

**U.S. TRADE POLICY IN THE ERA OF
GLOBALIZATION**

HEARINGS
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

JANUARY 26, 27, AND 28, 1999



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U.S. TRADE POLICY IN THE ERA OF GLOBALIZATION

TUESDAY, JANUARY 26, 1999

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

The hearing was convened, pursuant to notice, at 9:30 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Chafee, Grassley, Murkowski, Lott, Moynihan, Baucus, Rockefeller, Conrad, Graham, and Robb.

The CHAIRMAN. The committee will please be in order.

We are proceeding with these hearings this morning, despite the fact that both parties are having caucuses this morning on other matters.

Nevertheless, I think it is important that we proceed with the Nation's business, and that is what we intend to do this morning by holding these hearings on trade policy.

I know that our Leader has requirements of being elsewhere, so I am going to proceed by letting him make whatever comments he wants to at the very beginning.

In the meantime, I do want to welcome and express my appreciation to members of the administration for being here today. I think these hearings are of critical importance if we are going to develop a bipartisan trade policy, and I appreciate the fact that you are here.

So, Senator Baucus and members, I will just proceed by calling upon the Leader, Senator Lott.

OPENING STATEMENT OF HON. TRENT LOTT, A U.S. SENATOR FROM MISSISSIPPI

Senator LOTT. My colleagues and Mr. Chairman, thank you very much for having this hearing. I want to thank you for doing that. We obviously have a lot of other activities going on, but this is a very important issue that we need to address early and often as we go forward over the next 2 years. So I appreciate you for going ahead and having a hearing on the U.S. Trade Policy in the Era of Globalization.

I want to welcome our distinguished panel here, Mr. Summers, and of course, Ambassador Barshefsky. We have had a lot of communication and I look forward to working with you on some issues of concern to our country.

Mr. Secretary Daley, how is the seafood and fish industry doing?

Secretary DALEY. Strong.

Senator LOTT. Strong. Strong. Good. Every Secretary of Commerce, I try to get them, every time to look at me, to think fish in the Gulf. It come along pretty well.

Mr. Secretary Rubin, thank you very much for being here.

We do want to work aggressively together, between the legislative branch and the executive branch, to develop a consensus around a new trade agenda and a renewed commitment to open markets and expand trade. When you look at the economy in the United States, all sectors, from steel, to agriculture, and everything along the way, it is critical to jobs, it is critical to our own economy viability in the future. It is also critical to the rest of the world that we have this broad trade atmosphere that is free, open, and fair.

We all know that this is a key year, both domestically and in the world community. In November, of course, we host the World Trade Organization's third ministerial conference in Seattle. That conference will, in large part, set the table, I believe, for the trade negotiations in the new millennium.

We have a simple choice before us, I believe. We can enter this crucial negotiation from a position of strength and cohesion, or from a position of disarray, weakness, or even neglect. The choices we make will have real consequences for us, and for the world. I know the choice that I want to make, and I hope these hearings will serve as a big step toward a unified national agenda on trade.

Providing the President with trade negotiating authority is, in my view, a key part of that agenda. But it is not the only part. We need to continue work on other measures, including the Caribbean Basin initiative. I think we need to enhance CBI. I think not having it is hurting that part of our hemisphere. They ask us for it, they plead for it. They view it as opportunity, and I view it as opportunity, not just for them but for us. We have given them encouragement, but we have not given them results.

I know the Chairman is very much for moving this legislation. I know he is particularly interested in the OECD shipbuilding agreement. We have made a run at that each of the last 2 years, but could not quite get it over the hurdle.

I know that John Breaux has worked on that. But we have got to find a way to have Senator Snowe and Senator Warner comfortable with what we do. Hopefully, we can move in those areas quickly this year.

I will certainly support it, and I will make sure that we will have an opportunity, a window, on the floor of the Senate for the enhanced CBI. We will work to see if we cannot finally get this OECD shipbuilding agreement done.

We must not lose sight of the challenges facing the world trading system. One major concern that I have is the effectiveness of the WTO dispute resolution system, a system that was widely touted as central achievement in the Uruguay Round of negotiations.

Recent experience has called into question the ability of victorious parties to gain any timely or meaningful relief from the WTO decisions. Ambassador Barshefsky certainly knows of my interest in bananas and beef, and this whole area. I am worried, if we do not succeed in this first case, it is all over. So we must continue to be aggressive in finding a swift resolution.

This is certainly a distinguished panel and I am pleased to see you here. You are central to getting us to come to agreement. The President was correct in mentioning this area during his State of the Union address as something we need to come together on. I think we can do that, and we certainly should make every effort to do so. This hearing will, I believe, be the kick-off in getting these important trade matters addressed during this Congress.

So, Mr. Chairman, thank you for starting early. Thank you for your proven commitment to free trade, open trade, to the President having the authority he needs in our hemisphere and in the world, but also preserving the rights of the Congress to be a part of the final agreement.

Thank you, Mr. Chairman, for allowing me to go out of order. Thank you to my colleagues for allowing me to do that. I will yield at this point.

The CHAIRMAN. Thank you very much, Senator Lott.

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

The CHAIRMAN. As you know, in this past year I did announce my intention as Chairman of the Finance Committee to conduct a thorough review of American trade policy. In my view, that view is essential to the broader effect to rebuild a bipartisan consensus on trade. If we are going to get anything done, Senator Lott, it does have to be, I think, in a bipartisan spirit.

But at that time I stressed the need to reconnect our trade policy with Main Street America, with the farm, with the factory. If we expect the American people to join us in support of a forward-looking trade agenda, we must demonstrate the concrete benefits of open markets and a policy of free and fair trade.

At the same time, we need to fully consider the concerns and criticisms that have been raised by many about our current trade policies.

I have also indicated that, in my view, the most constructive approach we could take would be to focus on establishing concrete objectives for the administration to pursue, objectives that serve the interests of all Americans.

And the constitution, as I have said many times before, gives Congress, not the executive, the power to regulate our foreign commerce. The American people have a right to expect that we will fulfill that trust by guiding the administration and the pursuit of trade policy goals that serve the public and improve the general welfare.

It is always a pleasure to welcome my friend and colleague, the Ranking Member, Senator Moynihan, who has played such an instrumental role down through the years on U.S. trade policy.

This coming November, America will host one of the most important conferences on trade in our history. I want to reinforce that point. It is not the President that will host the upcoming WTO ministerial, nor is it the Congress, nor is it the various constituencies whose voices should be heard in the process of preparing for the ministerial. Rather, it is all of us as Americans that will host the ministerial. We all have a stake in its success.

The WTO ministerial offers us the opportunity not only to advocate our economic interests, but also to advertise our democratic values. I view this opening set of hearings on trade in the 106th Congress as simply the first step in our common mission to ensure that our negotiators can go to the WTO ministerial with the support of a strong bipartisan majority on the objectives we should pursue.

Today we are offering the administration the opportunity to lay out what, in the President's view, our trade policy goals should be. We have invited a number, an outstanding number, of members of the President's economic team here to make the point that these objectives may reach beyond what we traditionally think of in terms of trade policy, such as trade negotiations, enforcement of the trade laws, or rules on subsidies.

So, with that introduction I am looking forward to hearing from you, Secretary Rubin, who I expect will help set the economic context of our current trade policy, from Ambassador Barshefsky, who I expect will set out the specific objectives the administration intends to pursue at the coming WTO ministerial, and from Secretary Daley, who I expect will address our efforts both at enforcing our trade agreements and our trade laws, as well as the President's proposal promoting American exports abroad.

I would like to note that Secretary Rubin will be leaving us immediately following his testimony, and that Deputy Secretary Summers—and we are always happy to have him here—has kindly agreed to answer the committee's questions on behalf of the Treasury Department.

I will note that Secretary Daley has to leave at 11:00 p.m. So, with that, I am happy to turn to my good friend—

Senator CONRAD. He is in for a long day.

The CHAIRMAN. What did I say?

Senator CONRAD. 11:00 p.m.

The CHAIRMAN. 11:00 a.m. [Laughter.] Well, everything else goes to 11:00 p.m., why not this? [Laughter.]

In any event, whether it is morning or evening, we will call on Senator Moynihan.

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

Senator MOYNIHAN. I think it is best we get to our witnesses forthwith, Mr. Chairman. But just to note that, in the President's State of the Union message, if there is one event that was significant, I would like to think that our witnesses today, our distinguished cabinet members would take note of, is that the President endorsed the idea that has been developing for some years now and which we have talked about, which was the use of the International Labor Organization and the core labor standards that have developed over the last 70 years, from the time the first International Labor Conference met at the Pan American Building down on Constitution Avenue a few blocks from the White House.

In the context of the generalized anxiety about globalization which is so clear in the country just now, this could be an effective response. It will take energy in the executive, it will take conviction, it will take some show of results. But the most important fact

of trade policy just now is that a consensus was established in 1934 with Cordell Hull's Reciprocal Trade Agreements Act, which had the complete support of the AF of L, went through to the post-war negotiations, the Kennedy Round and such, and again, American Labor was entirely supportive. It no longer is.

Mr. Chairman, last year you were able to get an extension of fast track. What are you going to call it now?

Senator BAUCUS. Negotiating authority.

Senator MOYNIHAN. Negotiating authority. Yes. We have changed that word, too. It is normal trade relations and negotiating authority. You got it through the Finance Committee handily, and it was just as emphatically rejected in the House.

We face the same prospect this year unless we can change attitudes in response to this initiative by the President, and I hope we do.

Thank you very much. I have a statement I will put in the record.

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

The CHAIRMAN. Thank you, Senator Moynihan.

Now it is my great pleasure to call upon the Secretary. Bob?

STATEMENT OF HON. ROBERT E. RUBIN, SECRETARY OF THE TREASURY, WASHINGTON, DC; ACCOMPANIED BY HON. LAWRENCE H. SUMMERS, DEPUTY SECRETARY OF THE TREASURY, WASHINGTON, DC

Secretary RUBIN. Thank you very much, Mr. Chairman. I, too, am delighted that you are having this hearing. I agree with the Majority Leader. I think it is an extraordinarily important issue with respect to our future as a country economically.

Secretary and Ambassador Barshefsky will speak in greater detail about our trade agenda. What I would like to do, if I may, is make a few broader points about the importance of trade, because I do believe that the decisions that we make on trade in the next year or two will be some of the most important decisions our Nation will be making with respect to the future economic well-being of the United States.

We meet, as you know, Mr. Chairman, in a time of enormous strength in the American economy. Unemployment is 4.4 percent. It has been under 6 percent for the last 4 years. The economy has generated nearly 18 million new jobs over the last 6 years. Inflation has remained low and wages have been rising across all income levels.

I do not think there is any question that trade, open markets, and expansion of trade have contributed enormously to this economic record. Also, in my opinion, there is no question that this committee has been the keeper of the flame with respect to expanding trade and opening markets around the world.

Jobs related to exports pay, on average, higher wages than other jobs. Opening markets and expanding exports are, therefore, of great importance to creating high-wage jobs for the United States.

Less widely recognized is that imports, too, contribute greatly to our economic well-being. Americans as consumers benefit from lower prices and wider choices which imports provide.

American producers similarly benefit from lower costs and wider choice for imports, making them more competitive and thereby enabling them to create more jobs and increase wages. American productivity is enhanced through greater competition, and, for all of these reasons, inflation, and thus market interest rates, are lower.

I think it is very interesting to compare our economic performance of the past 6 years with the economic performance of other industrialized nations that are less open. Study after study has shown that more open economies enjoy stronger growth, and that is certainly evident in this case.

We have, as I said a moment ago, low unemployment, rising wages across the board, and we have without question the most open markets amongst the major economies.

Europe and Japan are substantially less open than the United States, and the major economies of continental Europe have had persistent unemployment of 10 to 12 percent or greater. Japan, now in recession for over a year, has been virtually stagnant for 8 years. Moreover, trade is not a zero sum game. All nations benefit from a vibrant trading system.

Mr. Chairman, as you well know, the global economy has experienced a financial crisis over the last year and a half that severely affected countries around the world. While our economy has thus far performed very well despite the crisis, there are certain sectors that have certainly been affected, most notably steel because of increased imports, and agriculture and aircraft because of decreased world demand.

The risks of that crisis continue despite some positive developments in recent months, as do the risks to our economy from that crisis. To protect the economic prosperity of our country and to restore the well-being of affected sectors, we have been, and continue to be, enormously focused on the effort to restore stability and growth to troubled parts of the world.

Let me emphasize, if I may, two points that are integrally related to all of these comments. First, trade should be not only open, but fair. This administration is fully committed to enforcing our trade laws.

Second, the President has worked to equip Americans with the tools they need to succeed in the global economy, including education, training, health care, or technological research and development.

We must be particularly focused on helping those that are adversely affected by the dynamic change, due principally to technology but also to trade, that so benefits the American people overall and is absolutely key to American success in the global economy.

What we must not do, in my judgment, is to pull away from the global economy which is so important to our economic well-being. As Senator Moynihan said, there seems to be more and more concern in this country about globalization.

For the United States to reduce access to our markets, even on what might appear to be a limited basis, could very well be damaging, very damaging, to our economic well-being. It would hurt our economy directly through higher costs to consumers and producers,

and higher inflation, and quite possibly higher market interest rates.

Under today's conditions, Mr. Chairman, there would in addition to be two special risks to our economic well-being. First, reduced access here could undermine the prospects of recovery and growth abroad in a world that is still working itself through the global crisis, a recovery that is so important to our economic health and prosperity going forward.

I might add that, in our view, Japan and Europe must also increase the world's access to their markets, for their sake and for the sake of the rest of the world.

Second, and most troubling, if the United States, with its very healthy economy, is seen as moving toward restricting markets, that could well increase the risk that the newly vibrant voices of protectionism in countries around the world whose economies are struggling or less successful than our own would prevail, and that could be enormously damaging to our economic well-being.

I think all of us remember the effects in the early 1930's of Smoot-Hawley and competitive devaluations around the world. That is a danger, and a danger we must do everything possible to avoid.

Mr. Chairman, the United States' economy is the strongest it has been in a generation. To sustain that growth, we must continue to maintain open markets at home and press to open markets abroad.

This committee has long been a major force in pursuing those objectives, and I, and all of us in the administration, look forward to working with you to meet these great challenges, including building a consensus for trade negotiating authority that also reflects appropriate provisions with respect to labor and the environment, issues to which the WTO and the ILO, as Senator Moynihan mentioned, have a great deal to contribute.

Our success in meeting these challenges is critical to the prosperity and standard of living of our Nation for the years and decades ahead.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Well, thank you, Secretary Rubin.

As I have already indicated, I share the same interest. I do think it is critically important that, in the days and weeks ahead, that we develop a truly bipartisan approach to trade. Nothing is more important than that for the welfare of this Nation.

Now, I understand that you have to leave now. You will be back in a week, so do not look too relieved.

Secretary RUBIN. I will, indeed. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you. We are happy to have you here.

[The prepared statement of Secretary Rubin appears in the appendix.]

The CHAIRMAN. It is now my great pleasure to call upon Secretary Daley. Mr. Daley?

STATEMENT OF HON. WILLIAM M. DALEY, SECRETARY OF COMMERCE, WASHINGTON, DC

Secretary DALEY. Thank you, Mr. Chairman, Senator Moynihan, members of the committee. I also appreciate the opportunity to be

with you this morning to talk about our trade agenda, and how we can work with you to address the important trade issues which we face.

As we all are aware, there is much uncertainty about the future. Nearly a third of our growth over the past 6 years, as Secretary Rubin stated, has been the result of trade. At the same time, our trade deficit has risen significantly, and that will continue in the coming months.

Let me say, Mr. Chairman, that we are absolutely committed to working with you and the committee to make sure that the global financial crisis of 1998 does not turn into the global trade crisis of 1999.

As President Clinton said last week in his State of the Union, we do need to build a new consensus on trade and we need to reach out to all Americans. We need to explain the benefits of open trade for our companies and our workers, and to acknowledge the challenges of the global trading system and be prepared to respond to those challenges. We must, in short, Mr. Chairman, put more of a human face on trade.

If we have learned anything over the past few years, it is that we need to change our approach if we are to win a greater public support for trade. As we work with you to gain new fast track trade negotiating authority and lay the groundwork for a successful launch of a new WTO round, we need to find more common ground with labor and environmental groups.

Workers in smaller businesses, who have not seen the benefits from trade, must understand that they have an enormous stake in this global economy. That is one of the reasons we are reaching out like never before in nontraditional settings, such as schools, local civic groups, and other grass-roots organizations. Do we have all the answers? Of course we do not. But I know this: we cannot be half-hearted in these efforts.

At the Commerce Department we are working very hard to build a consensus on several fronts. Let me just highlight a few, Mr. Chairman.

First, is export promotion. We will remain aggressive around the world on behalf of our exporters, doing more to help smaller firms. The President's new \$108 million plan to increase exports of manufactured goods will expand the availability of export financing. It will reach out to new customers and markets, while improving services to exporters, again, focusing in particular on the needs of our smaller and medium-sized firms.

I am happy to announce that we will be opening an office in Lebanon later this year, which will be the 75th country in which the U.S. Commercial Service has presence. In my 2 years as Commerce Secretary, we have added eight new countries to the list, and our fiscal year 2000 budget will significantly increase our presence in key markets of Asia, Latin America, and Africa.

On top of that, we have 105 export assistance centers throughout America. This makes for a true global network to assist our exporters, again, especially the small- and medium-sized companies.

Exporters can now use the Internet to access most of our services, and we are using new technologies to reach rural communities and other areas under-served in the past.

We are encouraging all to become the e-commerce companies so that even the smallest companies can sell their products in this global market.

Our second area of focus is aggressive enforcement of our trade laws. As the President has made clear, we will not be the dumping ground for unfairly priced or subsidized goods. As members of the committee know, steel is the issue occupying much of our attention right now. We have shifted substantial resources to focus on this problem.

We have expedited the antidumping investigation of Hot-Rolled Steel from Japan, Russia, and Brazil, which accounts for about 70 percent of the import surge. We hope to issue a preliminary finding in the Hot-Rolled case on February 12, which is almost a month ahead of the usual time table.

Mr. Chairman, I can report to you today that our efforts seem to be yielding some results. Based on anecdotal information, it appears our steel imports fell in December. We will be releasing the official data on Thursday under the expedited process which we recently announced, and I hope that they will confirm this positive news.

But let me hasten to add that this would not mean that there is not still a serious problem. One month of good data does not end a crisis that has been building for about a year. We will remain vigilant and aggressive, even if the December numbers show improvement.

The third part of our trade policy is tracking compliance with our international agreements. All nations must satisfy their commitments to open markets to our goods and services. Working to ensure that they do this is the job of our Trade Compliance Center which we created 2 years ago.

Finally, I want to mention our efforts to promote transparency in the rule of law, and in doing so, to help build a stronger case for open trade. One way we are doing this is by fighting bribery and corruption overseas which, as you know, Mr. Chairman, presents a major problem for our companies.

After years of efforts, we finally now have in place an OECD agreement that outlaws bribery of public officials. Eleven nations have ratified this landmark accord, and our job now is to see that these nations live up to those commitments.

Let me end on this. Ensuring our trade policy is effective in meeting the global economic challenges we face, we all know, will not be easy. It will take a lot of hard work. I promise you that we will do whatever it takes, and we obviously cannot do it alone.

We look forward to working with the members of the committee on a bipartisan basis, as you said, Mr. Chairman, as we move forward with this effort to open markets and enforce our trade laws and trade agreements. I thank you for the opportunity to testify and look forward to our continuing dialogue.

The CHAIRMAN. Thank you, Secretary Daley.

[The prepared statement of Secretary Daley appears in the appendix.]

The CHAIRMAN. Now it is my pleasure to call on you, Madam Barshefsky. Please proceed.

STATEMENT OF HON. CHARLENE BARSHEFSKY, U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador BARSHEFSKY. Thank you, Mr. Chairman. Let me say that we appreciate, Mr. Chairman, your and Senator Moynihan's calling this hearing. It comes at a very critical time as we attempt to realize the President's goal of finding common ground and a bipartisan consensus on trade issues, particularly as we open a new trade agenda for the next century.

In his State of the Union last week, the President set out a bold and ambitious agenda, including the launch of a new global round of multilateral negotiations. We are absolutely committed to lead in removing trade barriers, create fair and open markets, and expand trade, while ensuring that ordinary citizens continue to benefit from the trading system in the next century.

This agenda builds on a long tradition of bipartisan commitment to fair and open markets, a commitment which has borne fruit in helping us create a dynamic, creative, competitive economy that is the envy of the world. As Secretary Rubin said, since 1992 we have witnessed a period of uninterrupted growth.

The reasons for this are many, but certainly trade and participation in the global economy have played an irreplaceable role. Since 1992, we have negotiated 270 separate trade agreements which have helped open markets and create opportunities for Americans.

These agreements include five that are of historic importance: the North American Free Trade Agreement, which cemented our strategic trade relationship with our immediate neighbors; the Uruguay Round, which created the World Trade Organization, binding dispute settlement, and extended international trade rules to new areas; and three new multilateral agreements on information technology, financial services, and basic telecommunications which, together with an aggressive intellectual property rights program, are the foundation of the 21st century economy.

As a result, America's trade has flourished. Our exports have increased 51 percent since 1992, despite a slowing of our export growth last year due to the financial crisis.

We now have an opportunity and a responsibility to take the next step. As host and chair of the third WTO ministerial conference to be held in Seattle at the end of this year, we will be able to shape the world's trade agenda as we enter a new century.

As we approach this event and the accelerated negotiating round we will urge be launched at the ministerial, we are developing an agenda that actually extends well beyond traditional market opening trade negotiations to ensure that the world trading system is more responsive to the pace of change, to diverse constituencies, and the challenge of the global economy.

The President envisions a new type of round which includes three separate dimensions. First, expedited negotiations covering a wide range of areas. They would include, for example, sharp reduction or elimination of industrial tariffs and nontariff barriers.

Market access and liberalization services industries, including audiovisual, express delivery, financial services, telecommunications, the professions, travel and tourism, agriculture, including such issues as state trading enterprises, tariffs, the elimination of

export subsidies, Europe's common agricultural policy, biotechnology, and other topics.

Intellectual property, beginning with full implementation of Uruguay Round commitments and extension to new technologies. Government procurement. Exploration of how the WTO can help create an international pro-competitive regulatory climate, particularly in services, as well as to advance investment and further our efforts against bribery and corruption.

These negotiations would have clearly defined time tables and expectations so that we no longer would have to wait 6 or 8 years for completion of the round. Recent statements by Europe and Japan in support of a 3-year time table are encouraging in this regard.

Second, we believe a new round should include a commitment to institutional reform. This would include capacity building in developing countries so they can better implement what they agree to; trade facilitation, particularly in the Customs area; more effective coordination with the International Labor Organization; as well as with the IMF and World Bank, all of whose agenda's intersect with the trade agenda and the work of the WTO, as well as other efforts to address labor, environmental protection, finance, and economic development issues. It would include a commitment to greater transparency, particularly with respect to dispute settlement, accessibility, and responsiveness to citizens.

Third, a new round must accommodate ongoing results. For example, as we develop the agenda we will also work toward completion of the Information Technology II, ITA II, that is, the extension of product coverage under the original Information Technology Agreement; transparency in government procurement; a consensus on the APEC sectors; improvements in dispute settlement; and, in electronic commerce, extension of the moratorium on tariffs applied to electronic transmissions.

Our trade agenda beyond the ministerial and the round is equally ambitious. We are enforcing WTO commitments and bilateral agreements with all of our trade partners through over 80 separate enforcement actions, including 41 at the WTO, and we are carrying on sectoral, regional, and bilateral negotiations covering every part of the world.

My prepared testimony addresses this in detail, but if I may take a moment to just cite a few examples. In the western hemisphere, talks towards the creation of a Free Trade Area of the Americas are proceeding and we will see concrete progress this year.

In Europe, we are working to remove barriers and strengthen trade relations through the Transatlantic Economic Partnership, covering negotiations on technical barriers to trade, agriculture, particularly biotechnology, intellectual property, government procurement, services, electronic commerce, and advancing shared values, such as transparency and the participation of civil society.

In Africa, we are implementing the President's initiative to improve trade relations and ensure Africa's full integration into the multilateral system.

In trade relations with Japan, we will continue our intense and sustained effort to open and deregulate the Japanese market. We have concluded 35 bilateral market access agreements with Japan

since 1993. We will monitor their implementation closely and enforce them vigorously. We will also further address certain sectoral issues, including rice, glass, steel, insurance, and others.

We are pursuing an ambitious set of goals under our deregulation initiative with Japan in individual sectors, such as telecom, pharmaceuticals, and medical equipment, as well as on broader structural issues. At the same time, we are addressing a very large and rapid increase in steel imports from Japan.

In China, we will monitor and strictly enforce our trade agreements on intellectual property, textiles, and market access in goods and agriculture, as well as address an array of specific bilateral trade problems in goods, services, agriculture and investment, and at the same time, we will continue to seek broad market opening through our negotiations toward China's accession to the World Trade Organization.

In this regard, their membership in the WTO on commercially meaningful grounds is in our interest, and in China's. Broadly speaking, WTO principles of transparency, openness, and public and enforceable commitments will help China's government strengthen the rule of law and create sustainable long-term growth, and the specific market access and other reforms that WTO accession requires are no less from China than what other WTO members, including many of the developing countries, have already done.

Premier Zhu Rongji's proposed visit to the U.S. this spring gives China and the United States a chance to achieve this goal. As this approaches, China has an opportunity, perhaps the last for some time to come, to resolve this issues which remain outstanding. We hope China will take it.

We also recognize that China, once again, may decide it is not prepared to take the commercially meaningful steps WTO membership requires, and WTO membership may, thus, not come for some time. But delay in trade reform and market opening is not an option.

We will not hesitate to make sure that we are treated fairly in China, and we will continue to urge China to move toward acceptance of international norms in economic policy and other areas which are so important to us, to China's neighbors, and ultimately to China herself.

Apart from Japan and China, more generally in Asia, we will continue our APEC sectoral liberalization effort and will also be working to build consensus on WTO-related issues in advance of the ministerial.

Finally, in the Middle East, we are promoting regional integration with the foundation of our Free Trade Agreement with Israel and the creation of new industrial zones, which Secretary Daley and I have spent some considerable time on.

In each of these regions and with respect to each of these agreements, we are committed to fully enforce our trade laws. We remain the most active and successful user of WTO dispute settlement. We have used Section 301, Special 301 on intellectual property rights, and Section 1377 in telecommunications effectively.

But, Mr. Chairman and members of the committee, in order to ensure that we have maximum advantage of our domestic trade

laws to open foreign markets, I am pleased to announce today that the administration will re-authorize, by executive order, two laws for which authority has lapsed: Super 301 and Title VII, and we hope to work with the committee to also include these laws in the committee's legislative work.

This is a broad and ambitious agenda. We hope to pursue it—indeed, we must pursue it—on the basis of a strong bipartisan consensus which includes renewal of trade negotiating authority for certain agreements.

Trade negotiating authority imparts greater credibility and effectiveness on behalf of American economic interests, helps ensure the successful implementation of important trade agreements, and, thus, contributes to our goal of opening markets, increasing growth, and raising living standards.

As the President has said, we intend to approach renewal of trade negotiating authority in the spirit of finding common ground and a strong bipartisan consensus, but this will require flexibility on all sides.

Let me also stress, in addition, our strong support for legislation to improve our trade relations with Africa, enhance the Caribbean Basin initiative, renew the GSP program, pass the OCED ship-building legislation, and renew trade adjustment assistance.

In summary, the U.S. economy and the living standards of our citizens have benefitted immensely from the work of this administration, the previous administrations, and the Congress. As we open a new century and prepare to shape the trading world of the next generation, we plan to work with this committee and all stakeholders to shape an agenda that, as the President said, will allow us to tear down barriers, open markets, expand trade, and ensure that ordinary citizens benefit.

Thank you, sir.

The CHAIRMAN. Thank you, Madam Secretary.

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

The CHAIRMAN. As I understand it, Secretary Daley has to leave at 10:30. Is that correct?

Secretary DALEY. About 20 until 11:00.

The CHAIRMAN. Twenty until 11:00. So in order to give everybody a chance to ask him a question, what I would propose is that we limit each member to one question of Mr. Daley to start out with, then we will proceed with questions for the other two witnesses.

Mr. Secretary, rebuilding a bipartisan consensus on trade depends, in part, on ensuring that we are enforcing the trade agreements we reach and that we receive the benefits of the bargain struck by the negotiators.

Are the tools we have put in place, particularly the unfair trade laws under your jurisdiction, adequate to that task? Are there modifications to existing law or new tools that we should be considering? For example, do we need to amend Section 201 or create an alternative mechanism that would allow earlier intervention on behalf of U.S. firms faced with economic dislocations, like the Asian financial crisis?

Now, we have also raised a question about Section 301. Ms. Barshefsky has already suggested that certain changes were in order there. Would you care to comment, Mr. Secretary?

Secretary DALEY. We do feel, Mr. Chairman, that the import laws that we are enforcing are adequate at this point. I think the changes that have been recommended, specifically on changing the standard on 201, which has been discussed greatly within the administration and proposals that have been introduced already, are ones that we want to work with the committee and work with the Congress to see if we can get a consensus to make that change, specifically, and others that are being recommended.

And we are in the process in the Commerce Department of reaching out to the business community to see if there are other suggestions that they may have, and we will be coming forward with some suggestions in the near term on some changes to our laws that we administer. But we believe that they, at this point, have served us well.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Thank you, Mr. Chairman.

Mr. Daley, just for the record, but to get your answer, the President talked of the International Labor Organization and core labor standards. It needs to be clarified that these matters involve American business as well as American labor.

I guess on Thursday we are going to be hearing from Abraham Katz, who is president of the U.S. Council for International Business. But the ILO is a tripartite organization in which business is represented equally with labor.

There are aspects of American businesses that have been very supportive of it. Herbert Hoover, one of your distinguished predecessors, sent observers to the 1923 International Labor Conference.

Are you going to be able to involve yourself with this matter as well, as I hope you will?

Secretary DALEY. Well, I think I will. After your comments of my predecessor being so involved, I think I should, Senator. So I would look forward to doing that.

Senator MOYNIHAN. I would appreciate it, if you should do.

Secretary DALEY. I will do that.

Senator MOYNIHAN. Thank you.

The CHAIRMAN. Senator Baucus, please proceed.

Senator BAUCUS. Thank you, Mr. Chairman.

Secretary Daley, I just think it is important for us, as we approach the WTO and think about our trade agenda for this era and the next, to realize just how much times have changed and put a lot of this into perspective.

When I first came to this committee it was 1979. I can remember, I was sitting back down at the end of the table and there was a markup on the trade bill. You were here, Mr. Chairman, Senator Moynihan, you were here, and Senator Heinz was an expert on trade, holding forth on lots of arcane trade provisions. I asked myself, well, what in the world is going on here?

To some degree, a lot of this stuff still is pretty arcane. But our main goal here is to raise Americans' incomes, particularly through trade-related jobs and in manufacturing and selling products.

Times have changed so much. Our economy is so much more dependent on trade than it was back then, for example. We face the European Union, which now is, I think, very aggressive, and with the euro. Things are happening in Europe, which was not the case about 10 years ago.

We have got China, the world's largest country, largest standing army, nuclear power, a fast-growing economy, that is certainly in the next century going to be a huge power and a force in Asia and dramatically affect our economy.

The WTO is new. It has some growing pains to go through and we have to help force it and shape it in a way that makes sense. The global market really does hit us a lot more now than it did back then. For example, there are a lot of subtleties that show this. Our beef producers in Montana, for example. When Korea closes a market, we lose not only those sales, but, as a consequence, as a rippling effect, Canadians are unable to export their own beef to Korea then dump in the U.S.

The same would be true of softwood lumber products. When, say, Japan limits softwood lumber or demand falls for softwood lumber exports from the United States to Asia, what happens? Scandinavian companies who also cannot sell in Asia start to sell in the U.S. and start to under-cut U.S. producers. So it is a double-whammy hitting Americans. We are related so much more now than we were back then.

A Montana farmer cannot ship his wheat to the west coast. Why? Because Asian demand is down and there are no trains moving. So the farmer has got to keep his wheat in his bin and make all those payments. It is incredible how interrelated we are now compared with not too many years ago in lots of subtle ways that go beyond the ones that are on the surface.

So when we think about trade, I think it is critical that we think outside of the box a lot more than we have in the past. We have trade laws, we have Treasury, USTR, Commerce, et cetera. But today it is not just trade policy, it is currency valuation, which very much affects trade and people's incomes, it is transparency questions all across the board. Lack of law enforcement in countries. I think you have touched on it, and Charlene Barshefsky touched upon it. Lack of independent judiciaries in a lot of countries.

So if we are going to tackle the problem, again, it is thinking of ways to deal with this in a lot more subtle, creative, and aggressive way than we have in the past.

A couple of more specific points. One, is China. I think we need a better China policy. I know the policy now is, loosely, engagement. I am not really sure what that means. I think, as we develop our trade agenda, we need to pay particular focus to China.

Second, is agriculture generally. Agriculture affects us so much. For example, WTO's current reluctance to enforce a lot of their recent decisions. Hormone-fed beef is just an example, bananas is another, as well as European's common agricultural plan. That, too, has got to be focused more.

Finally, Mr. Chairman, and I will finish here, as mentioned, the link to environmental protection and to labor rights. We started down this road with NAFTA and the side agreements, as you

know, but clearly an aggressive trade agenda is going to have to pay more attention to the environment and also to labor rights.

I think the President summed it all up very well in his State of the Union address about how we have to work together, and others have, too. Part of that is a little more outside of the box, thinking about some of the points that I made.

The CHAIRMAN. I want to give as many the opportunity of asking a question of Secretary Daley as possible. So I would ask that people limit their comments and ask whatever question they may of the Secretary.

With that, I will call upon Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman.

Thank you, Secretary Daley, for being here, and Ambassador Barshefsky, as well, and Deputy Secretary Summers.

This is a very distinguished panel. We appreciate, Mr. Chairman, your calling this hearing. I think this is critically important.

Let me just say, from the perspective of a State that is heavily engaged in trade, largely agricultural trade, we have experienced the benefits of trade. My State is a State that believes in freer trade. But we have also experienced the down side.

We have had a very bitter experience with the Canadian Free Trade Agreement. We call it a free trade agreement, but really it was a negotiated trade agreement. And when there are negotiated trade agreements, there are winners and there are losers. I can tell you, my State has suffered dramatically.

North Dakota is the largest producer of durham that goes to make pasta, so all of you pasta lovers, 80 percent of the pasta that is produced in America is produced in my home State of North Dakota.

Canada also produces durham. Under the Canadian Free Trade Agreement, they went from zero percent of the U.S. market to 20 percent of the U.S. market very, very quickly. The result has been an economic loss to my State calculated by a State University of a half a billion dollars. Half a billion does not get a lot of attention in Washington. I can tell you, it gets a lot of attention in North Dakota.

And it is not because Canada is more efficient. It is not because they are more productive. There virtually are no differences with respect to productivity on either side of the border. In fact, we have many farmers, including a very close friend of mine, who farm on both sides of the border.

It is a matter of defects in the agreement. The devil is in the details. It is very hard to stand up before an audience in North Dakota and say that the Canadian Free Trade Agreement was somehow positive for our State.

I tell you, we have been on a search for 7 years to find out a solution and we have not yet heard it. Whether the trade laws that we have now are sufficient, I will tell you, we have not found an existing trade law that works for us. So I say this, Mr. Chairman. I hope my colleagues are listening. It does matter what we do here.

The CHAIRMAN. We have the Secretary here for only a few more minutes. As I indicated earlier, I did want to give the opportunity to our members to ask a question. I appreciate and understand the

desire to make statements on matters of keen interest to their constituency.

But at this stage, Senator Robb is next. Do you have a question, Senator Robb?

Senator ROBB. Yes, Mr. Chairman. [Laughter.] Mr. Chairman, I actually have a question.

The CHAIRMAN. Please proceed.

Senator ROBB. Very briefly. It is a sensitive question that I want to give Secretary Daley an opportunity to comment upon. As he knows, and we know, there was a recent report by the Cox Commission that related to the commercial satellite launches on Chinese rockets.

The Senate Intelligence Committee will be issuing a somewhat similar report in the near term. I also serve on that committee. And another committee on which I serve, the Armed Services Committee, took the responsibility for launch from the Commerce Department and put it in the State Department.

My question is, what will the residue of the Commerce Department responsibility be in this area, and will it hurt satellite exports by the United States?

Secretary DALEY. Well, Senator and members of the committee, as you have stated, the report that was issued by Congressman Cox and Congressman Dix at this point is still classified, so I would not make a comment on the findings of the report.

We obviously share the concerns as to the issue of national security on all of the products that we have licensed and all of those matters that we at the Department of Commerce have handled. We believe we have balanced national security interests with our economic security interest.

We have great concerns and have heard from many in the business community of their concerns as to their future opportunities to sell products that we lead technology-wise around the world.

In our opinion, the military and the national security is helped by our companies staying strong and being able to sell their products around the world, obviously balancing that with the legitimate and national security concerns. But we will be commenting on the report, when and if it is declassified, shortly.

Senator ROBB. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Robb, for having a question. Senator Graham?

Senator GRAHAM. Thank you, Mr. Chairman. I, too, have a question. I, too, would like to thank you for scheduling this series of very important hearings to provide us with a context to consider trade legislation throughout this session of the Congress.

Mr. Secretary, a couple of years ago we had a satisfactory—I would say a very satisfactory—experience with the operation of the antidumping statute as it relates to some of our agricultural products in Florida.

Obviously, one of the characteristics of many agricultural products is their perishability and, therefore, the need to get disputes resolved on a timely basis because, if time wastes, so does the product and therefore the dispute becomes moot.

In the course of that, however, there were some issues that emerged that seemed to create the possibility for an even better resolution. One, was to allow these disputes to be handled on a more expedited basis.

Second, to avoid the necessity of going through a contentious, confrontational litigation process before you could get to the point that the parties could sit down and try to negotiate, through the good offices of the Department of Commerce, a reasonable settlement. Third, to try to create an environment that has sought out the common interest of the parties and diminished the areas of confrontation.

All of those, it would seem to me, would be goals worthy of trying to look for either modification in our current antidumping statutes, or maybe even a parallel set of statutes that would relate to the peculiar characteristics of perishable agricultural products. I wonder if you could comment about it.

Secretary DALEY. I would just say, Senator, we would like to work with you on those suggestions and see if there are some changes that we can work with you to make to the dumping laws to address those situations.

We, as I mentioned in my statement related to steel, have expedited the process about as quickly as we can do under the existing laws. So, in order to address the agriculture concerns, we may have to change them, and we would like to work with you on that.

Senator GRAHAM. Very good.

The CHAIRMAN. Senator Murkowski.

Senator MURKOWSKI. Thank you very much, Mr. Chairman.

Good morning.

Secretary DALEY. Good morning, Senator.

Senator MURKOWSKI. Ladies and gentlemen, I wish I had some time for Charlene on some of the questions with the Japanese insurance and other things, but I will submit those in writing.

But let me pursue with Hon. Daley my concerns relative to the conditions of our domestic oil industry. As you know, we are losing nearly one-third of the job base that we had 10 years ago as we become more dependent on imported oil. I think we are about 56 percent dependent currently, and during the Arab oil embargo, we were about 37 percent.

As a consequence, the national energy security interests of our Nation is a growing concern. It is my understand that your department is coordinating an initiative to mobilize financing for one of the proposed pipelines in the Caspian region, from Baku, Azerbaijan to Jehan, Turkey to bring, basically, oil to the western markets.

While I agree that this project is worthy of assisting other Nations, as we look at the long-term supply of oil and gas to the western world I am concerned that the effort seems to be focused on foreign oil and gas, while pursuing a domestic gas and oil reserve would serve the U.S. interest better, particularly at a time when we see efforts by the administration to take off the sanctions on Iraq oil, which is currently about 500,000 barrels a day, which would take it up to 2.5 million barrels a day, which is about where it was prior to the conflict out in that part of the world.

So my question to you is, the old saying in politics, "charity begins at home." It seems like our domestic oil industry is in a terrible state of affairs. I am having a hearing, as Chairman of the Energy Committee, on Thursday on this issue. We are bringing in Lee Raymond, chairman of Exxon, a number of major oil companies, strippers, smaller outfits. Oklahoma and other areas of the country are really flat as a consequence of the price of oil.

I am looking to you to see if you feel you have an area of responsibility here in view of, seemingly, the administration's overall efforts to try to promote and increase oil activities all over the world, but not domestically.

Secretary DALEY. If I could just, Senator, state that we at Department of Commerce have been involved in the Caspian pipeline issue, as you know. We have been involved for a host of reasons. One, the companies have come to us and asked us to help them. We do a lot of promotion on behalf of the U.S. oil companies around the world, and we are very proud of that and will continue to do that.

Obviously, as you say, we should protect our home base first. We try to help in lots of ways, we at the Department of Commerce, with our energy companies and we would work with them if they have some suggestions on how they would like us to help them domestically. But we do a lot of advocacy on their behalf because they come to us and want our involvement. Specifically on the Caspian pipeline issue, obviously, there are foreign policy concerns, but from our perspective, our help there has been very much at their request.

Senator MURKOWSKI. Well, I would hope, at the Thursday hearing, that you might have somebody from your staff at that hearing, because I am sure you are going to hear some recommendations from our domestic oil industry about what we can do to stimulate domestic activity.

Secretary DALEY. All right. We will do that.

Senator MURKOWSKI. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Secretary Daley, I am sorry the Secretary had to leave. I increasingly come to feel that he has a grip over the President's mind when it comes to the question of fair trade and trade matters.

He started off by saying that we have aircraft and we have steel. Well, of course, aircraft, as he pointed out, was a lack of demand. Steel is illegal activity on the part of other countries against the international trade laws of 1974. Lack of demand and cheating are rather different matters.

I have, in the past, voted for fast track. I am increasingly less certain of whether I am going to do that again, unless this administration begins to take enforcement of trade laws seriously.

My question to you is the following, in that it is very difficult to get Japan to do anything about this. They may lower their hot-rolled steel imports slightly. They have done that kind of thing in the past. I went over to Japan last week, in fact, and talked with Secretary Rubin's counterpart, who did not know that there were

more steel mills in the United States than there were in Japan, and we had a very interesting discussion.

But Secretary Rubin, basically, this morning said, "For the United States to reduce access to our markets, even on what might appear to be a limited basis, could very well be damaging to us," and then he talked about the "new, vibrant voices of protectionism," et cetera, et cetera, et cetera.

