chinese customs – conflicts are no longer subject to international dispute settlement. Numerous export and domestic industry subsidies including cotton subsidization; also, widespread use of export rebates. Corruption, including bribe taking and kick-backs at many levels of government, is a major problem. Many IPR problems.
Colombia	Customs: arbitrary customs valuations, cumbersome certificates of origin and customs inspection procedures. IPR problems. Some export subsidies. Corruption, including bribe taking and kick-backs at many levels of government, is a major problem.
Egypt	Customs: complex and excessive customs rules and procedures (including requirement of visas from Ministry of Foreign trade and local Chamber of Commerce); time-consuming customs clearance procedures; also, customs corruption – textile imports into Egypt are often reviewed by local Chamber or textile industry representatives for quality and value. Import restrictions: bans on importation of some textile (including cotton fabrics) and all apparel (only manufacturing product to be banned). Tariff unpredictability: arbitrary customs valuations and non-transparent customs duty assessment regulations; also, tariffs on many textile products increased in 1998 to 54%. Additional taxes (customs surcharges, inspection and service fees). Standards/inspections/marking: while bans on most textile imports have been recently lifted, in January 1998, new excessive technical certification (quality control) requirements and difficult, costly marking requirements (for example, name of *importer* must appear on every 30 meters of fabric) for imported textile products (which FTZ and domestic suppliers are exempt from) now act as de facto import bans. Numerous export and domestic industry subsidies. Corruption, including bribe taking and kick-backs at many levels of government, is a major problem. IPR problems.
EU	Import restrictions: quota system in place, being progressively phased out by Jan. 1, 2005.
India	Import restrictions: bans and/or restrictions on the importation of most textile and all apparel products; discriminatory and non-transparent licensing procedures. Customs: complex, difficult and time consuming customs clearance and valuation procedures. Tariff unpredictability: arbitrary customs valuation procedures (calculation may be based on "like" products made in India); "special additional

Non-Tariff Barriers	
	duty" of 8% imposed in 1998 (later reduced to 4%); "special customs duty" of 5% imposed in 1997 and 1% "Cess" tax plus a 15% surcharge on some textile articles. (Note: India continues to claim "balance of payment" exemptions despite multiple WTO rulings against their use) Additional taxes: some "duties" imposed on imports by state governments. Standards/inspections/licensing: extremely difficult and costly marking requirements (12 specific requirements, including specifications regarding the color of the inks used and font size). Numerous export and domestic industry subsidies; in 1999, India announced a $5 billion Textile Modernization Program. IPR problems. Corruption, including bribe taking and kick-backs at many levels of government, is a major problem.
Indonesia	Customs: long delays and corruption. Add on taxes: import "deposits" required; VAT and luxury taxes totaling 45% on textile/apparel products collected from imported but often not from domestically produced goods. Import restrictions: regulations concerning distribution system favors local manufacturers; also numerous anti-competitive business practices including tax incentives and subsidized lending). Export subsidies. Tariff unpredictability: individual tariffs are subject to sudden changes. Ranked by Transparency International as one of the most corrupt countries in the world: corruption, including bribe taking and kick-backs at many levels of government, is endemic.
Japan	Standards/inspections/marking: complex technical barriers (quality, certification and labeling requirements). Import restrictions: distribution system gives preferences to Japanese companies; also, anti-competitive business practices (part. horizontal and vertical business groupings.)
Korea	Import restrictions: widespread anti-competitive business and distribution practices ("chaebols"/business cartels); also, quotas on some textile products. Customs: procedures are time consuming and subject to change; clearance times doubled and tripled during "anti-import" campaign in 1996. Import financing restricted by burdensome payment terms. Standards/inspections/marking: expensive and difficult marking rules. Add-on taxes: special consumption tax and an education tax are applied on carpet imports, raising effective rate to almost 50%. Corruption, including bribe taking and kick-backs at many levels of government, is a major problem.
Malaysia	Numerous export subsidies and tax incentives. IPR problems. Import restrictions: anti-competitive business practices.
Mauritius	Numerous export subsidies. Customs: non-transparent customs regulations. Corruption, including bribe taking and kick-backs, is a problem.
Morocco	Add-on taxes: fiscal levy (introduced in 1998 at 12.5%, later increased to 15%), which was introduced in 1998 (the levy ostensibly combined a special import tax and customs stamp tax but the new duty level exceeds the two taxes.) Tariff unpredictability: use of minimum import price lists for textile and apparel products. Corruption, including bribe taking and kick-backs, is a problem.
Pakistan	Import restrictions: many textile and apparel products on the "negative" or restricted import lists – even when importable, products may only be imported by companies that export other goods. Export subsidies (part. cotton subsidies). Customs: complex and time consuming customs procedures. Tariff unpredictability: customs valuation and classification problems. Add-on taxes: 12.5% sales tax and advance income tax (5%) applied to imports only. IPR

Non-Tariff Barriers	
	problems. Ranked by Transparency International as one of the most corrupt countries in the world: corruption, including bribe taking and kick-backs at many levels of government, is endemic.
Philippines	Customs: customs corruption, cumbersome customs clearance procedures. Numerous export subsidies. IPR problems. Tariff unpredictability: arbitrary customs valuations; also, rates on 600 textile tariff lines increased by 5% in 1999. Corruption, including bribe taking and kick-backs at many levels of government, is a major problem.
Poland	Customs delays; reference pricing for some items; complex customs procedures. IPR problems. Corruption, including bribe taking and kick-backs, is a problem.
Romania	Tariff unpredictability: following accession to the WTO, Romania increased its applied tariff rates by 80 – 100% for fabrics and home furnishings; also in 1998, Romania introduced a general 8% import surcharge, citing "Balance of Payment" protocols; also, widespread and arbitrary use of "temporary" tariff exemptions for some products and some importers to benefit large state enterprises; use of minimum import prices for some textile and apparel products. Corruption, including bribe taking and kick-backs at many levels of government, is a major problem. IPR problems.
Russia	Customs: difficult, non-transparent and cumbersome customs rules and procedures (54 paragraph customs freight declaration required for each shipment); misclassification and arbitrary customs valuations. Tariff unpredictability: tariffs on textile products increased twice since 1995; use of specific duties for carpets and garments can cause tariffs to reach 100% - 400%. Standards/inspections/marking: difficult marking requirements; non-transparent quality control requirements (mandatory pre-market certification of textile and apparel imports) and certification ("certificate of conformity") requirements. Corruption and absence of the rule of law. Ranked as one of the most corrupt countries in the world: corruption, including bribe taking and kick-backs at many levels of government, is endemic. IPR problems.
South Africa	Tariff unpredictability: customs valuations; specific duties imposed in 1996. Export subsidies. IPR problems.
Sri Lanka	Export subsidies. Add-on taxes: special import taxes. Tariff unpredictability: may use specific duties.
Taiwan	Numerous export subsidies. IPR problems.
Thailand	Tariff unpredictability: arbitrary customs valuations. Customs: corruption; excessive documentation requirements. Import restrictions: some products require non-automatic import licenses. Numerous export subsidies. IPR problems. Corruption, including bribe taking and kick-backs at many levels of government, is a major problem.