I would ask you, is Secretary Rubin not, in that case, virtually saying we cannot enforce our trade laws, and that if we do enforce our trade laws against cheating and illegal dumping—in my case, I am particularly worried about steel, which is the largest surge of imports in the last 30 or 40 years—is he not virtually saying, do not enforce the trade laws, even though that was written into the language of the fast track last time?

Secretary DALEY. No, I do not believe he is. I do not make a habit of speaking for Secretary Rubin, as you know.

Senator ROCKEFELLER. I would like to see you try, though.

Secretary DALEY. My opinion is that he is not saying that. In many of the discussions, many of the meetings that we have had over the last number of months on steel, there has been a strong commitment by the administration to enforce our laws.

There are suggestions that are being made to go beyond our existing laws, and I think he was referring to possibly some of those suggestions. But he has been a strong advocate in all the meetings I have been in to make sure that we do strongly and aggressively enforce the laws. And the sort of actions we have taken at the Commerce Department, he has been 100 percent in agree with those actions.

Senator ROCKEFELLER. With all due respect, if he says, "Even on what might appear to be a limited basis," that is, reduced access to our markets, we being the place that will buy anything. Europe does not do anything to buy any products. They do not help us out. Nobody else. We are the ones who always buy everybody else's products.

Now, if he says, "even on a limited basis," then does that not necessarily mean you cannot enforce trade laws? I would stipulate that there is cheating going on on steel. So if you enforce trade laws, you would have to do something to counter that cheating, that illegal dumping at below the cost of production that would necessarily limit access. Is he, therefore, not contradicting enforcement of fair trade?

Secretary DALEY. Again, Senator, I am not sure exactly what he meant. I can just tell you that, in my dealings with the Secretary, in all the meetings when we have talked about aggressively enforcing our laws that are on the books that you have passed, he has been there and strong in the sort of actions we have taken at the Department of Commerce, which, if they are followed through and the cases are found that there is dumping, there obviously will be a limitation on imports.

Senator Rockefeller, if I can just quote from Secretary Rubin's statement a little bit prior to the portion that you were quoting. "Trade should be not only open, but fair, and this administration is committed to fully enforcing our trade laws to deal with unlawful

practices." That is certainly his policy, and I believe the policy of all of us in the administration.

Senator ROCKEFELLER. I think it is also the way one always opens a paragraph, and then it is always the second or third sentence which says where you really are.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. Before I ask you one question following up on what Senator Murkowski said about the domestic energy business, do not forget the Illinois corn farmer and ethanol. Also, remember that its competitor, MTBE, 70 percent of that is imported from outside the country.

So we have got a renewable resource up against an imported non-renewable resource that very much creates jobs in America and advances our economy.

Your department permits Chinese military end users to receive U.S. dual-use technology if you determine that Chinese military entities are not making a direct and significant contribution to advance Chinese military capabilities. So, please explain how you can determine to any reliable degree of certainty whether there is a direct and significant contribution to the military of that dual use.

Secretary DALEY. Senator, as I stated, we take the obligations under the Export Administration law very seriously. We do end-use visits on many of the exports that we license, and we have other means of trying to determine where exactly the products that have been shipped are delivered and how they may be used.

This is an area that we take, as I mentioned, very seriously. I know Congress, as Senator Robb stated, is looking at this once again to see if there must be some changes to tighten up the procedures, not only obvious to the Department of Commerce, but other departments.

Senator GRASSLEY. Is it on hold then while that review is going on?

Secretary DALEY. No, we are still processing licenses requests that come through. Obviously, Congress determined last year that, as far as satellites are concerned, that authority to license those would be moved to the State Department, and we are cooperating with the State Department to make sure that that moves forward, again, to protect our industries, and at the same time, paramount, protect national security interests.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Grassley.

Mr. Secretary, I understand you have to leave at 20 minutes to 11:00. But just let me make the observation that it is critically important, in our effort to reach a bipartisan approach on trade to build the kind of consensus we need if we are going to get anything done, that our present trade laws be seen as adequately enforced. There is no question but what there are many here on the Hill, for whatever reason, who feel that we have not enjoyed the benefits of what the negotiators initially negotiated.

There is concern now, for example, in the case of Europe, that we take things through the judicial process and win the case, but do not get the benefits of those victories. So I cannot stress too much to you the importance that we be seen as aggressively sup-

porting our rights under these trade agreements, and that we are able to enforce them.

If we can enforce them, it is going to be very hard to get this Congress to agree to new negotiating authority. I just want to stress, I am a strong believer we ought to have a new round, but I have to tell you, it is not going to be easy if we are not seen benefitting from those that we have already negotiated.

Senator MOYNIHAN. Mr. Chairman, you know you have this committee behind you in that regard.

The CHAIRMAN. I appreciate that very much, Senator Moynihan.

We appreciate your being here, Mr. Secretary, and look forward to working with you.

Secretary DALEY. Thank you very much, Mr. Chairman, and to the members of the committee. We share your concerns and I can assure you, we at the Department of Commerce take your comments very seriously, Mr. Chairman. Thank you to the members. Thank you for allowing me to leave a little early.

The CHAIRMAN. Thank you. We look forward to having you return.

Senator ROBB. Mr. Chairman?

The CHAIRMAN. Yes.

Senator ROBB. Mr. Chairman, I wonder if it might be possible for those of us whose schedules have been compacted significantly by the jury duty that we all share in the afternoons and evenings to—

Senator MOYNIHAN. No, no, no. The judging.

Senator ROBB. I am sorry. [Laughter.]

The CHAIRMAN. You stand corrected.

Senator ROBB. I appropriately stand corrected by the distinguished Ranking Member. But that we might be permitted to submit some written questions that are of interest. This is a very important panel, and with the constraints of time, would that be permissible? I am going to have to depart.

The CHAIRMAN. Absolutely.

Senator ROBB. I thank you. I thank you for holding the hearing. [The questions appear in the appendix.]

The CHAIRMAN. Madam Ambassador, nothing is more important than this ministerial meeting that is coming up this fall. As I understand, you will have the honor and responsibility of chairing that meeting. I congratulate you. I want to say that I have great confidence in your ability to discharge that heavy responsibility.

I have to say that, as we were sitting here and listening to some of the goals and review of where we are today, my colleague, Senator Moynihan, on talking about Japan, I think, said, well, how many times have I heard that before?

Senator MOYNIHAN. Over 50 years.

The CHAIRMAN. Over 50 years. You are older than I. [Laughter.] But in any event, I am concerned that, as we listen to you, and I understand what you are saying, and we want to negotiate in the area of agriculture, we want to negotiate in the area of services and so forth.

But my basic question is, if we have a new round of negotiations, just what, specifically in these areas, do we hope to accomplish?

When we talk about agriculture, what are our specific goals, in what period of time? I think we need to be more specific.

In the past, I know it is has been the practice to discuss in very broad terms what we hope to accomplish. But that is not going to be adequate this time, I do not believe. I think, in order to develop a consensus, there is going to have to be spelled out by the administration and by working together exactly what any new round of negotiations hope to accomplish. So, having said that, would you care to comment?

Ambassador BARSHEFSKY. Mr. Chairman, we agree, and I have said this previously to the committee, that as we look ahead to the agriculture negotiations, services, and other areas, we have to go into those talks knowing exactly what it is we want in great detail.

We have several means of achieving that end. We have completed, largely, a very substantial amount of interagency work, including with, in the case of agriculture, USDA, in determining a specific set of goals that we would like to achieve, which I have only touched on briefly here.

Our next step would be to discuss with the committee, as well as with the agriculture committee, our concept of what we would like to achieve in each area—for example, on the elimination of export subsidies, how long that would take, and so on—as well as with respect to reform of the European common agricultural policy and state trading practices.

We also plan to hold hearings in the United States—this has not been done before—on the agriculture area, a couple of the other key areas where we believe we did not achieve as much as we should have in the Uruguay Round, and where we believe we need to make rather a quantum leap now. This is particularly the case in agriculture, but also the case in services as well.

So, with that activity proceeding and working closely with the committee, we intend, well in advance of the ministerial, to have a very concrete, specific list of objectives.

I would add one more point. In the case of agriculture, we have been approached by the CAIRANS Group of agricultural exporting countries. These are countries that are pushing for substantially freer trade in global agriculture, led principally by Australia, and others.

During the Uruguay Round, the U.S. and the CAIRANS Group did not really have a coordinated position. In fact, in some areas where we should have had common ground, we seem to be at odds for reasons that are rather perplexing.

This time around, as an adjunct to fleshing out our agenda with particularity, we intend to work closely with the CAIRANS Group to see if we can build, going into the ministerial, a stronger foundation for the kinds of gains we would like to achieve in agriculture.

But I agree fully with you, Mr. Chairman. I think the generalizations of the past in terms of what we would like to achieve, will not be adequate to assist us in attaining our objectives. We are going to have to be very particular and very exacting on what it is we want, and we aim to work with the committee to that end.

The CHAIRMAN. One of the comments I hear is on the aggressiveness of the European community today. Of course, one of the areas

we have talked about doing something is in the common agricultural policy.

I remember years ago being over in Paris with Lloyd Bentsen, and we met with the top officials at that time. Lloyd Bentsen said, we are not going to be satisfied until we resolve this problem of the common agricultural product which keeps our agricultural products out of Europe. Well, here we are in what? What year is this? The same situation exists.

What are we going to do about it?

Ambassador BARSHEFSKY. I think, Mr. Chairman, this is a vexing and a serious problem. I think we have made gains on the cap in the Uruguay Round, but there are two events that I think will help us further.

One, of course, is the 1999 ministerial, because there are a number of countries, including many developing countries, that believe their own agricultural production is absolutely disadvantaged by European agricultural policies, not only with respect to access into Europe for agricultural goods, but it is also the effect of European agricultural policies on third country markets which prevent, for example, developing countries from competing actively in those markets, given heavy European subsidization of their agricultural exports.

So, one, is the 1999 ministerial, our work with the CAIRANS Group, and with developing countries both in that group and outside that group. But, second, as you may know, the European Union is now working to formulate what they call Agenda 2000, which is a fairly serious review of the cap.

This review is engendered by the fact that the cap is too expensive and that, as the European Union expands to cover, for example, countries like Poland which are heavily farming economies, Europe must do something to reduce the overall expenditures on agricultural policy. The add-in here, of course, is that, for Germany, for example, there is concern about picking up the tab in Germany to support French agriculture.

Agenda 2000 will take Europe—slowly, but it will take Europe—toward some significant market reforms in agriculture, including reductions in subsidization and, we hope, a further decoupling of income supports with production. In the U.S., under Fair and other agricultural acts, we have pretty much decoupled production from income supports. Well, that needs to be done with respect to Europe.

So, bottom line is, we have a couple of things going for us. I think it is very difficult. And we certainly do not underestimate the complexity, but we certainly, certainly must make cap reform a principal agenda item for the next round.

The CHAIRMAN. Let me ask this question. What actions can the U.S. take to ensure that the EU will comply with any future WTO dispute settlement decisions resulting from agriculture and services?

Ambassador BARSHEFSKY. Well, of course, there can be no doubt that we are extremely disappointed with the European community's reaction to the Banana case. This is a long-running dispute.

Europe has lost four international panel rulings with respect to their banana regime over the course of 6 years, and each time it

has failed to comply. We now have dispute settlement which should force compliance with the panel ruling, and again, Europe refuses to comply.

We have approached Europe over the last 18 months to negotiate a settlement of the underlying dispute. Europe has refused. We approached Europe last July, August, September, October, and November to return to the original panel for a ruling on changes to their banana regime, and again Europe refused.

So we have taken the extraordinary step of stating quite clearly that we will retaliate against Europe in the amount of the trade damage caused by Europe's failure to alter its banana regime in a WTO-consistent manner, and we will retaliate. We still seek a negotiated solution with Europe of the underlying dispute.

What this dispute raises, apart from European non-compliance, as it has failed to comply over the last 6 years, is that the WTO dispute settlement rules themselves are not entirely clear in cases such as we face with Europe, where a party essentially refuses or fails adequately to comply.

One of the things that we will be doing for the 1999 ministerial will be to alter the dispute settlement rules to ensure that a banana-type outcome cannot happen again in future cases.

As to beef, European compliance with the panel's ruling in Beef is due in May of this year. We have already begun to lay the foundation with Europe. First off, we do not expect to see a banana-type outcome with respect to beef, which is a dispute which will dwarf in size the banana dispute.

Second, that Europe either must comply by lifting the ban on U.S. beef, or it must follow WTO rules, including offering compensation, which, if not adequate or acceptable to us, will be met by WTO-authorized retaliation by us against Europe.

So we are laying the groundwork now with Europe for what will happen in the case of beef. The bottom line is, the European actions caused great damage—great damage—to the credibility of the WTO and to the credibility of the dispute settlement system, which we believed should have cured past problems with the old GATT-style dispute settlement, and which we believed would have ensured that rights acquired through litigation would be fully enforceable.

The CHAIRMAN. Well, I very strongly agree with you about the impact of the failure of the EU to comply with those judicial decisions.

I will ask one question of Mr. Summers, and then I will turn to you, Senator Moynihan.

The stated goal of the U.S. is to raise economic growth levels around the world. Yet, I cannot say that I have seen a single country in trouble where it has been proposed to cut taxes on income, capital, or imports. How do we intend to bring about growth so that we can address some of these problems that the U.S. market is now facing?

Secretary SUMMERS. Mr. Chairman, the objective of policy in responding to each of the troubled economies is, indeed, as you suggest, to restore stable economic growth. But it is, I think, very important in looking at each of these situations not to confuse the remedy with the underlying disease.

The reason why these countries have experienced such profound dislocations is, in simplest terms, very large-scale borrowing without the development of the requisite capacity to pay back that is followed by a kind of financial panic. Some control over that borrowing is a necessary condition for restoring any sense of confidence and stability.

There has been, I think, a very substantial increased recognition in recent years on the part of the international community of the importance of the growth imperative. That has been reflected, for example, in measures contained in a number of the IMF programs, such as that for Korea and that for Brazil, that limited the possibility of tariff increases as an approach to raising revenues and, in some cases, called for the reduction of tariffs or other quotas.

Increasingly, the emphasis is on prudent expenditure reduction rather than on tax increases, precisely because of the importance of pursuing that kind of approach in order to achieve economic growth.

But I think it is important in these cases to recognize that often the roots of the problems lie in a kind of excessive borrowing, and in some cases even excessive investment in what somebody called "conspicuous construction," office buildings that you can see through, and the like. In those kinds of contexts, the problem is not to stimulate more investment, the problem is to rationalize what exists.

But I think there is no question that the world will study for a very long time the dislocations of the last year and a half, and I am sure that countries will learn important lessons, both about how to prevent these kinds of crises from those experiences and about how best to respond to them.

But I would just say to you in the strongest terms that the objective is economic growth, but that depends, first and foremost in these situations, on a restoration of confidence.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Might I perhaps address both of our witnesses, as I have a generalized question, if I may. But, first, to say, on steel, how long, oh, Lord? Let me see. I believe Nucor is our low-cost producer in this country just now, and I am told they are selling hot-rolled steel at \$250 a ton. The Japanese are selling it at \$190 a ton. The number may be different, but you got the point.

Now, you can understand. You heard Senator Rockefeller, and you will hear others on these points. It is just that there is not one of us who has not been hearing for a generation, well, we are going to get those Japanese and straighten them out and show them what is in their best interests.

I remember when I first joined this committee 22 years ago, we had a big issue about rice. It was explained to us that, well, they could not import American rice because their rice growers were dependable republicans, and that is what kept Japan from being taken over by communists, and so it went. I do not know what their explanation is today, but it is still something. They could lose a lot.

But could I ask you a question here about what seems to me is coming, which is a general concern about the balance of trade. We had Professor Summers, a wonderful colleague, Murray

Weidenbaum, here last year and he said this was the most misleading indicator in our statistical tool kit.

Yet, as of November, we had the largest balance of trade deficit in our history. It surely would mean to many of us who are not as sophisticated as we ought to be that something is wrong with our trade policy, and that this cannot go on indefinitely. The dollar will come under great pressures.

What is your answer? I will ask the Ambassador, first, but I can see that Secretary Summers would like to respond, whichever you wish. Because this is coming.

Secretary SUMMERS. Maybe I could start on the more macro-economic side, and Ambassador Barshefsky on the trade policy side.

The current account deficit, Senator Moynihan, is as you suggest, I think, a matter of large and growing concern because of the indebtedness it represents and because of the dislocations in our economy it causes.

At the same time, I think it is important to recognize that the current account deficit that we have now and in prospect is, while very large like the one we experienced in the mid-1980's, is of a somewhat different form.

It is a reflection of economic strength, the fact that the United States is growing more rapidly than other countries, and that is leading imports into our country. It is a reflection of investment.

The capital flows that are the other side of the trade deficit have gone in recent years to finance investment rather than the consumption that was the case in the 1980's.

That is manifest in a national savings rate, including the deficit and the very low personal saving rate that is substantially higher than the national savings rate was at that time, and a higher national investment rate. But it is a real cause of concern.

It seems to me that the approach that is necessary in addressing it really has four crucial elements. First, strong encouragement of growth around the world because, as long as they are doing poorly, as Chairman Greenspan has suggested, we cannot be an oasis of prosperity. We have worked hard with the troubled economies and we have made it very clear to Europe and to Japan that the United States cannot be the importer of only resort.

Second, and Ambassador Barshefsky will be able to speak to this much more capably than I, the full pursuit of the panoply of measures and approaches under U.S. trade law to open foreign markets and assure that U.S. firms have the access that they need. Our firms are the best in the world and, given a level playing field, they can compete anywhere.

Third, strengthening the competitiveness of our economy. I think we have made a lot of progress on that in the last 6 years. Much of it has been at the impetus of the private sector, but I believe the policies that we have pursued at the most fundamental level by improving education, at the much more direct level by supporting the kinds of trade promotion efforts that Secretary Daley is involved in, the kinds of efforts to combat tied aid that we have pursued through the work of the Export-Import Bank, these kinds of approaches to aggressively promote U.S. exports and make American firms more competitive, is the third part of our approach.

And, fourth, and of great importance, I would argue, over the long term, is steps to increase our National savings rate. Ultimately, trade flows are the mirror image of capital flows.

As long as we have too low a national savings rate and a strong desire to invest and are financing that investment from abroad, the only way we can invest more than we save is to borrow, and the other side of that borrowing is a trade deficit. We have more than doubled the national savings rate in the last 5 years because the budget has moved into a surplus. But the personal savings rate in our country is negative and deplorably low.

It is this nexus of issues that are around national savings that make one of the other issues that are within this committee's jurisdiction and on which you are such an expert—Social Security reform and the kind of framework that the President's budget talked about—are so important, not just for our seniors, but although the connections are more indirect, ultimately of profound importance for our Nation's competitiveness.

Senator MOYNIHAN. Thank you, indeed. Teach me to ask a question of Secretary Summers. That is a good, brief course.

Would you want to add anything?

Ambassador BARSHEFSKY. I would add this. I think, as Secretary Summers' comment makes clear, trade policy is one element and it is not by any means the largest element that one can use to shift aggregate trade balances. That is to say, aggregate trade balances are a function of a variety of factors, principally macroeconomic in nature.

To the extent those balances reflect trade barriers in particular sectors or in particular government policies, U.S. trade policy can be an effective means of altering those barriers, and altering the mix, and altering the balance in that particular sector, or with respect to that particular policy.

But I do not think you will see a substantial effect on the aggregate trade balances from alterations in trade policy. I think this is one of the great sort of misunderstandings in the public mind of the role of trade policy with respect to alterations in our aggregate trade balances.

We have, I think, in this administration, but I think also in previous administrations, been very aggressive and forward-leaning on removing market access barriers abroad. We have made, I think, considerable progress, as evidenced by our strong export performance, which is also not only a function of trade policy, it is also a function of macroeconomic factors, but there trade policy also plays, I think, a role.

We will continue on that aggressive course of market opening to do what trade policy can do with respect to imbalances on the current account, but recognizing that those imbalances are largely a function of macroeconomic factors, not microeconomic changes in trade policy.

Senator MOYNIHAN. Good. And I do not want to take more of the committee's time. But may I just suggest that, in the political world, trade policy will be seen as the principal source.

Ambassador BARSHEFSKY. I know it.

Senator MOYNIHAN. That is a problem we ought to think about.

Ambassador BARSHEFSKY. I agree.

Senator MOYNIHAN. Thank you both very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Mr. Chairman, just following up, I have one macro question and one trade question.

The macro, is exchange rates. We reach these trade agreements. Let us take NAFTA, for example. Montanans are having a hard time because the Canadian dollar is so low. We have all of the currencies that depreciate overseas that very much affect our economy in various sectors, industries, companies.

What do we do about exchange rates? Is the answer that we should only help countries grow and become prosperous, and therefore those economies are strengthened and that will minimize the exchange rate differential and help IMF, World Bank, and others keep sort of stable growth among all the countries and just kind of live with dramatic fluctuations when they occur, or wide variations in strengths of currencies when they occur with respect to, say, Montana farmers, or do we do something a little more aggressive?

Secretary SUMMERS. Senator Baucus, since I cannot give you an answer that fully satisfies myself, I doubt I can give an answer that fully satisfies you. But let me make three points, if I could.

First, preventing hyper-devaluation and the resulting dumping was a central objective of the IMF programs. Basically, what was happening was that all the money that was in those countries wanted to get out. That means the local currency was being sold on a massive scale and there was nobody on the other side.

By seeking to provide some confidence, by seeking to improve the policy conditions, by seeking to provide some dollars, the IMF programs represented an attempt to control the devaluations that otherwise would have taken place and the consequent trade dislocations.

You have seen in those places where the policies were carried through, that there have been very substantial effects. The Korean won, which at one point was 2,000, appreciated by 40 percent from that level. There are similar figures in Thailand. And even in Indonesia where the situation has been very difficult, the exchange rate has nearly doubled in value from its low point. So for the countries that are in distress, there is a central remedy.

For other countries, like the Canadian example that you cite, and it has certainly been issue among the major countries, there is a very understandable discomfort with the magnitude of fluctuations. The difficulty is that there are really two approaches that are advocated to try to control those fluctuations.

One view which is taken by some, but we believe is inconsistent with almost all the experience, is that if policy makers simply talk more about where they would like currencies to be, and if they intervene in currency markets, they can set the levels of currencies.

In our judgment, in the size of today's currency markets with \$2 trillion traded every day, the prospect that that kind of intervention would be effective is rather limited.

The alternative approach is that we encourage or that we ourselves use monetary policy to a greater extent to pursue currency stability as an objective. The difficulty there, of course, is that it

forces one to use monetary policy in a way different than what would be appropriate on the grounds of domestic economic stability.

We in the United States have traditionally made the choice that we do not want to be part of a system in which, in a period like 1995, for example, when the value of the dollar had fallen on foreign exchange markets, it would be incumbent on us to have a very substantial increase in interest rates, even though the economy was falling. Many other countries have taken the same view.

So, while the degree of volatility in exchange markets is something that is of concern and is disruptive, one does have to ask, if one wants more stability, what the means are.

Our judgment is that, beyond the strong encouragement to sound policies, the occasional interventions that the major countries engage in, that an effort to achieve greater stability without policy commitments would very likely be unsuccessful. And an effort that involved a firmer commitment of monetary policies could well sacrifice what is even the higher objective of domestic economic stability.

Senator BAUCUS. You are right. [Laughter.] If I can just press you a little more.

Secretary SUMMERS. Sure.

Senator BAUCUS. What are some of the clues, some of the possible areas in addition to those that you mentioned that might be productive? I mean, here is an opportunity. We are coming on to a new WTO ministerial, a new Congress is beginning to try to help, with the administration, in setting national policy. Do you have any other provocative, wild ideas? You do not have to endorse them. You do not have to endorse them.

Secretary SUMMERS. That is just what they encourage sub-cabinet officials to come do. [Laughter.]

Senator BAUCUS. I know exactly. I know.

Secretary SUMMERS. Throw out a few provocative ideas.

Senator BAUCUS. Ideas that you do not endorse.

Secretary SUMMERS. I think there is probably ample commentary out there that I do not endorse without my trying to summarize it. I think there is a great deal we can do, Senator Baucus, to try to stabilize the global financial situation more than it has been stable in the past.

Some of the crucial issues there involve transparency, which people say, oh, yes, transparency. But the fact is, if you look at why our own capital markets in the United States are so successful, I would argue that the development of generally accepted accounting principles is probably the single most important thing.

That is what transparency is about. That is what, more profoundly, developing a broad infrastructure globally, like the one we have domestically, means bankruptcy laws, it means contract enforcement, it means codes of practice in corporate governance. This is increasingly what the work of the international community is going to be.

I think, and this is a crucial thing where we will, I suspect, make important case law and reach understandings over the next several years, is the whole question of private sector involvement when there are financial crises.

On the one hand, the bail-outs are wrong. On the other hand, there is a need in these situations to contain contagion, the kinds of approaches that we pursue with respect to the private sector. And you have seen some evolution in that with what was done in Korea, with what was done in a number of other situations. It is going to, I think, be a very important challenge in the years ahead.

I think there will be discussions increasingly as countries make choices with respect to exchange rate regimes. I would say that more countries have been interested in questions relating to currency boards in recent years than has been the case previously, and they have been successful in a number of countries. They may come to be pursued more widely in the future.

So, there are ideas that are out there. But I think one has to be very careful in talking about exchange rate stability in recognizing that goals trade off and that, to pursue exchange stability as a goal, one inevitably gives something else up.

Senator BAUCUS. What about single currency? Argentina is converting to the dollar, for example. What if we had fewer currencies, would that help the world?

Secretary SUMMERS. There has been some discussion, at least in the press, of that possibility in Argentina. That is obviously a choice for Argentina to pursue. It may be a choice that they will make. It is a choice that could serve very important functions in anchoring their economies.

Countries have been traditionally reluctant to adopt other countries' currencies, for three reasons: national pride, loss of the so-called seigniorage that comes from being able to print money, and the loss of flexibility that comes from not being able to adjust monetary policy to domestic conditions.

Senator BAUCUS. Right.

Secretary SUMMERS. But it may be that more countries will move in this direction in the future.

Senator BAUCUS. I have about 15 seconds for Ambassador Barshefsky.

This WTO bananas beef. I mean, it is getting sticky and it is not working. The Europeans have found loopholes. What is the timetable in the next ministerial efforts, round, whatever, and the likelihood that we are going to be able to come up with a regime that essentially does not allow effective veto?

Ambassador BARSHEFSKY. Let me say that I do not think it is accurate to say that the system is not working. We have been successful in 19 of 21 cases where we have had no problem whatsoever in countries complying with WTO rulings. The typical way in which that happens is, the losing party comes to the prevailing party and says, can we work out, within our time frame of compliance, some method of compliance that would be satisfactory.

Senator BAUCUS. The Europeans are not doing that.

Ambassador BARSHEFSKY. The Europeans refuse to do that. What we see here is actually a very old pattern. If you look at the old GATT cases and the cases in which panel rulings were blocked, inevitably they were in agriculture and inevitably the blocking party was Europe. We see the same pattern here on bananas, and we fear the same pattern on beef.

We do think there are changes to the dispute settlement system that can be made to ensure that that kind of blocking behavior—because that is, in fact, what has happened here—cannot happen again.

I think we will be successful in getting those changes. I do not think WTO members, in general, want a system that does not work effectively, including with respect to securing their own rights in the system. But I do think it would be unfair and inaccurate to say that the system as a whole is not working, because that is not the case.

Senator BAUCUS. My time has expired. You can just think about, and I will not take other people's time, I think it is working fairly well, but sometime I would like to explore with you how we solve the problems that the Europeans are creating.

Ambassador BARSHEFSKY. We would very much like to do that with you.

Senator BAUCUS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman.

Mr. Chairman, I want to focus most of my questions on the issue of the Caribbean Basin initiative which Senator Lott spoke of in his opening statement, and has been alluded to.

There have been some events which have occurred in the last period which make this issue more urgent. You have alluded to one of them in your last comments on the banana issue. The economies that are going to be adversely affected by our position, primarily those English- and French-speaking areas in the Eastern Caribbean, are very dependent upon bananas. A little country like Dominica, which has been one of our best friends in the hemisphere, better than half of its export income comes through bananas.

So the need to have a policy that is balanced as we are attacking their traditional source of export for income to be advancing some measures that will be seen as assisting them in making the transition, I think, is very important.

But the most dramatic events are those that surround the hurricanes of 1998. I recently visited Honduras and Nicaragua. Honduras has been devastated by Hurricane Mitch.

Just to put it in perspective, the week after the hurricane hit the number of displaced people, that is, people who no longer had a home to live in, if it were the United States in proportionate numbers, would have been over 60 million people.

You can imagine what the situation would be in the United States if 60 million of our citizens were without a place to live. Even today, almost 3 months after the hurricane, they still have the equivalent of 10 to 15 million, in U.S. terms, people who are displaced.

The agriculture economy in Honduras was especially impacted by the hurricane and not only caused a substantial loss of their current year crop, but also disrupted the infrastructure, which will affect the pace of their recovery in the future.

Honduras has one of the larger assembly industries of the Caribbean Basin countries, about 90,000 to 100,000 people employed overwhelmingly in the garment and apparel area. In conversations

with everybody from the president of the country, through the government, to private sector individuals, the single most important step that the United States could take to help in this economic recovery would be to enhance the CPI benefits for those countries. That was a uniform request.

In light of that, it is stunning to me that a couple of things have happened, and I would like to understand what the significance is.

First, in the State of the Union speech of the President last Tuesday, there was a written sentence which specifically committed the administration to CBI enhancement. That sentence was not spoken on the floor. I understand that the Caribbean/Central American relief package which is coming to the Congress does not include CBI enhancement.

Those two anecdotes raise questions as to just how committed the administration is to CBI enhancement, particularly in the context of the urgency of some of the circumstances that I have just discussed.

I wonder if you could comment as to, how committed is the administration, what are going to be some tangible indicators of that commitment, and in what form would the administration be advocating a CBI enhancement bill?

Ambassador BARSHEFSKY. Let me say that the administration and the President are absolutely committed to CBI parity legislation. There really is no question about that. The President has made that clear in meetings with the Central American leaders with whom he has had extended conversations, individually and jointly, not only on CBI matters, but also with respect to disaster relief following Hurricane Mitch.

He is personally very committed to this issue and has indicated to each of his counterparts in each of the countries affected, as well as the surrounding countries, that he is firmly committed and very interested.

Senator GRAHAM. Excuse me for interrupting. But could you explain, in light of that, why the President would have in his written text in the State of the Union a reference to CBI, but it would not be spoken to the American people?

Ambassador BARSHEFSKY. I cannot comment one way or another, except it is not an indication of any lack of interest, support, or dedication to the issue of CBI parity.

Senator GRAHAM. Is it correct that the Central American Relief bill that the administration will be sending to Congress will not contain CBI, and if so, what is the significance of that?

Ambassador BARSHEFSKY. At this juncture, it would not contain CBI because the leadership of both Houses, Majority and Minority, have suggested that it not. We are obviously happy to work with the committee.

Were it possible to put CBI on that bill, we would be delighted to do so. The administration was asked not to. But, as I say, we are happy to work with the committee.

May I make one other comment? I want to correct, I think, a misimpression that you may have which was reflected in your opening remarks. That is, that the concern the United States has with respect to European banana policy does not, and is not, in-

tended to impact the preferences Caribbean producers have long held in Europe with respect to banana trade.

Those preferences are under Europe's Lomay Convention with the Caribbean and other nations. The U.S. has been a staunch supporter of the Lomay benefits for those countries. Every settlement proposal we have made to Europe with respect to bananas retains very substantial preferences for Caribbean bananas, as against Latin bananas, which is the current situation today.

Our concern with European policy is simply that there is no need for European policy to discriminate against U.S. interests with respect to bananas. Those interests can be accommodated fully, while also retaining the preference that Europe holds for Caribbean bananas over Latin American bananas.

Senator GRAHAM. Let me say on that last point, that certainly is not the impression that the countries in the Eastern Caribbean have. They feel that they are going to be very adversely affected and that the United States is the source of their pain.

If there is a case to be made that one or both of those statements is incorrect, that message needs to be communicated because it is causing us tremendous difficulty on areas like getting cooperation on anti-drug policy within this region.

Let me go back to my final question on CBI. What will the administration be recommending as the specific components of a CBI enhancement bill?

Ambassador BARSHEFSKY. As to the specific components, we will be working closely with the committee as it moves forward. We have always supported the broadest possible bill with the maximum benefits to the Caribbean, similarly, with respect to Africa legislation, recognizing, however, that a number of members have concerns about the breadth of both of those bills and obviously are desirous of working out a solution with those who are concerned about the breadth of the benefits.

But, consistent with achieving legislative outcome here that would be positive for both the Caribbean and Africa, we wish to see a bill that is as broad as the political traffic will bear.

Senator GRAHAM. Thank you.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

I guess I would address this question to both of you. I think the question of fast track, for which I have, unlike any of my colleagues from the State I represent, consistently voted, and the whole concept of international trade and those of us who believe in international trade—in fact, I spend every January—we have been interrupted by a circumstance this January.

But we take West Virginians to Asia, China, Japan, Taiwan, usually, to enhance the whole idea that we are in a globalized economy and that we should both export, that is good for bringing in jobs, and that we should have reverse investment, which is good because that puts our people to work.

However, I think fast track and the international economy and globalism has always been, and will much more increasingly, as Senator Moynihan indicated, be based upon a sense of fairness on the part of the American people, that there is a contract here, that as we trade, that we trade fairly.

There is an increasing understanding in West Virginia, particularly in the northern part where our steel mills will be probably closed by October unless the administration does something, that this compact no longer holds and that there is an obsession about globalism and the global economy in this administration which, in fact, takes Ambassador Barshefsky's statement that trade is but one part of the international economic situation and brings realism to it. That is, it is one part, and becoming increasingly a smaller part.

I do not think, Ambassador Barshefsky, that you are saying what you really would like to say because you are part of the administration. That is natural. We understand that.

But let me just say to both of you that the President, in his speech, talked about putting a human face on trade. Again, that is an easy thing to say. It is also an easy thing to walk away from.

We have in our steel mills in West Virginia, the largest of which is the largest industry in the entire state, is not a union one in the U.S. steel workers' concept, therefore, it has gotten most of the attention. People say, well, we are in steel, we are in steel. Well, there happens to be over 4,000 people working, again, in the largest plant in our State.

That completely ignores the fact that, on July 1 of this year, the United Steel Workers' contract will expire. In that contract, there is a no lay-off clause which means, in fact, that at LTV Bethlehem and many other larger steel companies that have U.S. steel worker contracts, there are a lot of steel workers now sweeping the floors and keeping the machinery clean because the inventory reaches the ceiling already.

When July 1 comes, you are not going to be talking about 10,000 steel workers, you are going to be talking about 75,000 to 85,000. I come back to the sort of contract between globalism and the interests of the American people. The trade deficit with just China and Japan this year is going to be, at a minimum, \$120 billion, as Senator Moynihan suggested.

My question is, at what point do you consider that we do something? Secretary Daley is going to come out with a report on Thursday on hot-rolled steel. There will be very interested effects from Japan. Japan is exporting way over 200 percent of what they did a year ago from last August, and they are 42 percent of all of imported steel in this country today.

Now, I predict to you, their numbers will come down, Ambassador, but they will still be well over 100 percent of what they were this past August, much less the August preceding that.

So at what point is it that we enforce trade laws and, therefore, uphold the contract, unspoken but in fact written into law, between the American people and their willingness to deal with a global economy that most people do not understand that well because they live in this country, what we would then consider to be unfair trade, worthy therefore of response, which Secretary Rubin says we cannot afford?

Ambassador BARSHEFSKY. This administration is absolutely committed to enforcing our unfair trade laws and our laws against injurious import surges. The President is personally committed to

that. I know of no member of the administration who is not committed to that.

I think, first off, of the antidumping preliminary rulings, which will come out in February. Of course, we do not know what the results of those will be, but they have the prospect of dampening quite significantly steel imports coming into the U.S.

I think we have already begun to see a little of that happen, given implementation of the Commerce Department's critical circumstances ruling in mid-November this year which allows Commerce to reach back on potential duties.

Second of all, I agree with you. I think we will see a downturn in Japan's exports of steel to the U.S. I think we are going to have to see, as the President said, a return to pre-crisis levels on Japanese imports soon.

My guess is, the downturn in December will not demonstrate a return to those pre-crisis levels. It will be inadequate. The downturn the next month is going to have to be mighty, mighty severe to begin to return Japan's steel exports to the U.S. to pre-crisis levels, which Japan has indicated they wish to do.

Senator ROCKEFELLER. And then, Secretary Summers, Ambassador Barshefsky having said that, and the President having said that if Japan does not—Japan is not the only country. I mean, as my colleagues here know, I went to school in Japan. I have a long history with Japan. But there are many countries doing this.

The President then went on to say, if Japan does not reduce it substantially, something to that effect, dramatically, substantially, I think it was, he said, we will respond. Why, at this point, should I believe him?

Secretary SUMMERS. Senator Rockefeller, let me make a general comment if I could, and then address the steel question.

I completely agree with what you said about how trade has to work for people in communities in America if it is going to work for the global system. I think there is no greater threat to the idea of global integration than people seeing that it is associated with local disintegration. That is why we are absolutely committed to enforcing our trade laws in as vigorous a way as we can to ensure that trade is fair to American workers.

With respect to the situation in Japan, it is certainly too early to reach any definite judgments. There are large gaps and statistical confusions between Japanese export figures and American import figures, so one does not want to reach definite judgments.

But I think it does bear emphasis that total Japanese exports of steel to the United States, as measured by the Japanese figures which were 846,000 tons in August and 909,000 tons in September, had declined to 367,000 tons, less than 45 percent of their September level by December, and that there were similar declines by a factor of three with respect to hot-rolled steel.

Now, as Ambassador Barshefsky made very clear, that is not good enough. As the President made very clear, we will avail ourselves of the remedies under U.S. law, 201, dumping, and so forth, if adequate progress is not made and we do not see results.

But we are seeing very substantial declines. We will, I hope, see voluntary actions by the Japanese to produce further substantial declines in the next several months. If not, there will be actions

taken that will ensure that there are very substantial declines in the threat that is posed to U.S. workers from unfair imports.

As you know, Senator Rockefeller, with respect to some of the other countries, the Commerce Department is engaged in a negotiation with respect to a suspension agreement with respect to Russia, which is another potentially very important issue, and a number of aspects of the IMF program go directly to the question of subsidies of steel in Korea.

We have also, I remarked earlier—

Senator ROCKEFELLER. Secretary Summers, my time is about to run out.

Secretary SUMMERS. Sorry.

Senator ROCKEFELLER. I need to make one point. The Mexicans and the Indians are also dumping steel. They have a different word for it. They call it reference price system. I do not believe there has been any comment out of the U.S. Government on that with respect to WTO, either from the Ambassador or from any other part of the government.

Again, you say that the President will taken action. Again, Secretary Rubin said this morning that anything that would reduce access to U.S. markets would be against our National economic interest.

I believe he has, and I have, and I do not have to explain to any of the three of you, enormous respect for him and for both of you, and you know that. Case closed. But I worry enormously about the compact, I worry enormously about a severe political reaction which is already very heavy in my State which is causing at least this Senator to think about not voting for fast track for the first time in my Senate life. I think that feeling is going to grow very substantially unless the administration, in fact, enforces the trade laws that are the law of the world and that are on the books.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. Ambassador Barshefsky, welcome. I want to talk about China. That country has promised, and it has always been in the context of the WTO accession negotiations, to liberalize the availability of its trading rights, the right to import and gain access to China's distribution system. They decided to do this over a 3-year period of time.

You addressed this issue in your July 9 report to this committee, and could I quote from that? "China has made commitments on a number of critical issues related to the rules of the WTO. For example, China committed to WTO obligations relating to transparency, judicial review of administrative decisions, and non-discrimination. China also agreed to phase in trading rights over 3 years."

Yet, despite the commitments you described last July and despite the commitments that China made in its 1992 market access memorandum of understanding, China aggressively restricts the type and number of business entities within China which have legal right to engage in international trade, and only those forums with important rights may bring goods into China.

Specific agencies and bureaus all across China impose informal marketing access barriers for imports that fall within their jurisdictions, and even some Chinese agencies demand that end users pur-

chase certificates before they can win permission to U.S. imports. One thing I am particularly interested in in this area is that that seems to be true of U.S. pork, citrus, and other products.

So are these restrictive licensing practices a portent of things to come from China despite their official commitments to the contrary? Also, could you tell me specifically what you are doing to address this issue, that they do not seem to be performing according to their words?

Ambassador BARSHEFSKY. Senator, as I recall, the testimony that I provided to the committee talked about China's range of commitments in respect to its WTO accession negotiations, of which trading rights is one of a series of commitments that China will make were it to accede to the WTO.

It has not yet acceded to the WTO because we are as yet not satisfied with respect to a number of areas in which China has thus far refused to take sufficient action to open its market.

Trading rights, however, is one area where China has agreed that it will liberalize those rights overall over the course of 3 years once it accedes to the WTO. They have undertaken voluntarily some recent relaxation of trading rights restrictions, particularly in the industrial sector, as it wishes to import goods more efficiently and effectively from abroad, particularly in connection with infrastructure projects.

We think that is fine and we appreciate that China is doing this voluntarily and in advance of accession, but it will not detract from the fact that full trading rights liberalization will have to occur.

In agriculture, the situation on trading rights is as yet a little unsettled because agriculture is one of the areas that is holding up China's accession inasmuch as China has refused to make commitments adequate to open their agricultural markets with respect to a variety of commodities, including pork and including citrus.

Once we re-engage China, which we will be doing later this month and next month on the agricultural issues, we can provide you a fuller picture not only of the agricultural access progress that we have made, if we have made that kind of progress, but also the way in which the trading rights regime would affect agricultural exports.

Senator GRASSLEY. You said China made some progress in one area, you stated. And I do not want to question what you said on that because you are probably right. But do we make sure that we are not getting blue smoke blown at us in the sense like, at the end of 1995, they abolished nontariff barriers on 176 items specified under that 1992 memorandum of understanding, and then we now know that it has put in place alternative nontariff measures such as the automatic registration requirements. They have done that on about 400 products. Are we sure that we not thinking that we are gaining in some areas and then losing in others?

Ambassador BARSHEFSKY. What we have done in the context of the accession talks, is this. We have required China to notify, that is, to spell out all of their existing nontariff barriers, and then we are in the process of negotiating how each one of those barriers will be phased out and eliminated over time.

If a nontariff barrier has not been notified, then that barrier cannot be enforced in China. That way, we have, first of all, a picture

of what the range of barriers is, and second, we are basically saying to China, if you did not tell us the barrier existed, then as a legal matter, it cannot exist in the future. It cannot be imposed and it cannot be enforced, or that would be a clear violation of WTO commitments.

Senator GRASSLEY. I think you are telling then me you have a way of monitoring these 400 barriers.

Ambassador BARSHEFSKY. We believe that we do. The barriers of which you are speaking are on the list of items that would need to be phased out.

Senator GRASSLEY. All right. Then my last question to you, because I want to ask Dr. Summers one. This is more agriculturally oriented, at least towards meat.

In 1977, China announced a 1-year trial program for imports of meat from the United States for its retail market. Only five U.S. plants were approved to export meat, including pork, to China. So how much U.S. meat, including pork, has been shipped to China under this trial program?

It is my understanding that almost no U.S. meat has been, but I will let you counteract that. What specific actions would be taken to gain greater access by U.S. meat producers to Chinese markets under what we are led to believe is an opening by China, which may not be an opening?

Ambassador BARSHEFSKY. We do not believe that the pilot project that we worked out with China opened China's market for meat and pork products. We were very dissatisfied with the way in which the program operated.

China took the basic position, it would certify individual plants for export, which is exceptionally inefficient, does not provide those plants with sufficient sureness of their ability to export. We wanted a system-wide certification by China, as we have in most other countries.

Our beef, pork, citrus, does get into China because it is smuggled. As you know, with respect to China and in many of these areas, there is a very substantial smuggling trade through Hong Kong into China. This was the early route for our computers into China. Obviously, smuggled product is not, in our mind, considered market access.

So this is an area that is also now incorporated in the agricultural negotiations with respect to China's WTO accession. Our thinking right now is that we would, and this is consistent with WTO rules, set up a system in China of tariff rate quotas and minimum access commitments. That is, numerical commitments China would have to meet in each of the principal agricultural commodity areas, including in beef and so on.

That is consistent with WTO rules. That would provide us with, if you will, guaranteed access fully enforceable in dispute settlement because this is simply whether a number has been met, and it will be easy to determine if that number has been met or not. And then a quota system accompanying it in which quotas would gradually be liberalized over time.

The goal here is to make the system on agriculture as self-enforcing as possible and as numerically oriented as possible to ensure

genuine market access which, thus far in the meat area under this pilot project, we were unsuccessful in obtaining.

Senator GRASSLEY. Thank you.

Dr. Summers, you are probably going to hate me for asking you this question, but I have got the Harmonized Tariff Schedule here, 4,000 pages and obviously very cumbersome, very complex, very difficult to handle, and probably even more difficult to understand, as part of the U.S. Tariff Code, which also would probably be described the same way.

Is there any thought being given to simplifying the Harmonized Tariff Schedule and simplifying and flattening the tariff rates? For instance, I think there is a great deal of cost connected with this for not only the administration of it, and I am not so interested in that as I am the cost of business, about the costs of complying with the Tariff Code. Like I said before, you are going to hate me for that.

Secretary SUMMERS. No. I just turned behind me hoping to be passed a note that laid out our detailed plan for simplification in this area, and I am still waiting. [Laughter.]

Senator MOYNIHAN. Sorry. I think you are supposed to say flat tariff. [Laughter.]

Secretary SUMMERS. Right. I was about to. Thank you, Senator Moynihan. I was about to say that perhaps we can take some satisfaction that the Tariff Code is slightly shorter than the Tax Code. But I think in both cases, we can agree on the desirability of simplification. I will, perhaps, go back from here and ask the people at the Customs what some of the larger issues are there and get back in touch with you.

Senator GRASSLEY. Yes. If there is nothing being done about it, there is nothing wrong with answering no.

Secretary SUMMERS. To my knowledge that is the case, but I will investigate it.

Senator GRASSLEY. If there is, I would like to encourage a little bit of thought along that line.

Ambassador BARSHEFSKY. If I could just add, I think one of the goals in the next round ought to be to bring as many tariffs as possible down to zero, particularly tariffs we would consider nuisance tariffs, that is, tariffs at 3 percent or below. There were a variety of zero-for-zero tariff initiatives in the Uruguay Round which were unsuccessful at that time, but which may form part of this.

The Information Technology Agreement, of course, will reduce to zero all tariffs on information technology products, which includes everything from semiconductors all the way through to computers, phones, faxes, and the equipment that makes those kinds of products.

So what we would like to see over time is, frankly, a movement toward as many zero tariffs as possible, which is, I guess, about as flat as you can get.

Senator GRASSLEY. Thanks to both of you.

The CHAIRMAN. If we cannot get them to zero, I wish we could at least get other tariffs to our level.

Ambassador BARSHEFSKY. Agreed.

The CHAIRMAN. Well, time has run out. I would point out that the ministerial meeting is in November. It is not that far off. I

think it is pretty obvious, we have a long, long ways to go in developing the kind of bipartisan support that I think is essential if we are going to move ahead in a constructive way.

I cannot emphasize too much how important it is that there be strong, strong leadership from the White House, that the only way that we can get this job done is by that kind of leadership.

I want to thank you for being here. This is the beginning of the hearings. We have a long ways to go, but I am confident we can succeed.

Ambassador BARSHEFSKY. Thank you, Mr. Chairman.

The CHAIRMAN. Before we recess, I would like to announce that written questions can be submitted until 5:00 tomorrow.

The committee is in recess.

[Whereupon, at 11:59 a.m., the hearing was recessed.]



U.S. TRADE POLICY IN THE ERA OF GLOBALIZATION

WEDNESDAY, JANUARY 27, 1999

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

The hearing was convened, pursuant to recess, at 10:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Grassley, Moynihan, Baucus, Rockefeller, Kerrey, and Robb.

OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE, CHAIRMAN, COMMITTEE ON FI- NANCE

The CHAIRMAN. The committee will please be in order.

First of all, it is a pleasure to welcome our distinguished panel. Let me start out by saying, Senator Moynihan, I thought we got off to a significant start in addressing the most fundamental issues confronting the President, the Congress, and the American people as we begin to forge our trade policy objectives for the future.

I believe our hearing yesterday was a positive first step towards our goal of sending our negotiators to the WTO ministerial this coming November, hopefully, with the backing of the Finance Committee, the Congress, and the American people.

Now, today I hope to take a second step towards that goal. We will hear from two very distinguished panels of witnesses that will address two different aspect of our current trade policy.

The task of our first panel is to outline the practical lessons or reasons for pursuing open markets and benefits of an open economy. A number of witnesses on our first panel will also outline what, in their view, we should pursue as our negotiating objectives in a new round of multilateral talks to be launched at the WTO ministerial in November.

Now, the second panel of witnesses will address a different aspects of our trade policy, one that raises the question of how best to address the economic dislocations that may arise from changes in the marketplace.

In many ways, the steel industry has been a litmus test for the conduct of American trade policy for many years, and it once again finds itself in that role. There is little doubt that the American steel industry today is world class.

The industry has been driven both by imports, and more fundamentally, from new sources of domestic competition through a difficult period of adjustment and renewal over the last two decades.

What the industry confronts today is a different kind of challenge. The remarkable events that have unfolded beyond our borders in recent months have led to a dramatic surge in imports of certain steel products and, despite record-high U.S. demand for steel, the industry is faced with layoffs, bankruptcies, and idled capacity.

The administration announced its plan for addressing the situation in a report filed with Congress the first week of January. I expect we will hear comments on the administration's proposal, as well as legislation sponsored by others, including Senator Rockefeller and Senator Moynihan.

So, with that, I am happy to ask Senator Moynihan for any comments he may care to make.

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

Senator MOYNIHAN. Just a word, Mr. Chairman, to thank you for getting us off to this start. You are quite right about the tone of our hearing yesterday. We have a very specific challenge before us, which is to get trade negotiating authority to the executive in time for the meeting of the World Trade Organization in Seattle this fall. You have done so in the last Congress, and the Senate was supportive. Our problems are obviously on the House side. But, again, our initiative will be an example.

I think we have a widened recognition that this is not something you can just take for granted any longer. We have had, since Cordell Hull, an opening of trade policies in successive administrations, and they just seem like a given. Suddenly it is not, and takes the kind of effort we are going to see today.

I would like to, just on a personal note, welcome Frank Raines. About 3 years ago at the Democratic caucus, I had occasion, when he was brought up and introduced, to say, "Nothing can make a man feel older faster than for a former student to become Director of the Office of Management and Budget." [Laughter.] It shows still. But I am very proud to have you.

Mr. Kleckner, we were colleagues on the Social Security Administration years ago, if you will recall.

Well done, sir. Let us hear the witnesses.

The CHAIRMAN. Well, I understand, as a teacher, you were a child prodigy, Senator Moynihan. [Laughter.]

I am very pleased to welcome such a distinguished panel. We are very happy to have Franklin Raines, who is, of course, chairman and CEO of Fannie Mae and, as you pointed out, was one time Director of OMB.

We are very pleased to have Dean Kleckner, who is, of course, president of American Farm Bureau, an organization with which I have had much contact and have been happy to work with.

We are, indeed, pleased to have Gary G. Benanav, who is chairman and CEO of New York Life International, and a board member of the Coalition for Service Industries.

Finally, we are delighted to have you, Mr. Cohen, Cal Cohen, who of course is president of the Emergency Committee for American Trade.

Well, we are going to start from the right and go tot the left. Do not make any implications from—

Senator MOYNIHAN. Mr. Chairman, would you allow me to say, in welcoming Mr. Cohen, that for so many years there when the American trade policy was absolutely solidly in place, the Emergency Committee continued even so. But now there is an emergency and we are really happy to have you.

Senator BAUCUS. Mr. Chairman, may I make a very brief statement?

The CHAIRMAN. Yes.

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

Senator BAUCUS. Mr. Chairman, I would like to just make, as I said, a very brief statement and focus primarily on a major industry in our country, and that is agriculture.

I think my staff is putting up a chart behind us which makes a very simple point. It is one that I think we all should remember when we are trying to decide how we are going to approach the WTO and how we are going to deal with agricultural subsidies, in particular.

As the chart indicates, essentially European agriculture subsidies are eight times that of the United States. Frankly, Europeans' export subsidies are about \$7.7 billion, I think, and the U.S., about \$500 million. That is just in export subsidies.

So I hope that, when Mr. Kleckner and others discuss agriculture, that we just keep in mind the degree to which Europe heavily subsidizes agriculture, much, much more than does the United States, to the tune of eight times.

In addition to that, I would like Mr. Kleckner, when he gets a chance, to discuss the transparency problems that we have in the United States, say of the wheat boards in Canada, Australia, and whatnot, as well as exchange rate issues and how we deal with exchange rates. Often, many farmers find that American policy is all right but, because of currency fluctuations and exchange rates, suddenly there is just a big drop in their income.

Thank you, Mr. Chairman. I appreciate that.

The CHAIRMAN. Thank you.

We will now proceed with you, Mr. Raines.

STATEMENT OF FRANKLIN D. RAINES, CHAIRMAN AND CEO, FANNIE MAE, WASHINGTON, DC

Mr. RAINES. Thank you, Mr. Chairman, and thank members of the committee for this opportunity to appear before you today. I have a brief statement, but I would like permission to submit a longer statement for the record at a future date.

The CHAIRMAN. Without objection. I would advise all the witnesses that their complete statement will be included as if read.

Mr. RAINES. Thank you, sir.

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

Mr. RAINES. I am, as you said, the chairman and CEO of Fannie Mae, the largest investor in residential housing in the Nation. Although originally founded by the Federal Government, last year we celebrated our 30th anniversary as a company owned by private shareholders.

We continue to be regulated by Federal agencies and operate under a Federal charter that requires us to create and promote a secondary market in residential mortgages.

That means we do not originate mortgages, but we make sure that lenders have the money so that they can make loans. Fannie Mae is in the business of expanding home ownership and affordable rental housing in America.

The members of this committee are well aware of the importance of home ownership to American families. Home ownership remains the American dream and it is still the greatest generator of wealth for most families. It is the bedrock of the middle class.

Housing is an important part of the economy as well. Over 21 percent of private consumption in the United States is related to housing. That means 21 cents of every dollar spent by American consumers goes towards housing their families. Compare that to 15 cents spent for medical care, 14 cents for food, 5 cents of each dollar spent on motor vehicles. Clearly, housing must be at the forefront of your thinking when you consider the interests of American consumers.

I am here today to make the case that open capital markets are important to the average American family because, without access to international capital, the cost of housing in the United States would go up and the opportunity for home ownership would go down.

As I mentioned, our job at Fannie Mae is to promote the functioning of the secondary market for residential mortgages by increasing the liquidity of mortgage investments and by improving the distribution of investment capital available for residential mortgage financing.

We provide stability in the secondary market and work closely with the international capital markets. Fannie Mae is the Nation's largest supplier of home mortgage funds. In the 1990's, we supplied more than \$1.9 trillion in mortgage financing, helping more than 21 million American families own their own homes.

Today, Fannie Mae finances one out of every four homes in America. Due in part to our efforts, the home ownership rate has hit an all-time high of 66.8 percent. We raise money to buy these mortgages by borrowing from domestic and global capital markets and by issuing mortgage-backed securities in those markets. Today, Fannie Mae is one of the Nation's largest issuers of debt.

Foreign investors have been important purchasers of Fannie Mae debt. Of the \$147 billion we raised from issuing long-term debt last year, 30 percent, or \$44 billion, came from overseas investors, including foreign central banks. In other words, foreign countries and other overseas financial institutions invested \$44 billion in the American housing market in 1 year through us.

Last year, Fannie Mae responded to a greater demand for higher quality debt by issuing our landmark benchmark notes, large denomination, non-callable debt issues with terms from 3 to 10 years.

Over the year, we issued eight benchmark notes and had seven reopenings, for a total of \$42 billion.

These have proved very popular with foreign investors who saw their credit quality, liquidity, and attractive spread and bought more than \$18 billion worth, 44 percent of the total issuance. In turn, benchmark notes helped give us uninterrupted access to global capital markets.

When foreign investors buy Fannie Mae debt, they are making an investment in new home construction and jobs, they are investing in our neighborhoods and communities, they are helping to finance the American dream of home ownership, and they are helping Fannie Mae hold down the cost of home ownership and extend it to more families. Without open capital markets, Fannie Mae would have to rely more on U.S. debt investors to finance homes.

In response, the domestic interest rates would rise and home buyers would pay more each month, and many would be prevented from buying a home at all. So it is clear to me that anything that jeopardizes open capital markets, in effect, could impose a burden on home ownership for American families.

Let me reiterate. Fannie Mae's ability to ensure liquidity in the mortgage finance system for average Americans depends on our ability to raise overseas capital through open markets.

We used to say that Fannie Mae was the link between Wall Street and Main Street. For home buyers today, however, Fannie Mae is a crucial link between Main Street and Wall Street, and the financial corridors from Beijing to Frankfurt.

Last fall, we saw just how crucial this link is. In fact, the financial crisis last fall is the best illustration I have ever seen of how our access to open credit markets saves home buying consumers money.

It began with a confluence of events, including the year-long slump in Asian markets, Russia's Black Thursday, and the multi-billion dollar hedge fund bail-out. The resulting turmoil in world financial markets led to a sudden, dramatic, and widespread shortage of credit capital.

This credit crunch hit many sectors of the U.S. economy and the world as investors simply stopped buying all but the safest, highest quality debt. In a short time, major corporations, hedged funds, and even foreign governments had to scramble for capital and they had to pay a premium when they could get it. In fact, the credit crunch hit mortgage finance very hard.

Lenders in many parts of the market were out of business. But the largest group of home buyers was not affected by the credit crunch, those served by Fannie Mae. They never felt the credit crunch. Chances are, they did not even know it was happening because their mortgage approvals and interest rates went virtually unaffected by the global turmoil.

In fact, during the depths of the credit shortage last fall, our home buyers could still get a 30-year fixed rate mortgage for less than 7 percent, the lowest mortgage interest rates since the 1960's.

How did we do this? We did it because we continued to have access to international capital. During this period of time, we were able to sell over \$12 billion in the long term credit markets and we

were able to provide \$30 billion just in the month of October for housing.

What did that mean to consumers? What it meant, was that the difference between the cost of a Fannie Mae mortgage and the mortgages that they could get that were funded by other means jumped from 23 basis points to 49 basis points, a savings over the life of the mortgage of \$26,000 for a consumer who could get a Fannie Mae mortgage as opposed to one who had to rely on mortgages that did not have access to international capital in the same way.

So when foreign buyers buy Fannie Mae debt, what they are actually doing is investing in the American housing industry which, as I previously mentioned, is 21 percent of consumption here.

Home builders will tell you that access to global capital markets is crucial to their bottom lines. Realtors will tell you how home sales depend on reliable sources of home loans. Bankers will tell you how important housing is to family balance sheets. Mayors will tell you how important home owners are to viable neighborhoods and communities.

Open international markets in financial services are now as important to home ownership in America as that little savings and loan was to the town of Bedford Falls in the movie, "It's a Wonderful Life." Without access to international markets, we could not do our job for American consumers.

Thank you, Mr. Chairman, for this opportunity to address the committee.

The CHAIRMAN. Well, thank you, Mr. Raines, for a very interesting statement. If I understand what you are saying, it is that, in effect, our current trade deficit means homes for American people, and jobs.

Mr. RAINES. Well, two things. Open credit markets and access to capital around the world means access to homes and access to jobs for this important part of the economy.

A flip-side of the trade deficit is that you also are attracting international capital. It means that you are attractive to the international markets, which means even lower cost funds are available for housing. That is the reason that we now have the lowest interest rates and the highest home ownership rate that we have had in many years.

The CHAIRMAN. It is always good to hear a bright note of optimism.

Senator MOYNIHAN. We were hearing yesterday about the balance of trade deficit in terms of capital flows. Secretary Summers from Treasury laid that out, and you gave a very concrete example.

The CHAIRMAN. Mr. Kleckner, we look forward to hearing from you.

STATEMENT OF DEAN KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, DC

Mr. KLECKNER. Thank you, Mr. Chairman and members of the committee. I am Dean Kleckner. I am the elected former president of the American Farm Bureau. I have a 350-acre corn, soybean, and hog farm in northern Iowa, actually about 40 miles from Senator Grassley's farm, where he and I—he is no longer here, but I

think he will be back—actively farmed our farms in our younger life.

We represent about 4.8 million member families across the United States and our farmers grow every type of commodity that is grown in the country, 300 or so. We depend on access to foreign markets for about one-third of our production. If we did not have it, that means we would produce on one-third less acres to have the same prices we have today, which are not very good for almost everything.

We do appreciate the opportunity to testify before the Senate Finance Committee and stress the need for congressional action on the following trade priorities.

Trade negotiating authority. When Congress passed the Freedom to Farm Act in 1996, it phased out farm price supports, phasing them down, actually, making U.S. agriculture more dependent on the world market. Our productivity continues to increase. We are growing more each year. Exports are our source of future growth in sales and income.

Despite significant progress in opening markets, agriculture remains one of the most protected and subsidized sectors of the world economy. We see the chart that Senator Baucus put there about the EU, the chief subsidizer, in my view.

Congress must pass trade negotiating authority to enable our negotiators to create new export opportunities for U.S. farmers and ranchers. However, such authority should not link environmental and labor issues to trade.

We oppose such a linkage and stand united with leaders in Asia and Mexico, other places, and Secretary Ruggiero of the WTO, against using the WTO as a forum for resolving nontrade-related environmental and labor issues. There are fora for addressing those issues, but it should not be in the new agreement in WTO.

The American Farm Bureau supports expediting action on the next round for agriculture. We must begin the negotiations and conclude them as early as possible to level the playing field for our producers with the rest of the world.

Regarding specific objectives for the next WTO round, we have several. They should include, (1) binding agreements to resolve sanitary and phyto-sanitary issues based on scientific principles in accordance with the current WTO agreement; (2) provide tariff equalization and increased market access by requiring U.S. trading partners to eliminate tariff barriers within specified time frames; (3) eliminate export subsidies within specified time frames; and (4) make changes that would facilitate and shorten dispute resolution procedures and processes.

Regarding enforcing trade agreements, the U.S. has brought more dispute settlement cases before the WTO than any other Nation. We must ensure that our trading partners comply with WTO rulings. Our trading partners cannot be allowed to unilaterally weaken the very principles that we negotiated in the Uruguay Round as, for example, the EU is now doing in the Banana and the Beef Hormone cases.

We encourage Congress and the administration to take whatever actions are necessary to ensure successful WTO-consistent out-

comes that will demonstrate the effectiveness of the system. The system, gentlemen, is now under pressure.

Sanctions reform. U.S. agricultural producers are closed off from several export markets due to unilateral sanctions. Our competitors relish the opportunity to access these markets without competition from the U.S.

U.S. producers, on the other hand, lose important markets and are branded as unreliable suppliers for decades to come. The American Farm Bureau supports sanctions reform that would exempt food from sanctions, except in cases of armed conflict, and we support the provision of market loss assistance payments for lost agricultural export sales when sanctions are imposed. We also support the administration's recent changes to U.S. trade policy that will permit food and agricultural input sales to Cuba.

Freedom to Farm increases the importance of maintaining and expanding access to foreign markets. We must increase funding for these programs in order to remain competitive in the face of increasing international competition.

The United States should undertake a review of its existing agricultural export programs to improve their effectiveness and flexibility, and then fund these programs adequately.

The Transatlantic Economic Partnership, or TEP, establishes a regular dialogue between the U.S. and the EU to seek to reduce trade barriers and to ensure closer cooperation in preparation for the 1999 WTO ministerial. It is critical that Congress and the administration closely review elements of the TEP to ensure that U.S. agricultural interests are adequately represented.

U.S. agriculture is a primary contributor to the Nation's GDP. As such, farmers and ranchers need a strong voice in U.S. trade policy to ensure that our interests are being vigorously pursued.

The American Farm Bureau supports S. 185, sponsored by Senators Ashcroft and Daschle, which will make permanent the Special Agricultural Negotiator position at USTR.

In summary, Mr. Chairman and committee, the U.S. agricultural producers are the most productive in the world. We need Congress and the administration to act on agriculture's trade priorities so that U.S. farmers and ranchers can reap the rewards of their productivity and provide an affordable food supply to U.S. and world consumers.

Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you, Mr. Kleckner. Let me just say once again how much I appreciate the strong support your organization has given to trade liberalization.

Mr. KLECKNER. Thank you very much.

The CHAIRMAN. We appreciate your being here today.

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

The CHAIRMAN. Mr. Benanav?

STATEMENT OF GARY G. BENANAV, CHAIRMAN AND CEO, NEW YORK LIFE INTERNATIONAL, NEW YORK, NY

Mr. BENANAV. Thank you, Mr. Chairman and members of the committee. My name is Gary Benanav. I am appearing before you today as chairman and CEO of New York Life International, and

as a member of the board of the Coalition of Service Industries, known as CSI.

My oral remarks will summarize the key points in the written statements that I have submitted for the record. Specifically, I will comment on four topics. First, the need for a reinvigorated American trade policy. Second, the need for the United States to pursue aggressively new negotiations to liberalize services trade, including, in particular, financial services. Third, specific negotiating objectives of the services sector. Fourth, the need for trade negotiating authority for the administration.

New York Life International and CSI support the view that an open economy encourages increased productivity, job creation, higher wages, and a rising standard of living. Services industries have fueled U.S. economic growth and now represent our greatest competitive advantage internationally.

But to stay competitive as globalization continues, services industries require that the United States pursue trade, investment, and economic policies that encourage open markets globally and additional improvements in WTO rules governing services trade.

The current economic crisis creates an urgent need to keep markets open and restore investor confidence in order to prevent further deterioration in Asia and elsewhere. The challenge is to reignite economic growth through the power of an open global economy, supported by national policies grounded in sound economic fundamentals.

The United States must lead by example and articulate a trade policy and agenda that can achieve meaningful liberalization on a global scale. Effective international leadership must rest on a strong consensus built here at home that the benefits to America of international trade outweigh the costs.

New York Life International and CSI appreciate this committee's effort to forge a consensus for a reinvigorated U.S. trade policy that identifies specific negotiating objectives to advance U.S. competitiveness.

We believe that it is essential that the United States aggressively pursue new negotiations to liberalize services trade, and, in particular, trade in financial services.

In addition to creating new jobs in the United States, liberalization of services markets internationally will enhance global economic growth, provide developing countries with the infrastructure necessary to sustain their development, and help restore investor confidence.

Liberalization of financial services is especially critical to the ability of emerging market nations to develop modern, efficient, well-regulated financial markets and attract private capital inflows for long-term investments.

CSI welcomes the President's State of the Union call to tear down barriers, open markets, and expand trade through new WTO trade negotiations. We support that declaration and the launch of trade negotiations in conjunction with the 1999 U.S.-hosted WTO ministerial meeting. The WTO is the appropriate forum for pursuing the next stage of service trade liberalization.

CSI has identified significant barriers to service industries and urges new service trade negotiations, including the following objec-

tives: 1) expand the scope of service industries covered by liberalization commitments; 2) expand the right of establishment and establish national treatment for U.S. companies; 3) eliminate unnecessary restrictions on cross-border trade; 4) remove restrictions to the free movement of personnel; 5) promote adoption of adequate, transparent, and non-arbitrary regulatory regimes.

The financial services industry, in particular, urges U.S. negotiators to press not only for increased market access, but also pro-competitive regulatory reform so that regulation of financial service firms produces both solvency and competitiveness.

We also believe regional and bilateral trade initiatives can usefully complement WTO negotiations. At the regional level, service industries stand to benefit significantly. First, from the conclusion of the Free Trade of the Americas; second, from development through the Transatlantic Economic Partnership of common U.S.-EU positions on WTO negotiating objectives; and third, from improved market access among APEC economies.

We believe that our most important bilateral priority should be achieving China's full integration into the international trading system. In addition, if China adopts the rules of the WTO and concludes a commercially acceptable protocol of accession, the United States should agree to extend permanent normal trade relations status to China.

We also should continue bilateral negotiations to open other markets currently closed to many U.S. service firms, as is the case with India and Vietnam, for example. Finally, CSI supports strong enforcement of existing trade agreements, such as the U.S.-Japan insurance agreement.

What will it take to implement the ambitious trade agenda I have outlined? Broad, multi-year trade negotiating authority is needed to provide the practical foundation for concluding liberalization agreements. We urge Congress to enable the President to maintain U.S. leadership on international trade issues by renewing traditional trade negotiating authority.

Another important step is to adopt domestic economic policies, including tax policies, that help create an environment that encourages competition and reduces the cost of competing overseas.

Congress' support and leadership last year in revising deferral rules for U.S.-based financial service companies represents a tremendous step forward in conforming U.S. tax rules to U.S. trade policies. I urge you to extend this provision.

As I suggested earlier, however, American trade policy must rest on a solid consensus among Congress, the administration, the business community, and the public that we have realistic and appropriate goals on the full range of domestic economic interests affected by our participation in the international trading system. We are committed to working with Congress to develop that consensus.

Thank you.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Now we will hear from Mr. Cohen.

STATEMENT OF CALMAN J. COHEN, PRESIDENT, EMERGENCY COMMITTEE FOR AMERICAN TRADE, WASHINGTON, DC

Mr. COHEN. Good morning, Mr. Chairman. My name is Calman Cohen. I am president of the Emergency Committee for American Trade, an association of the heads of major American companies with international operations, representing virtually every sector of the economy.

Mr. Chairman, before I begin my testimony I would like to take the opportunity to thank you and Senator Moynihan for your continued leadership on trade and investment policy, and most importantly, the bipartisan manner in which you have developed recent trade legislative initiatives. It has made a very big difference.

At the end of last year, the chief executive officers of 34 of our member companies joined ECAT's chairman, Ernest Micek, chairman and CEO of Cargill, in sending a letter to the President stressing the importance of pursuing a positive trade agenda in order to promote the continued health of the U.S. economy.

ECAT member companies believe that a policy of expanding U.S. international trade and investment is essential to sustain U.S. economic growth and standards of living.

American companies both large and small are operating in a global economy that is increasingly concentrated outside the United States. Global integration has strengthened the U.S. economy by generating new economic activity here at home in research and development, capital investments, as well as by creating better, higher-paying jobs.

As documented in ECAT's recent study, "Global Investments, American Returns," the trade and foreign direct investment of American companies have complemented rather than reduced economic activity here in the United States in areas such as research and development and investment in physical capital.

American firms engaging in trade and investment have provided important new business opportunities in the United States. At the same time, the foreign affiliates of American firms are an important market for U.S. products and services, accounting for approximately 40 percent of U.S. exports.

The expansion of U.S. trade and investment that has occurred over the last half century would not have been possible without U.S. political and economic leadership in maintaining an open trading system.

As our economy has become more closely integrated into the world economy, it is now more important than ever that the United States not abandon its over half century of leadership of the world trading system.

The gains we have made over the last 50 years can be lost if we are not vigilant. It is not often recognized that it was only in the early 1980's that the world began to move beyond the level of international economic integration achieved in 1913.

In this time of challenges, the U.S. must lead by example by keeping its markets open and moving forward with a positive trade agenda, such as the ones that you have begun to sketch out in yesterday's hearing, that promotes greater economic opportunities for U.S. companies, American workers, and their families.

A positive trade agenda would set out a framework and negotiating objectives to be agreed at the 1999 WTO ministerial that will, first, ensure continuing liberalization of trade and goods, services, and agriculture, and second, call for WTO members to enter into an immediate stand-still of trade-restrictive measures.

An agreed stand-still would help the U.S. and other WTO member countries resist domestic pressures to close markets in the face of rising imports, but would not prevent in the U.S. and elsewhere the provision of appropriate relief under existing law to steel and other affected industries.

It is imperative that U.S. trade remedy statutes, which serve as models for trade remedy statutes throughout the world, remain WTO-consistent. These laws must also remain balanced, reflecting the interests of domestic petitioners as well as U.S. importers and exporters.

The positive trade agenda should also include a commitment to achieve China's integration into the international trading system, but it should not be at any price. As the largest emerging economy in the world, it is imperative that China adopts the rules and responsibilities of the multilateral trading system.

As Mr. Benanav just suggested, if China agrees to abide by the WTO rules and to a commercially acceptable protocol of accession, the U.S. should extend normal trade relations status to China on a permanent basis. Renewal of the President's fast track negotiating authority is also an integral part of a positive trade agenda.

It should include providing the basic domestic infrastructure to achieve further trade liberalization and other trade policy objectives, including regional integration such as FTAA and APEC.

In order to create momentum for action on these critically important trade policy initiatives, the agenda should also encourage action early on items on which consensus can be achieved, such as CBI parity and a miscellaneous tariff bill.

In order to move forward on this agenda, we must reengage the support of the Congress, the administration, American workers, and their families for trade expansion. We must do a better job of explaining to the American people the benefits that accrue from expanding international trade and investment.

In doing so, we must recognize that trade and improved technology lead to a growing U.S. economy and a higher standard of living overall. Dislocations, however, occur, which must be addressed through meaningful worker retraining and adjustment programs.

In conclusion, Mr. Chairman, the U.S. and its trading partners must face the reality of a rising trade deficit and the pressures on an open trading system by acting in accordance with the rules of the multilateral trading system. It will not be an easy task. The integrity of the WTO and the dispute settlement process must be maintained by insisting that the EU and our other major trading partners uphold the decisions of WTO dispute settlement panels.

In preparing for the next ministerial and the possibility of a new global round of trade negotiations, we must ensure that the framework and results of any negotiations strengthen WTO rules and expand market access.

While ECAT's membership is clear-eyed about the seriousness of the challenges that lay ahead, we believe that, armed with a positive trade agenda, ECAT and the U.S. business community, together with the Clinton Administration and our allies in Congress, will be well-positioned to offer constructive alternatives to market closing initiatives.

I appreciate the opportunity to present ECAT's views and will be happy to address any questions the committee may have. I ask that the letter of ECAT's CEOs, the executive summary of ECAT's new study, "Global Investments, American Returns," and ECAT's specific comments regarding U.S. preparations for the WTO ministerial meeting be made part of today's record.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Cohen along with the executive summary appear in the appendix.]

The CHAIRMAN. Let me ask several of the panel the same basic question. Many of us are watching the administration closely to ensure that they are preparing for the upcoming WTO ministerial, as well as the sectorial negotiations on agriculture and services.

I would be interested in asking—I do not know that you will be involved directly in this, Mr. Raines, but the others—what is your impression of the administration's preparations, for example, on agriculture; is it adequate? If it is not, how should it be strengthened? Should we spell out in more detail what we seek as goals, objectives?

How do we explain it to the American people so that they understand, like Mr. Raines did, in a manner that is easily understood? How do we explain the importance of liberalizing agriculture, or the services, whatever? Mr. Kleckner?

Mr. KLECKNER. With agriculture, Mr. Chairman, I am not exactly sure that I know where the administration is. And I do not say that as a criticism. It is early yet. This is the year the ministerial is held, in late November, early December, I understand, in Seattle.

I do know that Ms. Barshefsky and her crew at USTR, along with Secretary Glickman and his people at USDA, have done a lot of talking about this issue. I have been involved in some of that talk with them, on the ACTPN Committee, for example, with USTR.

There is a lot of talk going on. I have got to compliment them. I think in both USTR and agriculture, they really want to know what the private sector thinks. It is more than lip service, in my view. They really do want to know what we want.

The CHAIRMAN. What would you like them to come home and tell you they have accomplished; what specific objectives for agriculture?

Mr. KLECKNER. Question. Prior to the start of the ministerial, maybe?

The CHAIRMAN. No, with the ministerial.

Mr. KLECKNER. Well, I hope before the ministerial starts they will come back and say to us in agriculture, and I am sure services, and everywhere else, too, these are our objectives. Obviously, when it is over we want to have some wins.

For example, very high priority for us in the Farm Bureau and the farming community has got to be eliminating the export subsidies that Senator Baucus points out on his chart. I think the argument should not be over, do we eliminate export subsidies, the argument should be, in what time frame do we do it?

I think the elimination is critical because export subsidies are not allowed in any other segment of commerce except agriculture today, and they are legal. Let us get rid of them.

The CHAIRMAN. What about Common Agricultural Products?

Mr. KLECKNER. In the EU, the CAP? Common Agriculture Policy. They have their Agenda 2000. I was in Brussels last week, actually, and went on to Berlin for Green Week. Secretary Glickman was there, along with Tim Galvin and Gus Schumacher, the Assistant Secretary. In Europe today, they are talking about making dramatic revisions in the CAP. They are calling it Agenda 2000.

They want to have agreement now in February or March before the European Parliamentary elections in June and going into the ministerial this fall. They want to have an agreed policy in those 15 countries. They are saying, we are going to cut subsidies 30 percent on grains, on oil seeds, on beef.

The argument seems to be on dairy. The argument is always on dairy, incidentally, around the world. But they are talking about reducing payments to dairy producers in return for higher quotas. It would be a quid pro quo.

I think the EU is on the way to reducing probably the highest subsidies in the world, at least the highest in major countries. We have to hold their feet to the fire on that and ask for access to their markets and make sure the sanitary/phyto-sanitary, which is—all kinds of sins are committed under sanitary/phyto-sanitary. If you cannot maintain tariffs or subsidies, you keep out other products by coming up with, oftentimes in my view, phony sanitary/phyto-sanitary barriers. It is the next big argument.

The CHAIRMAN. Thank you, Mr. Kleckner.

Let me turn to you, Mr. Benanav. You talk about the importance of making progress in the liberalization of services. Now, what does that mean to my average citizen back home? How can we explain that that is critical to their welfare? What are we talking about when we say we want to liberalize services?

Mr. BENANAV. There are a broad range of services that American companies would like to be able to offer to citizens in foreign countries, everything from express service—if you want to send a package from here to some country in Asia, you want to be able to know that it will get there in a day or 2 days, not stuck in Customs, not shipped through antiquated distribution systems.

You want to be sure that American companies have the ability to tie their telecommunications programs globally, not as a patchwork of connections with different kinds of companies. So the American consumer has something to benefit directly. He also has tremendous benefits indirectly.

As was mentioned in the home mortgage market, American companies that sell services strictly in foreign locations generate a huge number of jobs domestically. We do not transfer jobs in the service industry. We may create new jobs overseas, but to support those jobs we create jobs here at home.

An example, is my company. We have created 4,500 new jobs overseas, but we have also created a significant number of new jobs here at home to support those operations. There is a wide range of service.

But you are right. We all have a responsibility to educate the public on those benefits. I believe the business community needs to take a much more active role in doing so. CSI has a meeting coming up in Atlanta in November, a conference.

Part of the purpose of that meeting will be to generate the kind of publicity and kind of campaign that will let the average consumer and the average American worker understand that, while there are some costs, there are some dislocations, the greater good, the end result, really does produce much better economic and financial well-being for the American population.

The CHAIRMAN. Finally, let me ask you, Mr. Cohen. What confidence do you have in the administration's preparation for the upcoming WTO ministerial, as well as the negotiations that will follow?

Mr. COHEN. Well, I would say, Mr. Chairman, that we were very heartened by the testimony of Ambassador Barshefsky yesterday before this committee when she indicated that a framework has been put in place to work with not only the committees of the Congress, but also with various economic sectors, and will hold hearings in order to identify the key areas of concern.

Additionally, we are very pleased that the administration is now going to be thinking in terms of coalitions of like-minded countries in order to achieve specific trade negotiating objectives.

I think it is one thing for us to have a list of all of our priorities. It is another thing to game them and figure out which countries we will be able to work with in order to achieve them.

As Senator Baucus and others have suggested, there are major differences between the United States and the European Union. If we are going to be able to achieve many of our key objectives in the next round of negotiations, we have to figure out with whom we can make common cause.

For example, on agricultural issues, working more closely, as Ambassador Barshefsky suggested, with the CAIRNS Group. I can assure you that ECAT and others in the business community will work with the administration, but, indeed, a great deal of work needs to be done in fleshing out the objectives and the strategy for achieving them.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Thank you, Mr. Chairman.

Just several things. Mr. Kleckner, in your testimony you remark, and I know this has been your position, "Whereas President Clinton emphasized the importance of trade during his State of the Union address, he also underscored his desire to include labor and environmental issues in trade agreements.

We oppose such a linkage and stand united with leaders in Asia and Mexico, and Mr. Ruggiero of the WTO against using the WTO as a forum for resolving nontrade-related environmental and labor issues."

Two things. First of all, in an address in Bonn in December of 1997, Mr. Ruggiero specifically said that it is the International

Labor Organization that should deal with core labor standards. He very much is for this development. He says the consensus is, first, the members were committed to the observance of core labor standards, second, that the ILO was the relevant body where the issue of labor standards should be addressed.

Could I make a point which is sort of lost now in long history, which is that the international labor treaties begin as trade-related matters. It was the judgment of Europeans that, if you were to establish labor standards, the 8-hour day, you would put yourself at a competitive disadvantage with your competitors and partners, and therefore you did not do it until you agreed all to do it at once.

The first labor conference in this regard was called by Bismarck in the 1880's. It has always been a trade-related phenomenon. We have something very powerful. There are not many organizations around that have been around for 80 years, or 70. The first international labor conference took place at the Pan American Building in 1919. The ILO was part of the Treaty of Versailles.

I think Mr. Ruggiero has this right. I will just put it to you that way. If you do not do it, you will not get the open trading system that you wanted. It is just that that has been our experience.

In that regard, could I just say, Mr. Cohen, you said something absorbing, that it was only in the early 1980's that the world began to move beyond the level of international economic integration achieved in 1913.

Do I take it you are referring to trade, as a proportion of total world product? Would you expand on that a bit? It would be wonderful to get some numbers from you.

Mr. COHEN. We can probably provide those from our study, Senator Moynihan.

What it references is, indeed, as you have just suggested, trade and international investment, as a percentage of total world economic activity before into the war period and before the breakdown through the Great Depression of trade, was at a much higher level than it was until the 1980's. Often, as your theme of your hearings is globalization, it is often viewed as a totally new phenomenon that we are facing in the 1980's and the 1990's.

We were trying to suggest in that study, one has to really return earlier in history to find a very similar level and recognize that the aberration, in a sense, is the interregnum, not the new phenomenon of the 1980's and 1990's being identified as globalization.

Senator MOYNIHAN. Very nice. Would you agree with me that, on the whole, the 20th century has been a mistake? [Laughter.]

Mr. COHEN. I will sit and listen, Senator Moynihan.

Senator MOYNIHAN. The 19th century sort of ended in 1913, and we are just getting back. It has been a hideous experience. I think it is a very powerful point. If ECAT could give us some metric on this, I think it would help.

Mr. COHEN. Absolutely. We shall.

Senator MOYNIHAN. Thank you very much.

Mr. BENANAV. If I could add, Senator Moynihan.

Senator MOYNIHAN. Yes, sir.

Mr. BENANAV. As an example of that, my company, prior to the first World War, conducted operations in 63 countries.

Senator MOYNIHAN. No.

Mr. BENANAV. Today, we are down to about 7, trying to get back into some of those 63 countries that we withdrew from during and after the first World War. The problem is, we cannot get back in as easily as we could in 1912 and prior to the war. So, that is a perfect example.

Senator MOYNIHAN. Could we get that from you, too?

Mr. BENANAV. Yes.

Senator MOYNIHAN. That is powerful and important to be kept in mind. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. I am going to start with Dean Kleckner. I hope, Dean, before you leave here that you will thank this committee, because a couple of years ago, by a 16 to 4 vote, they approved ethanol. That is very good for American farmers and all of your members. That will be coming up again in nine more years, so we want to keep thinking about it.

Dean, yesterday I had an opportunity to ask Ambassador Barshefsky, who was here sitting where you are sitting, what actions the United States is taking when a great economic power like China makes specific commitments about opening its markets to United States agricultural products and then does not keep those commitments.

I think you probably know about the promises that China made in its 1-year trial program for imports of meats for the retail markets. Then the Chinese broke their commitment to allow U.S. meat producers' entry to the markets, and even kept high tariff rates, and also a value-added tax, in addition to the 45-percent tariff rates of 13 percent on the VAT.

In addition to that, China's phyto-sanitary and veterinary import quarantine standards are also overly strict. They are very unevenly applied and they are not backed up by the science that we have generally agreed to in international trade are the basis for obstacles.

For example, the Chinese Government continues to require foreign pesticide producers to submit costly testing and registration requirements, but it does not apply these requirements to their own domestic producers.

So, I would be asking for advice that you might have for this committee, and in turn this committee's oversight responsibility of the administration, about how to secure from China, which is not a WTO member and wants to be, meaningful agricultural trade commitments that give us real access, not just stated access, on their part.

Mr. KLECKNER. Senator Grassley, I wish I knew the answer to your question. Being that they are not a WTO member and want to be one very badly, it seems to me, gives us some leverage on issues like this.