Non-Tariff Barriers	
Ukraine	Tariff unpredictability: frequent tariff changes which target specific imported products; also may use of "seasonal taxes." Customs: burdensome and time consuming and customs procedures. Add-on taxes: in some cases, additional VAT tax may be applied only on imported products. Standards/inspection/marking: difficult, non-transparent and expensive certification procedures; non-Ukrainian certificates with equivalent standards not allowed. IPR problems. Ranked by Transparency International as one of the most corrupt countries in the world: corruption, including bribe taking and kick-backs at many levels of government, is endemic.
Uruguay	Tariff unpredictability: use of minimum import prices to determine duties; use of "Minimum Export Price Regime" wherein importers are charged the difference between the invoice price and the MEP reference prices; also, imposition of "Specific Internal Tax" (in addition to VAT) which is based on reference price lists rather than the actual value. IPR problems.
Vietnam	Tariff unpredictability: frequent tariff changes and use of minimum import prices. IPR problems. Import restrictions: textile and apparel imports regulated by Ministry of Trade; also, consumer goods imports have global quota of 20% of export revenue. Add-on taxes: decreases in tariff rates have been offset by increases in excise taxes. Ranked by Transparency International as one of the most corrupt countries in the world: corruption, including bribe taking and kick-backs at many levels of government, is endemic.
United States *(as a baseline)*	Quota system in place (10% of quotas filled in 1998). *NOTE: U.S. will not have any non-tariff barriers after Jan. 1, 2005, consistent with the Agreement on Textiles and Clothing of the WTO.*

Current Currency Levels – Asian Crisis Countries[3]	
Indonesia	70% below pre-1997 levels.
Korea	50% below pre-1997 levels.
Malaysia	50% below pre-1997 levels.
Pakistan	30% below pre-1997 levels.
Philippines	50% below pre-1997 levels.
Thailand	60% below pre-1997 levels.

WTO Textile and Apparel Tariff Bindings (at end of phase-in period, typically ten years)	
Bangladesh	Bound at 200%
Korea	Bound at 13% to 35%
Philippines	(37% of all tariff lines bound; extent of textile and apparel bindings unknown)
South Africa	Tariffs bound but at both ad valorem and specific duty rates.
Argentina	Bound at 35%; note: the imposition of specific duties has caused actual rates for some products to exceed the 35% tariff binding.
Brazil	Bound at 35%; note: the imposition of specific duties has caused actual rates for some products to exceed the 35% tariff binding.

[3]Currency devaluations are for informational purposes only; they are not taken into account in determining country placements on the chart.

WTO Textile and Apparel Tariff Bindings (at end of phase-in period, typically ten years)	
China	Not a WTO member: tariffs not bound
Malaysia	(Bound 65% of its harmonized tariff lines; extent of textile and apparel binding unknown.)
Pakistan	N/a
Australia	Some textile and apparel lines unbound.
India	Many yarns and fabrics bound at 20-40%; most home furnishings, apparel and many textile items remain unbound.
Morocco	Bound at 40%.
Chile	Bound at 25%.
Uruguay	Bound at 35%.
Vietnam	Not a WTO member: no tariff offer made. Note: U.S. and Vietnam have initialed but not yet signed a bilateral trade agreement and have not yet negotiated a textile and apparel bilateral.
Romania	Most tariffs bound at 35%.

Note: country names in *italics* indicate the country is applying for admission to the WTO.

Sources: "1999 National Trade Estimate Report on Foreign Trade Barriers," USTR; "Market Access Study to Identify Trade Barriers Affecting the EU Textiles Industry in Certain Third Country Markets," EU Commission, 1999; "The Market for U.S. Cotton Textile and Apparel Products in India," Economic Consulting Services, 1998; "The Market for U.S. Cotton Textile Products in Indonesia," Economic Consulting Services, 1998; "The Market for U.S. Cotton Textile Products in the Philippines," Economic Consulting Services, 1998; Werner Infotex Trade Database; numerous reports for the Trade Policy Review Body of the WTO (1996-1999) and the European Commission Market Access Sectoral and Trade Barriers Database, 1999; "Corruption Perceptions Index", Transparency International, 1999.

V. 4B (3-Nov-99)

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September 22, 1999

Ambassador Charlene Barshefsky
United States Trade Representative
600 17th Street, NW
Washington, DC 20508

Dear Ambassador Barshefsky:

The cosmetics industry associations of the United States (The Cosmetic, Toiletry, and Fragrance Association), the European Union (The European Cosmetic Toiletry and Perfumery Association) and Japan (The Japan Cosmetic Industry Association) wish to notify the governments of the United States, Europe, and Japan of their support for sector liberalization efforts such as the Accelerated Tariff Liberalization (ATL) initiative in the new World Trade Organization (WTO) round. Further, we ask that cosmetics, toiletries, and fragrances, which are within the chemicals sector, be the subject of an agreement for maximum liberalization — either zero for zero or a similarly ambitious tariff elimination program.

Our industry's products are concentrated in Chapter 33 of the Harmonized System and were included in the Uruguay Round's Chemical Tariff Harmonization Agreement (CTHA), which serves as the basis for the ATL chemicals sector initiative. There are currently just over 30 countries that have signed the CTHA. The ATL initiative is designed to encourage more countries to bring their tariffs in line with this agreement. The proposal calls for tariffs on products classified in Chapter 33 to be reduced to 6.5% by 2001 if the currently applied rate is 10% or below, and by 2004 if currently above 10%.

We strongly support efforts to achieve agreement on the ATL initiative as a near term "deliverable" for the new round. It is important to show progress as early as the November Ministerial in Seattle and then consistently thereafter. If global industry sectors such as ours are prepared to commit to full trade liberalization then the mechanism should be available in the negotiating agenda to conclude an agreement even if implemented on a provisional basis.

Within this framework the industry seeks an expansion of the zero-for-zero initiative on cosmetics that was achieved during the Uruguay Round. As a result of that agreement, the US, EU, and Japan are among those countries who have eliminated tariffs on cosmetics products. We hope to expand this initiative in the new round to include many more countries and encourage US, EU and Japanese negotiators to table a joint proposal to eliminate tariffs on cosmetics early in the new round. Agreement on the ATL and a subsidiary zero-for-zero initiative for cosmetics would provide important new export markets for manufacturers in the US, EU, Japan and indeed all participating countries.

Respectfully,

E. Edward Kavanaugh President, CTFA	Robert Vanhove General Director, COLIPA	Yoshiharu Fukuhara President, JCIA

Attachment

Distribution List: Mr. Kaoru Yosano, Minister of International Trade and Industry, Japan
Mr. Iwao Okamoto, Director-General, Ministry of International Trade and Industry, Jap
Mr. Romano Prodi, President of the European Commission

EUCOMED
European Confederation of Medical Devices Associations
Rue du Collège St Michel, 17 • Box 3 • B-1150 Brussels • Belgium
Tel: [illegible] • Fax [illegible] • e-mail [illegible]

Commissioner Chris Patten
Commissioner for External Relations

Commissioner Pascal Lamy
Commissioner for Trade

Rue de la Loi 200
B-1049 Brussels

Brussels, 20th September 1999

Re: World Trade Organisation – Millennium Round

Dear Commissioners,

EUCOMED would like to express its support for the new round of world trade negotiations which will start in Seattle later this year. EUCOMED is active in its support for the removal of barriers to trade in general. We strongly favour a liberalisation of trade – particularly with respect to tariff barriers - in order to ensure that the medical devices which our members manufacture are treated on equal terms within the international community.

We understand that the European Union approach to this new round of negotiations is intended to be comprehensive and to reflect priorities across all economic/industry sectors. Whilst applauding this approach in general, we believe that this should not exclude the possibility of achieving early results on specific initiatives. In fact, we believe that early results in certain sectors when taken into account within the framework of a comprehensive round will accelerate the momentum in the discussions and negotiations.

We would therefore like to draw your specific attention to the proposal made by APEC for an Accelerated Tariff Liberalisation (ATL) programme in certain key industry sectors including medical devices. Our industry sector has been supportive of a "zero-for-zero" initiative in the Uruguay Round. True liberalisation by the entire WTO Community as proposed by APEC would not only provide further economic benefit but would also have significant benefits to the provision of healthcare throughout the world. We would add that a positive conclusion on this ATL proposal in Seattle would give the right signal to China which currently maintains high tariffs in our sector.

We strongly believe that the ATL proposal is complementary to a comprehensive round and we trust that you will be able to take account of our position in the Seattle discussions.

I am at your service should you require further information.

Yours Sincerely,

Michael C. Baker
Director-General

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FÉDÉRATION EUROPÉENNE D'ÉDITEURS DE PÉRIODIQUES
EUROPEAN MAGAZINE PUBLISHERS FEDERATION
VERBAND EUROPÄISCHER ZEITSCHRIFTVERLEGER

SECRETARIAT :
142 - 144 AVENUE DE TERVUREN, B-1150 BRUSSELS
TEL [illegible] • FAX [illegible]

Commission of the European Union
Sir Leon Brittan
Rue la loi 200
1049 Brussels

Brussels, 2 June, 1999

Re: Seattle round of the Millenium WTO negotiations

Dear Sir Leon,

As the new round for multi-lateral trade negotiations approaches, the European Magazine Publishers Federation would like to return to an issue we raised with you in 1997 for the Singapore round: EU paper duties. Currently magazine grade papers are still subject to a duty of ca. 5% on entry into the EU. Given the robust mature of the paper market and the major concentrations which have taken place over the past few years, it is no longer appropriate for the EU to apply this duty.

Large European magazine paper buyers would like to have more options than the current three paper suppliers left in Europe (of sufficient size to produce the quantities we need). FAEP is aware that both the US and a New Zealand led APEC duty reduction proposal is circulating. This aims to foreclose some areas of broad consensus for paper, wood, fishery, gems, toys, chemicals, energy, environmental goods & services and telecommunications.

Given that the EU industries all stand to profit from this deal and that EU paper/wood duties will disappear in 2003 anyway, we urge you to strive to obtain a mandate from Member States to conclude a deal in Seattle. FABP is of the opinion that EU industries as a whole would benefit significantly from this, whereas the longer term effect (if any short term negative is present at all), is at worst neutral.

FAEP member associations and publishers will be writing the responsible ministers at Member State level in support of this initiative. If we can be of assistance in this matter, please feel free to contact us.

Yours sincerely,

Louis Grootan
President

REGISTERED OFFICE: RUE CHARLES MARTEL 54, B-1040 BRUSSELS
BANQUE BBL COMPTE NO 310-01[illegible]-17 • TVA [illegible]

ENPA

Mr. Karel Van Miert
Acting Commissioner for Industry
Rue de la Loi 200
1049 Bruxelles

Dear Commissioner,

Support for the Accelerated Tariff Liberalisation

As a new Round of multilateral trade negotiations approaches, the European Newspaper Publishers' Association which represents the interests of the daily press in all the EU member states as well as in Norway, Switzerland and Estonia would like to stress its support to the Commission for negotiations to eliminate tariff and non tariff barriers to wood and forest products.

We have our newsprint supplies in mind and do want free choice and access to any supplier able to deliver good quality. We can not see how the elimination of trade barriers could hurt the European paper manufacturers who have turned into robust and dominating groups.

We support the Accelerated Tariff Liberalisation package presented by the APEC Forum members for ratification in the World Trade Organisation.

Our Association asks the European Union to back the Accelerated Tariff Liberalisation package. We would welcome the conclusion of an agreement at the time of the third Ministerial Conference in Seattle in November 1999.

Yours sincerely

Dr. Werner Schrotta
President
Brussels, 30 August 1999

EUROPEAN PUBLISHERS COUNCIL

Mr. Pascal Lamy
Commissioner for Trade
Rue de la Loi 200
B-1049 BRUSSELS

By fax: 00 32 2 298 1399

29th September 1999

Dear Mr Lamy

As the initiation of a new round of multilateral trade negotiations approaches, the European Publishers Council would like to express its support to the Commission for negotiations to eliminate tariff and non tariff barriers on paper products. The European Publishers Council (EPC) is a high level group of Chairmen and CEOs of Europe's leading publishers of newspapers and magazines in Europe. A list of our members is attached.

The European Publishers Council fully supports the multilateral package of Accelerated Tariff Liberalization (ATL) presented by the Asia-Pacific Economic Cooperation Forum (APEC) economies for ratification in the World Trade Organization (WTO). The ATL package would eliminate tariff barriers on paper products which make up a considerable percentage of our raw material costs. This would benefit the competitiveness of the European publishing industry, its suppliers and European consumers, and therefore should be concluded at the earliest possible time.

The European Publishers Council asks the European Union to back the ATL package at the WTO level in the months leading up to the third Ministerial conference of the WTO in Seattle in November 1999, with a view to concluding an agreement at that time.