But they have been a powerfully obstinate nation, it seems to me. They just do what they want to do and kind of, in essence, to hell with what everybody thinks about it, for whatever those reasons are. They have not yet, as you all know, decided that they will not do some of these things in order to become a member of the WTO.

I agree with my colleagues, they should be brought in. But I think to bring them in now, when they have done what they have done, and doing what they are doing, would send the wrong signal around the world. We have leverage now that we will not have after they get in. I do not know how to make them do, Senator, what they have agreed to do, and then broken the promise.

Let me say that that is one of the problems, though, in agriculture that I run into as president of the Farm Bureau around the country. Most farmers want trade. They do not perhaps understand the WTO very well, but they consistently point out to me areas where trade agreements are not being enforced and they are reluctant to go further, perhaps even to the next round, before we enforce what is there today.

But we farmers always remember what is not being enforced and do not remember all the good things. We always tend to be negative. But examples like China, and we can look at Canada, Senator Baucus, neighboring you, and other nations that seem to get away when not living up to the agreements, which just makes it harder, I will repeat, to move forward in the next round when the appearance at least is, and often the substance is, we are not enforcing the trade agreements that are already in existence.

Mr. COHEN. Senator Grassley, may I make a comment in that regard just to clarify the position of the members of the Emergency Committee for American Trade. We totally agree with Mr. Kleckner that the Chinese must adhere to the commitments that they have made. What we have shared with the administration, is that the litmus of a successful WTO protocol of accession for China would be market access in the area of agriculture.

That does not solely mean a reduction in tariffs, it also means distribution rights because American companies, farmers, want to be able to sell their products freely within the China market and that also needs to be addressed. One without the other would not be sufficient.

Senator GRASSLEY. All right.

I would ask my next question of Mr. Raines. Foreign direct investment, of course, is very critical, important both to the global economy and to the United States. You probably know that the United States is both the largest investor abroad and largest recipient of foreign investment coming from overseas. Because foreign direct investment and trade are closely linked, it is very important to keep these investment flows free from interference as much as possible.

Fortunately, many barriers to foreign direct investment have been limited or completely scrapped thanks to bilateral trade treaties and other agreements like NAFTA that protect the security of international investment.

So my question would be, since foreign direct investment is so important to the world economy, should it not be subject to multilateral rules and disciplines just like trade is? We do have the OECD multilateral agreement on investment under negotiation since 1995 without reaching final agreement. The first question is in regard to being subject to multilateral rules and disciplines just like trade is.

Second, would it not be more sense to have the entire WTO member nations participate in foreign direct investment negotiations through the WTO and not just confine these negotiations to the OECD?

Mr. RAINES. Well, Senator, I think it is very important that we have an international regime of ensuring open markets and the flow of capital. In particular, it ought to be easier in foreign countries for their individuals and institutions to invest in dollar-denominated investments and not have those artificially limited by national policies. So, international standards can be helpful, and have been helpful, in the area of capital and opening up capital markets.

With regard to the OECD and the negotiations on the multilateral agreement on investment, I believe that it is wise to try to initiate those kinds of agreements, first, at the level of the more developed countries where you have more developed capital structures in place. And so the approach that has been tried, but not yet successful, of having the OECD countries lead that effort, I think, is a wise one.

Ultimately, there will be a need to expand that to developing nations because, contrary to general thought, the developing nations are short of capital. Indeed, a large number of them have a lot of dollar-denominated investments.

In fact, some of our largest investors in debt that we use for investing in American homes come from what we would otherwise categorize as developing nations. So, it is important that it be extended there as well.

I think the approach of beginning with the more developed economies in moving toward a multilateral approach is a wise one, if it can be concluded.

Senator GRASSLEY. Mr. Chairman, I am done, and I have to go. I would like to have Mr. Benanav answer some questions in writing. Also, on the second panel, we have a special steel industry in my State, and I would request that Peter Kelly answer some questions that I would submit to him in writing.

The CHAIRMAN. We will have the record stay open until 5:00 tomorrow for any written questions of the panel.

Thank you, Senator Grassley.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Kleckner, I think you touched on a very key point here, and it is somewhat to the point that the President mentioned in the State of the Union address, and the Chairman has mentioned. That is how to develop more consensus and more understanding of American people and the need to more aggressively have a more level playing field.

I think they understand the abstract, but I think a lot of American people do, as you suggested, not have full confidence in the degree to which the United States enforces trade laws or believe that the country is fighting as hard as it should be, not only for American business, but for the average guy.

You said, and it is true in my State, that a lot of people are very skeptical about free trade, fair trade. They believe that other countries take advantage of us. As you said, Canada seems to get away

with some of the things it does. Other countries seem to get away with the things they do.

In Canada, for example, it is softwood lumber, or it could be dumping grain, in Europe it is the beef hormone issue, bananas, et cetera. Nothing seems to happen.

NAFTA, by the way, is extremely unpopular in my State. I am the only person in the entire delegation, or State-wide person in political office that supported NAFTA. And I know I paid a price for it, but I did it because I thought it was the right thing to do.

But I think people have a legitimate complaint. I urge the Farm Bureau and all the organizations here, and I know you will do this, pay much more than lip service to how we put a face on trade.

I mean, the key here, I think, is addressing that lack of connection, that lack of nexus that I think is a problem today. I think that is the major challenge here. Once that is addressed, I think that you will find the country moving a little more aggressively on some of these initiatives, being a bit more aggressive on enforcing current agreements, and putting a little pressure on Treasury, putting a little pressure on the State Department, putting a little pressure on the White House, frankly, that may not sufficiently exist now.

We all talk about this problem, that trade may not be a sufficient priority in any administration. I think it is becoming more of a priority over the years. I am not sure that it is enough of a priority. I am not saying trade, per se, but essentially not only trade, but the United States' economic interests overseas.

We are doing a good job, I think. And I think we have a good team, certainly in the financial sector with Secretary Rubin, and Summers, and the Federal Reserve system. But when it comes to trade, I am not sure it is as effective.

So what thoughts do you have on how we begin to, not pay lip service to, but actually address this?

Mr. KLECKNER. Senator, let me respond for agriculture and let the other areas respond. Everything you said is right. You are right on target. I have been in Montana a number of times. I hear what is being said in Montana, Idaho, North Dakota, along the Canadian border in that area, with wheat and cattle.

There is no doubt about the Farm Bureau's commitment to this issue. I mean, we stretched ourselves out for NAFTA, for the GATT Round, for Uruguay Round of the GATT. I am glad we are getting away from saying fast track.

Senator BAUCUS. I want to compliment the panelists. In fact, the Chairman and the Ranking Member noted that you did not say that awful phrase, but rather referred to a normal trading relationship.

Mr. KLECKNER. Normal trading relations with China.

Senator BAUCUS. Also, we have to do the same with that other phrase which also is a misnomer.

Mr. KLECKNER. Trade negotiating authority. Yes. Carla Hills told me one time that fast track was terrible because, she said, trade negotiations are never fast, nor are they usually on track. [Laughter.] But I am glad we are saying trade negotiating authority.

But we are stretched out on the issue. We are going to be pushing extremely hard for trade negotiating authority. What we are urging our State Farm Bureaus to do, because the figures are

there, they are broken down into exports by State—Montana, I am positive, is a net winner.

I think every State is a net winner in trade. In agriculture, we export \$50 plus billion, now with the prices down, the dollars are down, the volume is probably staying up there. But we are a net gainer of \$20 billion in the Nation in agricultural trade, \$50 billion exports, \$30 billion imports, roughly. So, we are winners.

But when a farmer in Montana sees a truckload of cattle coming down to be slaughtered at the IBP plant in Washington State going in front of his home, 20 trucks a day, and he is losing money on cattle, he is not very happy.

Senator BAUCUS. Tell me.

Mr. KLECKNER. Now, the good thing is, those new packing plants or remodeled packing plants are being built in Canada. When American cattle started going up there for slaughter, I kind of laugh to myself and say the Canadian farmers are going to be just as unhappy about that, seeing our cattle go in front of their farm on the way to be slaughtered in Canada as ours are.

Senator BAUCUS. My time is about to expire. I would like to just make another point, too, as a follow-up on Cal Cohen's. Namely, it is not only listing priorities for the upcoming agenda, but it is gaming it and figuring out how we are going to get from here to there.

I want to underline a point that you made referring to earlier testimony yesterday, namely, the common cause that I think we have with Canada with respect to the WTO.

I was in Canada speaking to Minister Goodell a couple, three weeks ago. Basically, I was complaining about all the cattle trucks coming down, grain, and so forth. He said, well, do Montanans not know that your greater problem is with Europe? It is not with Canada.

I said, well, if Montana stopped to think about it, analyze it, and so forth on the so-called left side of their brain, they would understand that. But on the right side, they see all these trucks coming down and just intuitively think that is a real problem. And it is a huge problem.

Nevertheless, the Canadians, I think—in fact, Mr. Goodell, in effect, said this—there is an opportunity for the United States to, as Mr. Cohen said, join with Canada and other CAIRNS Group members with respect to Europe.

In the last round, we were all going different directions, the United States, Canada, CAIRNS Group, Europe, and so forth. This time there is an opportunity. The Canadians want to do this. The Canadians want to lock hands with the United States and get those barriers down.

Now, at the same time we want to do something about the Wheat Board and cut transparency problems. But I just tell you, I think we are making progress in this country as we address trade. We are thinking a little more critically, we are thinking a little smarter.

We are not just listing goals, we are starting to game them a little, starting to think how we get from here to there, our fall-back positions, and so forth. I am encouraged by it, frankly. I just hope we can keep on that track.

Mr. COHEN. Senator Baucus, may I make just one quick comment with regard to your point with regard to understanding of the importance of trade by American workers. The ECAT CEOs have put in place a program that is designed to do a better job within their own companies of explaining the benefits of international trade.

There is a story that I think illustrates what the challenge is. It is about the late Secretary of Commerce, Secretary Brown, when he was supporting NAFTA and was visiting a facility in one State, explaining the importance of NAFTA.

He asked some of the workers on an assembly line, what do you think of NAFTA? The comment from the workers basically was, they do not have the money to buy the products that we produce.

What the workers did not realize is, a good portion of what was going down that assembly line was destined to be exported to Mexico. It is a reason why we in the business sector need to do a better job, and our companies are working on that project.

Senator BAUCUS. I know, Mr. Chairman, time is up. But it is not only educating employees, it is also worker retraining, it is education, it is keeping your employees involved and helping them find meaningful employment, because it is such a topsy-turvy, turbulent world.

Mr. COHEN. Yes.

Senator BAUCUS. So it is not just talk, it is also helping employees and working with the government to make sure that American people get the full benefits of the trade.

Mr. COHEN. In ECAT's written statement, we do support worker retraining and education as an important component. We agree.

Senator BAUCUS. My time is up.

The CHAIRMAN. Senator Robb?

Senator ROBB. Thank you, Mr. Chairman. I am still pondering the question posed by the distinguished Ranking Member as to whether or not I want to vote for against the 20th century, but I am going to move on.

On the same general theme, let me just suggest that the way I have posed the problem for those of us who believe in free trade and believe there is much more net gain, is the difficulty of convincing an individual who has a job, it may not be a particularly high-paying job but he has a job at a given moment, that somehow he and the overall economy is going to be better off, even though his or her job might be placed at risk when his or her two out-of-work cousins are going to get better jobs for sure, but is not absolutely certain that his job is still secure. If we can ever figure out a way to answer that question, I think that we will make some real progress on this whole question.

The fact that we are now talking about putting a human face on the globalization, I think, is a recognition that we have not really answered that question as well as we could and that we are going to see more and more attempts to try to at least deal with those who are perceived to be "the losers" on any of these situations. It is incumbent upon us that believe that there is a net gain to society to try to make that argument as best we can.

Let me just ask one general question, if I might, about the consequences, which is really part of that question, I guess, of our fail-

ure to pass trade negotiating authority. I am trying to make sure I use that term. Yesterday I am slipped, I am afraid, and fell back into the bad old habits and used another term that I am using my best to take out of my vocabulary at this point.

But what are the consequences, in your judgment? I suspect, from the steel panel in a minute, we will hear some very specific examples of failure to enforce in some areas. But what are the consequences to U.S. consumers and those who want to export overseas if we do nothing because of our concern about anybody who has something that they want to hang onto and they do not want to risk their two cousins getting a better job?

Mr. KLECKNER. Senator, from agriculture, I will respond real quickly because others will want to respond. We started the last two rounds without trade negotiating authority. We went a year or two into them before we got it. It may happen again this year. I hope not; I hope we get it this spring, 1999, rather than waiting until the next President, whomever he or she may be.

But if we do not get it then, if we do not have trade negotiating authority at some point in this upcoming round, the U.S. is a tremendous loser because other nations will not talk to us. We will talk to them. I mean, what have we got to lose?

If I was another nation's negotiator, I would not talk seriously to the United States negotiators about a definitive trade agreement without the trade negotiating authority, because it goes to Congress, you all just make one change in it, that is 535 changes.

You go back and negotiate again, it comes back, and the next time there are only 400 changes. You never get a trade agreement without trade negotiating authority. It would be a disaster, in my view, for the United States, but certainly for U.S. agriculture.

Mr. BENANAV. I echo that. I think it is very hard. If we are going to push countries to put everything on the table, it is impossible to get them to do so when they know we are going to be back again and again for more on the table.

I think you will kill WTO negotiations and the WTO 2000 services expectations that we all have. We almost may as well not go to the negotiating table if we cannot tell the counter parties that, when we reach agreement, that agreement will stand.

Mr. COHEN. The U.S. has always led, Senator, trade liberalization efforts globally. Without U.S. leadership, they have often faltered. There are two basic consequences of the failure to have, I would argue, trade negotiating authority.

The first, is the pace of global liberalization will be slower without U.S. leadership. Second, you will have an uptick in regional agreements that will exclude the United States, and those regional agreements will be devised to benefit primarily the participants.

Now, there is a pause because of the global financial crisis, but we know that once things will be worked out, and we know they will eventually, you will have that uptick in the Americas and in the Asia region. And if we are not ready to deal, we will suffer and it will have, eventually, an effect on our standard of living.

Mr. RAINES. Senator, I think that is the most important point. The single greatest generator of wealth in the last two centuries has been through the creation of common markets. The most im-

portant one is the United States. We have a common market between our States that is not always happy.

There are lots of trade disputes back and forth, and people trying to get a little advantage over a manufacturer from another State, or a farmer. You have the similar disputes about trucks coming from one State to another. But we have a regime that says we are going to have open and free trade basically among the States, and the States cannot negate that for temporary benefits.

That model will, in my view, be followed in the world. And without our participation, they will create their own common markets that will make sense for them and, within those common markets and that progress that will go on without us, we will be left out.

The world is not going to suffer from our inability to participate in these agreements. The world will take care of itself. The only question is whether the United States will be a party to these agreements so that we can take care of the people in the United States.

Senator ROBB. You are preaching to the choir here. If you could take that dog and pony show over to the other side, the other body, we would be most grateful to you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Robb.

I would now call on Senator Rockefeller.

Senator ROCKEFELLER. Mr. Chairman, I have been listening with interest and respect to this panel, but it may not come as a surprise to you that what I really await is the second panel. [Laughter.]

What I would observe, however, is that from these conversations in the first panel, for those who want to maintain what I spoke of yesterday as sort of the consensus for expansion of trade, that it is going to be very important for Americans to know and trust that our government is enforcing the trade laws that we have on the books. I think all of you would agree with that, and I know that the American people do.

Mr. COHEN. Absolutely.

Senator ROCKEFELLER. That would be all I would have to say.

Mr. BENANAV. Senator, I think there are two issues. One, is aggressive enforcement. We all support that. I think we have learned a lot about the enforcement mechanisms and the process for dispute resolutions. It certainly can be improved.

I think one of the issues that has to be put on the table as part of the next WTO negotiations is, how do we improve the process itself? We ought not just to say, let us try harder in enforcing. We ought to say, what is wrong with it, and let us fix it. If we do not come to the table with that kind of an agenda and a strong view on how to fix the problems, then we are going to be left with the same difficult disputes that we have got today.

The CHAIRMAN. Senator Kerrey.

Senator KERREY. Thank you very much, Mr. Chairman.

First of all, I want to say that I think this committee can obviously perform a very useful function in terms of the Congress, not only in trade, but in Social Security, in Medicare, and in tax reform. I hope we do so.

I hope this committee, this year, whenever we get this trial done, will take a lead itself in helping this Congress resolve some of the most contentious issues that we face. I think we have got the ability to do it. When all of the chairs are full, they are typically full of people who are willing to work together.

I hope that we are able to do that, Mr. Chairman. I know that you are willing to do it. I think we have got a lot of unfinished business that needs to be done, not the least of which, I would say, is making sure that the IRS reform legislation we passed last year is being implemented by the administration and by the IRS.

Let me say, first of all, that I agree with what Frank Raines said. I think it is very impressive, what common markets have done in terms of generating more wealth. It has caused me to support NAFTA, normal trading relations, and full negotiating authority for the President on trade.

But we have to acknowledge, and I think Senator Baucus has, and Senator Rockefeller will later on, that we have got serious problems with trade right now, in terms of the public support for it.

Let me argue a couple of things that I think caused that. I remember 1992 relatively well. From 1992 to 1999, there has been an extraordinary change in the American economy. In 1992, the stories were that we were going to be denominating our currency in yen, that Japan was going to take us over. Well, they did not.

Not only did this Congress pass deficit reduction, but, much more importantly, in my judgment, has been the adjustments that have been made both by management and by labor over the last 6 or 7 years to increase our productivity and make us more competitive.

Tremendous changes and sacrifices on the part of people in this country that are working harder, working longer hours in order to do the things that are necessary to maintain competitiveness. That is why there is a considerable amount of anger right now.

We have Nucor in Nebraska. They are not happy. They have adjusted to the competitive market pace of the international economy and they are not happy, watching what happens with trade policies when they do it. Not only do we lead, but we have a very open market. So they feel like they are getting played for a fool, not only management, but also people who are working very hard trying to be productive and stay competitive.

We see the wealthiest Nation on earth saying, we ought to have an open and free market, but I think we have got to acknowledge, we have an inadequate safety net. We have got an \$8 trillion economy today. Nobody argues we are not the wealthiest Nation. We have got 43 million Americans that do not have health insurance.

Now, if you are out there working, changing your job, and trying to stay competitive, it seems to me that one of the things our law should say, is to say that we are going to have a safety net that is worthy of this great Nation, and if you lose your job you are going to have health care.

It seems to me that you all who are arguing for trade and are saying that we have to have some kind of a safety net are going to have to be more specific with this and tell us what kind of safety net we need. Because it does not work for a man or woman out there who find themselves adjusting, in theory. In practice, for

them, it means they do not have a job. And if they have a pre-existing health condition, it means they go onto Medicaid or onto welfare, or some such thing.

So I think we have to acknowledge, as a wealthy Nation, if we want to maintain free and open trade policies, that we are going to have to make some adjustments in our own domestic strategies.

As for corrections, for my money, I agree with Senator Baucus, of the trade policies that are the most unpopular, nothing touches NAFTA in my State. I mean, it is off the charts in terms of the number of people who think there is something wrong with it.

Dean, I am sure you remember, as a specific area of NAFTA, having to do with sugar. There were intense negotiations. What happened in the United States was, consumers were making decisions. They were saying, we do not care if it is corn fructose or if it is sugar, it is the same to us and we will drink either one of them. What happened was, in the United States it was a significant adjustment.

People that were growing sugar beets and the people that had jobs in the sugar beet industry were losing their jobs. We adjusted. We changed our manufacturing plants to accommodate a market change.

So when NAFTA came along, we were concerned that Mexico might not do that, that when corn fructose came into Mexico and displaced sugar, they just shipped their sugar up here. Guess what we were told? Oh, no. The Mexican taste is different. Well, that was nonsense.

So we signed a side agreement with Mexico that said, if there is displacement—and there has been almost 100 percent displacement, 1.8 million tons of sugar has been displaced with corn fructose, as you would imagine. It is the same thing. So guess what Mexico now says? We did not mean it with the side agreement.

How do you feel about that, Dean? Do you not think that we need to do as Al Capone once recommended, that a smile will get you a long ways in life, but a smile and a gun will get you further? [Laughter.] Do you not think that we need to put a bullet in the chamber in some ways? Because they are not going to modify their behavior. They are politicians like we are. They know these adjustments are going to be difficult and painful.

Do you not think that we need to have some kind of mechanism that says to the Mexican Government, if you do not abide by an agreement that you signed, even though it might be uncomfortable for you, that here is the action we are going to take, or with steel as well?

Do you not think we need some kind of corrective mechanism? Otherwise, it is awfully difficult for people to say, in this country, we are going to allow our market to be open, we are going to do all the tough and difficult things that are necessary, and yet when it comes time to force our competitors to do the same, we are not willing to do it because we are going to be accused of being protectionists.

Mr. KLECKNER. Yes, Senator. You are right. You have hit on the big problem. Our people do not think, and often with justification, that the agreements are working. You hit on one in NAFTA, with sugar. I am not sure I know the answer to it, except there cannot

be a perfect trade agreement. We can sure do better than we have in enforcing the ones that we have. Incidentally, Al Capone died 47 years ago 2 days ago, so that was something you did not know, Senator.

Senator KERREY. No. It was not a big moment in my life. [Laughter.]

Mr. KLECKNER. And you missed it. But you can get more with kind words and a gun than you can get with kind words alone. I think we have been going too much the route of the kind words and not enough of enforcing the agreements that are there.

The other side of the coin is, I have been in Mexico and Canada, and Senator Baucus, in Canada and Mexico. They point out a lot of things that, from their point of view, they do not think are working either. There is no perfect trade agreement. But we are the U.S. We have got to approach it from our point of view and let them approach it from their point of view, and we will work it out.

The thing that really bothers me is, without trade negotiating authority, we really cannot go in and fix what is wrong with NAFTA and the GATT. If I tell my friends in many States that, if you really do not like the GATT agreement, the Uruguay Round agreement and NAFTA—and they do not—you ought to be for trade negotiating authority so we can more easily fix what is wrong. It does not make sense in my mind not to be for trade negotiating authority if you really want to fix what is wrong with the present agreement. You can do it, but it is much more difficult.

Senator KERREY. Well, Mr. Chairman, my red light is on. I would just say to you, sir, I think one of the difficult things that we are going to have to do, is to do precisely what Mr. Kleckner is saying. We need to say that we are going to ask for trade authority and we are going to do it for the purpose of correcting defects in current law.

We have significant defects in current law. If we do not acknowledge that, it seems to me, we are going to have a very difficult time to get the American people's support, either in this body or the other one, of the negotiating authority the President needs.

The CHAIRMAN. Well, as I said in the opening comments on these hearings, one of the purposes, of course, is to correct the weaknesses, the vulnerabilities, the defects of past agreements.

Time is running out this morning. I want to express my appreciation to each member of the panel. I think it has been a very valuable discussion. But I would urge you to continue to play a vital role as we proceed towards the ministerial this fall.

I am not satisfied that we have the agenda that we need to ensure that we are protecting and promoting the interests of this country. That is what we are seeking to do in a bipartisan spirit. So, thank you, gentlemen. We appreciate your being here today.

Our second panel today is comprised of three very distinguished representatives of the U.S. steel industry. We have George Becker, who of course is president of the United Steelworkers Union. We are pleased to welcome you here, Mr. Becker.

Next, we have Peter Kelly, who is president and CEO of LTV Steel. Finally, we are delighted to welcome Richard Riederer, who is president and CEO of Weirton Steel Corporation.

Mr. Becker, we are pleased to start with you. As I said earlier, your full statements will, of course, be included as if read. We would ask you to abbreviate them so we could get to the question and answer period.

Welcome, Mr. Becker.

STATEMENT OF GEORGE BECKER, PRESIDENT, UNITED STEELWORKERS UNION, PITTSBURGH, PA

Mr. BECKER. Thank you, Mr. Chairman. I appreciate the opportunity to meet before your committee and express concerns about the crisis in the steel industry and how it affects workers, their families, and the communities in the steel areas.

I do have a statement that is prepared. I will not read it or refer to it. I would be happy to answer any questions pertaining to it.

I would like to make some remarks to kind of put this in perspective a little bit. Clearly, from the steelworkers' viewpoint, if this crisis as it currently exists is allowed to continue, it is going to destroy, is going to eliminate the steel industry as we know it today.

We have over 10,000 steelworkers that are out of jobs now, but we have got 100,000 of them that are on the edge. I mean, this is a very real assessment. It is not necessarily ours, it is the industry's. We have worked very closely with the industry on this and these are the figures that they are giving us.

Perhaps the hardest thing for me to accept and understand is that this crisis as we know it was not unforeseeable, it was not inevitable. We knew it was coming. We knew it when it hit in the latter part of 1997, extending over into 1998 with the Asian crisis, as they call it, South Korea, Indonesia, Thailand.

We had economic models that were run by the Economic Policy Institute here in Washington that predicted that we were going to lose some 1.1 million jobs in the United States as a result of this. Seventy percent of these jobs were going to be manufacturing jobs.

I would submit to all of you, those are our jobs. We are an industrial union, a manufacturing union in steel, aluminum, and other related manufacturing. We touch deeply into the communities. We work very closely with our members, and the companies, and the communities in this. It was very foreseeable on that.

The policies that the IMF, the strings that the IMF attached to the economic bail-out, which, incidentally, a large part of this was steelworkers' tax money that went into this, was one which encouraged this kind of activity.

They demanded a curtailment and austerity program of their domestic economy and a focus on exports so they could get dollars and pay back the loans. This is why this was so very predictable as to what was happening.

We started meeting with administration cabinet-level officials. Over the next few months, we met with all of them at one time or another. We met with all the shakers and movers in Washington, from Secretary of Treasury Rubin and Secretary Daley of Commerce, Alexis Herman in Labor, and the Chief of Staff, and the top economist.

We met with them individually, we met with them collectively. There was a lot of sympathy, a lot of expression of concern about this. Ambassador Barshefsky sat in on a lot of these meetings.

The story we got back through this whole exercise was that, to do anything, to do what we wanted—and we have a very simplistic way of dealing with this. Our industry was being ravaged, savaged, and we wanted some import quotas into the United States attached at a pre-crisis level.

We did not talk about building or trying to create Fortress America and build a fence around it, or to try to benefit from this. We wanted it at the levels to be established at the pre-crisis levels, which the industry and others tell me, is probably around 18 percent.

I mean, think about this. There is not another industrial nation in the world that willingly gives away 18 percent of a basic industry of family-supported jobs other than the United States. I have been charged with being a protectionist.

I do not mind describing what I call protectionism is. But this certainly is not protectionist, unless you say trying to protect steel-worker jobs, communities, and our way of living in the United States protectionist. I think we should have a little bit more of that, but that is another story for another day.

We finally joined with the companies. We persuaded the companies to come in on this, and they can tell their own story. But the companies historically have dealt with this through filing trade cases.

The reason we did not want to go down this road was because it takes too long and there is too much damage and hurt. We learned a lot through the 1980's. We lost over 65 percent of the industry and over 300,000 jobs. Whole communities were wiped out.

When those jobs are gone, when those jobs are lost, we do not get them back. In most cases, they sent bulldozers in and bulldozed the plants down, blew up the blast furnaces, and there was no place to go back to. We did not want to live this again. That is why we were fighting the way we were.

The industry came in with us and we repeated the whole exercise again of meeting with cabinet-level officials, ending with the Vice President and the President. It was a full array of the most awesome power, I guess, in the free world, because every cabinet-level secretary was there, every ambassador, everybody in one room sat across from us and we pleaded our story.

I guess I will have to wait for questions to get the rest of it out. I have a lot more to tell.

The CHAIRMAN. Thank you, Mr. Becker.

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

The CHAIRMAN. Mr. Kelly?

**STATEMENT OF PETER KELLY, PRESIDENT AND CEO, LTV
STEEL CORPORATION, CLEVELAND, OH**

Mr. KELLY. Good morning, and thank you for the opportunity to appear before you today on behalf of the LTV Corporation. We are the Nation's third-largest integrated steel company.

These hearings do come at a truly critical time for our business, our employees, our retirees, entire communities, as well as our investors.

I am a 35-year veteran of our industry and I have submitted a detailed written statement into the record that sets forth the factual basis for my assertion to you: there is a steel crisis. It is global in scope. It is not limited to a single product, nor to just one or two countries. It is unprecedented, both in its magnitude and the speed with which it came upon us.

This is an issue of excess foreign supply and it is wreaking havoc already, with two companies already in bankruptcy, others severely weakened, thousands of jobs already lost, and workers suffering substantial lost income. Capital decisions for the future of our industry are already being impacted.

But you are already aware of this crisis. Many of you have already taken steps that are responsive, and we appreciate that very much. So let me summarize my thoughts.

First, unlike the situation in the 1980's, today our American industry is second to none in terms of productivity, customer service, cost, and product quality while we concurrently meet the most demanding environmental safety standards in the world.

As an industry, we have invested over \$50 billion to achieve this result. We neither need, nor want, protection from the challenge of competition that is based upon quality, customer service, cost, or pricing that is based upon the actual cost of production.

In short, we will willingly take on anyone who will engage us on the basis of fair trade, conducted in accordance with our laws and internationally agreed upon standards. But neither we, nor any other U.S. industry, can or should be expected to compete against unlawfully dumped or subsidized product, nor products sent here as the result of fraudulent or collusive practices.

I have, along with other industry and United Steelworker leaders, met with the President, Vice President, and cabinet members. They expressed their admiration for the remarkable transformation of our industry. We are truly globally competitive, as you acknowledged in your opening this morning, Mr. Chairman. We are asking only for a level playing field and a fair chance.

So let me summarize our priorities for action right now. First, do no harm. The administration's discussion of a suspension agreement with Russia is the single worst thing it can do, and it is doing it. Such a negotiation is nothing less than a trading of American jobs for Russian jobs, and it sends all of the wrong messages to our current trade law violators.

The CHAIRMAN. Would you describe for everyone exactly what you mean by suspension agreement?

Mr. KELLY. The suspension agreement, as we understand it, is a negotiation between United States administrative representatives and the Russians by which we would cede to them a certain amount of tonnage of product which they, on the basis of enforcement of our trade laws, are not entitled to ship into this country.

As a large corporation, we are frequently asked to support various legislative initiatives, including trade negotiating authority. We, as others have in our industry, have tried to be supportive.

But when we do that, our expectation is that these laws, when enacted, will be firmly and timely enforced, not sacrificed on the altar of other short-term objectives.

It strikes me as especially ironic if this administration would seek to promote the interests of some of the most environmentally offensive steel plants in the world at the expense of our operations which daily meet some of the most demanding environmental requirements, especially when this same administration is asking we in the industry to be considerate and supportive of the Kyoto Understanding.

Second, this crisis is global and our trade laws need to be revised in a manner wholly consistent with WTO standards so that they will be relevant and responsive to these crises, and we deeply appreciate Senators Rockefeller and Spector's leadership in this regard.

Third, the administration should state now, in a clear and unambiguous way, its support for successful prosecution of a 201 trade action, and the President should specify now the immediate relief he will provide.

Such a statement would sent a powerful message to they who, today, feel free to violate our trade laws with impunity. All of these steps can and should be initiated immediately, and we believe they would have an immediate positive impact.

I have also been asked by my colleague, Hank Barnett, CEO and chairman of Bethlehem Steel, to request that his statement be included in the record, and I support his views.

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

Mr. KELLY. So let me conclude. We have a crisis right now. I have a duty to LTV's many constituents, including both our employees and shareholders. My recommendations today are simple, straightforward, and can be summed up by saying: give us a level playing field. We are a rule-based Nation of laws. Let those laws be enforced uncompromisingly and timely.

That is the very foundation of trust on which our government is founded. If this is not enough, then we too will have no recourse but to come back before this Congress seeking stronger legislative action. Thank you very much.

The CHAIRMAN. Thank you, Mr. Kelly.

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

The CHAIRMAN. Mr. Riederer?

**STATEMENT OF RICHARD K. RIEDERER, PRESIDENT AND CEO,
WEIRTON STEEL CORPORATION, WEIRTON, WV**

Mr. RIEDERER. Good morning, Mr. Chairman and other members of the Finance Committee. My name is Dick Riederer. I am president and CEO of Weirton Steel.

Weirton, the entire steel industry, its steelworkers, and their families are being absolutely decimated by the tidal wave of imports flooding into the U.S. market because of the world financial crisis that, obviously, we did not cause.

Just in the past 2 months since I testified before the Senate Steel Caucus, the U.S. has received over eight million tons of new imports. That is more steel than the whole U.S. steel industry will

produce in the month of January. These imports have been underpricing the U.S. industry by \$50 to \$100 a ton.

But let us put a human face on these imports. A Weirton, we have laid off almost 1,000 people, over 20 percent of our workforce, and I would ask you to read the article that I brought with me from the Sunday Pittsburgh Post Gazette, which is being distributed in the back, about the pain that is being suffered by the members of our Weirton family.

We shut down one of our two operating blast furnaces, thus reducing our production by 30 percent. In the fourth quarter, our company's pre-tax loss was \$16.3 million. Our fourth quarter sales were off more than \$62 million, a little more than a 20 percent reduction.

Thus far in 1999, industry-wide steel production is down more than 18 percent. Two companies have gone into bankruptcy towards the end of 1998. According to The Wall Street Journal and Financial Press, several other countries are in imminent danger of bankruptcy. This is obviously not a good sign.

Let me be frank. The response of the White House to the steel import crisis, as you have heard from both Mr. Becker and Mr. Kelly, has been lukewarm, at best. Let us analyze the single biggest step the administration has taken for the industry and put it into perspective.

After the September 30 filing of the antidumping cases against hot-rolled sheet imports from Japan, Brazil, and Russia by Weirton and 11 other companies in the unions, the Commerce Department both expedited the determinations, announced early critical circumstance determinations which would impose duties on imports from Japan and Russia as early as mid-November.

However, according to Customs' statistics, and this is important, between October 1 and mid-November, two million tons of hot-rolled product arrived from Japan and Russia. It should be clear to you, as it is to my company and certainly to our employees, that under the unfair trade laws, even when you win, you lose. Now even the Commerce Department wants to give with one hand and take from the other.

As you hold this hearing, the Commerce Department negotiators are in Paris, over the strenuous objections, as you just heard from Mr. Kelly, of the petitioners, trying to negotiate the suspension agreement that will give the Russian steel industry a guaranteed share of the hot-rolled sheet market that will continue to be sold at dumped prices at the expense of the U.S. industry.

We completely oppose the suspension agreement. Foreign aid to Russia should be appropriated through the Foreign Aid bill and shared by all U.S. taxpayers. It should not be given at the expense of jobs of the U.S. steelworkers who will no longer be able to put food on the table, obtain medical care, or send their children to college.

If the members of the Finance Committee believe that the United States should maintain a steel industry for national security and save the jobs of hundreds of thousands of extremely efficient—extremely efficient—U.S. steelworkers, then I urge you to take the following four steps as quickly as practical.

Number one. The Finance Committee should initiate, or have the Clinton Administration initiate, after consultation with segments of the industry and the union, a safeguard investigation under Section 201 of the trade laws by the International Trade Commission, obtain a commitment from the President to immediately impose the relief recommended by the commission, and to count against any recommended quotas imports which arrive in the United States after the initiation of the investigation.

Two. All 20 members of the Senate Finance Committee should write a letter to the President urging him to order the Secretary of Commerce not to enter into the suspension agreement with Russia over the objection of the petitioners.

Three. Instead of the \$300 million tax relief program contained in the President's proposal which would be of no use to the industry if it is either unprofitable or bankrupt in the future, the Finance Committee should authorize a program of loan guarantees to the steel industry that would cost the government no more than the \$300 million already allocated under the President's plan.

Four. You should overhaul and improve our unfair trade laws so that relief comes faster. Loopholes around the relief are closed and any duties collected from the imposition of relief go to the parties who suffered the injury in the first place.

What we are talking about here is really no different than what you heard on the agricultural side. We are in a desperate situation. It is unfair to have one industry or two industries in this country suffer because of what is going on in the world financial crisis today.

Thank you very much for the opportunity to testify.

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

The CHAIRMAN. I am going to call on Senator Rockefeller to lead the questions.

Senator ROCKEFELLER. Mr. Chairman, I thank you very much for that. I thank you for holding this hearing. I thank you for inviting our panelists. I thank you for inviting Mr. Riederer, the head of Weirton Steel.

I want to say that I have been in the U.S. Senate for 14 years now and I have never, on the floor or in a committee hearing, ever used a chart or a photograph as a backup. I am going to do so today.

President-to-be Clinton and Vice-President-to-be Gore came to Weirton Steel in 1992, on July 19. In the photograph, you will see not only the President- and Vice-President-to-be, but also myself, the Governor of the State at that time, and your predecessor, Mr. Riederer, Herb Ellish.

Right after we toured the Weirton Steel plant and he had a chance to see what was going on, the President met with the people of Weirton and the Ohio Valley, and he said the following. "I want to, first, make sure we enforce strictly the antidumping laws and the laws against unfair subsidized steel being dumped into this country. That is not fair," he said. "If they are doing things for their steel that we are not doing for ours, they should not have access to our markets."

Mr. Riederer, Mr. Kelly, and Mr. Becker, I would just ask you if you feel that the President has fulfilled, or is fulfilling, his commitment.

Mr. RIEDERER. Obviously, in reviewing the President's plan that was submitted to Congress on the 7th of September, we certainly feel that that falls far short of being supportive of the industry, and certainly not supportive of the words that he used back in 1992. We have been very active in terms of trying to get the administration to pay attention to this crisis in the right way. We have been working on this for a year.

Senator ROCKEFELLER. I am aware of that. I would like to get Mr. Kelly's comment.

Mr. KELLY. The short answer is, no. However, I would also be remiss not to credit Secretary Daley for some efforts that he has undertaken on our behalf, which we appreciate. There are many things the President could do. It was very revealing to us that the simplest of our requests went totally ignored in the report that was presented to Congress.

In fact, most of what they appear to have taken credit for is the absolutely logical, natural outcome of the fact that we, the industry and the unions, filed trade cases, not because of anything initiated by this administration.

Senator ROCKEFELLER. Thank you, sir.

Mr. Becker, my time is running.

Mr. BECKER. Absolutely not. Incidentally, I am the only one that stopped when the bell went red. I want to tell you that. [Laughter.] No, they have not and there has been no indication that they are going to. I think they are in a dilemma of whether to support the multinationals in their programs or to support workers in the communities. I think they are caught in a conflict.

Senator ROCKEFELLER. Obviously, I agree with your answers. In the short time I have remaining, I want to point out, Mr. Kelly, I think you make a good point. I think that Mr. Daley, through the use of critical circumstances, the expedited procedures, et cetera, is making an effort.

But ultimately what is fascinating about all of this, is that this can all be cured relatively quickly. The Finance Committee itself—ourselves—with 13 members having steel in their own States, the President, USTR, the trade union, Ways and Means Committee, a number of other groups, can, in and of themselves—the Finance Committee can, in and of itself, initiate, for example, a request for a 201.

Now, what is a 201? I want to get each of your opinions on this. And the quotas will come in the second round of questions, if there is one. In 201, the modification that Senator Spector and I have put in would simply make it easier to prove injury before the International Trade Commission for the American steel industry, or for anybody else, and would, therefore, bring us in compliance with existing WTO laws.

So in going for self-initiating a 201 action, it is a relatively moderate action, but one which would send a message and which puts us in compliance with existing WTO laws that apply to every other country.

I would like to get, Mr. Riederer, Mr. Kelly, Mr. Becker, your views as to, in view of what you have said, why it is, first of all, to Section 201, doing something about that, we can either self-initiate or we can do the legislative process.

I have explained before that the legislative process would take much longer. This is a Congress which is not likely to pass a legislative process. But the Finance Committee itself can self initiate. That is sufficient to trigger a mechanism from the President to the ITC, et cetera. What are your views about self-initiation or, in general, on Section 201? I would start with Mr. Riederer.

Mr. RIEDERER. Well, as I said in my statement, Senator, we would support the Finance Committee asking for the investigation or self-initiation by the President. We think it is long overdue. We think that the situations are continuing to worsen as we go into this first quarter. Consequently, as we get into this quarter I think it is something that the President should do, or the committee should do.

Senator ROCKEFELLER. Thank you, sir.

Mr. Kelly?

Mr. KELLY. First, Senator, I think we absolutely should begin the steps necessary to modify or amend the law to bring it into compliance or up to WTO standards, no matter how long it takes. We will never get it done if we do not start it, so we ought to start it.

Second, there are several problems. There are what I would call the law-based problems which would have to result in amendments. The ITC, in my view, applies a definitional standard that is not required, not warranted, and not the intention of Congress.

Third, I think it is time we cut through all of this and have the President speak clearly now. Have him tell us now that, upon the successful prosecution of a 201 proceeding, what action he will take, because this is ultimately a political process.

The road of history is littered with 201 actions that were successfully prosecuted, and the then-sitting President refused to act. I think we should ask this President now, what will you commit to doing, and that, too, would send a powerful message to the ITC.

Senator ROCKEFELLER. Thank you, Mr. Kelly.

Mr. Becker?

Mr. BECKER. I agree with all of the above. But my view of a 201 is that it encompasses all steel for all countries. The problem with the current trade case is that it deals only with the specific countries in which they were filed against, and only for those specific products. If you go through a long exercise in winning those cases or dealing with them, the countries just simply switch product, or different countries pop up.

So I think it is essential that we have a 201. I think it is essential that the President initiate this and state clearly to the ITC what he expects from them.

Senator ROCKEFELLER. I would point out to my two colleagues, and I thank them for their forbearance, that this is such an extraordinary situation in that there has not, in the history of this country in the last 40 years that I have been following public life or trade policy, been any parallel situation where there has been such a dramatic increase in import surge of any product, up until

the import surge began a year ago August of steel because of the Asian economic crisis, and has continued.

It is for this reason that I am so vehement on this subject. This is not just like another problem; there has never been anything like this before. There has never been the potential decimation of steel, or any other industry, like there is in this situation. That is why we have to be strident, we have to be tough.

I happen to agree with you, Mr. Kelly. I think the President ought to bring it. Why should the President bring it? We will try to do it in Finance, but the Finance Committee, as important as it is, is not the voice of the United States of America.

If the President, as he in a sense indicated in his own statement 2 years ago, wants to enforce antidumping laws, for him to initiate that process, to go to the ITC and then to come back after 120 to 150 days and have a range of selections, that would allow your companies to go ahead and exist and your workers to be paid and give you a sense of the future, and, Mr. Becker, you represent so many.