Yours sincerely,

Angela C Mills

ANGELA C MILLS
Executive Director

Attached: List of EPC Members

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EUROPEAN PUBLISHERS COUNCIL

MEMBERS OF THE EUROPEAN PUBLISHERS COUNCIL

Chairman: Mr Francisco Balsemao, Chairman and CEO, Impresa, Portugal
Hon. President: Sir Frank Rogers, Telegraph Group Ltd., UK

Members:

Mr Kjell Aamot, CEO, Schibsted, Norway
Mr David Bell, Chairman, Financial Times Group, UK
Mr Carl-Johan Bonnier, President and CEO, The Bonnier Group, Sweden
Mr Joep Brentjens, Chairman, VNU, Netherlands
Mr Oscar Bronner, Publisher & Editor in Chief, Der Standard, Austria
Dr Hubert Burda, Chairman and CEO, Burda Media, Germany
Mr Claudio Calabi, Rizzoli Corriere della Sera, Italy
Dr Carlo Caracciolo, President, Editoriale L'Espresso, Italy
Mr Juan Luis Cebrian, Consejero Delgado, El Pais (Prisa Group) Spain
Mr Crispin Davis, Chief Executive, Reed Elsevier, UK
Mr Alejandro Echevarria, Chairman, Grupo Correo, Spain
Mr August A Fischer, Chief Executive, Axel Springer Verlag, Germany
Mr Jan O. Froeshaug, President and CEO, The Egmont Group, Denmark
Mr Liam Healy, Chief Executive, Independent Newspapers PLC, Ireland
Mr Leslie Hinton, Executive Chairman, News International, UK
Mr Peter Job, Chairman, Reuters PLC, UK
Mr Christos Lambrakis, Chairman & Editor in Chief, Lambrakis Publishing Group, Greece
Mr Jaakko Rauramo, President, Sanoma Corporation, Finland
Mr Gerald de Roquemaurel, Chairman and CEO, Hachette Filipacchi Presse Media, France
Mr Michael Ringier, President, Ringier, Switzerland
The Rt. Hon. The Viscount Rothermere, Chairman, Daily Mail and General Trust, UK
Mr Gerd Schulte-Hillen, Chief Executive, Gruner + Jahr, Germany
Mr Antoine de Tarle, Chief Executive, Societe Ouest-France S.A., France
Mr Christian van Thillo, Chief Executive, De Persgroep, Belgium
Mr. Morris Tabaksblat, Non-Executive Chairman, Reed Elsevier, Netherlands
Mr Gaston Thom, President, Compagnie Luxembourgeoise de Telediffusion, Luxembourg

Associate Members: list available on request

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FEDECOMLEGNO

federazione nazionale
dei commercianti del legno

Roma, 21 aprile 1999
Prot. 236/99 AF/lb

TELEFAX
OUR NUMBER 06/42012236

Attn.: Betsy Ward -
Executive Director Wood Products
International American Forest & Paper Association

Re : Your fax on April 20th, 1999

Dear Betsy,

thank you so much for your kind yesterday's fax.

I am happy to inform you that Fedecomlegno supports both wood and paper tariff elimination.

Warmest regards.

Dr. Alfonso Froncillo
President

Via Toscana, 10 - 00187 Roma
Tel. 06 [illegible]
Fax 06 [illegible]
E-Mail: [illegible]
C.F. [illegible]

O-)

ORGALIME

**FORTHCOMING WTO MULTILATERAL NEGOTIATIONS
MILLENNIUM ROUND**

ORGALIME POSITION PAPER

4 August 1999

Orgalime represents the mechanical, electrical, electronic and metalworking industries in 16 European countries. It has 25 member federations, which together group about 100,000 companies. The industry as a whole recorded sales of about 872 billion Euro in 1998, and is thus the largest industrial branch in the European Union.
The European engineering industries exported goods outside the EU/EFTA valued at 205 billion Euro, which is about 23% of its production.

Introduction

The European Union is calling for a new round of WTO negotiations by the year 2000. Orgalime supports this objective as it provides a range of liberalisation approaches, which should be urgently pursued and put into concrete terms. This also includes the TBT agreement, which is very important to the EU engineering industry. However there are also a range of new matters that should be regulated by the WTO e.g. the matter of trade and investment.

Orgalime does not regard a new round of negotiations as an obstacle to the conclusion of further liberalisation agreements relating to specific sectors. If such agreements seem possible for particular areas, these can be negotiated and agreed in parallel to a comprehensive round of negotiations.

Orgalime is strongly opposed to further politicisation of WTO negotiations. Trade matters should not be coupled with matters relating to human rights, environment and social questions if this obstructs the liberalisation process.

The Orgalime positions in detail

1. New WTO round of negotiations is necessary

The importance of foreign trade to the EU engineering industry has increased considerably in the past years. The proportion of production exported has increased from 15 per cent in 1988 to 23 per cent in 1998. The importance of foreign suppliers on the domestic market has also increased to a similar extent.
This development has only been possible because of the simultaneous removal of world-wide trade barriers within GATT and later the WTO on a multilateral level.
At the start of GATT activities, the average tariff rate for industrial products was 40 per cent, which has now been reduced to 3.8 per cent. Since the Tokyo round of negotiations (1973 - 79), the removal of non-tariff trade barriers has also been on the agenda of multilateral liberalisation. The EU engineering industry vigorously supports the continuation of the liberalisation efforts within the WTO. We therefore also unreservedly support the efforts for a new extensive WTO round of negotiations. For the engineering industry, further liberalisation of the agricultural and textile trade, which for a long time have not been covered by GATT regulations, is of interest, as it helps to avoid trade conflicts in these areas which may affect industrial goods.

2. Market access

2 a. Tariffs: Liberalisation relating to specific sectors must be possible in parallel to the WTO round of negotiations

The most important stage of liberalisation for the EU engineering industry outside the GATT or WTO round of negotiations was the conclusion of the Information Technology Agreement in 1996. In this, it was agreed to reduce the tariffs for information technology products to zero by the year 2000.

Orgalime asks for rapid application of the ITA I by non-members, e.g. Latin America and by those countries benefiting from transitional arrangements, e.g. India and Korea.
Negotiations for an extension of the range of products covered, referred to as ITA II, have encountered difficulties.
Regardless of this, the ITA can still serve as a model for other areas, such as energy and environment technology. From the Orgalime point of view, multilateral reduction of tariffs to zero for specific products (zero duty agreements) is an important instrument in continuing liberalisation. Agreements to reduce tariffs of specific sectors is also possible within a new WTO round of negotiations, as shown in medical technology. Within the framework of the Uruguay round of GATT negotiations, world-wide tariff reductions were agreed which led to the complete removal of tariffs for most technical medical appliances by 1.1.1999. It is important that such an agreement for a specific sector can also be agreed in parallel with the

new WTO round of negotiations, provided that the most important WTO member states in the relevant sectors agree on this matter.

Tariff reductions should not be replaced by measures with equivalent effect, e.g. internal taxes, port authority taxes, etc.

Elsewhere, WTO parties should make every effort to arrive at a situation where all tariffs are bound at rates below those which are currently applied.

Peak tariffs:

Orgalime is concerned about high peak tariffs in third countries. This problem should be addressed. Orgalime asks for a reduction of tariff peaks to an absolute maximum of 15 %. The tariff band approach proposed by the Commission is not satisfactory, as, for a given product, the tariff difference might reach up to 20%.