But it would just indicate that the President of the United States himself is self-initiating, that he puts it at this level. He himself self-initiates. He can do that. He can do that in 5 minutes, he can do it in five hours, he can do it tomorrow morning. It is his decision and it is one which I strongly think he has to make not just because of Weirton Steel, but because, on July 1, the United Steelworkers' contract expires.

And, as you indicated, Mr. Becker, at that time, in my judgment, it will not be 10,000 steelworkers out on the street, it will be 100,000, or 110,000 steelworkers out on the street without work because of inaction by our executive.

The CHAIRMAN. Senator Moynihan?

Senator MOYNIHAN. That was very impressive. It is a good picture of you, too. [Laughter.]

Mr. Becker, as a statement of solidarity, may I say that I joined the United Steelworkers 53 years ago in 1943, and the American Can Company in Long Island City. I do not think it is there any more, but the steelworkers were very busy in 1943.

I much agree with what you have said here, that it is all too apparent to us that our existing trade laws are not working because they do not prevent the injury in the first place. Instead, they rely upon action only after serious economic injury has already been inflicted in the form of dumping and its associated lost markets and job losses.

May I suggest that our theme in the previous panel was that we need trade negotiating authority to bring into the laws this capacity to prevent injury in the first place. The antidumping laws date to the 1920s. But they take place after events have happened, and they are protracted.

We should think in terms of a proactive capacity to prevent what we have seen in the last year going on, which is extraordinary. I could not more agree that the President ought to do this. But, if he does not, and even if he is thinking about it, I am, Mr. Chairman, much of the view that, although we have rarely done this before, the Finance Committee has the right to initiate a 201 action

and I think we should do. I just think too much is at stake. We see it.

I think I said yesterday, and I wonder if I could ask Mr. Kelly, and perhaps Mr. Riederer, I understand, but I do not assert, that Nucor is perhaps the most efficient producer just now. I am sorry, Mr. Kelly. [Laughter.] But they are selling hot-rolled steel at \$230 a ton, and the Japanese are selling it at \$190. Now, that is below cost, is it not?

Mr. KELLY. I will give you my perspective. First, you can take whatever the selling price in this country is of a foreign producer, and let us add \$50 or \$60 because it costs something considerable to get it here.

When you engage in that exercise, I cannot conceive of a steel making process that would produce hot-rolled steel at those costs that result. I think this is reflected in our filings, where the dumping margins that we are asserting are from 30 up to 60, 70 percent.

I have not heard anyone, even in the administration, challenge our assertion that this steel is being illegally dumped below cost. I would submit to you that the reason so many parties are so anxious to negotiate, is they know they are going to get their head handed to them based upon the facts.

Senator MOYNIHAN. Well, good. The sooner, the better. I agree. Thank you, Mr. Chairman.

The CHAIRMAN. Let me just ask a couple of questions. Is it not true that the American steel industry is the best in the world, that it is competitive? Is that a fair statement?

Mr. BECKER. It is more than a fair statement. We are the lowest man hours per ton producer anywhere, in every category of steel. The lowest man hours per ton. At one time we produced steel, I think, in the neighborhood of 12 man hours per ton, up to around 16.

Today we are safely below four man hours per ton because of a lot of sacrifice, a lot of investment on the part of the industry. Over \$50 billion went in to modernize.

We even negotiated with some of the industries, insisting on contract settlements that they reinvest, so we would not have to re-live the 1980's. Over \$1 billion of new investment money went up on the iron ore range to make the mines competitive.

We put in new work rules and companies negotiated hard and we negotiated hard. You have a whole new steel industry out there. You have self-directed work forces. You can go in some places and the employees run it from beginning to end. We are as efficient as we can be.

This is the point: there is nothing we can bleed out. The industry tells us, in most cases, we could work for nothing, zero wages per hour, and they still cannot compete at the prices steel is being dumped. There is no where else to go.

To be frank about it, gentlemen, we do not have enough jobs in the steel industry. I want to make that point. We do not have enough jobs that the administration or anybody else can give away to keep the economies of Russia, and Japan, and South Korea, Indonesia, Thailand, and Brazil going. There is just not that many jobs there.

Mr. KELLY. Let me offer a perspective, Mr. Chairman. In the mid-1980's, LTV had 54,000 employees and we were operating at 50 percent of capacity. Today, we have 14,000 employees and we were operating, until this crisis, at full capacity. In this country, to the best of my knowledge, we do not make a ton of steel using the open hearth method. It was inefficient, high-cost, and polluting. It went out of this country.

Today, a significant percentage of Russian steel is made using open hearth methods. They have not taken the steps that we took to become efficient, and it is unfair that we pay the price for their uneconomic continued operation of plants that should not operate.

The CHAIRMAN. Do we have a world-wide over capacity of steel, or is this a temporary situation caused by the problems in Asia, as well as Latin America and Russia?

Mr. BECKER. I do not know if I could speak with real authority on this, but it is my understanding that there is an over capacity. A lot of that is due to the curtailment of domestic economies in places like Russia, and Japan, and South America, so that creates part of that.

The CHAIRMAN. So that part of the problem may be a temporary phenomenon.

Mr. BECKER. I believe so, yes.

Mr. RIEDERER. Part of it, also, Senator, is related to the efficiency of that capacity. I think you really have to stand back and look at it, as Peter talked about. The open hearth technology, ingot-producing technology that some of the countries—Ukraine, Russia—use are just totally inefficient and very high cost compared to our industry, or compared to even the mini-mills in the U.S.

So, consequently we have, for example, in November, the Ukraine, as a unit value—and this is a chart that is included in my statement—of imports coming from Ukraine were \$156 a ton, from Russia at \$192 a ton. There is no way that they can produce steel at that kind of level with the kind of technology they are using.

Mr. BECKER. If I could add to that just one little bit. Some countries, in the quest for dollars, have built steel strictly for export into the United States. We know this happened in South Korea, in Pohang and Hambo.

The CHAIRMAN. Let me ask you this, Mr. Becker, Mr. Kelly, Mr. Riederer. What is the capacity here; has it increased? My understanding is that, for example, the U.S. marketplace for hot-rolled steel is slightly less than 22 million tons. In 1997 and 1998, the U.S. added 4.9 million new tons of capacity. We have another 4.1 million scheduled to come onstream.

The reason I raise this, is the problem that we are suffering a temporary one or is it one that will not work itself out?

Mr. KELLY. Perhaps I could start, Mr. Chairman. First, I think a lot of people think of steel as that tired, old material. In fact, it is a material of great value and is entirely consistent with the Nation's environmental objectives.

The demand for steel in the United States has, in fact, been steadily increasing year to year as we find new and better applications for this product. There is not an excess capacity of steel in

the United States, notwithstanding the fact that we are finding new and more efficient ways of producing the product.

In fact, as you heard earlier, in this current reasonably strong economy, we have lost the ability as a free world Nation to meet our need for steel. We accept the fact that imports have a necessary place. What we are fighting, is this flood of unlawfully traded steel, not imports, generally. We do not have a U.S. capacity problem.

The CHAIRMAN. Mr. Becker, would you care to comment?

Mr. BECKER. Just the figures that we have heard of over-capacity in the world is about 100 million tons. I do not know how correct that is overall, but this is the figure that I have been given.

The CHAIRMAN. Is there a feeling that perhaps we ought to have multilateral negotiations on this question of over-capacity?

Mr. BECKER. I think it is a global problem and it is going to require a global solution. I believe that.

The CHAIRMAN. And would that require multilateral discussion, do you think?

Mr. BECKER. I would think so.

The CHAIRMAN. Mr. Kelly?

Mr. KELLY. I am sorry, Mr. Chairman. I have become a cynic. When I hear our trade negotiators come back and celebrate success because they did not give away too much, I am a little reluctant to hear negotiations start because I always feel I end up with less than what we went in. It would be a culture change for us to come back having accomplished something positive for our industry as opposed to celebrating how little we gave away.

Mr. RIEDERER. I think a lot of what we have done over the years, and this goes back to Cordell Hull, but also certainly the Marshall Plan, are all based upon foreign policies, driven by foreign policies not driven by economic policy or by trade policy. I agree with Peter, we end up on the short end of the stick every time, because I think we go in with a smile, but no gun.

Mr. BECKER. If you will permit me, I was not addressing that phase of it. You were questioning how we get rid of the over-capacity. I think that is a global problem and you have to deal with that someplace. If you want a judgment as to how effective all of this is, we ran a trade deficit of \$154 billion in the first 11 months of 1998.

That tells you how effectively we are handling the trading on all of these 300 plus pocket trade agreements that we have run all over the world negotiating, the GATTs, the WTOs, and the NAFTAs. One hundred and fifty-some odd billion dollars in the first 11 months. We are on the short end of the stick.

Mr. RIEDERER. Mr. Chairman, one of the things that you asked about earlier was, how do you sell trade to the American people. American people are very skeptical because of the things that we are talking about here. But since I have been involved in this—and this was not something that I enjoyed doing, frankly; I would rather be running a company—I have gotten lots of letters, lots of people who have talked to me who are executives of companies that have been affected by the way we run our trade policy.

One is from, particularly, Mirro Aluminum Company, which is a cookware producer in Manitowac, Wisconsin. Eight years ago, he tells me that 90 percent of the cookware purchased in the U.S. was

made in the U.S. Today, because of the way we work our trade policy, it has shrunk to 47 percent that is now made in the U.S.

I have heard the same story over and over from the industrial heartland, from various companies involved in competing, because we open our borders up, but other countries do not open their borders up. I think that is the problem we have to deal with. I meant it when I said that we go in with a smile, but not with a gun.

The CHAIRMAN. Senator Rockefeller?

Senator ROCKEFELLER. Mr. Chairman, a final point and question.

I do not think, Mr. Riederer, Mr. Kelly, Mr. Becker, that the American workers in our steel companies give a hoot how we solve this problem, whether we do it on Section 201, whether we do it on antidumping, whether we do it on 301, whether we do it on quota legislation.

I do not think they care, so long as they feel that they are not getting taken out of their jobs by, as Mr. Kelly properly pointed out, illegal activity. Not just erroneous activity, but illegal activity on the part of countries under the 1974 Trade Act.

Let us suppose that the President declined to act and that there was not a Section 201 self-initiation forthcoming. Would you be, in that instance, with Weirton having lost \$13 million last year, with Weirton, I am sure, having been a profitable company as it was the year before without this dumping import surge, the same with Mr. Kelly, and all of your workers, Mr. Becker, would the three of you be willing to consider stronger action to which I refer more specifically as quotas?

Mr. BECKER. I would not only consider it, I would hope and pray for it.

Mr. KELLY. I think I made it clear in my statement, Senator. You have said it very well. We have a responsibility to many constituencies, our employees, our shareholders, our communities. LTV failed once. We will not fail again. We will consider any and all action, and we will be back here to this body seeking your full support.

Mr. RIEDERER. Obviously, individually, for myself and for the industry, we have been supporters of all of the trade action, WTO, GATT, NAFTA, even supported fast track. Excuse me. I guess it is a different term now. We continue to believe in the long term that this economy is better off by having free trade, but it has got to be fair trade.

If it is not fair trade, we are willing to support anything that will enhance the capability of our business. We have a fiduciary responsibility not only to our shareholders, but a very strong requirement to support our employees as well, and our communities, and I would certainly do that.

Senator ROCKEFELLER. I thank all three of you gentlemen very much. I want to thank the Chairman very much for having this hearing, and also Senator Moynihan.

Mr. BECKER. Could I add to that just one second, Senator, just a little bit on the feeling of the workers. They are fast losing faith in the system. When you talk about GATT, I listened to statements at the table here about supporting GATT, supporting WTO, supporting fast track. It was fast track. It was so good to get us Mexico, why are we changing the name? I mean, it is fast track. We

did not support any of those because there were no safeguards in there to protect the rights of workers. There still are no protections in there for workers.

There is no enforceability in those. There is not a day that goes by that is another industry, another plant, another operation of some kind or another that is moving to Mexico. We are going to resist fast track until those kinds of protections are in there.

I think they are not working to the interests of workers, communities, and families. They work to the interests of Wall Street, financiers, entrepreneurs, multinationals. It may make a healthy stock market, but we do have a stagnant standard of living in the United States, in many cases eroding.

In most cases, both spouses have to work today. Between the two of them, they cannot equal what one family supported job paid back in the mid-1970's. America is changing. We will change with that, but we have got to have laws that protect our workers.

One of the things that the President proposed was a \$300 million tax break for the companies. It is ironic, but that is being challenged by the European community as a subsidy and in violation of WTO. That, in itself, is wrong.

We feared at the time that these laws were being passed that we were giving the sovereignty of the United States away, the ability of our leaders to protect workers and communities. We believe that that is right. All of the answers we have gotten so far indicate that our fears were well placed.

Thank you.

The CHAIRMAN. Thank you, gentlemen, very much for being here today. Obviously, this is a matter that will be of continued interest, study, and action. I think you have been very helpful by your testimony, and we appreciate your assistance.

The committee is in recess.

[Whereupon, at 12:21 p.m., the hearing was recessed, to reconvene at 9:15 a.m. on Thursday, January 28, 1999.]



U.S. TRADE POLICY IN THE ERA OF GLOBALIZATION

THURSDAY, JANUARY 28, 1999

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

The hearing was convened, pursuant to recess, at 9:17 a.m., in room SD-215, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Also present: Senators Chafee, Grassley, Jeffords, Moynihan, Baucus, Graham, Kerrey, and Robb.

The CHAIRMAN. The committee will please be in order.

We will forego, for the moment, the opening statements and turn to our good friend, Tom Harkin, who is here to testify, briefly. I understand he has another commitment, so we want to give him full opportunity.

It is a pleasure to have you here, Senator Harkin. Please proceed.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA

Senator HARKIN. Mr. Chairman, thank you very much for this opportunity and thank you for holding this series of hearings to get input about labor and the impact on trade and our future trade policies. It is an extremely important aspect of it.

Again, I just want to thank you for this opportunity to just briefly talk about an issue that I believe is vital to future peace and stability in the world, an issue that is vital to our own future economic interests in the world in terms of trade and markets, and one that I think the United States must take a leadership role in simply because of the nature of our society and our founding documents.

What I am talking about, Mr. Chairman, is the use of abusive and exploitative child labor around the world, how that impacts on trade, and what we should do about it.

Mr. Chairman, I will not read my whole statement. I would just ask that it be made part of the record, and I will just comment on it.

Let me just be clear what I mean, first of all, Mr. Chairman. I am not talking about kids who work after school, or on weekends. I did that when I was young and I bet you did, too. There is nothing wrong with that.

What I am talking about, are kids who are forced to work, some as early as 3 years of age. They are denied the right to go to school. They work in very abusive and exploitative factories, farms, and in hazardous conditions, almost slave-like conditions. Long hours, little or no pay.

Sometimes they are ripped from their own families, sometimes their families even permit this to happen. Sometimes families even sell their kids into this kind of bondage. Well, just because the parents do it does not make it right and does not mean that we cannot do something about it.

For the record, I want to just say, Mr. Chairman, I believe in free trade. But we have to ask what free trade really means. I just have a couple of pictures I will show you. About this time last year, I took a trip to Southeast Asia to visit a number of countries. One of them was Nepal. I happened to meet a young man there who had worked as a child laborer in one of these places, and he knew the guard at this one plant. We went there on a Sunday night under cover of darkness to get in. We were under the impression, or at least we were informed, that the owner was not around. You have heard that story before. So, anyway, we get to the gate.

I took this picture of the sign that was posted at the gate with my own camera. As you can see, this is in Kathmandu, Nepal. The sign is written in Nepalese, and under in English it says, "Child Labor Under the Age of 14 is Strictly Prohibited." That is on the outside of the gate.

Well, we got in unannounced, of course. Went around down a dark alley and back to this factory. I will just show you one of the many pictures I took. That is me looking at these little kids making these carpets, and not a one of them is 14 years of age, they are much younger. This is Sunday night, probably around 8:00 at night. They are working under hazardous conditions.

Now, obviously, if I had asked to go see that plant in the daylight or something like that, they would have gotten all of the kids out of there and you never would have found them. So I just say, do not tell me it does not exist, I have seen it up close and first hand.

Again, I think that child labor, really, Mr. Chairman, is probably the last vestige of slavery we have in the world. This is slavery. You can call it what you want, but it is slavery.

Now, I have to ask, if we were dealing with a country in trade that sanctioned slavery and used slave labor, would we deal with that country? Would we import articles from that country? Would we ask our workers to compete against slave labor? No. But, yet, it goes on every day in countries all over the world.

I submit to you, it is the last vestige of slavery that we have left. These kids do not get an education. They will never help their countries to develop economically and they will not become active participants in the global market.

Recently, I came across a startling statistic, Mr. Chairman. According to UNICEF, nearly one billion people will enter the 21st century unable to read a book or sign their name. One billion people. This is a formula for instability, violence, and conflict.

Now, again, I want to make clear. People say, well, that is just you. That is a western standard. Well, it is not a western standard. ILO Convention 138 is clear, and these countries have all signed

on to it. The minimum age for employment is 15 years of age. Developing countries can invoke a certain clause and get it down to 14. So it is not a U.S. standard, it is a world standard.

Now, again, I know the U.S. cannot become, and should not become, the world's labor inspector. But I believe there is a sound economic rationale for holding countries to international standards regarding abusive and exploitative child labor.

The markets of tomorrow, Mr. Chairman, are taking shape today. If we want American goods, high value products to be purchased the world over, people have got to have an education, they have got to be able to afford them.

Now, lastly, someone argued that traditional trade agreements under GATT and WTO should not take into account these non-traditional areas not directly related to trade. Yet, at one time intellectual property rights were not considered measures to be addressed by trade agreements. In the beginning, there were only tariffs and quotas.

Well, eventually GATT evolved to include intellectual property rights and services, which has now become an integral part of it. Now the WTO will consider rules dealing with foreign direct investment and competition policy. So, there has been a steady evolution of what is considered directly related to trade.

Is it, I ask you, so radical to now include basic protections against abusive child labor in our trade agenda? I do not believe so. Labor considerations, especially the most egregious forms such as abusive and exploitative child labor, are clearly issues that can and should be dealt with.

Again, I would point out that Article 20 of the GATT allows measures restricting trade in prison labor. Those kids are in prison, Mr. Chairman. They cannot leave. They are in prison. There are walls around this place. They are in prison, yet they are not considered prisoners.

We in the United States have denied goods coming into this country made by prison labor since 1930. So I think that some practices are beyond the realm of acceptable. International law recognizes that, and this is one of them.

Mr. Chairman, I would just like to establish that I hope that ending abusive child labor should be an integral part of U.S. trade policy. It is not just an issue of development or human rights, I think it is an important aspect of the future of the global stability and global economy and the future of U.S. markets.

In order to effectively combat this, I believe the committee and this administration should place at the top of the trade agenda two important initiatives. First, I would strongly urge that, during the next round of WTO trade discussions taking place this fall in Seattle, WA, the United States continue to seek the formation of a working party to examine the relationship between workers' rights and international trade issues.

Second, the United States should continue to promote labor standards as a part of any trade agreement. I firmly believe that a child deserves as much protection in our trade laws as a song or a microchip. If we can protect a song, we can protect a kid.

So, should fast track legislation be introduced in the 106th Congress, I will again seek to put in similar language. Quite frankly,

Mr. Chairman, and I say it quite pointedly, the administration's bill last year that they sent up on fast track, not only did it not take steps further to enhance and protect against abusive child labor around the world, it actually took a step backward.

I am not going to belabor it now. I would be glad to point this out to your staff. There was actually a step taken backward. Hopefully, working with the administration, they can clean up that language before they send it back up again this year.

In closing, again, I just say, Mr. Chairman, I thank you for this opportunity. I welcome the opportunity to work with you, Mr. Chairman, and other members of the committee. Again, I have not met a child or a family in any of the countries that I have traveled to that did not want to put an end to abusive child labor. They want their kids in school. They do not want them working in hazardous conditions. They are asking for our help to end it, and I believe we should do no less than that.

Thank you, Mr. Chairman.

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

The CHAIRMAN. Well, thank you, Senator Harkin. I think we are all in agreement that something should be done about abusive child labor. The question, I guess, is what is the best means. I appreciate your taking the time for being here this morning, and I would urge your staff to get together with my staff on this matter.

Senator HARKIN. I appreciate the opportunity. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. At the outset of our hearings on Tuesday, I indicated my intent was to begin the process of rebuilding a bipartisan consensus on trade. Senator Moynihan, I think we have made some progress towards that goal over the last 2 days.

In particular, the testimony has reinforced my view that we must be much more concrete in the future as to what the U.S. negotiating objectives should be.

The second point I took away from the hearings was the need to reinforce our trade laws in ways that ensure we can vigorously enforce our trading rights.

The third point, in my view, is making explicit the U.S. Trade Representative's obligation to revisit agreements with our trading partners when time and experience suggest that there are clear flaws in a particular accord.

Now, today I hope we can make equal progress on at least two other issues. The first and second issues are those of labor and the environment. These are difficult issues politically, but here we must find common ground too if we are going to make progress on a trade policy agenda that serves all Americans.

I would be very interested in hearing from the administration what work they already have under way on international labor and environmental matters and what they propose to undertake within the framework of the administration's trade policy.

I also, of course, think it is critically important we hear directly from labor and environmental groups. We are very fortunate to have with us today two distinguished representatives of these groups, John Sweeney from the AFL-CIO, and Durwood Zaelke, from the Center for International Environmental Law.

We were scheduled to hear from Mark Van Putten, the president of the National Wildlife Federation, but, due to a conflict, he could not join us. He is submitting his testimony in writing.

[The statement of Mr. Van Putten appears in the appendix.]

The CHAIRMAN. I particularly want to thank Mr. Zaelke, who was kind enough to join us on very short notice. We are very fortunate to have him here today.

I know that both Mr. Sweeney and Mr. Zaelke have said that the promotion of labor environmental standards through the tools of trade policy is fully consistent with trade promotion.

This is the time to begin to hear what that vision entails and how we can find areas of common understanding. The stakes are too high not to engage in a meaningful and substantive discussion of the issue.

With that, I am happy to turn to my distinguished colleague, Senator Moynihan.

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

Senator MOYNIHAN. Who will agree with you, Mr. Chairman, we have had some very positive hearings. No discord. Important emphasis on the need to anticipate the violation of trade agreements before they happen, and you are always chasing after violations when we ought to be able to think in advance of what is likely to happen and what measures will be taken, the steel situation being so clearly before us.

Our steel industry is at risk. It might not be there a year from now, in clear violation of our trade laws. But when things like that occur, you have to catch up. If you catch up, it is often too late.

On the point of labor standards, I would simply make the point, and I see our distinguished Secretary is here, that this is not a new departure for the United States. It goes back to 1919 and the Treaty of Versailles, with Woodrow Wilson, a great champion of the new International Labor Organization, which was drawn up by a committee headed by Samuel Gompers of the AFL-CIO.

Over the years we have had a series of labor treaties such that is now asserted by the ILO, and I think it is agreed to, that if you are a member of the ILO you are committed to these standards. If you are committed to them, then live up to them. How we energize that effort, I am not sure, but we would no doubt hear about that from Secretary Herman.

The CHAIRMAN. Thank you, Senator Moynihan.
Senator Baucus?

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

Senator BAUCUS. Thank you, Mr. Chairman. A very brief statement I would like to give, with your indulgence.

Mr. Chairman, in the State of the Union address the President said very clearly, very plainly, and very appropriately, that we have to put a human face on trade. I think that is something that we all agree with. But, as is so often the case, it is a lot easier said than done.

Take the case of the environment, which is an issue that I have particular interest in as Ranking Member of the Environment and Public Works Committee. Many members of this committee have been longstanding leaders of both expanding trade and protecting the environment. You, Mr. Chairman, are very much in that category.

But it is not easy bringing environmental protection into the hallowed halls where trade agreements are negotiated. It is new, it is complex, and to my mind the parties often talk past each other.

The business community sees some environmental arguments as disguised protectionism. The environmental community sees some business arguments as a disguised effort to drive environmental protection down to the bottom.

I think, and we all know, this is an extremely difficult issue and we have got to get beyond that, because it is true that expanded trade and environmental protection are two sides of the same coin, that is, a better standard of living, both in our country and around the world.

To help accomplish this, I would like to focus today on three issues that I mentioned in the first hearing we had on globalization last Tuesday. The first, is NAFTA and the side agreements. The second, is the treatment of environmental issues by the WTO, including the upcoming Geneva negotiations. The third, is the treatment of environment and labor in the trade negotiating authority legislation.

Finally, I would like to commend you, Mr. Chairman and the Ranking Member, for holding these hearings. We have been focusing on tough issues. We have made some progress. We have got, obviously, a long ways to go. I think the testimony and give and take have been very productive. I am also amazed, and would compliment you, Mr. Chairman, on the breadth, the depth, and the ambitious nature of the hearings.

For example, yesterday we even began a referendum of whether the 21st century was a good or a bad idea. [Laughter.] That is a pretty good week's worth of effort. Anyway, I know that these hearings will be very productive. Thank you.

The CHAIRMAN. Thank you, Senator Baucus.

I would now like to call forward the second panel of two very distinguished witnesses, Alexis Herman, who is, of course—

Senator KERREY. Mr. Chairman, might I make a brief opening statement at this point? I was asked if I would and said that I might defer it, but I could be, I think, brief.

The CHAIRMAN. Sure.

**OPENING STATEMENT OF HON. J. ROBERT KERREY, A U.S.
SENATOR FROM NEBRASKA**

Senator KERREY. Mr. Chairman, first of all, I very much appreciate both you and Senator Moynihan holding this hearing, and holding this series of hearings. I will repeat what I said yesterday.

I think this committee, because of its makeup, it just happens to be made up of people who get along relatively well and we have demonstrated our ability to reach bipartisan agreements on very difficult subject matters, including restructuring the IRS last year, under your leadership. It seems to me that we ought to consider being, not just for the Senate but perhaps for the entire Congress, that vehicle for change.

We know that the House of Representatives has been converted into a super fund side over the impeachment problems. And it is going to occur that there is going to be a need for some entity in this Congress to become a vehicle for bipartisan action and I think we could be that vehicle. I hope, indeed, that this committee will become that.

Trade, for me, as I see it, requires us to look at two sides of the transaction. One, is our own laws. I will repeat again, I think one of the things that we have to think about, if we are going to have laws that have free trade and competition in the market being used as a way to increase our standard of living, I think that we have got to examine very closely the nature of our safety net. This committee has the safety net responsibility, not just welfare, but also Medicare and Social Security. I think our safety net is inadequate.

If you are going to have a competitive marketplace, it seems to me that a man or woman that is out there in the workforce ought to know they can work like mad but, if market forces cause their job to go away, that they have still got health care, that health care does not go from employer to employer.

I know that is a difficult subject, given the experience with health care reform in 1993 and 1994, but we are a wealthy enough Nation to get that done. I hope, in the process of looking at Medicare reform, we will think about why we need a universal safety net in order to maintain our open market and our competitiveness policies.

The second side of it, I would say, is a bit connected to Senator Moynihan's observation that perhaps the 20th century was a mistake. That is, that we have come a long ways in the 20th century. At the start of the 20th century, the defining political organization was empire, the British empire, the French empire, and then it collapsed. We did not figure it out, quite, in Versailles, but eventually it collapsed and a lot of lives were lost in the process.

As I heard the Pope in Mexico over the last two or 3 days, I heard language that I think we ought to think about when we are considering one trade agreement that I think needs revisiting because it is extremely unpopular as a consequence of the way it is worked and the way it is perceived, and that is NAFTA.

NAFTA says North American Free Trade Agreement. The vision of NAFTA is an America, an America that includes more than just the United States of America. That is the vision. The vision is that we need to subordinate slightly our desire to rigorously enforce the borders of the Nation State in order to achieve something bigger.

That is what the Europeans are doing with the common market. I mean, they have resolved enormous economic differentials north to south, and that is what they are trying to do. They are raising living standards, environmental standards, and labor standards in

the process of achieving this union. They have to resolve that, and that is what they are doing.

I think we have to think about that when we do it with Mexico and not get all hung up on this, are we going to allow environmental or labor standards in the agreement.

We have to envision this continent much differently than we have in the past. If we do that, I think it is going to be possible for Republicans and Democrats to come together on some authorizing language that takes into account people's concerns, both about labor standards and the environment.

The CHAIRMAN. Thank you, Senator Kerrey.

At this stage, I would like to call forward our two very, very distinguished witnesses, Alexis Herman, who is, of course, Secretary of Labor, and Carol Browner, who is Administrator of the Environmental Protection Agency.

I would like to note, it is my understanding that Administrator Browner will have to leave by 10:40 this morning. So, we will do what we can to try to keep you on your schedule.

Secretary Herman?

**STATEMENT OF HON. ALEXIS HERMAN, SECRETARY OF
LABOR, WASHINGTON, DC**

Secretary HERMAN. Thank you very, very much, Mr. Chairman, and good morning.

Chairman Roth, Ranking Member Moynihan, members of the committee, I want to commend you for holding this important set of hearings on international trade policy and I thank you for inviting me to testify on our administration's international labor agenda.

This morning I would like to begin by setting out our framework for approaching international labor issues, especially as they have emerged in the context of globalization.

Before doing that, I think it would be important to step back and put this discussion in the context of our current economic prosperity.

We are enjoying the healthiest economy in a generation. We have added nearly 18 million new jobs in this administration. Unemployment is at a 30-year low, and wages are growing at twice the rate of inflation.

Increased trade has been an important source of growth. We know export-related jobs are good jobs, paying on average 13 to 16 percent more for overall U.S. averages.

So globalization has provided new opportunities for U.S. workers, but it also poses challenges. In order to rise to the challenge of managing globalization successfully, I believe that we must keep at least five principles in mind.

First, all workers must have the skills that they need to compete in the global economy. Second, there is a need to build greater consensus and understanding for our view that international labor standards and global trade liberalization are not mutually exclusive goals.

In fact, they ought to be, and should be, mutually reinforcing objectives. We must work together to ensure that fair trade is also free trade, and that free trade is also fair trade.

Third, international labor standards can improve long-term global economic growth by contributing to the development of the middle class, assuring more broadly based prosperity.

Fourth, worker rights are human rights and global economic policy cannot be isolated from that fact. We must ensure that core labor standards are leveled up and not pushed down.

Fifth, partnership is key to success, partnerships with other governments, with employers, workers, and non-governmental groups.

These five principles not only make for good economic policy, but they are necessary to maintain the confidence that is needed to remain engaged in the global economy.

In his State of the Union address last week, the President said we do have to put a human face on the global economy. I want to provide a brief summary this morning of three initiatives of what we are doing, what we are pursuing in the international labor arena to help bring that human face into focus.

First, we are doing this by placing our concerns on the global agenda. Second, we are building international agreements to advance our concerns. Third, we are assisting with the strengthening of the ILO.

I want to briefly address each of these and how we are improving our ability to help workers manage by reforming trade adjustment assistance as well, and expanding our own rapid-response efforts because we recognize that, while we are engaged in all of these efforts on an international level, we must also be mindful to our domestic agenda here at home.

First, building the consensus on a global basis for core labor standards. I believe that we are actually seeing a paradigm shift in this arena when it comes to the elevation of this debate on the global stage today. This administration has certainly sought to place global labor standards squarely on the world's agenda.

For example, the administration has launched working groups in both the ILO and the OECD in 1994 to look at the issue of labor dimensions as a part of trade liberalization.

By 1996, both organizations had developed a consensus on the concept of core labor standards, or a set of standards that ought not to be seen as dependent upon a country's level of economic development. Indeed, the implementation of such standards is now understood to actually enhance economic performance.

The list of such standards that were agreed to include: freedom of association, the right to collective bargaining, nondiscrimination in employment, the prohibition of forced labor, and prohibitions on abusive child labor.

This list now reflects not only the view of the OECD, but also a new consensus among the ILO's over 170 member countries and employer and worker organizations.

In the last year, President Clinton has also addressed both the World Trade Organization and the IMF World Bank meetings. In both of those speeches, he referred to the role of the ILO in the global economy and the need for those institutions to work more closely with the ILO.

I will be reinforcing that message next month as I host the labor ministers from the G-8 countries, and later this year I will host the APEC labor ministers for a similar meeting. Cooperation on

setting the international labor agenda is also a part of our relationship with the European Union under the new Transatlantic Partnership.

Reaching agreements on labor standards has also been a cornerstone in helping to shape our policy initiatives in this arena. Last June, after nearly 2 years of efforts, the ILO, with the support of global worker and employer groups, negotiated and adopted a new Declaration on Fundamental Rights and Principles at Work, and follow-up mechanisms to measure compliance.

This is the first time that we have had such action in the ILO since 1944. We now need to invest in the effort to ensure that the new follow-up mechanisms count, that, in fact, it has teeth.

We have also moved forward in new ways to develop labor agreements in the region. You are well aware of the North American agreement on labor cooperation that was negotiated with NAFTA and implemented in 1994 between the United States, Mexico, and Canada.

As you also know, we have a schedule to complete the Free Trade Area of the Americas by 2005. In that regard, we have also focused our attention on the labor aspects of hemispheric integration in that process.

Most recently, at the hemispheric labor ministers meeting in Chile this past October, we adopted a detailed plan of action to strengthen basic worker rights and to modernize and to improve the ability of labor ministries to deliver services to workers and to employers.

Lastly, our efforts to strengthen the ILO have seen our work emerge on several fronts. We have been working with the ILO to pursue not only our ability to strengthen its capacity internally, but we are looking specifically at several programmatic objectives.

Our efforts include, first, in our work to help to implement labor standards, we are working on accountability mechanisms. We are trying to strengthen the ILO in its ability to support the implementation of the new Declaration on Fundamental Rights and Principles at Work.

We want to develop strategies for implementing those labor standards which governments are prepared to say that they wish to be in compliance on. That is precisely why the President has requested an additional \$25 million to create a new arm within the ILO to help build institutions in those countries to monitor and to enforce basic labor protections.

In the area of child labor, while I know that you have just heard from Senator Harkin, we are already making significant headway, I believe, in building consensus on one of the critical standards within the framework of the ILO, and that is our fight to end abusive child labor. Support from the Congress has been central to that leadership.

Last year, President Clinton requested \$30 million in funding for the ILO's program for the elimination of child labor, or IPEG, as it is commonly called. We have put this at the forefront of the ILO's agenda. Congress responded to our request and we believe that we are making a clear difference.

This year, as the President has said in his State of the Union address, we hope to help lead the conclusion of a new ILO convention that would ban the worst forms of child labor.

In the area of codes of conduct where we are seeing opportunities for elevating this whole issue of international labor standards, we are working to build partnerships. We have sought to strengthen the engagement of the ILO in the area of codes of conduct for working conditions.

This administration, for example, has encouraged such efforts as the apparel industry partnership to work out a code of conduct and elements of monitoring for implementation. We are continuing our efforts to engage leaders and business, labor, universities, and human rights groups. In this regard, we have held two joint programs within the European Union to encourage a Transatlantic Partnership on codes of conduct.

But, even as we focus on our international labor agenda, we are mindful of the real need to assure that our workers here at home who face change from the global economy are given the tools that they will need as we go into the new millennium to, in fact, manage that change.

Part of our strategy has been our trade adjustment assistance program.

We must assure that workers who are dislocated from their jobs due to trade—and for that matter for any reason—get the tools they need to find and prepare for new jobs.

The President's budget will emphasize our commitment to this principle through a five year increase in funds to serve dislocated workers—with a goal that these services become universally available.

And we will bring a special focus to trade adjustment assistance by linking it to an initiative that improves rapid response to worker dislocations and connects laid off workers with services available in their communities.

I want to add that I am especially grateful to both you, Mr. Chairman and Senator Moynihan for your many years of leadership in championing quality worker adjustment assistance for trade-impacted workers. And I want to thank you Senator Moynihan for introducing the Trade Adjustment Assistance Improvements Act of 1999 which provides for enhancements and expanded program coverage. The President's FY 2000 Budget will propose the funding for this reform legislation and I look forward to working with this committee to ensure its early enactment.

With that, Mr. Chairman, I will conclude my opening statement for the record, and I would be happy to entertain any questions that you may have. Thank you.

[The prepared statement of Secretary Herman appears in the appendix.]

The CHAIRMAN. Thank you, Madam Secretary.

First, we will hear from Administrator Browner.

**STATEMENT OF HON. CAROL BROWNER, ADMINISTRATOR,
ENVIRONMENTAL PROTECTION AGENCY, WASHINGTON, DC**

Ms. BROWNER. Thank you, Mr. Chairman.

Senator CHAFEE. Mr. Chairman, I would just like to join in the welcome to Administrator Browner, who appears before our committee frequently in the Environment Committee. We have had the privilege of working with her closely for several years now, and I want to say how glad we are to see you here.

Ms. BROWNER. Thank you very much. It is, indeed, a pleasure to join all of you, Mr. Chairman, Senator Moynihan, the other members of the committee.

I want to just begin, Mr. Chairman, by thanking you for recognizing my time constraints. I will be leaving here to join in a tribute to a man who served in this great body, Governor/Senator Chiles, who I had the wonderful opportunity to work with at the beginning of my career as a young Senate aide, and then later as the head of the Environment Department in my home State of Florida.

I am very pleased to be here with Secretary Herman and to join with the other members of this administration in testifying before this committee on the important issues of our global economy and trade.

Obviously, most important to me as the head of the Environmental Protection Agency, is the environment. Our work at EPA focuses on cooperation with other countries, focuses on how best to develop the interface, if you will, between trade and the environment.

I know that there are many, many opinions about the need for incorporating environment protections in the upcoming trade agreements. Let me say this. It is the Clinton Administration's great hope that we can work together for a common approach and really develop a new consensus on this very important issue.

Since this Nation passed our original environmental laws almost 30 years ago now, we as a country have made tremendous progress. Our water is certainly cleaner, our air is healthier, our land is safer. But I think we all recognize that the job is not done, that we must remain vigilant.

Millions of Americans still live in areas that do not meet national public health standards for a healthy environment. There are a host of new global challenges that threaten the gains that we have made: the pollution that is leading to climate change, air and water pollution that crosses our borders, dangerous pesticides on imported foods, the transport of harmful persistent chemicals such as DDT and chlordane, all of which have been banned here but are still used abroad.

I think we would all agree that we live in an increasingly global economy. It presents enormous opportunities as well as enormous challenges and enormous problems.

Continuing our great progress on protecting the health and the environment of Americans hinges on two strategies, strong U.S. international environmental programs, and open trade that clearly protects our air, water, land, and the health of all people.

At EPA, our international programs are focusing on greater cooperation, more technical assistance, more trade in environmental technologies, to help other countries really build the infrastructure, to build the capacity to meet important environmental and public health standards. We are helping them achieve these protections

using the best science, good science, using cost-effective, common-sense solutions.

But we must also, as the President said and as Secretary Herman quoted, put a human face on the global economy. We must work for trade that protects workers and the environment.

This administration has proven time and time again that the environment and the economy go hand in hand, that we do not have to choose between one or the other, a healthy economy or a healthy environment.

Today, here in the United States we have some of the strongest environmental protections in the world, and also one of the strongest economies. Indeed, in the long run we believe that you cannot have a prosperous economy without a healthy environment, and vice versa.

If we keep a few principles in mind, we can have both robust trade and strong environmental and public health protections. First, we must continue EPA and others to promote the export of environmental technologies, as we have been doing with our training and technical assistance programs, and support the upward international harmonization of environmental standards.

The Department of Commerce has estimated that the world demand, the world market in environment technology, is today worth \$400 billion and is expected to reach \$600 billion in the next 10 years. Continuing to carve out an American role, an American opportunity in this market is absolutely essential to our National competitiveness and to our National goals of strong environmental protections.

We must also ensure that when American tax dollars are invested abroad through projects supported by the Export-Import Bank and other multilateral development banks, that we invest in environmentally sound, environmentally sustainable projects. That way, the markets for U.S. goods will be there, not just today, but also tomorrow.

We must ensure that existing and future trade agreements and investments are negotiated and administered in the full light of day, with full and meaningful public participation.

These agreements and investments must permit sovereign nations to set their own tough environmental and public health standards. We must also ensure that nations work together to harmonize these standards upward.

To protect the health of the American citizens, we must retain our right to deny entry of products that do not meet our National environmental and public health standards. Only then can we continue the environmental progress in this Nation and protect the competitiveness of U.S. companies from lax or nonexistent environmental controls in other countries.

As the President said, we must ensure that spirited economic competition among nations never becomes a race to the bottom in environmental protections. We should level up, not down.

This coming November, we will hold the first WTO ministerial meeting on American soil. The Clinton Administration will be calling for a trading system that is even more protective of health, the environment, and American competitiveness.

So let us work together for a common goal, a continuation of the great progress that we have made in this country in protecting those things we all share, our air, our water, our land, our health, our economy.

I want to be very clear. We really do believe that we can do both, that we can both protect our environment and grow our economy. Increasingly, we live in one world, one globe, be it trade, economy, or the environment. The reality is, this is not something that we can run from, but rather something we must embrace and we must work together to resolve our differences and move forward.

Thank you very much for the opportunity to be here. I would ask that my full statement be inserted in the record.

The CHAIRMAN. So ordered.

[The prepared statement of Ms. Browner appears in the appendix.]

The CHAIRMAN. Madam Secretary, as you pointed out, this past June the International Labor Organization adopted the Declaration of Fundamental Principles and Rights of Work, the so-called core labor standards.

Now, some have suggested that we should have the same provisions in the trade agreement. Is that necessary, since it has already been adopted by the ILO?

Secretary HERMAN. I think what we need to have, Mr. Chairman, is certainly better coordination and a working relationship, at a minimum, between the WTO and the ILO as we look to, what are the best ways to begin to make sure that we are going to take core labor standards into consideration as a part of our trade agreements.

Clearly, the resolution that was adopted, the declaration that was adopted in June in Geneva, certainly provides for additional moral and political persuasion, if you will, in holding member countries accountable to those principles.

It does not necessarily carry any new legal obligations, but I believe it will have the effect of certainly ensuring greater accountability with a follow-up mechanism.

That, in my view, however, does not preclude the need for ongoing collaboration and coordination with other international bodies such as the WTO to see what it is that we can do to have these objectives, as I said in my statement, be mutually reinforcing and not mutually exclusive.

The CHAIRMAN. Let me ask you this. In concrete terms, does the administration propose to raise labor rights as part of the WTO ministerial? Does the administration have specific negotiating objectives in mind for addressing labor issues as part of future trade negotiations?

Secretary HERMAN. Well, when the President went to the WTO last year he certainly put this squarely on the WTO's agenda in calling for a coordination, a mechanism, if you will, between the two organizations to discuss the best ways in which we should begin this collaboration.

It would be my hope, it would be my expectation, that, as a part of the WTO ministerial leaders' meeting in November/December here, that certainly we would want to pursue that agenda to ask, what is the right way, what are the best mechanisms, and to get

the kind of commitment that we have been attempting to seek in other international bodies.

If you would ask, do we have a concrete and specific labor dimension, labor objective, I would say that, to the extent that we can get agreement, that there needs to be this coordination, if you will, this collaboration between the two organizations to begin to look at those questions. I would consider that to be a very significant step forward.

The CHAIRMAN. In other words, we are talking about coordination of enforcement of the core provisions. Is that correct?

Secretary HERMAN. At this point, we are talking about coordination and collaboration to determine what would be the right approaches, what would be the right mechanism. To date, we have not had such engagement. There have been virtually exclusive domains when it comes to looking at these issues, and we believe it is high time that we have more collaboration and coordination on this question.

The CHAIRMAN. Ms. Browner, is economic growth and a rising level of income to which international trade contributes essential to raising environmental standards in developing countries?

Ms. BROWNER. Oh, I would think, yes. I think that as we work with countries around the world and as we see their opportunity for economic growth expand, so does their commitment and their ability to honor that commitment to strong public health and environmental standards.

Clearly, as they have access to world markets, as they have access to our technology, our environmental technologies, their ability to provide a level of environmental protection certainly grows.

The CHAIRMAN. Let me ask you, what does the administration intend to do on the issue of trade and the environment in the upcoming WTO ministerial? Do you intend to propose the negotiation of international environment standards as part of any new round of multilateral negotiations?

Ms. BROWNER. Well, leading up to the meeting here in the United States there will actually be, in March, a high-level symposium on trade and the environment, a WTO high-level symposium. We think that will be a good opportunity to really begin a dialogue on issues that we think will ultimately need to be addressed.

The appropriate mechanism for addressing them, the venues, are something that we all want to remain open to, but I really think there are sort of four core principles when you think about trade and the environment.

The first, is transparency and public participation. It is extremely important that all countries make available their environmental decision making process, that it be transparent, that the public have access.

Second, and equally important, is preservation of our sovereign rights, the individual domestic rights to set standards that are necessary for that country to protect its environment and its citizenry.

Third, is the upward harmonization of standards. This is work we have already begun through NAFTA in our relationship with Mexico and Canada, looking at how we can move up as a continent and really see the upward harmonization.

Then, finally, is the effective enforcement of domestic laws. Obviously, it is one thing to put the law on the book to provide for the protections, but it has to be enforced. So, as we prepare for the meetings in March and then on into the later meetings, those are really the four principles that we will be looking to articulate and to secure agreement around.

The CHAIRMAN. Let me just ask one follow-up question on the question of enforcement. Let us say EPA and a State make certain agreements on how to enforce a particular environmental law. Perhaps they compromise it in some measure. There is concern that some other party, a third party outside of this country, would be in a position to undercut these kinds of negotiations.

Ms. BROWNER. We would share your concern. We do not think that that kind of interference would be appropriate. At the end of the day, the evaluation should be whether or not the protections have been provided.

In terms of how we go about doing that in negotiation between EPA and a State, a State and its local governments, that is not really something that should be the subject of international review. What is appropriate for international review is whether or not the standards have been met.

I think that we would be very, very concerned, as I think you must be, with any kind of situation where you could have sort of a disruption or an interference in our ability to resolve State to State how we best go about enforcing the Nation's environmental laws.

The CHAIRMAN. I am happy to hear you say that because I think this is a question of genuine concern on the part of some.

Senator Moynihan?

Senator MOYNIHAN. Well, just to continue the questioning that you began. First of all, if I might just welcome Andrew Samet to our hearing. He was Secretary Herman's negotiator in Geneva and did a superb job on the most important development in international labor since the Philadelphia Declaration of 1944 with President Roosevelt.

A certain reality check. As with many departments and agencies in our government, labor and EPA really have constituencies. You are there to look after them and to represent them. You come about because of them.

It is an elemental fact that, by and large, the labor movement in this country is against the President's trade program, and by and large the environmental groups in this country are against the President's trade program.

I mean, in the last Congress on extending negotiating authority, it was opposed by the Sierra Club, Friends of the Earth, National Audubon Society, National Wildlife Federation, and the list goes on. I see you nodding in mournful agreement. What are we going to do about that? I would like to make one suggestion, then just hear you out.

In the case of the labor conventions, they began at the turn of the century. They were formalized in the ILO in 1919. That was a time when international society had not developed the techniques, even the idea, of inspection, of compliance. All right. You signed the treaty, are you complying with it.

I guess you have to go to the International Atomic Energy Agency created in the United Nations family in 1957 before you get the idea of sending inspectors around. You said you will. Well, have you not?

If we do not get something of that order, we are not going to get your constituencies back, are we? I mean, you are trying. You should. I would ask Secretary Herman, whose constituency has been around the longest.

Secretary HERMAN. Well, Senator Moynihan, I would answer that question on two levels. First, I believe that there is recognition, certainly, within organized labor, the leadership of organized labor, that we do need to have, to use the term of art that is being used, a new consensus in terms of how we view our trade policies that will include greater protection for worker rights.

To that end, I have personally been encouraged by the degree of communication and collaboration that we have been able to have on, what does that begin to look like. If I could use as an example, as a case in point, our work in Geneva last June. This was not an easy agreement to reach.

Senator MOYNIHAN. No. No.

Secretary HERMAN. The ILO, as you know, is a tripartite body, consisting of unions, employers, and governments.

Senator MOYNIHAN. A very important point.

Secretary HERMAN. And what we did as a prelude to that, we convened meetings here in the United States with our own worker representatives, with our employer representatives, and of course with the Department of Labor serving as the President's representative in this regard—I might point out that this was a body that had not met here in our country for a number of years—to begin to look at this issue from a collaborative standpoint before we went to Geneva.

While we had to certainly reach a consensus not only among ourselves but also with the member countries with which we were negotiating, in the end we were able to reach an agreement where the U.S. delegation did finally sign on. But I would point out, it was not without the creative tension and hard debate.

I use that as an example to say, this is the kind of engagement that we have to pursue in the future to have everyone at the table and to talk about, what are the challenges that we collectively face together, and not see these as mutually exclusive objectives, but again, mutually reinforcing.

So, as Labor Secretary, I am really encouraged by the path that we are on and I hope that we will be able to bring more of the labor dimension into our domestic agenda debates, as well as what we are doing in international forums.

Ms. BROWNER. If I might just briefly add, I think EPA actually has many constituencies, environmental technology firms, the American people. I think there are those within our constituencies who actually share our view of these issues.

In terms of the environmental groups—and I would never attempt to try and speak for them and I do not think they are of one mind—I would remind you that during the NAFTA debate many, many of the environmental groups did, in fact, support the legislation.

Senator MOYNIHAN. That is right. But not last year.

Ms. BROWNER. They did not last year, and you would have to ask them why. I am sure they would be happy to tell you. [Laughter.] I would suggest to you that we should not take that as a done deal. I think if you look at the principles that we are articulating, the administration is articulating on trade and the environment, there are some, and there perhaps may be many, in the environmental organizations that would support those and would support the appropriate inclusion and would come to be a part of this sector.

Senator MOYNIHAN. My time is up. I want to say, I hope you are right. The most encouraging news that Ms. Browner has brought along is that there is now money to be made in environmental technology.

Ms. BROWNER. There is a lot of money to be made in environmental technology.

Senator MOYNIHAN. You would be surprised how many things happen when that is the case.

Thank you very much.

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman. I want to also, along with Senator Chafee, want to welcome you, Ms. Browner, to this committee. We have talked to Ms. Browner often two floors up, along with Senator Moynihan. It is good to see you here.

Ms. BROWNER. Thank you.

Senator BAUCUS. It seems to me that one way to start solving this is something that you mentioned, and that is the environmental technologies and the structure of American laws which other countries are copying, adapting, tailoring to their use.

It struck me in some of my travels overseas the degree to which other countries are doing that, and very much—very much—look for and seek the assistance of EPA and other American agencies to help out.

For example, in China. Their Clean Air Act is somewhat patterned on that of the United States'. Of course, there are enforcement problems and lots of other problems, but, nevertheless, it is.

When I was in San Paulo, Brazil last summer, I was also surprised to talk with a person there who spent some time in the United States, working there in San Paulo to try to pattern their clean air—I am not sure if it was only air. It might also have been water—on what we are doing here, just as a model, as a beginning.

It is true in Mexico. I was in Mexico a few years ago and the same thing struck me. These are people, these are governments who are hungry for guidance, for assistance. Not that they are going to swallow everything we have willy-nilly, but they recognize the efforts that we have undertaken.

They recognize that we struggled with a lot of these problems in the United States and how to develop laws that protect our people, the air, and water in a way that is fair and reasonable, particularly to the business community and it does not hurt our economy.

So as we try to find ways, in trade negotiating authority or WTO, to fashion some kind of approach or agreement, I think that it is at least helpful for us to keep in mind, on a voluntary basis, how much these countries want us. That might be a clue. It just oc-

curred to me, frankly, a few minutes ago, as a way to find a solution here.

I would like to change subjects, if I could, Ms. Browner, and just learn from your experience what has worked and what has not worked with NAFTA. I know some environmental groups were opposed, thinking our provision in NAFTA was not strong enough, others, too strong. So it has had mixed reports, from what I have heard.

Could you tell us what has worked and not worked and what that experience tells us as we attempt to draft side agreements on negotiating authority, or as we attempt to draft side agreements in future trade agreements?

Ms. BROWNER. I think that what we committed ourselves to in NAFTA and in the environmental side agreement, that the magnitude of it has turned out to be even more than we expected when we began the efforts and when we sought to create the commission that would look at environmental issues. I am the U.S. representative to it. We meet every year.

We are making progress. We are making real, on-the-ground progress in terms of waste water treatment facilities, in terms of monitoring air quality, in terms of joint agreements for our border cities with respect to air quality challenges, a very novel agreement.

The City of El Paso was doing everything it could do on its side of the border to meet U.S. public health air standards. It was sort of down to things that were incredibly expensive and somewhat silly in most people's books.

We were able to structure an agreement with the city across the border, so they are now doing work to reduce the pollution which was affecting El Paso. That kind of agreement, those kinds of opportunities for solutions, reasonable, sensible solutions, have certainly been a part of NAFTA.

I think where the challenges remain is as we move away from the border and we look at really the laws and the programs across the countries, and how do we weave those together to the benefit of all, how do we achieve the upward harmonization. And it is tough. It is very, very difficult, to do it both with the transparency, the public participation and preserving our sovereignty.

I do not know that it is something that has a simple answer. I think it is something you work at each and every day. Some days you move forward, some days you move back.

Senator BAUCUS. I assume the colonias are still there across the border, in Juarez, for example.

Ms. BROWNER. Yes.

Senator BAUCUS. The colonias.

Ms. BROWNER. The maquilladoras, the little businesses.

Senator BAUCUS. Not the maquilladoras so much, but the colonias, where the people are living in these terrible, terrible conditions, which most of us have seen.

Ms. BROWNER. Yes.

Senator BAUCUS. But they are still there. So, more specifically, what changes, if any, should we make in side agreements on environment in the future?

Ms. BROWNER. I think we need to make sure we create the institutions and the mechanisms for cooperation around specific challenges. Not simply the upward harmonization of laws and the enforcement of laws across an entire country, but also cooperation around specific challenges. For example, on the border issues, where we are making some real progress, but obviously, not as much progress as we would like to make.

I think, to go back to your earlier point, U.S. environmental technology offers a tremendous opportunity to help countries solve these very particular problems, to see the technologies made available to treat the waste water, to treat the drinking water, to treat the smokestack discharges. I think that the more we can look for those kinds of opportunities, the better.

EPA's international program is a relatively small program. The demands on it are huge. Every country wants us to come and tell them, not just to write their laws, but tell them what to do. They want to know, should they buy this technology off the shelf, or that technology.

They want an EPA certification. That is what they are constantly looking for. They really want to take advantage of what we have done over the last 30 years. They do not want to have to come through the same system we have come through, they want to leap-frog to where we are today. Our best opportunity is through our technologies and the sort of site-by-site, case-by-case cooperation.

Senator BAUCUS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Kerrey?

Senator KERREY. Mr. Chairman, first of all, I join in welcoming both of the witnesses. It is very nice to have you before the committee. I appreciate very much the clarity of the testimony.

I think, Mr. Chairman, again, it took me a while to figure this out, but it finally occurred to me that members of the Senate, unlike members of the administration, our task is to write laws, and their task is to enforce the laws to the best of their ability, and administer those laws.

One of the things that we have always been frustrated with with this trade negotiating authority, is we wait for the administration to deliver legislation to us. There is a great deal of negotiation that goes on to try to figure out how to submit the legislation. I am wondering, and would say to the Chairman and the Ranking Member, if we should forego waiting.

Mr. Chairman, in your question to Administrator Browner and the Ranking Member's follow-on question about, if you want to make sure you have got these standards being enforced, do you not have to have some kind of inspection regime, as we have with the IAAC.

I mean, it is true that the Department of Labor and the Environmental Protection Agency are administrative entities as a consequence of interest groups that fought hard to get laws passed by this Congress, to get them created. They have a very, not only active interest in them, but they also, for the most part, are going to oppose trade negotiating authority for the President.

If we make even a slight step towards some kind of inspection, we are apt to provoke, on the other side, from the business community, 30-second ads or some kind of campaign to tell people that that means there are going to be black helicopters circulating around your farm, and it is going to come out here to find out whether or not your cows are passing gas, and that sort of thing. That is what happens coming in the other direction.

It seems to me that perhaps what this committee ought to try to do, is open up our own negotiation between labor and business and see if we cannot come up with a piece of legislation that we will mark up that we think can pass the House. That is what we have to do.

Again, in the interest of trying to get something done, it seems to me that rather than just waiting for legislation to come to us from the administration, perhaps we should get our own legislation put together after trying to resolve this conflict that exists between business, labor, and environmental groups, and come up with a law and say, it is not exactly like I would write it if I was doing it myself, but I would be willing to support this if this is what your committee does.

The CHAIRMAN. I would say to the distinguished Senator that, in my opening remarks on the first day, I pointed out that, under our constitution, it is our responsibility to come forth with the objectives of international trade. The purpose of these hearings are to enable and help us to develop those goals and objectives. So, I think we are thinking very much along the same lines.

Senator KERREY. But is it the Chairman's intent to, from these hearings, get a sense of what we need to write, for this committee to write, trade negotiating authority legislation, to mark it up and move it to the full Senate?

The CHAIRMAN. That is the intent. Let me say that we are trying to get the recommendations of various groups as we develop that legislation.

Senator KERREY. I think that is terrific.

The CHAIRMAN. That is the purpose of these hearings.

Senator KERREY. I would just observe, Mr. Chairman, that the fault line that was revealed in your question and the follow-on question of Senator Moynihan out there is the obvious fault line.

I think that we have got to get the parties on both sides to cross it and agree to specific language for authorizing legislation. Otherwise, we may pass something out of this committee, we may even pass it in the Senate, but it is not likely to be passed by the House and provide an opportunity for conference in order to pass it.

The CHAIRMAN. In order to do that, I think it is critically important that we develop a new consensus.

Senator KERREY. I quite agree with you, Mr. Chairman. I was not trying to make a statement to undercut the purpose of the hearing. I was only trying to make a statement that I believe at some point we have got to write a law. I think the fault line in getting that done is revealed in the question that you asked and the question that Senator Moynihan asked afterwards.

The CHAIRMAN. Well, we do have a line-up. Unfortunately, Ms. Browner has to leave. So I think, in fairness to Senator Robb, I ought to call on him.

Senator KERREY. Well, in fairness to myself, Mr. Chairman, I will note that I finished asking my question before the yellow light even went on.

The CHAIRMAN. Congratulations.

Senator Robb?

Senator ROBB. Thank you, Mr. Chairman. I had to depart for a few minutes, and so I did not hear the exchange between the Chairman and the Ranking Member that I am sure would inform all of us as to where we are going at this point. But, in view of the question that Senator Graham has to ask, I would yield time for his question, then I will ask one general question, if I might.

Senator GRAHAM. I appreciate Senator Robb's courtesy. I have got to leave momentarily for the memorial service for Senator Chiles, and I hope that you might be able to attend for our friend.

I have a question which really follows up on Senator Kerrey's observation that is, to me, a baseline issue. That is, are we going to say that labor and environmental standards have to be enforced within and through trade agreements, or can they be developed as parallel, complementary, but not necessarily inserted into trade agreements? That has a number of implications.

In addition to domestic interests that are concerned about this issue, we also have to be sensitive to our trading partners. And many of our trading partners, and I am thinking especially of those within the western hemisphere, do not want to have labor and environmental standards as part of a trade agreement. They are more receptive to them being handled as parallel issues.

The answer to that question also affects our own Congressional dealing with these issues. If they are part of a trade agreement, then this is the right committee—

Senator MOYNIHAN. Could I respond to your question?

Senator GRAHAM. I am almost finished with my point. For Congressional purposes, if we think of labor and environmental standards as being part of trade agreements, then this is the right committee to be considering it. If we think of them as parallel, they are more likely to be in the jurisdiction of Senator Chafee's Environment and Public Works Committee.

So I think we need to have an understanding as to the relationships of these three important issues, all of which focus on the subject of a fair and equitable international economic marketplace, but how they are structured is significant in terms of their likelihood of accomplishment and allocation of responsibility within the Congress.

Senator MOYNIHAN. Can I just say that I think we are working from the premise or proposition set forth by Mr. Ruggiero, head of the World Trade Organization, in addressing German companies in Bonn in late 1997. He said, as regards to labor standards, they are not the work of the WTO, they are the work of the ILO and we should work together.

The point about the core labor standards that Secretary Herman and Mr. Samet have been so brilliant in putting together, is it is asserted that these are standards that the members of the ILO have agreed to. In order to negotiate them, you have to start enforcing them and have some mode of inspection. But we have a

mechanism in place. On environmental matters, that is more elusive.

Senator GRAHAM. Thank you, Senator Robb.

Senator ROBB. Thank you, Senator Graham.

I wonder if the two administration witnesses might like an opportunity to respond to the question that was posed by my friend from Nebraska with respect to the role of this committee, or Congress generally, in adopting the role of the principal or lead negotiator with respect to these issues between labor interests, business interests, environmental interests, and our other trading partners.

I am not quite sure how broad the question was attempted to be, but I suspect that both the Secretary of Labor and the Administrator of the Environmental Protection Agency might like to at least give us some hint as to whether or not they would like us to take this bull by the horns and run with it, or if you would like us to defer.

Ms. BROWNER. Yes. We would encourage you. Obviously, USTR would be the lead representative on behalf of the administration in discussions with Congress, but I think we are not speaking out of school to say that the administration would welcome any work on the part of this committee to work with all of the constituencies that have a point of view and to see if common ground cannot be found.

I mean, I do not think anyone wants this to end where it has ended in years previously, which is at a stalemate. It is not an easy task. I think it is going to take all of us.

It is going to take a bipartisan effort, it is going to take a Congressional/administration effort, it is going to take a public/private effort. I really think, if you look back to NAFTA, that is, in part, what happened there and that is, in part, what allowed us to make that a reality. I would encourage us to do that again. I do not think anyone in the administration would object to any efforts.

Senator ROBB. So you, in effect, would cede the leadership on that issue to the Congress.

Ms. BROWNER. I do not know that I said cede.

Senator ROBB. We can, and obviously we have over a long period of time, had a situation of each side waiting for the other to act. But I am really asking, who should be held accountable for failure to make progress in this area?

Ms. BROWNER. Well, I think at the end of the day, all of us. I think we have to move together.

Secretary HERMAN. And I do not think it is an either/or. I really think, if we are going to be serious about the new consensus, it really is a both/and model. I think we all know, certainly, at this stage of the game what the core questions are, I think we know where the core constituencies are.

I think the real issue is, given the new realities, can we move forward in search of a common agenda. I do believe that this body has a unique and special role to play in that regard.

I was asking my own colleagues just coming up here today, has a Labor Secretary ever been before the Finance Committee of the Congress to talk about the question of core labor standards and what it is we can do to begin to engage the question of trade and worker rights, and I was told that that had not happened before.

So, even this is a very significant and first step, and I want to, again, thank the Chairman for that bold move.

The CHAIRMAN. Let me just say, we are honored to have you here.

Secretary HERMAN. Thank you.

The CHAIRMAN. I just want to underscore that, under the constitution, the Congress does have a special responsibility with respect to foreign trade, international commerce.

But if we are going to develop the new consensus, there is absolutely no more important question than what it is going to take to create bipartisan cooperation between the executive and the legislative, the public and private. So it is my hope, and I think that of the Ranking Member, that these hearings are the first step in bringing about that broad consensus.

Senator MOYNIHAN. Mr. Chairman, may I emphatically agree with you, and raise this matter to an even higher point of consequence.

It used to be that the trade matters originated so exclusively in the Congress. For much of the 19th century, that was the only thing Congress did, was raise tariffs. We kept on doing that and we got better at it and better at it, and finally we produced the Smoot-Hawley Tariff of 1930. If you were to make a list of five things that led to the second World War, that would be on the list.

Very shortly thereafter, the Roosevelt Administration took that authority away from us. We have been on our good behavior for about 60 years now, and perhaps we might resume our proper role in this regard and redeem the honor of the United States Senate and Finance Committee.

The CHAIRMAN. Senator Jeffords?

Senator JEFFORDS. Madam Secretary, it is a pleasure to meet you in this environment. I know we have talked in Health, Education, Labor, and Pensions, which shows cross jurisdiction in many of these areas.

This past session we passed the Workforce Investment Act, and it seems to be working well. We consolidated all of the programs under the jurisdiction of my committee. However, the trade adjustment assistance programs were not consolidated.

I wonder if you could explain how you are coordinating TAA with the Workforce Investment bill. would it make sense for the TAA people to be allowed to take advantage of the one-stop shopping, as well as the coordinated other educational endeavors?

Secretary HERMAN. Thank you for the question, Senator Jeffords. Let me say, before answering the question, speaking also in historical context, I think it is very good that we have the Chairman of the Health, Education, Labor and Pensions Committee also sitting on the Finance Committee as we look to build these bridges on the question as well of trade and labor standards.

Certainly, I believe very strongly that the Workforce Investment Act is an opportunity for us in the future to better serve workers who are impacted by trade. I think that the consolidated services that we have now in our one-stop centers that better engages not only in the assessment of the needs of workers, but what are the real training opportunities that we need to embark upon that lead to real jobs, to have those linkages in our one-stop centers and to

make those services available to workers who are impacted by trade adjustment, in my view, will be a plus.

I think also the fact that the new Workforce Investment Act now mandates that training providers in our system will actually have a score card so we will be able to measure performance, that we would be able to measure outcomes for how well we are doing in getting new and better jobs. This will also certainly directly impact workers who are affected by trade.

So, to answer the question, yes, they should be served by our one-stop centers that are a part of our Workforce Investment Act. Two, I think the Workforce Investment Act, while it maintained the separate streams for trade adjustment workers and our NAFTA workers, that clearly they will impact from the coordinated services that the Workforce Investment Act now mandates that we provide.

Senator CHAFEE. Mr. Chairman, Administrator Browner has to go pretty quickly. Could I just ask one quick question?

Senator JEFFORDS. Sure. Please.

Senator CHAFEE. I just want to say, Madam Administrator, that in your testimony you talk about the Commission on Environmental Cooperation, the so-called CEC, under NAFTA.

Let me just say that I had the privilege of going up to Montreal to see the CEC in action. It was very impressive. Although the CEC does have some power of sanctions, they are very careful not to use it, and instead try cooperate together. I thought it was an exceptional group.

The CEC had a chairman in a gentleman from Mexico who was doing an excellent job. He certainly played a key role in the type of work done by the CEC. In any event, I think this type of cooperation between nations may be a model that we can use in future agreements. I was impressed by their efforts.

Ms. BROWNER. Well, thank you. Certainly we at EPA and the administration have worked hard to make the CEC a success.

In terms of sanctions, I would agree with you. Certainly the authority to apply sanctions is an important one, but perhaps more importantly is working together to prevent the problem, to fix the problem before it becomes worse. If you simply wait until all of the damage is done, in my world of environmental protection, it will be very difficult to really make up for what has happened, to right the wrong, if you will.

So, through the CEC, as important as anything is the cooperation among the countries to really prevent the problems in the first instance.

Senator CHAFEE. Well, that is exactly what I thought.

Thank you, Senator Jeffords. Thank you, Mr. Chairman.

The CHAIRMAN. Do you have anything further?

Senator JEFFORDS. Yes, I do.

With respect to TAA, there is no effective mechanism now to measure performance. Would it be helpful if you had the same ability as you do under Workforce Investment?

Secretary HERMAN. It would be helpful. Senator, we are actually taking those steps now to bring the TAA program in line with the outcome measures with our dislocated worker program so that we can have the same performance standards. I think it will enhance

our ability to both measure the impact, and our own ability to administer the program more effectively in the field.

Senator JEFFORDS. Under the regular TAA program, there is no requirement also for the workers to see job training during the first 26 weeks. Would that also be something that should be applicable to TAA as well as it is in the Workforce Investment Act?

Secretary HERMAN. We are hopeful that, with the legislation that is now being proposed on the harmonization of our NAFTA and TAA program, that that is something as well that we will be able to apply, because I do think the training provision, to have it there with some flexibility, as the legislation proposes, is important.

The CHAIRMAN. Just let me interrupt to say that I know Ms. Browner has to leave. We thank you for being here and we look forward to continuing this dialogue.

Ms. BROWNER. Thank you.

Senator JEFFORDS. Finally, on child labor, which was very well articulated by Senator Harkin. How can we help? As much difficulty as we had in getting our own child labor under control in the past with the incredible different economic circumstances in these countries, what can we do to assist with respect to the utilization of trade to get any kind of change in child labor laws?

Secretary HERMAN. Well, I think that there are several opportunities that the question of child labor presents to us on the trade front to make a difference. First, I think because of the work and the leadership that we have exercised in recent years, we have actually made a difference, a tangible difference, a measurable difference, whether you are talking about Pakistan or some of the issues, certainly, that Senator Harkin brought before this committee this morning.

To have those as a practical example of where U.S. involvement, through our technical assistance cooperation programs with the ILO has made a difference, is something that I think we need to strengthen and increase.

We actually have 23 countries in line now at the ILO that are asking for the same kind of technical assistance and support. So we, in effect, have helped to elevate this issue, to motivate other countries to act on their own behalf, to take action in their own countries. With the increased support of funding that we received from the Congress last year, I am hopeful that at least 10 to 12 of those countries will be able to participate.

Second, I think through acting in tangible ways on the question of the most abusive forms of child labor and saying that we can get kids back into the classrooms, out of the workrooms, and to help alleviate the cycle of poverty, that in effect we are saying to the global community, as we talked today about standards and where we can find ways to cooperate on a global basis, that the question of child labor gives us a way of showing what it is we can do as a global community when we have the will to act.

I believe that, if we can continue to hold up examples in child labor, that we will be able to move on to other core labor standards, to say that we can reach similar agreements, similar consensus, and that we can find a similar will, if you will, to say that these other standards are not issues that are just principles, in fact, but that they are principles for which we can hold member countries

accountable, and that they are principles for which we can find ways to give real and meaningful technical assistance and support. That is why the request in the President's budget for additional resources for the ILO, is to help us to move on a parallel front.

Senator JEFFORDS. Thank you, Madam Secretary.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman. I do not have any questions. I see we have another panel after this, and it is a good panel. I look forward to hearing from those witnesses.

I just want to say one thing. Administrator Browner talked about the win-win situation when exports of our environmental technology permit other countries to reduce their pollution. I am reminded of the story where the preacher asked his parishioner, do you believe in infant baptism. The answer was, believe in it? I have seen it.

Well, do I believe in this win-win proposal that Administrator Browner mentioned? I believe in it, because I have seen it. During the NAFTA debate, I went down to Mexico City. There I saw an emissions testing machine they call an IM-240. I have some photos of it here.

In Mexico City, most of the cabs are Volkswagen Beetles. They have to have on the windshield a certain color sticker that will indicate that they have passed the most recent 6-months emissions test. I believe it is every 6 months, or something similar thereto.

I'm going to pass these pictures around so all can see. They show these taxis all lined up, with their rear wheels on a tread that spins around, during which the taxi's emissions are tested by this machine. The machine is made in California.

If the taxis do not score properly on the emissions test by this IM-240 machine, then they do not get their sticker and they have to take actions to have their catalytic converter, or whatever it might be, fixed so their emissions will qualify.

So there is a tiny example of the benefits of the export of U.S. environmental technology to Mexico. The rewards are greatly reduced pollution for Mexico City, and the sale of the machines for the U.S. exporters. So, I not only believe in it, I have seen it.

Who is next? Senator Grassley.

Senator GRASSLEY. Thank you very much for coming to visit with us. It is a very important issue. We do hope that we get a fast track bill started.

I want to ask you about the negotiating authority legislation that the administration introduced in 1997. It said it would "seek to establish in the International Labor Organization a mechanism for systematic examination of reporting on, and accountability for, the extent to which member governments promote and enforce core labor standards."

So in regard to that, I would like to raise these two concerns that will be questions. First, what core labor standards would the administration, in that instance, be talking about?

As far as I can tell, there are two different lists. The list of core labor standards in the administration's last negotiating authority proposal is different from the core labor standards as identified by the International Labor Organization. For instance, the ILO says

equal pay is a core labor standard, but your proposed bill left that out.

Would you clarify any discrepancy, if there is some, and if I understand it right?

Secretary HERMAN. Well, when we speak, generally, of core labor standards from the perspective of the international community, we are essentially talking about the core standards of the ILO that member countries have agreed to, in principles.

Those include freedom of association, the right to collective bargaining, nondiscrimination provisions. In employment, the prohibitions on forced labor and the prohibitions against abusive forms of child labor.

The declaration that was adopted in June of last year was the mechanism to ensure that we would have a way to hold member countries accountable for following through on these principles in their respective countries.

So, we did pursue a strategy that resulted in the passage of a declaration that will now set up mechanisms for monitoring these principles and their adherence in member countries.

The provision of equal pay, as you are raising, is actually something that is contained in the nondiscrimination provision. That is what we are talking about as a part of that overall issue. That is where the issue of equal pay itself comes from. It is not a separate convention, if you will, or declaration.

Senator GRASSLEY. So then it is not meant to be left out of the concept behind the President's proposal then.

Secretary HERMAN. Exactly. But it is embraced in the principle of nondiscrimination in employment.

Senator GRASSLEY. All right.

Next, what does the administration mean when it said that the United States will seek to establish in the ILO a mechanism for accountability of these core labor standards? Does this mean that you want to give the international body, the ILO, enforcement authority in the United States?

Secretary HERMAN. No. What this means, Senator, as we debated this last June in the passage of that mechanism, is that we believe that the ILO has a role to play in terms of moral and political persuasion.

We think that through the issuance, for instance, of a global report, which is what the follow-up mechanism in part envisions, that we will be able to ensure more accountability.

With the passage of that declaration, there were no new legal requirements, or legal binding acts, if you will, on the part of member countries that they would have to adhere to as a part of the ILO's mandate. But we do believe that there is an opportunity here to ask for greater accountability through a follow-up mechanism basically to examine what is taking place in member countries.

Senator GRASSLEY. All right. But you do then have some sort of a concept of an enforcement mechanism that you want the ILO to establish.

Secretary HERMAN. We certainly believe that the ILO can be an important institution in monitoring for the follow-through. It has no legal authority in that context to enforce the laws, except

through the adoptions of the various conventions in terms of what member countries adhere to.

But, as I said, we think that through appropriate follow-up mechanisms and monitoring what is and what is not happening in member countries, that it will certainly help to elevate this debate and to make all member countries more accountable when it comes to the issue of worker rights as a part of trade.

Senator GRASSLEY. The NAFTA labor side agreement preserves the sovereignty of NAFTA parties in two ways. First, it does not require harmonization, that the same body of standards apply to all three NAFTA countries, in other words. Each country is free then, in effect, to adopt its own labor laws and enforce them as it sees fit. Second, disputes are settled by consultation, no binding enforcement of labor standards.

So my question is, is the preservation of national sovereignty in the NAFTA labor side agreement, after five or 6 years now, considered a good thing or a bad thing, from your point of view and the administration's point of view?

Secretary HERMAN. I think that the progress that has been made under the NAFTA side agreement generally has been a good thing for this country, and I think for the other member countries. I think it has made a difference. I think that no country has ceded, if you will, its sovereign rights in the process.

Senator GRASSLEY. So the way it is working now is a good thing, so the preservation of that sovereignty is the position of the administration.

Secretary HERMAN. Presently, we still believe in the protection of the sovereignty and the rights certainly to enforce and to administer our own laws. But what this agreement does allow us to do for the first time, is to have significant oversight of labor laws in our respective countries. It provides for a frank discussion of those issues and, through the consultation process, we have been able to settle a number of the disputes.

Senator GRASSLEY. Thank you.

The CHAIRMAN. Well, thank you very much for being here today, Madam Secretary. Since this is the first time you have had that opportunity, we hope you will not wait so long to return.

Secretary HERMAN. I will look forward to that, Senator. Thank you.

The CHAIRMAN. Thank you very much. We appreciate your coming.

Secretary HERMAN. Thank you, Mr. Chairman. Thank you, members of the committee.

Senator MOYNIHAN. Thank you.

The CHAIRMAN. We now will call forward a very distinguished third panel made up of John Sweeney, who is, of course, president of the AFL-CIO; Mr. Durwood Zaelke, who is president of the Center for International Environmental Law; Abraham Katz, who is president of the U.S. Council for International Business; and finally, William Lash, III, who is a professor of law at George Mason University Law School.

Gentlemen, if you would please come forward and take a seat. I understand Mr. Sweeney is on his way. So, we will proceed with the other witnesses.

I will call on you, first, Mr. Zaelke. Let me start out by expressing my great appreciation for your being here this morning. It is beyond the call of duty, but it is most helpful to have you as one of the witnesses.

Please proceed. Let me say to all of the witnesses that your full statement will be included as if read, and we hope that you would abbreviate what you have to say.

Mr. Zaelke?

STATEMENT OF DURWOOD J. ZAEKKE, PRESIDENT, CENTER FOR INTERNATIONAL ENVIRONMENTAL LAW, WASHINGTON, DC

Mr. ZAEKKE. Thank you very much, Mr. Chairman and members of the committee. Let me also congratulate your staff on their excellent detective work tracking me down last night so I could appear this morning.

The CHAIRMAN. I wondered what they did.

Mr. ZAEKKE. I will start out with a question. Why should people who are concerned about international trade also be concerned about the environment? I will give you a simple answer. It is because the economy depends fundamentally on the environment, the local economy, the regional economy, and the global economy.

The environment is the source of the natural resources the economy needs. The environment is also the sink for absorbing the pollution that is an inevitable by-product right now of our industrial economy.

Let me give you two examples. The first one, is agriculture. To be productive, a farmer has to have good soil, clean water, a stable climate system, and protection from damaging ultraviolet radiation that otherwise comes through the ozone layer.

If his soil erodes, if his water is polluted by toxins, if the climate system is disrupted by global warming, by severe weather events, or it becomes too wet or too dry, or if too much of the ultraviolet B radiation gets through to damage the crops, he is out of business. There is no economy for him.

The same with the fishing industry. The fishing fleet has got to find abundant and healthy fish, and they only exist in a clean environment in the ocean or in the rivers. If that environment of the ocean is polluted by toxins which cause viruses which kill fish, if that environment is warmed by global warming, the fish shift their location and some die.

If that environment is polluted by the ultraviolet radiation from the thinning ozone layer, the base of the marine food chain, the phytoplanktons, will die off. So for the fishing fleet or an individual fisherperson, there is no economy without a healthy environment. The economy depends on the environment.

Of course, the link is two ways, because the economy also affects the environment. We use too much of the resources, we use them in a way that is not sustainable, and we pollute too much and overtax the ability of the global ecosystem to absorb the pollution.

Because of this link, because of the fundamental basis of the economy is the environment, it is critical for our economic institutions to address environment issues, again, at the local, at the re-

gional, and at the global level, otherwise we are going to be fighting against ourselves.

I have four specific suggestions. The first one is that we have to get the prices right in all of our economic spheres. This means we have to make the polluter pay.

This is a venerable principle of international law: the polluter pays principle. This means we must internalize the costs that industry otherwise imposes on the public at large. This is another fundamental basis of good economics, good natural resource economics.

It is also the way to use the markets to reduce pollution and to reduce our unsustainable use of natural resources. It also builds the markets for the alternative technologies that Senator Moynihan and Administrator Browner were mentioning. If you do not get the prices right, the substitutes, the new environmental technology, is not competitive.

Getting the prices right also improves the efficiency of the economy. This is, of course, a key goal of trade. Markets simply do not work efficiently unless the prices are set right.

The second suggestion, is we must stop using trade to undermine the ability to impose environmental protections. We need to protect our multilateral environmental agreements.

This is the fundamental building block of global environmental protection. Especially, we need to protect the ability to impose trade sanctions within these agreements. This would include the Montreal protocol, this would include SIDES, this would include the BOSL convention.

Our major conventions need trade sanctions because this is one of the only things that can possibly work, save for rich countries like the United States buying environmental protection for the rest of the world.

We also need to protect the ability of the United States to take unilateral measures in the appropriate circumstances. Then we also need to fix the current problem where the U.S. is being forced, or may soon be forced, to pay for its environmental protection regulations.

I will refer you to a story in today's New York Times, where a Canadian company is now asking the United States for \$750 million as the result of a jury verdict in Mississippi against a Canadian company for unfair trade practices.

If this investment protection provision which is in NAFTA and which may soon be in the WTO is allowed to stand, the United States is going to be forced to pay for its environmental protection right. So instead of a polluter pays principle, it will be the regulator pays principle. This has got to be changed.

Third, and I will be very quick with the last two points, trade and economic institutions have to address the problem of scale. Getting prices right is very important, but it does not tell us what the ultimate limit of the biosphere is and how far we can go with our growth economy.

Scientists must ultimately tell us where those limits are, and then we must use all of our institutions, including our economic institutions such as the WTO and the NAFTA, to keep us within those limits.

Finally, the WTO and all of our trade institutions must take an active role in promoting sustainable development. It is not merely enough to get out of the way of good environmental protection, they have to do more to promote sustainable development.

Since the Uruguay Round was concluded, the WTO has in its preamble the requirement to promote sustainable development. It has got to do it. It has got to redirect its efforts towards development and not growth that is material intensive and energy intensive. We have got to redirect towards solar, towards hydrogen. Smart businesses, such as British Petroleum, are doing this.

I will stop with a quote from the Harvard Business Review that says, "Sustainable development is going to provide the biggest opportunity in the history of business." That will be true if our economic institutions do their job and promote this.

Thank you very much.

The CHAIRMAN. Well, thank you, Mr. Zaelke.

Welcome, Mr. Sweeney. We are pleased to have you here. You have just arrived. Would you like to proceed with your testimony or would you like to catch your breath?

Mr. SWEENEY. No, no. I am fine. Thank you.

STATEMENT OF JOHN SWEENEY, PRESIDENT, AFL-CIO, WASHINGTON, DC

Mr. SWEENEY. Thank you, Mr. Chairman and members of the committee. Thank you for the opportunity to present the views of the AFL-CIO on this important and timely topic.

I will submit my statement for the record, but would like to summarize it here if I may.

Mr. Chairman, as you begin your work in the 106th Congress, I believe that you must set the often arcane and mind-numbing details of trade policy in a larger context. In fact, you are writing rules that established the terms of engagement for the global economy.

The process of global economic integration is well under way. We cannot stop it, nor should we try. Product, capital, and labor markets are increasingly transnational, just as the process of production is.

These integrating forces can help us meet our shared objective of seeing to it that working people everywhere enjoy a better life and that the benefits of rising output and rising profits are broadly shared.

But this does not happen automatically. The way we write our trade rules can, and must, help guide the process. Markets are powerful. As they spread across the globe, their power is intensified. But, by themselves, markets are not enough. They must be constrained by the rules of the road that harness their power toward our highest aspirations.

Indeed, as we have seen in recent months, the power of the capital markets can bring productive, well-run economies to their knees and leave millions of workers devastated in their wake. We can do better.

As we write the rules in trade agreements, in investment agreements, in our leadership in the multilateral institutions, and in our development assistance programs, we must seek to assure workers

at home and abroad that their interests are at the top of the agenda.

U.S. trade policy is one crucial element in this project, one that must be addressed sooner rather than later. The debate over trade policy has focused on a phony choice between free trade and protectionism.

It should be clear by now that we are not debating whether the United States will continue to trade and invest with the rest of the world, or even whether trade and investment flows will continue to grow.

We are, instead, debating whether trade, investment, and financial policies should protect only a narrow set of commercial interests or whether we can write rules for the global economy that will lead to broadly-shared prosperity.

It is heartening to see the beginning of a new consensus, that we need not sacrifice our standards and our values to achieve economic growth, even in a global economy. Freedom of association and a vibrant union movement are essential building blocks in politically stable capitalist economies. Countries that allow their children to work instead of attend school squander their own economic future for dubious short-term gains.

Let us agree on the principles we value, and then let us work together to design a coherent and consistent set of international policies that will uphold and advance these principles.

The world community has agreed three times now that all countries, rich and poor, will respect and promise core worker rights. If we agree on the principles we seek to uphold in the global economy, we must, next, reach agreement on the means to promote these principles.

It is often argued that worker rights and environmental protections are tangential to global economic rules, that these so-called social objectives can have nothing to do with the international trading system.

Yet unions, wages, working conditions, and workers' rights, as well as the type and form of environmental protection, all represent economic decisions by employers, workers, and governments. These decisions affect the location of production, the price of traded goods, and the pattern of international trade.

The distribution of the rewards from the international trading system depends upon the rules governing worker rights and the environment. Changing those rules will improve the outcomes.

Let me illustrate my point with an example. For decades, we were told that we had to look the other way as Indonesian President Suharto jailed labor leaders and quashed democratic opposition since the Indonesian economy was growing and trade and investment flourished. But the form of capitalism practiced by the Suharto government proved unstable. The people of Indonesia, students, workers, and ordinary citizens, demanded change.

Finally, after continued pressure by the AFL-CIO, other labor and human rights organizations, and with the support of the U.S. Government, labor leader Muchtar Pakpahan is free, and Indonesia is starting to ratify the ILO conventions and revise its labor laws.

Twenty miles outside of Jakarta, Pakpahan's union has just organized a paper goods factory employing 500 young women. They have democratically elected their officers.