2 b. Liberalisation must also continue in the service sector

The EU engineering industry is interested in a continuing liberalisation in the service sector. Orgalime strongly requests that further service agreements in specific sectors within GATS should be concluded. However, the implementation of the GATS agreement already reached within a specified period must be systematically monitored. Commitments should be taken and enforced at the sub-national and sub-federal level.

2 c. TBT agreement must be put into concrete terms

Technical barriers to trade such as standards and certification requirements have an important impact on the EU engineering industry. In Orgalime's view, the WTO-TBT agreement has proved powerless since it was concluded as it does not contain any concrete implementation obligations. The Triennial Review shows that too many WTO members are failing to apply international standards and are operating different conformity assessment schemes. As a result, barriers to trade have been maintained or created which the TBT Agreement has been unable to prevent.

Every effort during the Millennium Round negotiations must be made both to encourage signatory states to use international standards like ISO and IEC and to explore further the possibilities for harmonising the widely differing forms of conformity assessment. At the same time, negotiators should seek general agreement for the concept of the "Supplier's Declaration of Conformity".

Progress in these areas would greatly simplify international trade in engineering goods.

2 d. Liberalisation of Government Procurement must be extended to more countries

Orgalime believes that the cross-frontier aspects of government procurement should be better regulated within the WTO. The plurilateral Government Procurement Agreement (GPA) which provides for the agreement of bilateral market access contacts between GPA contractual partners, regulates these in too much detail and is therefore unsuitable for persuading other states to join the GPA.

- Orgalime requests that the WTO should rapidly create an agreement valid for all WTO contractual parties, which above all offers greater transparency when placing public sector orders. Within the framework of greater transparency, other matters (e.g. regulations to combat corruption) could be negotiated which should be incorporated into the WTO. Also the problem of having differing concepts of the public sector between Europe and the US needs to be overcome. A WTO working group is already dealing with the subject of Government Procurement and their proposal should be developed further.

3. Trade Facilitation

Orgalime welcomes all proposals which the Community will make to further facilitate trade. Of particular importance to SMEs are those measures which will

- simplify trade and transport documentation and data on the basis of international standards,
- progressively modernise customs techniques, and
- introduce automation and EDI to replace documentation on paper.

4. Contractual implementation of the TRIP obligations is necessary

A very important outcome of the Uruguay round of negotiations for the EU engineering industry was the conclusion of the TRIP agreement. This put the numerous agreements for the protection of intellectual property on a uniform basis. With the integration of this matter into the WTO, the dispute procedure takes effect which represents an important step forward. The contractual implementation of agreements reached should be a priority for the coming years.

A transitional period up until the year 2000 or even up to 2006 has been applied to developing countries. These periods, which are already very long, should be respected. Renewed discussion of the implementation dates would stand in the way of strengthening economic relations and be detrimental to developing countries. More specifically, Orgalime asks for the repeal of the US "first to invent" system.

5. International competition rules are desirable

Orgalime believes that multilateral competition rules are welcome if they contribute to greater legal certainty and thus to an improved world-wide accessibility of markets. In this regard, even more complicated procedures with an even larger number of cartel offices should be avoided at all costs. International rules on competition can only simplify matters for companies if at the same time national cartel laws and sanction possibilities are harmonised in the case of differing decisions.

— Overall, Orgalime is convinced that international competition rules help to strengthen the ability of all companies to compete so that in future, politically motivated industrial decisions on a national level, which are directed against foreign competitors, can be avoided whenever possible.

6. Antidumping regulations must be based on clear criteria

Clear anti-dumping rules are needed in order to ensure that they are interpreted and applied in the same way by all WTO members.

There have, of course, been world-wide harmonised anti-dumping regulations since the conclusion of the Uruguay round of GATT negotiations. Temporary derogations, especially for the USA, will run out by the year 2000 which will mean that all members will have to comply fully with their obligations.

When revising the WTO antidumping laws, consideration should be given to including the lesser rate of duty i.e. the application of the lesser of either the dumping margin or the injury margin, as well as, in the case of a review of antidumping measures, the application of a uniform "de minimis" dumping margin of 2%.

The WTO makes the imposition of antidumping measures dependent on the fulfilment of three cumulative conditions: dumping, damage, and causality.

The need for the above three conditions is undisputed. However, the Commission has stated that in dealing with complaints against dumped products, it will also refer to "community interest".

Whilst this approach is based on essentially economic factors, the Commission should resist the temptation to allow political considerations systematically to determine whether or not anti-dumping action is taken. Unfair practices should be sanctioned.

Orgalime nevertheless recognises that a certain flexibility of approach might be appropriate in special cases – if there are no objections from the affected European industries. The Commission has listed a wide range of "interested parties" which should be consulted, but preference should be given to those directly involved and sufficiently representative.

Orgalime believes that antidumping rules harmonised on a world-wide basis should be seen exclusively as a protection against unfair trade practices and destructive competition. The instrument is necessary as long as there is still no international legislation on competition setting out clear framework conditions for workable competition. Antidumping law should not be used as a means of pursuing political, economic and industrial objectives.

7. **Trade and investment is an important matter for WTO**

Foreign trade is increasingly flanked and supported by investments in growth areas. Even small companies from EU engineering industry have now set up manufacturing facilities in Central and Eastern Europe and Asia. A large number of bilateral investment protection agreements do exist, but there is no uniform basis.
Orgalime therefore favours the incorporation of the matter of investment protection within the WTO. The principle of multilateral liberalisation in foreign trade, national treatment, should also apply to investments.
The results of the TRIM-working group from the Uruguay round of negotiations can be developed further in this regard.

8. **China and Russia must join the WTO and implement all WTO obligations**

The WTO now has 135 contracting states; however, there are still important world trade partners who are not members. In particular, Orgalime is of the opinion that Russia and China should be accepted as WTO member states as soon as possible. However, the new members should be required to implement all WTO obligations in their own country within the forseeable future.

9. **No politicisation of trade policy**

An important reason for the successful removal of tariff barriers in the previous decades was the balancing of substantially differing commercial interests within GATT. The inclusion of political criteria such as human rights, environment and social standards which themselves represent important political objectives, should not halt or even impede the progress of the liberalisation process. The definition of social standards should however remain the responsibility of the International Labour Organisation.

SUMMARY OF ORGALIME'S VIEWS

Orgalime welcomes a new round of WTO negotiations:

Tariff liberalisation should be pursued in specific sectors in parallel with the new round.

Liberalisation of the services sector should continue. Commitments must be implemented at both national and local levels.

The TBT agreement should be revised; clearly defined implementation obligations should be included. The use of international standards must continue to be promoted, and the possibilities for harmonising the differing forms of conformity assessment explored.

An agreement is required on government procurement which covers all WTO signatory states and which offers greater transparency than at present.

Every effort should be made to simplify and modernise trade procedures and practices.