One of the three officers is a 19-year-old woman, Susiana, who now makes above the minimum wage and will vote in the upcoming elections. Susiana is the best hope for the future of her country, a young, empowered union member, employed, and hopeful.

These early changes in Indonesia did not come about because we continued to open markets, sign off on loans, and look the other way. They came because we threatened to cut off trade benefits through our GSP program and because the U.S. Government raised the imprisonment of Muchtar Pakpahan in the context of the international loans and aid requested by the Indonesian Government, in short, because we insisted that the abuse of workers' rights not go unnoticed and applied economic pressure to achieve that goal.

The enforcement of core labor standards is the ethically right decision. It is also economically the right decision. Such standards help promote faster, more equitable growth around the world. They give workers economic voice and contribute to the development of a real middle class. This is the lesson of our own history.

Higher wages contribute to workers developing a real stake in their jobs, and productivity rises. Higher, more equitably distributed incomes also foster domestic demand, thereby shifting the global economy away from its excessive and unstable reliance on export-led growth. For all these reasons, we need a dramatically different approach to U.S. trade policy, both substantively as well as procedurally.

First, any new grant of trade negotiating authority must ensure that all trade agreements, including bilateral, regional, and multi-lateral agreements, incorporate enforceable labor and environmental standards as an integral component of the core agreement, not in weak and unenforceable side agreements. Unilateral grants of preferential trade benefits should also meet this standard, at a minimum.

Second, we ought to move forward with new trade authority. It is essential that we undertake needed reforms in U.S. trade policy. The volatility of the global economy must not be allowed to destroy efficient and productive U.S. industries.

We must strengthen and streamline the safeguard provisions in U.S. law, at a minimum ensuring that Section 201 can be applied more quickly and effectively when import surges cause injury to domestic industries. Urgently, immediate steps must be taken to address the flood of under-priced imported steel coming into our market.

Third, because trade agreements have become so much more complex in the last decade, it is appropriate for the Congress to retain a stronger consultative role in trade negotiations.

Fourth, we need to address the problems faced by the developing countries more directly, by offering deep debt relief and development funds as part of an overall program of engagement and aid.

Trade preferences linked to improved labor rights and environmental standards change the financial incentives for countries seeking market access and increased foreign direct investment.

Debt relief and aid can help provide the resources necessary to implement higher standards.

Finally, we would like to see the U.S. Government enforce existing trade laws and agreements more aggressively. We need to use the worker rights provision in GSP more consistently and effectively to send a message to our trading partners that these issues are of importance to us.

We have been encouraged by the Clinton Administration's willingness to highlight the importance of labor and environmental standards in international agreements most recently in the State of the Union address.

We support the administration's initiative to fund additional ILO programs to help developing countries implement core labor standards more effectively. We hope to see concrete progress in these areas this year.

Mr. Chairman, members of the committee, I thank you for the opportunity and for taking the initiative to hold these hearings. I hope the issues that we are discussing here today will form the basis for a lively and constructive dialogue in the year to come.

Thank you very much.

The CHAIRMAN. Thank you very much, Mr. Sweeney.

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

The CHAIRMAN. We will proceed with the other witnesses, and then open it up to the questions.

Mr. KATZ, IT IS A PLEASURE TO HAVE YOU. Please proceed.

STATEMENT OF ABRAHAM KATZ, PRESIDENT, U.S. COUNCIL FOR INTERNATIONAL BUSINESS, NEW YORK, NY

Mr. KATZ. Thank you, Mr. Chairman, for the opportunity to testify on labor and environmental issues related to trade policy.

The U.S. Council for International Business has long been active in formulating and promoting business views on these issues, which I can summarize as follows. First, business has a major stake in the forthcoming trade negotiations. Second, we share the growing concerns and interests in improving workers' conditions worldwide.

Business also has a major stake in protecting the environment. Both objectives require continued economic growth, which in turn depends on further liberalization of trade and investment.

Third, the difference between the business position and that of organized labor and environmental NGOs boils down to this: they advocate a unilateral, sanctions-based approach using trade as a weapon to impose their objectives on foreign countries.

We continue to assert the importance of multilateral cooperation, not only in trade, but also in matters relating to labor and the environment. Business fears that the unilateralist approach would undermine the rule-based system which provides the certainty and predictability needed to do international business.

Fourth, most countries, especially the developing ones, reject the unilateral sanction-based approach. They insist that their legal and contractual rights cannot be overridden by political decisions in this country, or other industrialized countries.

They argue that the objectives of the labor unions and environmental NGOs constitutes a protectionist threat, depriving them of their comparative advantage, a violation of their sovereignty, and unacceptable interference in their internal governance.

Developing countries are watching the debate over labor and the environment closely. They dug their heels in at Marrakesh in 1994, and Singapore in 1996, and in the current FTAA negotiations.

If the U.S. returns to the charge at the forthcoming ministerial meeting, it may well jeopardize achieving our trade policy objectives, as well as our ability to make progress on our labor and environmental objectives through multilateral cooperation.

Fifth, business objects to the unilateral sanctions-based approach because its trade and investment could be seriously impaired by sanctions imposed on countries in which they do business, for reasons totally extraneous to company actions.

Sixth, business recognizes that if it is to be persuasive on a multilateral cooperative approach, it must contribute constructively to achieving legitimate labor and environmental objectives.

I will list a few initiatives that have made such contributions. On labor, our initiative, the U.S. Council's initiative, spearheaded the adoption last June by the ILO of the Declaration of Fundamental Principles and Rights at Work.

Cooperating with worker leaders in ILO, we are on the way to adopting a credible follow-up mechanism as we speak to deal with the egregious violations of fundamental workers' rights. This mechanism will stress sunshine, peer pressure, and technical assistance. Trade measures to enforce the declaration are explicitly excluded by the terms of the declaration.

We also sparked the current negotiation on a convention on abusive child labor. The President has referred to this in his message, and it is committed to funding activities on both the declaration and child labor.

On the environment, I cite the ICC's Business Charter for Sustainable Development of 1991. The principles in this charter form the basis for practical guidance to companies in their environmental management measures.

Even before the NAFTA negotiations began, we initiated an exchange of best practices on both labor and environmental management with Mexican business organizations. The latter was particularly successful and continues to this day under the aegis of the Commission for Environmental Cooperation.

On trade and the environment, beginning in 1993, my organization developed proposals to establish internationally-agreed criteria on the use of trade measures in multilateral environmental agreements, MEAs, and guidance to WTO dispute settlement panels on how to resolve conflicts between MEAs and the trade rules. We submitted these proposals to the Trade and Environment Policy Committee, the TEPIC, of the U.S. Government.

Unfortunately, NGOs could not accept any role for WTO on environment management, and the WTO's Committee on Trade and Environment mirrored this stalemate in our own country.

In conclusion, I urge you to work for a simple formulation on fast track in which any mention of labor and the environment reflects the multilateral cooperative approach as in the Senate's bill last

July. There is a danger that I know that you appreciate about setting the bar for the negotiators too high.

In that event, they will not be able to deliver the goods and we in the business community will regret it very much if new trade opportunities that might arise from a new trade round were to be held hostage to labor and environment conditions that were unattainable from the start.

My written submission goes into greater detail about the negotiating context. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Katz.

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

The CHAIRMAN. It is now a pleasure to call on Professor Lash.

STATEMENT OF WILLIAM H. LASH, III, PROFESSOR, GEORGE MASON UNIVERSITY LAW SCHOOL, ARLINGTON, VA

Professor LASH. Good morning, Mr. Chairman, Senator Moynihan, members of the committee. I am delighted to join you this morning to discuss the triangle of trade, labor, and the environment. Seldom have issues so compatible been viewed as mutually exclusive.

Trade is the most potent force for promoting environmental quality and labor rights, but this force must be used in a spirit of cooperation, not coercion. Instead of utilizing trade as a hammer to achieve labor environmental goals, we must strive to further liberalize trade and reap the inevitable benefits of labor and environmental standards improving.

A wealthier country has more resources available for environmental protection. No greater environmentalist than President Clinton has recognized that only a prosperous society can have the confidence and the means to protect its environment.

Leading economic studies substantiate this assertion. They demonstrate that a nation's environmental quality improves after it reaches a per capita income of \$4,000 to \$5,000. Pollution is directly correlated to low per capita income. A free trade agenda, producing a world more prosperous, will also be a more environmentally sound world.

Similarly, trade improves labor conditions. Increased trade creates new demands for labor and a better bargaining position for workers. Trade provides choices. Before rushing to link trade with labor conditions, we must examine the alternatives facing the worker in the developing world.

Poor labor conditions are often the best option when compared with unemployment, criminal activity such as child prostitution or narcotics trafficking. For many, work in a factory, albeit below U.S. standards, is a far better option.

As economies grow, they adopt improved labor practices. This century has already witnessed Japan, South Korea, Taiwan, and Singapore move from poverty to wealth. Other states are posed to make the same economic leap. Economic progress fueled by trade, not economic coercion, paved the way for these transformations.

Improved labor and environmental conditions in the United States were not the result of pressure tactics applied by more industrialized partners. Over the past 30 years, American GDP has

more than doubled, while worker safety and environmental quality has similarly increased by doubling.

I have seen the human face on the global economy. This face has been created, however, not by sanctions or regulations, but by the marketplace. U.S. firms have made investments in the environmental quality of their host states around the world.

For example, Texaco has constructed artificial reefs off the northern shore of Columbia. This innovation has led to more sustainable fishing techniques being adopted by Colombian fishermen.

Similarly, Chevron has been funding the development of sustainable industries in Papua, New Guinea. U.S. firms have an equally impressive record for promoting human and labor rights overseas. Companies like Exxon and Freeport Moran voluntarily establish economic sustainable development programs for communities in Latin America and Asia.

And, as my colleague Mr. Sweeney noted, the freeing of the labor leader in Indonesia was a great accomplishment, but also behind the scenes, many corporations from Unical and other oil companies were also lobbying on site for improved labor and human rights.

GSP is not the large carrier it once was in a high tariff world. The open trade has made GSP less significant and these other develops have come from on-site foreign direct investment of U.S. companies.

Assume that the U.S. were to use its trade policy to coerce other states into adopting our labor and environmental standards. The entire trading system would be jeopardized by such a radical proposition.

First, as we have seen, the developing world recognizes the danger of labor and environmental barriers serving as the Trojan horse of protectionism. By conditioning trade on nonmarket-based issues, we would effectively close the door on the world's poorest nations and further burden support and consensus for the fragile WTO system. They will resist.

The developing states realize they cannot make the leap to our labor or environmental standards and still be competitive in markets less environmentally or socially conscious in the U.S. Calls for enforceable standards are simply disguised calls for trade sanctions and closed markets.

Additionally, we must be mindful that trade is a two-way street, and sanctions a double-edged sword. No country, including the United States, is in complete compliance with all of its labor or environmental laws.

In some cases, we find the environmental or labor standards of our trading partners exceed our own. Would we be so eager to condition trade with labor or environmental standards when U.S. firms are facing the denying of market access or trade sanctions? In the U.S., many States still use prison labor. Federal defense contractors are forced to make purchases from Federal prison industries.

U.S. firms already are being threatened by the European Union environmental linkages and eco-labeling. For example, the U.S. paper products industry claims no American firm can meet EU sustainable development requirements.

If the EU is successful in conditioning trade with this environmental barrier, we face a potential loss of \$2 billion in paper exports, and a resulting loss of 34,000 American jobs.

Imposing environmental and labor standards on other Nations also poses a threat to harmonious foreign relations with our trading partners. Senator Kerrey and Senator Grassley have both alluded to the problems of sovereignty. By conditioning international trade on environmental and labor issues, we implicitly encroach on the sovereignty of our trading partners.

The production of goods is, most properly, the business of the state producing those goods. By linking of these issues to a state's environmental and labor standards, we needlessly intrude upon their sovereign laws with no appreciable benefit to U.S. consumers or our economy.

In conclusion, let me add that economic development, promoted by freer trade, generates the ability and the willingness of nations to devote more resources to improving both the environment and labor conditions. Therefore, the linkages of trade policy with environment and labor issues should occur as a positive outgrowth of free trade and economic growth.

Thank you for your time.

The CHAIRMAN. Thank you, Professor Lash.

[The prepared statement of Professor Lash appears in the appendix.]

The CHAIRMAN. Mr. Sweeney, let me start out by saying that I agree with you on what you had to say about safeguards, Section 201. I think it is important that we take a careful look to see how we can make that a more effective tool than it has been in the past. I also have to say I agree that I think a better job down through the years could have been done on enforcing the trade agreements that we have entered.

One of the thoughts that have come about during these hearings in the last two or 3 days is that in developing a trade agenda, it is important that we, the Congress, be more specific as to the goals, the purposes, the objectives, the time frame.

I wonder, could you tell us what would be your concrete objectives to be made a part of the upcoming WTO ministerial, as well as any ensuing multilateral trade negotiations?

Mr. SWEENEY. We would hope that, out of the WTO ministerial meeting, would come some agreement on a work group that could be addressing the issues such as core labor standards. They have had working committees in the past on major issues, and so far there has been a reluctance for the WTO to formally get involved in that whole area.

We realize that it is not something that can be accomplished at this ministerial meeting, but certainly to approve a working group or some process where we could be discussing these issues.

The CHAIRMAN. As you well know, most people think that this country cannot participate effectively in trade negotiations if the President does not have what we now call trade negotiating authority.

Under what circumstances would you support the extension of trade negotiating authority to the President? For example, would

you support the extension of negotiating authority for the launch of multilateral talks within the WTO?

Mr. SWEENEY. We would support any number of different processes if, as a part of that agenda, we were talking about core labor standards. I mean, we have the will to address intellectual property and the issues of capital. It is about time we addressed the issues of workers, both in our own country as well as in other countries.

We are not attempting to impose the standards that we have in our own country on other countries, but certainly to provide for the basic rights of workers in terms of freedom of assembly, collective bargaining, and to address the issues of child labor and forced labor. Those are issues that should be addressed in our trade negotiations.

The CHAIRMAN. If that were done, would you grant the President the authority to modify our own labor laws in the process?

Mr. SWEENEY. To modify them in what way? To improve them? Sure.

The CHAIRMAN. Whatever way he thought appropriate.

Mr. SWEENEY. We would have to talk about that.

The CHAIRMAN. Well, I do hope we can discuss these matters further because I think we all agree that it is critically important that the United States be in the leadership role of trade negotiations.

I think there is a general consensus that, if the President does not have trade negotiating authority, other countries are not going to take us seriously. So, we have to see if we cannot seek and find some way out of this dilemma.

Mr. SWEENEY. And, Senator, we agree how important trade is to the economy of our own country, as well as the global markets as well. But we certainly think that we should take the high road in terms of how we address issues regarding workers in different countries.

I cited the Indonesia situation, where there was really no one to speak for the workers in the initial stages of the financial crisis. We are talking about austerity programs and sacrifices being forced on working people. They should be at the table to talk about it. On the other hand, in Korea, where there is a labor movement, there was a more productive and beneficial round of negotiations there.

The CHAIRMAN. Thank you, Mr. Sweeney.

Mr. Katz, the U.S. Council, under your leadership, has been a consistent advocate of ensuring that labor and environmental standards were not used to impose barriers to international trade. At the same time, the council has been one of the foremost contributors to efforts to refine our thinking about the nexus of these issues.

In your judgment, are there ways to ensure that our efforts towards trade liberalization move forward, while addressing the concerns that have been raised by labor and environmental groups?

Mr. KATZ. Mr. Chairman, I am absolutely convinced that we can make progress by the multilateral cooperative route. This was really behind our idea on the Declaration of Principles. It was also behind our idea—and I say ours, and that includes the employers' group generally in the ILO—to deal more effectively with abusive

child labor. I am proud to say that we worked very well with the workers' group to make that progress.

But it is going to be a slow business. To a large extent, it is a question of the low standards of living in the countries that Professor Lash pointed out. We can make faster progress if we can use persuasion to get these countries to adopt these core labor principles.

I call them principles rather than standards, because all you see are the words in the declaration. The standards are the complete conventions of the ILO that Senator Moynihan is so familiar with, a number of which we could not possibly ratify.

But the principles are something that we believed in the ILO stem from membership in the ILO and are inherent in the constitution. The idea is to make peer pressure and cooperation work in the ILO, and not to bog down situations in legal wrangling. I do not want to knock the convention route and the supervisory machinery. It has had a lot of success. But we have to go further, especially in the developing countries where, as Mr. Sweeney said, there are some terrible situations.

By the way, we supported him on the Indonesian case. I have twitted him sometimes about how we let the administration let his application on GSP linger for, I think, 2 years, and then the revolution took over. But somehow, GSP has been used on small countries who did not have a lot of trade.

One of the motivations that I had in originally proposing this idea that emerged in the declaration, is that we would have this set of core principles, that not only we, but the European community and others, would use in terms of dealing with unilaterally granted benefits, both in the trade area or in the financial area, pursuant to Mr. Frank's resolution on finances.

This is a set of criteria that is unmistakable. It deals with the major cases and not with legal technicalities. I think we have made progress in that sense, and I hope now the thing is to make it effective in terms of the follow-up mechanism.

I want to say that our guy just came back from an informal meeting in Geneva where it was really the employers and the ICFTU that are driving this thing forward.

I am sorry for taking so long in answering this question.

The CHAIRMAN. Senator Moynihan?

Senator MOYNIHAN. Well, might I first say that we are not saddened, but learned that you are going to retire on February 1 and that weighs on our minds.

Mr. KATZ. I will be around.

Senator MOYNIHAN. You will be around. Good. Good. Because you did a wonderful job with the core principles. I will put it that way. And the ICFTU, which is the International Confederation of Free Trade Unions and the American business.

Secretary Daley was here 2 days ago and really was not familiar with the ILO as a tripartite organization in which business is a part. I told him that one of his more distinguished predecessors, Herbert Hoover, had sent observers to the international labor conference in 1923, and it has always been involved in that.

I guess I would like to ask all of you here, or I guess first to Mr. Sweeney, to John. In an address to a German business group in

Bonn in 1997, Mr. Ruggiero, the head of the WTO, said, as regards to labor standards, they are not the work of the WTO, they are the work of the ILO, and they should work together.

For what it is worth, the World Trade Organization is now located in the original building of the International Labor Organization. The ILO is now in a marble palace up on the side of the Hill. I do not think any working man would dare go in there except to fix the plumbing. But, be that as it may.

Can you not accept that parallel cooperative mode, that we commit ourselves to both trade and labor standards? Labor standards began as a phenomenon that said, if you raise labor standards in your country you lose out in trade. It has always been trade-related.

Mr. SWEENEY. It has to be a part of the WTO agenda, as well as the ILO. Mr. Ruggiero has been reluctant to address the labor issues on the WTO agenda, but has modified it somewhat in terms of establishing the relationship between the WTO and the ILO. That relationship has to be much stronger.

Senator MOYNIHAN. Yes.

Mr. SWEENEY. Mr. Ruggiero is retiring, and we are hopeful that the new director will be willing to designate a working group who can, between now and the next meeting, be addressing these issues. We were also encouraged by the President's inclusion in the State of the Union message the point about appropriating some monies for the ILO to provide some technical assistance, as well as a process for addressing these issues.

We are happy to hear Abe Katz moving a little closer to us in terms of the ILO agenda, and we have been involved in the tripartite discussions, and we commend you for your support of the ILO through the years.

Senator MOYNIHAN. Something has happened. These core standards are a large event. Not since the Philadelphia convention, the Declaration of 1944, has there been a more important thing. It seems to me they have great potential.

I would say to Professor Lash on the question of sovereignty, that is what treaties are all about. You cede a certain amount of sovereignty when you agree in to multilateral treaty. Obviously, you are agreeing.

These core labor standards are derived from conventions, treaties, that are the supreme law of our land. There has been a problem, though. I guess you could say that there is sort of an inverse relation between labor standards in a country and a number of labor conventions that country has ratified. That is why, if you want to know where the highest labor standards in the world are, you will find them in Guatemala. It proves it. They have ratified all of the ILO conventions.

So, monitoring is the thing we have to move to. When the ILO began down on Constitution Avenue in 1919, the Pan American Union, you did not have that particularly intrusive mode of monitoring, of inspecting. It came with the International Atomic Energy Agency, I think, and inspectors going around. But surely we can do that.

Mr. SWEENEY. Sure.

Senator MOYNIHAN. Yes. And I think there is a lot more agreement here than you can know.

Just one last thing. George Becker was here the other day sitting where you are with representatives of the steel industry, which is going through an awful experience.

He made the point that we have to have a more effective 201 process and not wait until half of the industry is decimated before you say, well, now, how did that happen? That is why we think, and the Chairman made the point, if we get negotiating authority we can use it to that point, as well as others.

The CHAIRMAN. That is correct.

Mr. SWEENEY. And I was happy to hear what the Chairman had to say about 201. It is crucial, really, that you address the issues of how effective, and also how long it takes in the process.

Senator MOYNIHAN. Thank you. Thank you, gentlemen.

The CHAIRMAN. Thank you, Senator Moynihan.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

I have two questions, so with however many minutes I have, if we all together could respect the equal allocation of time.

The question to you, Mr. Katz and Mr. Lash, earlier panelists have suggested, with expansion of GATT and WTO into various other areas, like intellectual property, the argument is, well, is the next step not logically either core labor standards or something similar?

Not to say they all have to be adopted willy-nilly, immediately, but maybe in some phased basis, some suggested working group, to at least look at it. Because, clearly, labor is a part of doing business, just as intellectual property is a part that is very important to companies that have intellectual property rights. Why not expand on a reasonable, phased-in basis that makes some sense, because it is part of business?

Professor LASH. I will take a whack at it. First, Senator Baucus, historically, when we look at trade policy we drew the line at the border and how you produced. Production and process measures were the business of a particular state.

I do not think we can really compare labor to IP protection or investment issues because there you are seeing capital movement across the borders, you are seeing patent and software technology moving across the borders, and U.S. industries were being more directly affected by someone stealing my IP, by someone expropriating my investment in a developing state.

With labor, we see a lack of consensus with our trading partners as to whether we want this as part of the WTO. In fact, there has been a resounding no. We are also seeing less of a direct impact. The ILO is a much more appropriate forum, as Senator Moynihan has pointed out. They have been in business for almost 80 years, and that ain't hay around this town.

I think that the WTO lacks the expertise, and really the collective will. The attempt to link with the word of enforcement and sanctions gets away from the goal of the WTO. We are talking much more about sanctions rather than incentives.

Senator BAUCUS. Thank you. Mr. Katz?

Mr. KATZ. Certainly I agree with Professor Lash. I would summarize by saying, labor is not an item in international commerce. Taxation is not an item in international commerce. It certainly affects where you do business and how you do business.

Macroeconomic policy, interest rates affect trade, and that is a matter of internal governance as well. If the idea is to equalize everything within a country, all aspects of the economy within a country, there would not be any trade.

I mean, that is on a very theoretical level. But, fundamentally, countries regard labor relations as their own business, a matter of internal governance. We could not accept the German system here. Maybe Mr. Sweeney could, but it would not work in this house. The Germans, I think if they were smart, they might come closer to us, but that is their business.

Interestingly, the European Union has not been able all these years trying to establish an economic and monetary union to equalize the labor conditions, the labor legislation, the labor regulations in each country. This is a very national thing.

Senator BAUCUS. I appreciate that.

Mr. KATZ. Let me just add one more thing.

Senator BAUCUS. Very briefly, please.

Mr. KATZ. We can study this thing, but it has been studied, the relation between trade and labor. The OECD did an exhaustive study. The WTO report has done a very good job on the relationship between trade and labor.

Senator BAUCUS. All right. One other question, if I might.

Mr. KATZ. Go ahead. I am sorry.

Senator BAUCUS. Those are very interesting answers. I very much appreciate them.

The other question is on a totally different subject, and that is the nexus between environment and trade. As we all know, the GATT appellate panel did rule, in effect, that the United States can stop shrimp from being imported to the United States by companies who do not sufficiently protect sea turtles, because we Americans have passed unilaterally a law protecting sea turtles.

The original GATT panel said, no, the United States cannot do that. Then the appellate panel essentially said, yes, it can, but not in this particular instance because the United States is basing its restrictions only on turtle extruders—I do not know what they are, but they are something—and saying essentially that, yes, the United States, in principle, can. But the technique that is used in this case, that is requiring turtle extruders, which was too specific and perhaps more general means could be utilized.

So the WTO has ruled that the United States unilaterally can—and presumably any country under Article 20, I guess it is, of the GATT—unilaterally pass a law to protect its environment, so long as it does not discriminate and so long as it is done in a way that is fair to all countries concerned.

Do you all think that is an appropriate ruling? I was curious what comments any of you might have on that.

Professor LASH. Senator, I think it is a very important and appropriate ruling, both, for the consensus of the WTO to exist. If people believe that the WTO is going to be used to water down U.S.

or other countries' environmental standards domestically, that would undercut the trading regime.

I think the question of scientific standards are important, phytosanitary standards are important. But getting back to the earlier issue of sovereignty, we may have joined the WTO, but we have made it very clear in this body when they passed the legislation implementing WTO that it could not undermine U.S. scientific or health standards.

Senator BAUCUS. But this is a case where the United States has unilaterally passed environmental law that affects another country and says, in effect—

Professor LASH. Well, now exporting to the U.S.

Senator BAUCUS. Correct.

Professor LASH. Again, we are not telling people how they can best harvest shrimp.

Senator BAUCUS. Right. We are talking about the U.S.

Professor LASH. Exactly. They can harvest shrimp any way they want to. Once it comes to our border, if U.S. health and environmental standards say, we do not want this particular method being used, we have the right to close it.

Senator BAUCUS. Right. Yes. Mr. Zaelke, briefly, please.

Mr. ZAELEKE. Yes. Thank you. I am not quite as optimistic about the interpretation of the appellate decision as you are, but it does say under some circumstances that the U.S. can take unilateral measures.

Let me take the opportunity as well to respond to Mr. Katz's environmental groups. The ones that I work with do not all say that we must pursue unilateral measures to the exclusion of multilateral. Multilateral, where we negotiate with all of our partners, is clearly the preferable way to go. This is the right thing for us to do.

Sometimes, though, the situation is so desperate, in the case of sea turtles which are all endangered, that some country has to step up to the plate first and move forward to take care of the problem. That is also critical to getting other countries to negotiate in good faith for the multilateral solution. So we need to use unilateral measures, which the WTO now says we can, in the right circumstances.

Senator BAUCUS. Thank you. Thank you, Mr. Chairman.

Mr. SWEENEY. Senator, may I just make a quick response to Mr. Katz's response to Senator Baucus when he said, in terms of commerce, that workers or labor standards are not a part of commerce. That is the core difference on all of this.

I mean, he just does not appreciate the fact of workers being a part of commerce, workers being part of the production and the profits that result from commerce. He wants to ignore the role of workers in that process, and that is at the basis of what we are talking about.

The CHAIRMAN. I will, next, call on Senator Kerrey.

Senator KERREY. Thank you very much, Mr. Chairman.

Reading, especially, John, your testimony, and Mr. Katz, your testimony, you both appear to be writing the Declaration of Independence; the truths are all very self-evident. Our problem, of

course, is that we have got to try to resolve the conflicts that are there.

It seems to me that one easy way to do it, and I would say this to you, Mr. Katz, I look outside the window and I see the United States' economy never better: very low unemployment, very low inflation, very strong economic growth.

The economy is doing quite well, in spite of the fact that we have very high labor standards, in spite of the fact that we have very tough environmental regulations. Every time we propose to do any of that, we hear from businesses who tell us that precisely the opposite is going to happen.

So it seems to me that we do from time to time, even in the United States, act unilaterally on the basis of values, saying we value certain things other than just economic growth. We manage to do both. In fact, in your statement you acknowledge, and I quite agree with you, by the way. I think unless we have economic growth, unless our standard of living is rising, it is going to be very difficult for us to do anything.

I am wondering if you, Mr. Katz, see in Mr. Sweeney's statement about changing the 201 provisions, do you think that is unilateral sanctions? Do you support making changes of that kind?

Mr. KATZ. No. Senator, 201 has to do with imports that adversely affect our economy. The problem with 201, the basic problem, is that it has to be administered in a nondiscriminatory fashion. In other words, if you do not like item X, it is not a question if you do not like. If it is determined that item X is causing severe injury in the United States, you cannot bar the import of item X from Slobovia, you have got to do it across the board to the whole world.

Senator KERREY. Is that a no, then?

Mr. KATZ. No, that is not a no. You have to be clever in using 201.

Senator KERREY. So you support it so long as we are clever.

Mr. KATZ. As long as you are clever.

Senator KERREY. Do you support Mr. Sweeney's position on that, so long as the position is imposed in a clever fashion?

Mr. KATZ. As long as it is clever and does not violate the multilateral trade rules, yes.

Senator KERREY. So you would not see that as a unilateral sanctions-based approach.

Mr. KATZ. It has nothing to do with that, actually. I think where Mr. Sweeney and I differ—let us be very clear about this. Mr. Sweeney would say, if a country violates, let us say, these core principles, we will withdraw trade concessions from them. I am talking about contractual trade concession in a trade agreement. We both agree that what is in GSP is a unilaterally granted benefit. It is up to us to withdraw it and nobody has any right to say anything.

Senator KERREY. Mr. Katz, just in follow-up. And I do not mean to pick on you because I have a limited amount of time and I wanted to as well talk to John a bit. But about your fairly hard position here by saying that you want to end the practice of trying to do this whole thing with side agreements. You wanted to actually end the negotiating authority. I think it is going to be very difficult to get to that point. I would just alert you to that.

I would like to get back to Mr. Katz. You are saying that a sanction that would be placed on a nation that was doing something that we regarded as wrong, in general, you would not support, or is it just labor standards that you object to?

Mr. KATZ. No, sir. It depends on what you are talking about. In the case of labor, in the NAFTA, as you know, there are three actionable provisions by agreement: child labor, minimum wage, and occupational safety and health. Interestingly, that is sort of different from the ILO basic principles.

Under certain circumstances, if the arbitral group—now, this is a multilateral arrangement, or plurilateral arrangement—decides that a country has got a persistent pattern of violating these three principles, it can tell the country to cease and desist. And if it does not, it can levy a fine and, in the last analysis, it can snap back tariffs to enforce the fine.

Senator KERREY. Both you and Mr. Lash have concern about sovereignty. Can you square that a little bit? When a nation, let us say, Indonesia, says we are in serious trouble, we are going to surrender our sovereignty and appeal to the International Monetary Fund, which receives substantial support from the United States of America, including people who sometimes get adversely affected as a result of their policies, that then encourage these nations to export their way out of the problem.

How do you square your concern for trade agreements we might sign that might surrender our sovereignty? You say that other nations are going to be unwilling to surrender their sovereignty, that if we put this into the basic authority, that other nations are going to say, oh, no, we are not going to go along with that because we are surrendering our sovereignty. They surrender their sovereignty in working out deals with the IMF.

It seems to me that then they turn around in negotiating with us and say that they are not willing to surrender sovereignty. It seems to not quite square itself and I wonder if you could perhaps do it for me.

Mr. KATZ. Well, Senator, I think it is apples and oranges. In the case of IMF, we have legislation, thanks to Mr. Frank, that says that the executive director in the IMF, taking a look at their performance with respect to labor rights, can vote against a loan to Indonesia, or any other country. Now, that is part of it. It is not a surrender of sovereignty. That is a unilateral action which that country has no contractual right to contest. It cannot say, you must do this.

Whereas, in a trade agreement, that is a contract. All of a sudden, you come along and say, I do not like the way you are treating labor, I am going to violate your contract. Nobody is going to agree to that. We will not agree to it, I can assure you.

If we have an agreement in the GATT and the European Union says to us, we do not like your labor laws, and they certainly do not because it gives us a competitive edge, therefore, we will cut off your trade.

Senator KERREY. Thank you.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Sweeney, I am troubled by where we might be going on labor and environment standards. I was looking at page seven of Professor Lash's paper in which he said that, according to Jack Creighton, CEO of Weyerhouser, the new EU eco-labeling "in its present form could threaten \$2 billion worth of U.S. pulp and paper exports. This would result potentially in the loss of 34,000 U.S. jobs."

I am just not clear how far we go on this. On labor issues, you are arguing that we should enforce minimum wage laws and child labor laws against our trading partners. On its face, that might seem simple.

But suppose the Germans say, we do not like your minimum wage laws compared to ours, which say workers must be paid for 40 hours even if they work 35 hours. Well, let us just stick with this particular example here, although it is an environmental case. Perhaps Mr. Zaelke can chime in also.

What do we say if the EU says to us, you are not replanting your forests in an ecologically sound fashion, Weyerhouser. You may have been doing it for 100 years, but that is not the correct way according to our view, and therefore we don't want your paper products. What do we say then?

Mr. SWEENEY. I will let Mr. Zaelke answer the environmental issue.

Senator CHAFEE. Well, maybe you could address a minimum wage example. The Germans say, you U.S. people have got a lousy minimum wage law, and you do not even guarantee vacations like we do, while we Germans have up to 6 weeks of vacation. What is the matter with you in the U.S.?

Mr. SWEENEY. We are not advocating minimum wage, vacations, or any of those conditions as a part of core labor standards. We are talking about the right of workers to assembly, the right to collective bargaining, and addressing the issues of child labor and forced labor. We are not imposing our standards on any other country.

Senator CHAFEE. Well, that seems more reasonable at least. Now, you said child labor. What if the Germans say, well, we want to go further. You are talking child labor restrictions, but we think minimum wage is important.

Mr. Katz, what do you say to that?

Mr. KATZ. I want to support Mr. Sweeney. We have done this in the past. These are general principles. By the way, one of the reasons that we developed this system is that we, the United States, cannot ratify Conventions 87 and 98, freedom of association and right to collective bargaining.

It is at variance with 12, 15 separate items in U.S. law and practice. This deals with the basic principles. Nobody will contest that we have freedom of association in this country. Nobody will contest that we have collective bargaining in this country. We do not want this defined any further.

In the follow-up discussions to this declaration, there was an idea, let us explain what we mean by these things. Both we and the workers said, do not try. If you try to explain, you get into detail which will get into trouble. We both support the principle, and we will know a bad case when we see it. We know the bad cases. John pointed out one very bad case, which was Indonesia.

Senator CHAFEE. All right. What do you say, Mr. Zaelke, about the worries of the CEO at Weyerhouser?

Mr. ZAELE. First of all, I think eco-labels are the lightest possible touch that we could have for environmental protection, and I would hope that we would all find a way to support them.

They do not have to be a condition of access to a market, they can simply be the disclosure of critical information on environmental impacts to consumers. This is something that, again, if we looked at the heart of labeling, we would find business supporting this very thoroughly as well. It is not enough, but it is a good start.

Senator CHAFEE. I am not sure I understand the answer. The EU eco-labeling apparently sets some standard of some type, does it not?

Mr. ZAELE. Yes.

Senator CHAFEE. He says it is going to cost the loss of \$2 billion worth of U.S. pulp and paper exports. Now, this man must know what he is talking about. What do we say to that, that it is fine? That this eco-labeling is a good thing, so let us have more of it?

Mr. ZAELE. If the paper consumers in Europe look at European paper produced under certain environmental protections and U.S. paper produced under others and decide they do not want to buy U.S. paper because it has too much chlorine in it, then I would say that was a victory for the consumers and the environment. And if Weyerhouser uses, then they will have to go back and find other markets or change their production processes.

Senator CHAFEE. Are you suggesting that eco-labeling is just sort of an informative thing to allow a more intelligent purchaser or more informed purchaser, but has nothing to do with keeping our paper out? Our paper can still be sold in Europe, but for people who hate chlorine in paper processing, they can decline to buy it? Is that what you are saying?

Mr. ZAELE. For most of the environmental labels, that is the case.

Senator CHAFEE. All right. What do you say, Mr. Katz, briefly?

Mr. KATZ. Senator, it is disguised protectionism, that is what it is.

Senator CHAFEE. If it is left up to the consumer?

Mr. KATZ. Look, it just encourages the consumer to boycott. If you give me the time, I will give you a little anecdote.

Senator CHAFEE. Well, I have limited time myself, so I cannot give you the time, I am afraid. I am sorry.

Professor Lash?

Professor LASH. Senator Chafee, the eco-labels that I talked about in my submission are typically drawn about by coalitions of foreign industry. So, not surprisingly, they are drawing up rules that will exclude our paper in favor of other European producers. There is no global standard on this. It is not purely giving consumer information, it is giving consumer misinformation, designed to draw a border and keep U.S. products out.

Senator CHAFEE. I worry about that.

Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you. It is 12:00.

Senator MOYNIHAN. If you could just give Mr. Katz time to tell his anecdote.

The CHAIRMAN. Yes. Sure. Mr. Katz, would you care to?

Mr. KATZ. My anecdote on labels. I was at the social summit in Copenhagen and flying down to Brussels. I was sitting next to a charming young lady from the Danish Environment Ministry. We got to talking about various things and got into the eco-labeling issue. She said, oh, you mean our green label by which we keep out Greek imports? [Laughter.]

Senator CHAFEE. Mr. Chairman, I am not sure what a social summit is, but it sounds like something pretty good. [Laughter.]

Mr. SWEENEY. Mr. Chairman, I just thought Senator Chafee almost had Abe Katz endorsing the minimum wage increase. [Laughter.]

The CHAIRMAN. Gentlemen, I appreciate very much your helpful testimony today. This is really just the beginning of a debate and discussion to develop a new consensus on trade.

I have to tell you, I cannot think of any policy question more important than this one. So we will expect to continue to carry on a dialogue with you, and we appreciate your being here today. Thank you very much.

The committee is in recess.

[Whereupon, at 12:10 p.m., the hearing was concluded.]

A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. CHARLENE BARSHEFSKY

Thank you, Mr. Chairman, for inviting my testimony on the role of trade in our economy, and the state of American trade policy today. I am grateful to you, to Senator Moynihan, and to the Committee for offering us this opportunity to discuss our trade policy record and agenda for the future, and I look forward to continuing the close working relationship we have had with the Committee. And let me say that you have called this hearing at an opportune time, because we are opening a year in which every part of our trade agenda will be ambitious and will hold great promise for our country.

Last week, President Clinton called for the initiation of a new multilateral negotiating Round able to meet the demands of the 21st century. This will begin at the World Trade Organization's Third Ministerial Conference, chaired by the United States -- and the largest trade event ever held in the United States -- and it will shape world trade in the next century. Our multilateral agenda will be accompanied by the regional, bilateral and sectoral negotiations we have underway in each part of the world; and by enforcement of our rights under WTO dispute settlement, the North American Free Trade Agreement and through our domestic trade laws.

We hope and expect to carry out this agenda in the tradition of bipartisanship and close consultation between the Executive and Legislative branches which have characterized many years of American trade policy. And I believe it is entirely fitting that we begin the discussion at the Senate Finance Committee.

My testimony will touch on each of these points, including trade negotiating authority, which we believe will help us achieve our goals. But let me begin by discussing the context in which we have developed our policy agenda and in which we carry it out.

TRADE POLICY PRINCIPLES

Trade policy forms part of both our national economic policy and our approach to the world beyond our borders.

At home, engagement in world trade, based on fair rules and the rule of law, offers American firms, agricultural producers and workers larger markets. Almost 80% of world economic consumption takes place outside the U.S., and if America is to continue to grow and remain competitive in the future, trade policy must ensure that Americans have fair access to these

markets. Trade also offers American consumers a greater choice of products at competitive prices and higher quality.

Overseas, trade helps increase world prosperity, advances the rule of law, and helps to strengthen international peace. As President Franklin Roosevelt said in 1944:

"A basic essential to peace, permanent peace, is a decent standard of living for all individual men and women and children in all nations. Freedom from fear is eternally linked with freedom from want. [And] it has been shown time and time again that if the standard of living in any country goes up, so does its purchasing power -- and that such a rise encourages a better standard of living in neighboring countries with whom it trades."

These principles have formed the basis of American trade policy since the end of World War II. We have advanced them on a bipartisan basis through a strong working partnership between the Executive Branch and Congress through ten Administrations, ever since the creation of the General Agreement on Tariffs and Trade in 1948. The Clinton Administration's trade policy, we believe, is firmly in this tradition: such advances as the passage of the North American Free Trade Agreement, the Uruguay Round, our 35 bilateral trade agreements with Japan -- a total of 270 trade agreements -- would not have happened without the advice, support and contribution of the Finance Committee and Congress as a whole.

TRADE AND THE US ECONOMY

The results of these policies have contributed immeasurably to the peace and prosperity America now enjoys. We have the most dynamic, creative and competitive economy in the world, and are ideally placed to succeed in the next century.

Since 1992, we have had uninterrupted growth -- our economy has expanded from \$7.1 trillion to \$8.5 trillion in real terms (1998 dollars) and last month, the present economic expansion became America's longest in history.

We have created jobs. Employment in America has risen from 109.5 to 127.2 million jobs, a net gain of nearly 18 million, as unemployment rates fell from 7.4% to 4.3%.

And we have raised wages. Since 1992, average wages have reversed a twenty-year decline and have grown by 6.0% in real terms, to \$449 a week on average. This family prosperity is reflected, for example, in record rates of home ownership.

Altogether, we have achieved an historic combination of high growth, low unemployment, low inflation, low interest rates and rising wages unmatched in decades. The reasons for this are many. They include improved support for education and job training and an uninterrupted reduction in the federal deficit beginning in 1993 and culminating with the budget surpluses of the past two years. But trade and participation in the world economy have played an irreplaceable

role.

And overseas, as trade has grown and international trade rules have strengthened, the hopes of the wartime generation have been in many ways realized.

Peace among the world's great nations has grown more secure.

Prosperity has blossomed -- as world exports have grown from \$60 billion to \$6.5 trillion in constant dollars since 1960, world economic production has quadrupled and real per capita income has more than doubled, from under \$3100 to over \$6300 last year.

As a consequence, people have better lives. In 1955, the world average life expectancy at birth was 48 years; now it is 65. Where the worldwide infant mortality rate was 148 per thousand, today it is 59.

And faith in markets under the rule of law has been vindicated: those nations which shut off the free flow of goods, services and information have tended to stagnate while those which remained open to the world have tended to prosper. One need only examine the ghastly experiment which has taken place on the Korean peninsula -- as South Korea has risen to become one of the world's leading industrial powers, while North Korea is afflicted by chronic hunger -- to show how stark is the contrast. And there is no stronger vindication of our work than the fact that Russia, China and 16 other economies have abandoned central planning and seek WTO membership.