Implementation of the TRIP obligations is vital.

International competition rules are necessary.

Anti-dumping rules harmonised on a world-wide basis should be used exclusively as a protection against unfair trade practices.

The new round should include negotiations on trade and investment.

Both China and Russia should be accepted as WTO member states as soon as possible.

The inclusion of political criteria such as human rights, environment, etc. should not hamper progress towards further liberalisation.

INTERNATIONAL COUNCIL OF CHEMICAL ASSOCIATIONS

CHEMICAL INDUSTRY STRONGLY SUPPORTS NEW TRADE ROUND, TARIFF ELIMINATION

Geneva, Switzerland, June 23 - Leading chemical trade associations today expressed strong support for a new round of multilateral negotiations in the World Trade Organization (WTO), including the elimination of all chemical tariffs by all WTO members.

The International Council of Chemical Associations (ICCA) meeting in Geneva, urged that all chemical tariffs without exception be eliminated by all WTO members. The group proposed a phased approach to tariff elimination, according to the level of existing tariffs. Furthermore, ICCA called for elimination of non-tariff measures, such as import licensing, quotas, dual pricing and trigger price mechanisms, and discriminatory standards.

ICCA said the new round should build on sectoral and regional trade liberalization undertaken since the end of the Uruguay Round, and stressed that final results of all negotiations must be adopted in their entirety by each WTO member. ICCA also expressed its strong support for the WTO as an institution, and welcomes the accession of new members to the WTO provided these countries adopt all the agreements required for entry to the organization.

The ICCA hopes that the period leading up to the start of the new round will provide an opportunity to broaden tariff harmonization for chemicals through expanded product and country coverage of the Chemical Tariff Harmonization Agreement, or through other mechanisms which achieve at least the same results.

In addition, the ICCA called for the establishment of a global, balanced and beneficial investment regime for all members of the WTO. The group advocated WTO rules for trade facilitation, supported current WTO disciplines for anti-dumping, and sought full implementation of the existing TRIPs agreement on intellectual property. ICCA urged clarification of the relationship between multilateral environmental agreements and WTO rules.

World chemical industry production exceeds US$1.6 trillion annually and almost 30% of this production is traded internationally. Within global trade in manufacturing, world trade in chemicals is second only to automobiles, far outpacing computers and related technology in third place. The International Council of Chemical Associations (ICCA) represents almost 80% of the world's chemical production. It is a coalition of the following chemical industry trade associations:

Asociación Nacional de la Industria Química (ANIQ) [Mexico]
Canadian Chemical Producers' Association (CCPA)
Chemical Manufacturers Association (CMA) [USA]
Conselho das Indústrias Químicas do Mercosul (CIQUIM) [Argentina and Brazil]
European Chemical Industry Council (CEFIC)
Japan Chemical Industry Association (JCIA)
New Zealand Chemical Industry Council (NZCIC)
Plastics and Chemicals Industry Association (PACIA) [Australia]

Media contacts: Jeff Van, +1/703-741-5802
Kathleen Ambrose, +1/703-741-5920 (after June 28)

Council Secretary:
FREDERICK L. WEBBER *1300 Wilson Blvd., Arlington, VA 22209 USA* *Tel: +1-703-741-5100 Fax: +1-703-741-6086*

Position on

INTERNATIONAL COUNCIL OF CHEMICAL ASSOCIATIONS

Tariffs Negotiating Objectives

June 22, 1999

World chemical industry production exceeds US$1.6 trillion annually and almost 30% of this production is traded internationally. Within global trade in manufacturing, world trade in chemicals is second only to automobiles, far outpacing computers and related technology in third place.

The International Council of Chemical Associations (ICCA) is an organization of leading trade associations representing almost 80% of chemical manufacturers worldwide. ICCA members include: Conselho das Associações da Indústria Quimica do Mercosul (CIQUIM) [representing Argentina and Brazil], the European Chemical Industry Council (CEFIC), the Japan Chemical Industry Association (JCIA), Asociación Nacional de la Industria Quimica (ANIQ) [representing Mexico]*, Canadian Chemical Producers' Association (CCPA), and Chemical Manufacturers Association (CMA) [representing the USA], the New Zealand Chemical Industry Council (NZCIC), and the Plastics and Chemical Industry Association (PACIA) [representing Australia].

Introduction

A separate ICCA Statement on Market Access identifies a number of options for achieving trade liberalization through tariff elimination including regional, bilateral and subsectoral initiatives. This paper addresses trade liberalizatio in the context of a new round of multilateral trade negotiations.

Regional trade agreements are proliferating around the globe so that many countries are working toward free trade through the elimination of tariffs and non-tariff measures with their individual trading partners. The end result is that by 2010, the majority of chemical trade throughout the world will experience greatly reduced tariff rates compared to those that existed in the mid-1990s.

Fair and full market access to all world markets is the major objective for the chemical industry in a new round of WTO negotiations. Elimination of tariffs and non-tariff measures is one element of achieving this objective. Industry will also be looking for ways to work with the WTO negotiators to ensure that once barriers to market access are eliminated they cannot be re-introduced or replaced by new barriers. ICCA looks to the Seattle ministerial meeting to initiate further progress on multilateral tariff reduction, ultimately leading to tariffs elimination in a new round.

Statement of Principle on Tariffs Negotiations

ICCA is committed to free trade through elimination of all tariffs and identified non-tariff measures worldwide on condition that all WTO members and all chemicals are included. ICCA believes that overall chemical tariff elimination must be part of a final WTO package and that all WTO members must accept and implement all agreements resulting from the negotiations, including the chemical tariffs results.

* ANIQ has taken a reservation on the portion of this position that addresses "Accelerated elimination of chemicals tariffs in specific sub-sectors."

Council Secretary:
FREDERICK L. WEBBER *1300 Wilson Blvd., Arlington, VA 22209 USA* *Tel: +1-703-741-5100 Fax: +1-703-741-6086*

Moreover, because chemicals are a key input sector to most other manufacturing sectors, significant overall market access improvements should be achieved in a new round.

In the interest of achieving a balanced and equitable agreement, the tariff elimination agreement should include provisions for lesser-developed countries (LDCs) to have longer phasing periods.

Detailed Position on Tariffs Negotiations

ICCA believes that overall chemical tariff elimination by all WTO members can be achieved in accordance with the following principles:

Expand Chemical Tariff Harmonization: ICCA believes that a broad-based round of tariff negotiations and the period leading up to that round provide an opportunity to broaden tariff harmonization for chemicals, beyond what was achieved in the Uruguay Round, through expanded product and country coverage of the Chemical Tariff Harmonization Agreement (CTHA)* or other mechanisms that achieve at least the same tariff harmonization results.

Accelerated elimination of chemical tariffs in specific sub-sectors: Accelerated reduction of tariff levels below the CTHA rates, including total elimination of tariffs, is a viable goal in certain sub-sectors or for specific products and should be supported by negotiators whenever there is agreement on such a goal. Any such initiative does not detract from the ICCA objective of overall chemical tariff elimination. However, accelerated elimination must not detract from the requirement that all WTO members implement all results of the negotiations at the end of the round.

Full elimination of all chemical tariffs: ICCA advocates that all chemical tariffs without exception be eliminated by all WTO members, with appropriate phasing.

For CTHA signatories, phasing of tariff elimination should not exceed five years. For WTO members that are not CTHA signatories, phasing of tariffs elimination should be:

- 5 equal steps, over a maximum of 5 years, for tariffs of 6.5% or less;
- 7 equal steps, over a maximum of 7 years, for tariffs over 6.5%, up to and including 15%; and,
- 10 equal steps, over a maximum of 10 years, for tariffs over 15%.

There must be no exception to product coverage for final tariff elimination; however, for LDCs, phasing periods longer than 10 years may be negotiated.

Base Rates/Commencement: Both accession to the current CTHA and tariff elimination should begin from currently applied rates. Overall tariff reductions below CTHA levels would only commence if all WTO members commit to tariff elimination.

Staging and Binding of Tariffs Reductions: The ICCA recognizes that WTO members whose currently applied tariff rates are high may need time to phase them out in stages. We endorse reasonable flexible phasing regimes for tariff harmonization that will take dissimilar tariff rates into account. Similarly, in moving to full tariff elimination, the 10-year phasing for higher tariffs is designed to recognize that longer phasing may be necessary for import-sensitive products, and, as stated above, for LDCs, longer phasing

* The following countries are participants in the CTHA as of January 1, 1999: Australia (de facto); Bulgaria; Canada; Czech Republic; Ecuador; European Union (15); Hong Kong; Japan; Korea; Mongolia; New Zealand (de facto); Norway; Panama; Qatar; Singapore; Slovakia; Switzerland; United Arab Emirates; United States of America.

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CIBJO

INTERNATIONAL CONFEDERATION OF JEWELLERY, SILVERWARE, DIAMONDS, PEARLS AND STONES

CONFEDERATION INTERNATIONALE DE LA BIJOUTERIE, JOAILLERIE, ORFEVRERIE, DES DIAMANTS, PERLES ET PIERRES

INTERNATIONALE VEREINIGUNG SCHMUCK, SILBERWAREN, DIAMANTEN, PERLEN UND STEINE

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President:
Jose Hess
Secretary General:
Dr. Jack Ogden FGA

To: Sir Leon Brittan, External Trade Commissioner

From: Dr. Jack Ogden

Date: 30th June 1999

Dear Sir Leon,

WTO Multi-Lateral Negotiations
Accelerated Tariff Liberalisation (ATL) Package

CIBJO is the International Jewellery Confederation and represents more than 20 Countries, including most of Europe and APEC members including America, China, Hong Kong, Thailand, Japan and Australia.

At the annual CIBJO Congress in Bern in May, CIBJO passed the following resolution:

> CIBJO strongly supports the removal of all barriers to the free global trade of jewellery/precious metal articles, including customs tariff barriers and non-tariff barriers. Further that this development should take place as soon as possible, on equal terms.

CIBJO expresses its support for the multi-lateral package of Accelerated Tariff Liberalisation (ATL) presented by the Asia-Pacific Economic Co-operation (APEC) countries for consideration by the World Trade Organisation (WTO). This package would set in motion tariff reductions among WTO signatory countries, eventually resulting in the elimination of tariffs on trade in eight sectors including the jewellery industry. We do however trust that ATL can be agreed with due regard to any environmental and employment exploitation issues that might arise with an expansion in world trade.

Although tariffs on jewellery are relatively low in some markets, other countries in the world still impose high duties on our products and/or raw materials. In order to remain competitive, our industry seeks reductions in tariff and non-tariff barriers to trade. Signing the ATL package to launch the Millennium Round is a unique and important opportunity to inject the energy, enthusiasm and commitment needed among WTO members to stem protectionism and achieve a successful round of negotiations.

In summary, CIBJO fully endorses the Accelerated Tariff Liberalisation (ATL) package tabled by the APEC countries at the WTO. We urge you to support the ATL package.

Yours sincerely,

Dr Jack Ogden
Secretary General

THE TIMBER TRADE FEDERATION

The Voice of the Timber Industry

4 June 1999

The Rt Hon Sir Leon Brittan QC
External Relations Commissioner
European Commission
Rue de la Loi 200
1049 Brussels
BELGIUM

Dear Sir Leon

FOREST PRODUCT TARIFF ELIMINATION IN THE WTO

The Timber Trade Federation is the United Kingdom's lead body for the forest products sector with the exception of pulp and paper. Its members, who we represent, are collectively responsible for about 90% of all such products in this country.

With the approach of the new round of multilateral trade negotiations due to take place in Seattle at the end of November it is timely for us to express our support to the Commission during these negotiations for the elimination of tariffs on our products.

In the Uruguay round the EU tabled an offer to go to zero tariff on wood goods between 2002 and 2004 relative to the APEC area, which I understand was only withdrawn when Japanese support was withdrawn. I now understand that the prospect of obtaining Japanese support for this move appears more promising.

We feel that the time is now right for the elimination of tariffs on forest products on a global basis which we believe would stimulate the European timber industry and assist in regaining market share lost to other less environmentally friendly products. Moreover, we believe that the elimination of world-wide tariffs on forest products will boost exports from Europe.

Director General : P. G. Harris
Clareville House, 26/27 Oxendon Street, London SW1Y 4EL
Tel: 0171 839 1891 Fax: 0171 930 0094 Email: ttf@ttf.co.uk Web: www.ttf.co.uk

In conclusion, it is significant that Jaakko Poyry, the highly respected international consulting firm, have estimated that free trade in forest products could generate 3-4% additional growth in consumption world-wide. Given the well established environmental qualities of timber, this should be seen as a positive step towards the reduction of greenhouse gases.

Yours sincerely

P G Harris
Director General

cc:

Mr Martin Bangemann
Commissioner for Industrial Affairs, IT and Telecommunications
European Commission

Mr Mogens Carl
Adviser, Director General 1 External Relations
European Commission

TIE

Peter Mogens Carl
Deputy Director General for WTO Affairs
Rue de la Loi 170
B-1040 Brussels

9 April 1999

Dear Mr. Carl,

ACCELERATED TARIFF LIBERALISATION (ATL)

The Toy Industries of Europe[1] (TIE) would like to express its support to the Commission as the Millennium Round of multi-lateral negotiations in the World Trade Organisation (WTO) approaches. European industry is counting on DG I, as the EU's WTO negotiator, to represent the European desire for freer world trade. The TIE hopes that this round will ultimately dismantle the barriers to trade faced by many companies around the world, including those of the toy sector.

The TIE fully supports the multi-lateral package of Accelerated Tariff Liberalisation (ATL) presented by the Asia-Pacific Economic Cooperation (APEC) countries for consideration by the World Trade Organisation (WTO). The ATL package would set in motion tariff reductions and dismantle non-tariff barriers among WTO signatory countries, eventually resulting in the elimination of tariffs on trade in – among seven other sectors – the toy industry.

The TIE asks the European Union to back the ATL package at the WTO level in the months leading up to the new round of multi-lateral trade negotiations.

Due to the proliferation of trade disputes in recent months, especially between the EU and the United States, and the effects of the Asian financial crisis, the TIE and other European industry groups are concerned about the lack of enthusiasm by countries of the world for the Millennium Round. Although the TIE supports the EU's objective of negotiating an all-inclusive round, the liberalisation benefits of a long round will appear very distant to those sitting at the WTO negotiating table later this year.

[1] The Toy Industries of Europe (TIE) is the representative organisation of the European toy industry. Members include the national trade association of Member States and a number of companies. TIE members represent the quasi-totality of the European toy sector.

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TIE

Signing the ATL package as an 'early harvest' to the Millennium Round would help inject the energy and enthusiasm needed among members to pursue a successful, all-inclusive round that benefits all countries of the world equally.

If you have any questions, please do not hesitate to contact me. I will be in contact with your office in the near future to discuss this issue further.

Yours sincerely
M. Bruggink

Maurits Bruggink
Secretary General

CC: Herve Jouanjean – Director, Relation with WTO
Karl Friedrich Falkenberg – Multilateral Commercial Policy
Ignacio Garcia Bercero – Multilateral Commercial Policy

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POSITION STATEMENT
WTO Multi-Lateral Negotiations
Accelerated Tariff Liberalisation (ATL) Package

7 April 1999

The Toy Industries of Europe (TIE)[1] expresses its full support for the multi-lateral package of Accelerated Tariff Liberalisation (ATL) presented by the Asia-Pacific Economic Cooperation (APEC) countries for consideration by the World Trade Organisation (WTO). The package would set in motion tariff reductions among WTO signatory countries, eventually resulting in the elimination of tariffs on trade in – among eight other sectors – the toy industry.

The TIE asks the European Union to back the ATL package at the WTO level in the months leading up to the upcoming Millennium Round of multi-lateral trade negotiations.

Due to the proliferation of trade disputes in recent months, especially between the EU and the United States, and the effects of the Asian financial crisis, the TIE and other European industry groups are concerned about the lack of enthusiasm by countries of the world for the Millennium Round. Although the TIE supports the EU's objective of negotiating an all-inclusive round, the liberalisation benefits of a long round will appear very distant to those sitting at the WTO negotiating table later this year.

Signing the ATL package as an 'early harvest' to the Millennium Round would help inject the energy and enthusiasm needed among members to pursue a successful, all-inclusive round that benefits all countries of the world equally.

Although tariffs on toys are relatively low in some markets targeted by the EU toy industry, most countries in the world still impose high duties on our products. For example, import tariffs on toys remain at high levels in Argentina (23-27%), Brazil (20%), Chile (11%), Mexico (25-30%), and India (35%). TIE member companies have established strong sales in Europe and in the US, but less than 9% of the world's children reside in these two markets. In order to continue growing, our industry needs the EU to negotiate reductions on the prohibitive tariff levels on toys around the world.

In summary, the TIE fully endorses the Accelerated Tariff Liberalisation (ATL) package tabled by the APEC countries at the WTO. The EU should support the ATL package as an 'early harvest' to the Millennium Round of multi-lateral trade negotiations, as a sign of goodwill from the EU Commission to its trading partners around the globe.

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[1] *The Toy Industries of Europe (TIE) is the representative organisation of the European toy industry. Members include the national trade association of Member States and a number of companies. TIE members represent the quasi-totality of the European toy sector.*

ZVEI
Position Paper on the "Energy Sector Initiative" in the Framework of the WTO Millennium Round
May 21, 1999

Following the far-reaching removal of tariffs as restrictions on trade within the fields of information technology, telecommunications and electronic components through the Information Technology Agreement (ITA), European and American electrical equipment industries seek further trade liberalization. This includes discussion of a comprehensive free trade initiative in the energy sector.

A general reduction of tariffs for a broad spectrum of products is of great significance for the German electrical industry, within the overall framework of the WTO Millennium Round, scheduled to start in November 1999. In the WTO Millennium Round many difficult problems must be resolved, which can delay conclusion of a comprehensive trade agreement. Nevertheless, sectoral trade liberalization initiatives should not be disregarded.

ZVEI welcomes for this reason the concept proposed by major industrial countries to negotiate sector-specific tariff reduction timetables, in order to obtain speedier implementation of tariff reduction (over a maximum period of three years, the so-called "early harvest" approach). Following the good experience of the Information Technology Agreement, we believe that the prospects are just as good that American and European efforts can accomplish a worldwide liberalization of trade in equipment for energy generation, transmission and distribution.

The accompanying attachment is arranged in a product list, in which energy generation, transmission and distribution electrotechnology and mechanical engineering products are presented, as well as an annex with other products that might be included.

Attachment [not provided]

Informal translation by
Stephen Cooney, Siemens Corporation

WPA 3
26. MAI 1999

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An die Mitglieder des
Außenwirtschaftsausschusses

und

Geschäftsführer der Fachverbände

21. Mai 1999
ANG/SDC

Termin: 18. Juni 1999

Rundschreiben AWA 10/99

WTO: Zollfreiheit für den Sektor Energieerzeugung und -verteilung

Sehr geehrte Frau Meyer-Schülke,
sehr geehrte Herren,

mit beiliegendem Positionspapier beabsichtigt der ZVEI in den kommenden Wochen, die europäischen Partnerverbände über eine zwischen amerikanischen und deutschen Unternehmen abgestimmte Zollsenkungs-Initiative zu unterrichten.

Bevor wir jedoch versuchen, weitere Unterstützung innerhalb der Europäischen Union für diesen Vorschlag zu erhalten, möchten wir Ihnen die Gelegenheit geben, die anhängenden Produktlisten daraufhin zu überprüfen, ob ihrerseits Einwände gegen eine völlige Zollfreiheit für die aufgeführten Produkte bestehen.

Wir würden uns freuen, wenn Sie uns eventuelle Einwände gegen die Einbeziehung bestimmter Produkte in diese Initiative bis zum 18. Juni 1999 mitteilen könnten. Falls wir bis dahin von Ihnen keine Rückmeldung erhalten, werden wir die Zollfreiheit für die aufgeführten Elektroprodukte befürworten.

Mit freundlichen Grüßen

ZENTRALVERBAND ELEKTROTECHNIK-
UND ELEKTRONIKINDUSTRIE e.V.
Die Geschäftsführung

i.V. Dr. Mathias Meyer

i.A. Michael Angerhauer

Anlagen

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