The Administration in which Secretary Rubin, Secretary Daley and I serve has had the good fortune to build upon this foundation. Since 1992, we have negotiated 270 separate trade agreements which have helped open markets and create opportunity for Americans. These agreements include five which have fundamentally transformed world trade: the North American Free Trade Agreement, which cemented our strategic trade relationship with our immediate neighbors; the Uruguay Round, which created the World Trade Organization with a binding dispute settlement mechanism and extended international trade rules to new areas through agreements on agriculture, services, intellectual property; and three multilateral agreements on information technology, financial services and basic telecommunications.

US TRADE TODAY

As a result, America's trade has flourished. Last year we exported \$932 billion in goods and services -- a 51% increase from the 1992 level of \$617 billion, despite a slowing in export growth due to the financial crisis. Our goods exports were very evenly divided among four major markets, meaning that we have critical trade interests in each part of the world:

Canada	Asia-Pacific	Latin America	European Union
\$156 billion	\$166 billion	\$143 billion	\$150 billion

Measured by country, our largest five goods export markets were Canada at \$156 billion, followed by Mexico at \$71 billion, Japan at \$57 billion, the United Kingdom at \$40 billion and Germany at \$25 billion.

Service export figures are only partially available for 1998. Our full-year 1997 service exports, divided regionally, were more heavily weighted to Asia and Europe but still indicate critical interests in each region:

Canada	Asia-Pacific	Latin America	European Union
\$20.5 billion	\$73.6 billion	\$34.2 billion	\$74.8 billion

In 1997, our six largest service export markets were Japan with \$34 billion, the United Kingdom with \$23.7 billion, Canada at \$20.5 billion, Germany at \$13.5 billion, France at \$9.4 billion and Mexico at \$9.3 billion.

Altogether, the United States was the world's largest exporter in 1998. We were also the largest exporter of the goods and services supporting the highest-wage jobs: agricultural products, advanced technology products and capital goods. Our goods exports now support 11.6 million American jobs.

The United States was also the world's largest importer, at \$1.1 trillion in goods and services imports in 1998. Imports play an important role in our economy, by raising living standards for consumers (especially lower-income Americans), dampening inflation, ensuring the widest possible choice of products at the best prices, and providing essential inputs for U.S. industries, many of which then export their goods at equally competitive prices. However, open markets depend on fair trade rules, and we are and will be vigilant in enforcing our laws against import surges, subsidies, dumping, or other measures intended to artificially boost exports or protect foreign markets.

TRADE AGENDA IN 1999

This brings me to our agenda for the years to come. As in the past, we hope to base our work on the foundation of a bipartisan consensus and a strong working relationship between the Administration and Congress. Generally speaking, our trade policy seeks the following goals.

- Address the trade effects of the financial crisis which now directly affects nearly 40% of the world.
- Continue our progress toward open and fair world markets through a new negotiating Round, as well as our role as host and Chair of the WTO's Third Ministerial Conference, regional negotiations and bilateral talks.
- Advance the rule of law and defend US rights by ensuring full compliance with trade

agreements and strongly enforcing our trade laws.

- Encourage the full participation of all economies, including economies in transition and developing nations, in the world trading system on a commercially meaningful basis;
- Ensure that the trading system helps lay the foundation for the 21st-century economy by offering maximum incentives for scientific and technological progress.
- Ensure that trade policy complements our efforts to protect the world environment and promote core labor standards overseas; and
- Advance basic American values including transparency and accessibility to citizens and involvement of civil society in the institutions of international trade.

TRADE NEGOTIATING AUTHORITY

As we pursue this agenda, the Administration will consult with the Committee and Congress on the renewal of traditional trade negotiating authority. The President, in his State of the Union address, called for a new consensus on trade. He said we must find the common ground on which business, workers, farmers, environmentalists and government can stand together. This commitment to common ground has been a hallmark of the Committee's approach to trade policy over the years. I want to personally thank you, Mr. Chairman, and Senator Moynihan as well, for your commitment and hard work toward this goal in the last Congress.

Consistent with that approach, we believe negotiating authority should bolster the traditional bipartisan support for trade policy and allow us to pursue an agenda that reflects consensus goals. It is a tool which can help us negotiate with greater credibility and effectiveness on behalf of American economic interests, and thus contribute to our goal of opening markets, increasing growth and raising living standards.

TRADE EFFECTS OF FINANCIAL CRISIS

Let me now address our agenda in detail. I will begin with the trade effects of the financial crisis affecting Asia, Russia and parts of Latin America.

This crisis has now lasted a year and a half, and its effects on our trade interests have been severe. Countries which have implemented IMF reform programs have seen a number of good results, including currency stability and returning investor confidence. However, real economies continue to suffer. Six major economies -- Hong Kong, Indonesia, Malaysia, South Korea, Russia and Thailand -- are likely to have contracted by 6% or more last year.

As a result of this crisis, the American trade imbalance has widened. This reflects largely a sharp drop of about \$30 billion in American exports to the Pacific Rim, and a consequent break

with the pattern of rapid U.S. export growth of the past few years. Our overall import growth last year (with the principal exception of the steel sector, in which imports rose very rapidly in the second half of 1998, affecting thousands of jobs) remained consistent with growth rates in previous years. Thus the larger deficit largely reflects predictable macroeconomic factors.

Our trade policy response begins by ensuring that our trading partners continue to live by commitments at the WTO and in our regional and bilateral agreements. The strength of the trading system is an enormous advantage here -- despite the worst financial crisis in fifty years, the world has resisted the temptation to relapse into protectionism. This has greatly reduced the potential damage to our economy, and particularly to American manufacturing exporters and agricultural producers. In addition, other markets -- particularly our NAFTA partners Canada and Mexico, to whom U.S. goods exports grew by \$13 billion last year -- have in part compensated, thanks to the more open North American market NAFTA has created, for some but not all of these lost exports. An ambitious trade agenda will further strengthen our effort to ensure that the crisis does not cause the world to move backward.

We continue with a policy response covering several areas:

IMF Recovery Packages -- We have supported reform packages with the IMF at the center in affected countries. Several of these contain trade conditionalities which we vigorously monitor.

Restored Growth in Japan -- A return to growth in Japan, Asia's largest economy, is essential for the economic health of the region. The Administration's view is that this will require fiscal stimulus that continues until solid growth is restored, financial reform, and deregulation and market-opening. USTR's responsibilities lie in this last area. In addition to an aggressive bilateral agenda, the agreement we reached in Japan last May sets out concrete deregulatory measures in telecommunications, housing, medical devices, pharmaceuticals and financial services sectors, and measures to strengthen competition policy enforcement and transparency. When fully implemented, these will create opportunities for exporters and workers in America, other Pacific economies and Japan. We are now discussing new measures in these sectors and energy as well.

Steel -- The President's January 7 Steel Report to the Congress lays out a seven point action plan on the steel import surge. Among other points, the plan projects a roll-back of imports from Japan -- the key cause of the import surge -- to pre-crisis levels, and states that the Administration is prepared, if necessary, to self-initiate trade cases to ensure that this roll-back takes place. The plan also outlines actions taken by the Commerce Department to expedite ongoing dumping investigations and apply any dumping margins retroactively. In addition, the Administration expresses strong support for an effective safeguards mechanism; and commits us to continue to assess the effectiveness of steps taken to date, and working closely with the industry, labor, and members of Congress, to assess additional steps. To assist in this ongoing review, we also announced that preliminary steel import data will be released, thus enabling the industry's business planners to react to imports on a more timely basis.

I. GROWTH AND HIGHER LIVING STANDARDS

Let me now turn to our negotiating agenda. In this agenda, we seek enduring goals -- growth, higher living standards, the rule of law, a rising quality of life, better protection of health, safety and the environment, and the advance of basic values. As President Clinton said in the State of the Union address, we need to find new methods of negotiating and address a broader array of issues to secure these goals in the next century.

1. New Round and WTO Ministerial Conference

This is the basis of President Clinton's call for a new, accelerated negotiating Round for the 21st century. The Round would begin at the Third WTO Ministerial Conference, which I will chair and which will be held in the United States from November 30th to December 3rd. This will be the largest trade event ever held in America, bringing government leaders, Trade Ministers, business leaders, non-governmental organizations and others interested in trade policy from around the world. It is an extraordinary opportunity for us to shape at least the next decade of multilateral trade negotiations and to highlight our economic dynamism to the world.

The Round President Clinton has called for would be somewhat different from previous Rounds, in that we should be able to pursue three dimensions simultaneously: first, a negotiating agenda to be completed on an accelerated timetable; second, institutional reforms and capacity-building at the WTO; and third, ongoing results in priority areas.

To begin with, we would hope to advance a number of important initiatives in the months leading up to the Ministerial Conference and at the event itself. They include:

- An "Information Technology Agreement II" adding new products to the sectors already covered by the first ITA.
- Extend last May's multilateral declaration not to assess customs duties on electronic commerce, to make sure that the Internet remains an electronic duty-free zone.
- Build consensus on the sectoral liberalization initiative begun in the Asia-Pacific Economic Cooperation forum. This would eliminate tariffs and in some cases liberalize services in chemicals; energy equipment and services; environmental goods and services; fish and fishery products; gems and jewelry; medical and scientific instruments; toys; and forest products. Meaningful participation by Japan in the fishery and forest products sectors would be essential to success.

The second dimension of institutional reform would promote transparency, allow the WTO to facilitate trade and participation for less developed nations, help it coordinate more effectively with international bodies in other fields, and continue to strengthen public confidence in the WTO as an institution. Here we would hope to take up such issues as:

- Trade facilitation. Most of the world's regional trading arrangements -- ASEAN, APEC, the European Union, Mercosur, NAFTA, the proposed FTAA -- contain a critical element of trade facilitation, often beginning with customs reform to reduce transaction costs and make trade more efficient. The WTO can help accomplish this on a much broader scale.
- Capacity-building. We need to narrow the growing disparity between the rich countries and the poor countries. We have to ensure that the WTO can work effectively with member economies and other international institutions, particularly with respect to the least developed nations, to ensure that they have both access to markets and technical assistance to meet the kinds of obligations that will help them grow. This and other issues will be addressed at a High-Level Meeting on Trade and Development this March.
- Addressing the intersection between trade and environmental policies. As trade promotes growth overseas, we must at the same time ensure clean air, clean water and protection of our natural heritage, as well as effective approaches to broader questions like biodiversity and climate change. We have already scheduled a High-Level Meeting of trade and environment experts in March, which we anticipate will provide fresh and valuable input to our work in this area and help frame a vision for future work.
- Addressing the intersection between trade and labor. Again, as in our domestic economy, growth can and should be accompanied by safer workplaces, elimination of exploitive child labor and respect for core labor standards. The WTO in particular can work in more coordination with the International Labor Organization on some of these issues. As the President has announced, the US will provide funds for a new multilateral program in the ILO to provide technical assistance for international labor rights initiatives, and through our own Department of Labor will help our trading partners strengthen labor law enforcement. These and other such efforts should be a focus of renewed cooperation with the ILO.
- Coordination with the international financial institutions, in a world where the separation of trade from financial policy has become entirely artificial. The WTO must work more effectively with the IMF and World Bank to achieve their common goals of a more stable, predictable and prosperous world.
- Transparency. We will also seek reform, openness and accountability in the WTO itself. Dispute settlement must be transparent and open to the public. Citizens must have access to panel reports and documents. Civil society must be able to contribute to the work of the WTO, to ensure both that the WTO can hear from many points of view including labor, environmental, consumer and other groups, and that its work will rest on the broadest possible consensus.

With respect to the expedited negotiating agenda of this Round, we are now consulting with Congress, industry, and other interested parties on a detailed negotiating agenda for talks

which would begin after the Ministerial. While the final scope of the agenda is yet to be determined, we believe that at a minimum they should include such issues as:

- **Agriculture**, where we envision broad reductions in tariffs, the elimination of export subsidies, and further reductions in trade-distorting domestic supports linked to production. We must seek transparency and improved disciplines on state trading enterprises, seek reform of the EU's Common Agricultural Policy, and ensure that the world's agricultural producers can use safe, scientifically proven biotechnology techniques without fear of trade discrimination.
- **Services**, in which we hope to see specific commitments for broad liberalization and market access in a range of sectors, including but not limited to audiovisual services, construction, express delivery, financial services, professional services, telecommunications, travel and tourism, and others.
- **Government procurement**, in which purchases are over \$3.1 trillion per year, much of it in sectors where America sets the world standard: high technology, telecommunications, construction, engineering, aerospace and so forth. At present, only 26 of the 133 WTO Members belong to the plurilateral WTO Government Procurement Agreement. We thus look to bring more countries under existing disciplines. We are also seeking an agreement on transparency in procurement to create more predictable and competitive bidding, reducing the opportunity for bribery and corruption and helping ensure more effective allocation of resources.
- **Intellectual property**, where our efforts to ensure full compliance with the existing provisions of the Uruguay Round will be combined with campaigns against piracy in newly developed optical media technologies such as CDs, CD-ROMs, digital video discs and others; and end-user piracy of software.
- **Industrial tariff and non-tariff barriers**, where we will seek to continue our progress in reducing bound and applied tariff levels, and continue to address non-tariff measures in industrial sectors.
- A forward work-program on newer issues for the multilateral system to consider, including considering how competition and investment policies meet the test of assuring fair and open trade and how the WTO can help to create an international pro-competitive regulatory climate, particularly in services, and further advance our efforts against bribery and corruption.

Outside the context of the Round, we are pursuing the accession of 31 economies to the World Trade Organization: Latvia, whose accession is complete and awaiting ratification; and Albania, Algeria, Andorra, Armenia, Azerbaijan, Belarus, Cambodia, China, Croatia, Estonia, FYR of Macedonia, Georgia, Laos, Lithuania, Jordan, Kazakhstan, Moldova, Nepal, Oman,

Russia, Samoa, Saudi Arabia, Seychelles, Sudan, Taiwan, Tonga, Ukraine, Uzbekistan, Vanuatu and Vietnam. In all cases we seek a commercially meaningful agenda. This includes the greatest possible commitments to all WTO agreements, including the most recent ones.

We are also exploring ways to more fully integrate the least developed countries, particularly in Africa, into the system. This includes both seeking deeper commitments, and technical assistance in fulfilling those commitments, and legislation to improve trade relations with Africa.

2. Regional Trade Agenda

At the same time, we are pursuing an active agenda in each region of the world. A brief review is as follows:

Canada -- With Canada, our largest trade partner, we have serious concerns on a range of agriculture matters. We took an important step on these last month, with the invaluable help of several Finance Committee members, by concluding a market access package opening opportunities for American grain farmers, cattle ranchers and other agricultural producers. We will continue our work in these areas this year. We will also address major market access impediments to our magazine publishers (as I note in the section on enforcement) and other media and entertainment industries. We will also continue to enforce our bilateral sectoral agreements. At the same time, we intend to work with Canada on bilateral issues of mutual interest, and on negotiations toward the Free Trade Area of the Americas and at the WTO where we share many goals.

Mexico -- Trade with Mexico has expanded very rapidly since passage of the North American Free Trade Agreement. Last year, Mexico passed Japan as both our second largest goods exports market and our second largest overall trade partner. We will continue to monitor implementation of Mexico's NAFTA commitments, scheduled to be complete by 2008, and address bilateral issues including land transportation, corn syrup and sugar, and telecommunications barriers as well as piracy in intellectual property rights. We have also stepped up our efforts in the trilateral work program now underway in more than 25 Committees and Working Groups, with the intention of maximizing our gains under the NAFTA.

Western Hemisphere -- The Miami and Santiago Summits of the Americas have called on us to complete work on a Free Trade Area of the Americas no later than the year 2005. This year, in accordance with Summit directions, we intend to achieve "concrete progress" toward the FTAA in our nine Negotiating Groups and through business facilitation and other measures. At the same time, we will seek approval from Congress of an expanded and improved Caribbean Basin Initiative with benefits similar to those now accorded Mexico and Canada.

Europe -- We are working to remove barriers and strengthen trade relations with the EU through the Transatlantic Economic Partnership begun last year. This includes negotiations on

seven separate agenda items: technical trade barriers, agriculture (including biotechnology and food safety), intellectual property, government procurement, services, electronic commerce and advancing shared values such as transparency and participation for civil society. We are also working to ensure the protection of American interests as the EU expands to include Central and Eastern European nations. At the same time, we are enforcing European compliance with dispute settlement decisions and will address problems in our trade relations both bilaterally and through the new negotiating Round President Clinton has proposed.

Asia -- Under the Asia-Pacific Economic Cooperation (APEC) forum we are looking long-term toward free and open trade in the region. This year, as I noted earlier, we will seek WTO consensus on the nine-sector liberalization package begun in APEC, and begin work on six additional sectors. We will also address bilateral issues with Korea, the ASEAN nations and other Asian trade partners. This will include seeking Normal Trade Relations with Kyrgyzstan, Mongolia and Laos, and negotiating a broad trade and commercial agreement with Vietnam.

Japan -- In trade relations with Japan, our third largest trade partner, we will continue our intense and sustained effort to open and deregulate the Japanese market. We have concluded 35 bilateral trade agreements with Japan since 1993; we will monitor their implementation closely and enforce them vigorously. We will also address sectoral issues including rice, steel, insurance, film and other topics. And as I noted earlier, we are pursuing an ambitious set of goals under the Enhanced Initiative on Deregulation and Competition Policy, both in individual sectors and in broader structural issues.

China -- We will monitor and strictly enforce our agreements on intellectual property and market access with China, and address bilateral trade problems in agriculture, direct marketing and other areas. At the same time, we will continue to seek broad market-opening through our negotiations toward China's accession to the World Trade Organization, which I address more fully below.

Africa -- USTR is implementing the President's Partnership for Economic Growth and Opportunity in Africa by supporting economic reform, promoting expanded trade and investment ties, and encouraging Africa's full integration into the world trading system by negotiating bilateral agreements, technical assistance and other measures. A sound policy framework in African countries that opens economies to private sector trade and investment offers the greatest potential for growth and poverty alleviation as well as trade opportunities for the U.S.. Last month, for example, we signed a Bilateral Investment Treaty with Mozambique and over the next few months we expect to sign Trade and Investment Framework Agreements, or TIFAs, with South Africa, Ghana, and the West African Economic and Monetary Union. We also place a very high priority on Congressional approval of the African Growth and Opportunity Act.

Broader efforts to encourage full integration of developing countries into the trading system will also bolster our Africa policy. In this regard, we will seek renewal of the Generalized System of Preferences.

Middle East -- Building upon our Free Trade Agreement with Israel, we have inaugurated a program that aims to bolster the peace process, while advancing American interests. Starting with a framework of bilateral trade and investment consultations in the region and a newly inaugurated industrial zones program, we will help the Middle Eastern countries work toward a shared goal of increased intra-regional trade.

OECD -- We strongly support passage of the OECD Convention on Shipbuilding Subsidies and will work with you to ensure its success.

II. ENFORCING THE RULE OF LAW

Second, US trade policy will support and advance the rule of law internationally by ensuring the enforcement of trade agreements and U.S. rights in the trading system.

Much of our enforcement work takes place at the World Trade Organization. We have filed more complaints in the WTO -- 41 cases to date -- than any other WTO member, and our record of success is strong. We have prevailed on 19 of the 21 American complaints acted upon so far, either by successful settlement or panel victory. In almost all cases, the losing parties have acted rapidly to address the problems. We will insist that this remain the case in all our disputes, including those with the European Union on beef hormones and bananas, and with Canada on magazines. At the same time, the U.S. has complied fully with all panel rulings it has lost, although these are few in number. And we will, of course, use our rights under the NAFTA to ensure open markets to our goods and services in Canada and Mexico.

We are also monitoring implementation of WTO commitments. All WTO developing country members are scheduled to fully implement their intellectual property commitments, and all members are required to implement customs valuation commitments by January 1, 2000. We will insist on strict compliance with these deadlines.

Likewise, we are vigilant to ensure enforcement of textile quotas and implementation of textile market access requirements overseas. A number of our trading partners clearly have further work to do in market access, including some of our largest and fastest growing textile suppliers. We have and will continue to aggressively pursue our rights, whether through the consultation process or ultimately through the WTO dispute settlement regime.

U.S. trade laws are also a vitally important means of ensuring respect for U.S. rights and interests in trade. We will continue to challenge aggressively market access barriers abroad using laws such as Section 301, "Special 301" and Section 1377, to open foreign markets and ensure fair treatment for our goods and services, ensure nondiscrimination in foreign government procurement and ensure compliance with telecommunications agreements.

To ensure that we have the maximum advantage of domestic trade laws, I am pleased to announce that the Administration will reauthorize by Executive Order two laws for which

authority has lapsed: "Super 301" and Title VII. We wish to work with the Committee to include these laws in the Committee's legislative agenda.

The Administration is also, of course, committed to full and vigorous enforcement of our laws addressing dumping and subsidies, and on injurious import surges.

III. INTEGRATING TRANSITION ECONOMIES

Third, our trade policy will continue our progress toward integrating China, Russia and other economies in transition into the trading system. This will both advance specific American trade interests, and contribute to our larger goal of a more secure peace in the next century.

This task is the last great step in the process which began with the formation of the GATT and continued with the admission of Germany and Japan: the integration of China, Russia and sixteen other economies in transition from communist planning into the trading system. These economies and a number of Middle Eastern nations are the two largest groups remaining outside the trading system. Their entry will make membership in the trading system nearly universal; and the accession of the transition economies will be a fundamentally important step in their domestic reforms as well. This would remove large distortions in world markets, dramatically enhance market access for American producers, and bolster international stability by giving these nations a greater stake in world prosperity beyond their borders.

To support rather than undermine both domestic reform in these economies and the rules of the trading system, these countries must be brought into the WTO on commercially meaningful terms. The result must be enforceable commitments to open markets in goods, services and agricultural products; transparent, non-discriminatory regulatory systems; and effective national treatment at the border and in the domestic economy.

This is an ambitious task, but not an impossible task. Central European countries like Poland, Hungary and the Czech Republic have succeeded, and their experience shows that WTO membership has assisted their domestic economic reform policies. The most recent successful WTO applications, Latvia and Kyrgyzstan, have had the same experience.

In the months to come, we will negotiate intensely with all acceding economies, including China -- the largest prospective WTO member. We have made important progress with China in the past two years, and the visit of Premier Zhu Rongji in April offers China a chance to make a decisive advance. We will consult closely with the Committee and with other members of Congress as negotiations proceed.

Likewise, at the most recent summit with Russia (September 1998), President Yeltsin agreed to work to intensify Russia's WTO accession efforts. Russia's current economic difficulties clearly present challenges and Russian Cabinet reshuffling has slowed the process, but we will continue to consult with the Russians toward a commercially viable accession package.

IV. THE 21ST-CENTURY ECONOMY

Fourth, trade policy will help lay the foundation for the 21st-century economy by ensuring that the trading system is compatible with rapid advances in civilian science and technology.

In medicine, environmental protection, agriculture, entertainment, transportation, materials science, information and more, science is advancing at extraordinary speed. This offers the world tremendous potential to increase wealth, raise productivity, improve health care, reduce hunger, protect the environment and promote education. These are also areas in which the United States has a significant comparative advantage.

Under President Clinton, our trade policy has made high technology a strategic priority. Consistent with national security, we have aimed to ease the development and commercialization of new technologies, and ensure strong incentives for scientific and technological progress. We have negotiated far-reaching new agreements in sectors like computers, semiconductors, information technologies and many other areas. This work continues in multilateral, sectoral and regional negotiations.

In the multilateral system, the rapid advance of technology requires us to improve the trading system's institutions and negotiating methods. In a world where successive generations of new products arise in a matter of months, and both information and money move instantaneously, we can no longer take seven years to finish a negotiating Round, or let decades pass between identifying and acting on trade barriers. We will have to move faster and more efficiently, which is a significant reason for the President's call for an accelerated Round.

We must also ensure that trade policy, both in the WTO and in our regional and bilateral negotiations, helps ensure that we can take advantage of our comparative advantage in knowledge industries and other new technologies. Three broad issues cut across many sectors:

Intellectual Property Rights -- Our success in this field over the past decade owes a great deal to the Finance Committee's work both in the Trade Act of 1988 with its creation of "Special 301," and on the Uruguay Round. Today, the vast majority of our trading partners have passed modern intellectual property laws and are improving levels of enforcement. In this area, we will spend a great deal of time ensuring that all WTO members comply with their obligation to introduce full intellectual property protection by January 1, 2000. (For countries, like China, which are not WTO members, we will vigorously monitor compliance with bilateral agreements.)

We have also launched campaigns against worldwide piracy of new optical media technologies, and against end-user piracy of software. These issues are integral parts of our regional negotiating agenda in Asia, Latin America, Europe, Africa and the Middle East. Looking ahead, we must extend protection of intellectual property rights beyond basic laws and enforcement to protect new technologies like genetically engineered plant varieties.

Global Electronic Commerce -- In accordance with the President's Global Electronic Commerce initiative, USTR seeks to preserve electronic trade over the Internet as duty-free. At the last WTO Ministerial Conference, in May of 1998, we won agreement to a "standstill" for tariffs on electronic transmissions. As I noted earlier, we will seek to extend that agreement this year. Likewise, in our negotiations toward the Free Trade Area of the Americas, at APEC and in the Transatlantic Economic Partnership, we have created special committees to advise us ways to ensure all participants can take maximum advantage of electronic commerce.

Biotechnology -- A third top priority for us in this area is biotechnology. Among the chief sources of innovation in this field are American agriculture and medicine. USTR will seek to ensure that pharmaceutical companies, farmers and ranchers can use safe, scientifically proven techniques like biotechnology to make agriculture both more productive and friendly to the environment, without fear of encountering trade discrimination. This is a priority for us in the Transatlantic Economic Partnership negotiations and in developing our agenda for future WTO negotiations.

We also have an active sectoral high-tech agenda. This includes, for example, the ITA II agreement I discussed earlier. We are also working closely with our civil aircraft industry to ensure its future and combat foreign, particularly European, subsidies and other unfair practices. This work extends into many other fields.

V. RISING QUALITY OF LIFE

Fifth, US trade policy seeks to ensure that worldwide as in the United States, trade and growth go together with a rising quality of life, including setting high standards of environmental protection, the observance of core labor standards, and high levels of consumer protection.

1. Trade and the Environment

Our Administration believes that prosperity through open trade and the protection of health, safety and the environment need not conflict, and should be mutually supportive. This is the case in our domestic economy, where in the past three decades our GDP has risen in real terms from \$3.7 to \$8.5 trillion -- while our percentage of fishable and swimmable rivers and streams doubled, the number of citizens living in cities with unhealthy air fell by half, and many endangered or threatened species, including the bald eagle, are recovering. Where there are potential conflicts, we should strengthen our ability to resolve them in a manner that protects the environment, health and safety and does not undermine the trading system. This includes working to ensure that the proper expertise is brought to bear on complex technical and scientific issues, particularly those with environmental, health and safety dimensions.

In many cases elimination of trade barriers will also contribute to a cleaner environment and the conservation of natural resources. For example, this can help countries gain access to cost-effective equipment and technology. APEC's work toward an agreement to liberalize trade

in environmental goods and services, part of which has now moved to the WTO, can help countries monitor, clean up and prevent pollution, and ensure clean air and water. Likewise, the APEC initiative on energy equipment and services can promote rapid dissemination of efficient power technologies, thus allowing production of power with reduced carbon emissions and contributing to international efforts to address climate change.

At the same time, as the trading system ensures that members avoid using environmental standards as disguised trade barriers, in eliminating barriers to trade we must not compromise on the achievement and maintenance of high levels of environmental, health and safety protection. And the system must work together with multilateral environmental institutions.

At our suggestion, the WTO is convening a High-Level Meeting on trade and the environment this spring to more fully address these questions. This marks a new level of awareness and interest in the world trading community on trade and environmental issues.

We will also continue to support the effective implementation of the North American Agreement on Environmental Cooperation in conjunction with the NAFTA. Cooperative activities that have occurred as a result of this agreement have improved environmental protection in a number of different areas -- for example, an agreement on the conservation of North American birds; the creation of a North American Pollutant Release Inventory; an agreement on regional action plans for the phase-out or sound management of toxic substances, including DDT, chlordane, PCBs and mercury; and the creation of a trilateral working group that has improved the enforcement of environmental protection laws. Benefits have also resulted from the implementation of the Border Environment Cooperative Commission (BECC) which was also entered into in conjunction with the NAFTA. The BECC has fifteen environmental infrastructure projects under construction today, funded in part by the North American Development Bank, including the first wastewater treatment plants in Juarez.

2. Trade and Core Labor Standards

Likewise, the trade system must help to assure the dignity and safety of workers. Here again, we can draw lessons from our experience at home, where since 1970, as manufacturing production doubled, the number of workplace deaths fell 60%.

At the Singapore WTO Ministerial Conference in 1996, the WTO for the first time recognized the importance of labor standards and cooperative work with the International Labor Organization, while clearly separating advocacy of labor rights from protectionist trade policies. We wish to build on this to ensure that the trading system works more effectively with the International Labor Organization, with businesses and with citizen activists to ensure observance of internationally agreed core labor standards -- banning forced labor and exploitive child labor, guaranteeing the freedom to associate and bargain collectively and eliminating discrimination in the workplace.

To bolster these efforts, the President recently announced a \$25 million program to help the ILO work with developing countries to put in place basic labor protections, safe workplaces and guarantee worker rights and enforce their own laws so that workers everywhere can enjoy the benefits of a strong social safety net. These are fundamental human rights and common concerns, and trade policy has a place in addressing them, as we have begun to do with our neighbors, for example, through the North American Agreement on Labor Cooperation.

We are also taking steps in a number of other areas, which the Secretary of Labor will address in her testimony. These include special attention to export processing zones, which at times have lower labor standards and less adequate worker protections, reports on workplace standards in different regions, and reports on issues of special concern including child labor.

VI. ADVANCING AMERICAN VALUES

Sixth, in 1999 we will seek to advance basic American values and concepts of good governance, by making the institutions of trade more transparent, accessible and responsive to citizens.

As the President has said, as trade grows, the rules of trade do more to ensure that markets are open to our goods and services, and the trading system coordinates more fully with environmental, labor and financial institutions, the need for transparency, accessibility and responsiveness grow. This is natural and a development which we both support and are working to realize.

One principal forum here is the WTO, where we are seeking agreements on more rapid release of documents, ensuring that citizens and citizen organizations can file amicus briefs in dispute settlement proceedings, and that dispute settlement proceedings be open to public observers. In the interim, President Clinton has made a standing offer to open any dispute panel involving the United States to the public, if our dispute partner agrees.

A second forum is the FTAA negotiations, in which -- for the first time in any trade negotiation -- we have created a Civil Society Committee to give business associations, labor unions, environmental groups, student associations, consumer representatives and others a formal means of conveying concerns and ideas to all of the governments involved in the talks.

A third is our creation of new Transatlantic Dialogues with the European Union for consumers, labor and environment as part of the Transatlantic Economic Partnership. We are working with these Dialogues to promote our shared values with Europe in the activities and negotiations we are undertaking as part of the TEP and multilaterally.

CONCLUSION

This is an ambitious and far-reaching agenda. We plan to work closely with the

Committee and Congress as a whole to realize it, and look forward to the benefit of your thoughts and advice at this hearing and in the months ahead. This includes the renewed negotiating authority that will help us bring our negotiations to a successful conclusion.

In conclusion, Mr. Chairman, much has changed in the international economy in the fifty-one years since the United States led 23 countries in creation of the GATT. Our national interest in economic events beyond our borders has grown, our people have found new opportunities and new challenges in trade, and many new nations have become active in trade.

These developments in many ways are the result of America's commitment to a vision of open and fair trade under the rule of law, and to the bipartisan policies we have pursued for many years to realize it. As a result of this success, we now face some new and complex challenges. The President's State of the Union Address outlined these challenges and the need for a new consensus to meet them.

But as deeply changed as today's world may be, the vision President Roosevelt laid out in one of the darkest moment of human history -- an open world, prosperous and governed by the rule of law -- remains valid in a world more prosperous, healthy and hopeful than ever before. And the necessity for a bipartisan consensus on our goals, and a strong partnership between the Executive and Legislative branches of government, remain essential to achieve this vision. With your advice and your help, as we open a new Round of negotiations and embark on a highly ambitious agenda for the next century, we hope to bring it closer to realization than ever.

Thank you very much, Mr. Chairman and Members of the Committee.

RESPONSES OF QUESTIONS SUBMITTED BY SENATOR BAUCUS

Question 1: Issues of great interest to the cattle industry were raised as part of the recent U.S.-Canada discussions on agricultural problems. Specifically, the tremendous distortions created on feed barley prices available to Canadian cattlemen was raised by the U.S. but not resolved during the negotiations. Can you confirm that this issue and other issues of interest to the cattle industry will continue to be pursued with Canada at a high level?

Answer 1: During the intensified bilateral talks that we initiated last year with Canada on a broad range of agricultural trade matters, we did discuss the concerns of the cattle industry. We did not resolve all the concerns, but made important progress on a range of issues of concern to Montanan ranchers. We intend to continue to pursue our unfinished cattle trade agenda with Canada.

Subsequent to concluding our December 4, 1998 Record of Understanding (ROU) with Canada on agricultural trade matters which we consider to be a good start to our intensified bilateral efforts, the Commerce Department initiated a countervailing duty investigation of Live Cattle from Canada following the receipt of a petition from industry. One of the allegations on which the case was initiated was the claim that the Canadian Wheat Board restricts exports of feed barley. According to the petition filed in the investigation, this practice allegedly suppresses feed barley prices in Canada, which, in turn, benefits Canadian cattle ranchers.

Recently, Commerce sent the Government of Canada a detailed questionnaire asking about the operations of the Canadian Wheat Board. A response is expected in this month. A preliminary countervailing duty determination with respect to this issue, and other alleged subsidy programs, will be made on May 3, 1999. While the final determination is currently due on July 15, 1999, it is expected that this date will be extended to match the final determination date in the companion antidumping investigation.

Question 2: As you are aware, prices remain very depressed in the cattle sector. The industry has filed unfair trade petitions against imports of live cattle. These cases will hopefully provide some significant measure of relief if affirmative determinations are made. However, there are also very large volumes of imported beef, which are also contributing to the distressed prices of live cattle. It is my understanding that U.S. cattlemen cannot pursue unfair trade practices in the trade of beef. The slaughter houses in the U.S. also own facilities abroad (both packing & producers) and so are unlikely to take action to correct the problems flowing from imports. What actions can the Administration take to eliminate the pricing pressure on cattle from the historic highs of beef imports? An escape clause action under Section 201 requested by USTR? Changes to U.S. antidumping law to permit cattle producers to file against beef imports where unfair trade practices are perceived? Bilateral consultations with Canada and other countries?

Answer 2: The Administration understands clearly that prices in the cattle sector are very depressed and is trying to alleviate that pressure to the best of our ability. Over the course of the last year, we have pressed Canada hard on issues of concern to the cattle industry. Indeed, in the last few months, we have made significant progress on a range of cattle related issues. As example, under the improved Northwest Cattle Project, the US has shipped over 50,000 head of cattle into Canada—mostly from Montana—over the last few months. We expect this program to continue growing over time. In addition, we recently persuaded the Canadian government to collect and disseminate cattle trade data—including information on cattle on feed and cattle inventory which should provide US cattle ranchers the greater transparency that they have sought for years from the Canadian government.

In answer to the specific questions that you ask above, here are some facts and thoughts:

A petition under Section 201 must allege that a product is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or threat thereof, to the domestic industry producing a like or directly competitive product. The composition of the domestic industry is a complicated, fact-intensive issue that can be resolved only after the ITC has examined all of the relevant facts and law.

The Department of Commerce is statutorily responsible for administering countervailing duty cases and antidumping law and therefore is best positioned to answer your questions on these important matters. That said, it is our understanding that the Commerce Department has provided a full response to your questions on these issues in a separate response to you.

We, of course, remain willing to work with the affected industry, and would be happy to meet with U.S. cattle ranchers to examine ways to level the playing field and address unfairly traded beef imports.

* * * *

Question 3: British Columbia's Reduction of Timber Fees As you are well aware, the United States and Canada negotiated the 1996 Softwood Lumber Agreement as a means to address unfair Canadian lumber subsidies. Canada's trade-distorting subsidies have cost the U.S. lumber industry billions of dollars and tens of thousands of jobs. The Administration has stated repeatedly that the Agreement is a priority, and it is certainly a priority to the many workers in my home state.

I am concerned, however, about the future of this important Agreement. On June 1, 1998, the Province of British Columbia reduced its already low, administratively-set timber fees by about 16%—exactly the type of new subsidy that the Agreement was intended to prevent. As I understand it, we were aware that British Columbia was contemplating such a reduction as early as January of last year. Yet, the Administration did not request arbitration until the end of July, and arbitration did not begin until December. In the meantime, scores of U.S. mills were either shut down or forced to run fewer shifts.

First, I hope you can discuss your agency's efforts to address British Columbia's breach of the Agreement. Why was our response—and the beginning of arbitration—plagued by delay? Can we make Canada respond to arbitration in a more timely manner?

Answer: From January to May, 1998, BC discussed with us their plans for changes to their stumpage regime. In those talks the Administration strongly encouraged BC to avoid any stumpage reduction and make policy changes that would move their provincial lumber regime to a market-driven orientation. Subsequently, the BC government decided from a range of policy options the changes it would make, and those measures were implemented on June 1. After reviewing the measures, which included a stumpage reduction, we requested consultations under the Agreement on June 22, 1998, held dispute settlement consultations on July 10 and ultimately requested arbitration on July 28.

Two factors influenced the arbitration process: 1) the desire to explore a negotiated settlement in coordination with U.S. industry and which addressed U.S. industry's concerns; and 2) the desire for an acceptable arbitration panel. The Administration pursued both objectives simultaneously. The Administration sought a negotiated settlement until it was clear that no negotiated solution was obtainable. The Administration proceeded with arbitration immediately thereafter. Selection of a panel that the Administration believed would arbitrate fairly and justly was a prerequisite for us to proceed. Once the panel selection was finalized, the arbitration proceedings have progressed smoothly and in a timely manner.

Questions 4: I understand that the Lumber Agreement contemplates "curing" a breach. British Columbia's lumber companies have now been receiving additional subsidies—in violation of the Agreement—for more than 7 months. What measures will he be taken to compensate for these additional subsidies? Will additional duties be collected?

Answer: Until the arbitral panel rules on whether the actions taken by British Columbia violated the agreement, we cannot speculate on the remedy. If the United States wins the case, Canada then would be required to "cure" the breach, and we would intend to consult closely with Canada as it develops a proposal. We will have the ability to return to the panel if we believe that Canada has not cured the breach.

Questions 5: Recent reports indicate that the BC Government is considering additional changes to its timber policies to lower its already subsidized costs. BC took other actions to lower the cost of timber by cutting back its environmental regulations last year. Has your agency sought clarification of British Columbia's recent proposals in this area? What actions will your agency take to ensure that BCs proposals are consistent with the Agreement?

Answer: The Softwood Lumber Agreement requires BC to notify the United States of any changes to its forestry practices, including stumpage policies, within 45 days of the change. To date, we have been informed of the changes in the time period required by the agreement. The Administration, however, has sought early warning of such notifications, particularly in British Columbia. We received some information prior to the public announcement and have requested meetings with officials from both the federal and provincial governments for more detailed information and explanations. Once we receive more information on the new practices, we will evaluate them (seeking U.S. industry views in that process) and determine an appropriate course of action.

Questions 6: The U.S. lumber industry and its workers endure over \$7 billion of subsidized Canadian imports yearly. While Agreement has been successful in partially offsetting the damage caused by these trade-distorting subsidies, the Agree-

ment is, at best, merely triage. A long-term solution is needed: Canada should stop the subsidies by selling its timber competitively, permit bilateral free trade in logs or both.

What steps is this Administration taking to secure such a long-term solution?

Answer: Throughout our discussions with provincial and federal officials in Canada we have encouraged the adoption of policies that increase pricing transparency and market orientation as well as the elimination of government support for industry. In short, our objective has been to level the playing field for U.S. industry. Not surprisingly, most of our discussions have focused on the situation in British Columbia. We continue to press for a long-term solution, while and at the same time ensuring the Softwood Lumber Agreement is being implemented consistent with U.S. interests.

CHINA

Question: I've long been a supporter of normalizing trade relations with China. But that doesn't mean that I am not concerned about our growing trade deficit and China's caution toward continued liberalization. For that reason, we must pay great attention to China before and during this next round of the WTO.

Right now China, as a non-member, is just out of our grasp when it comes to setting standards and resolving long-standing disputes (such as TCK problem). And this gap can only widen as we enter the next round unless we make significant progress soon.

What do you see as the major issues in China's WTO accession talks and what would you like to achieve during Zhu Rongji's scheduled visit to Washington in April?

Answer: While the United States has made some significant progress on a number of market access components of China's WTO accession package, significant gaps still remain. In the market access area, major differences exist for services such as distribution, telecommunications, financial services (banking, insurance and securities); for agriculture both regarding tariff barriers and management of tariff rate quotas; and for industrial products such as motor vehicle, paper, and chemicals. In addition, we must resolve sanitary and phytosanitary barriers to our exports covering Pacific Northwest wheat, citrus and meat.

The visit of Premier Zhu Rongji presents an opportunity to resolve all outstanding issues. For our part, we will endeavor to present commercially meaningful proposals that also address Chinese concerns. However, the decisions rests with China. If China continues to reject reasonable terms for membership, negotiations on WTO accession are likely to stall for a number of years as global negotiations in the WTO commence.

COMPLIANCE BY OUR TRADING PARTNERS—EU

Question: The WTO beef and banana cases—and more recently the Canadian periodicals case—have all come to stand for much more than the restrictions at issues; the bigger question is whether the WTO dispute settlement system works. And whether, it can ensure the rights of US farmers and other businesses.

Europe, and now Canada following Europe's lead, are both trying to turn the WTO into a system of endless procedural hair-splitting. Our farmers as well as any industry will not accept a toothless trading system. They can, however, accept a system that guarantees that their rights are enforced, even if that means retaliation in the event of noncompliance.

This is not a new topic—I raised it in 1991 when the Uruguay Round broke down due to Europe's intransigence on these vary issues. I suggested then that the credibility of the Round would hinge on whether they would be resolved. We are now at the apex of that test.

If the Europeans refuse to abide by the rulings, can we expect retaliation in the banana, beef and periodicals cases to take effect according to USTR's announced schedules?

Answer: While we would prefer that all WTO members implement the results of WTO dispute settlement proceedings, if a member does not do so within the implementation period specified for a particular dispute, the Administration is prepared to exercise its WTO rights.

With respect to the *EC bananas* dispute, on March 2, the WTO arbitrators announced an initial decision regarding the U.S. request for suspension of concessions as a result of the EC's failure to implement a WTO-consistent banana regime. The following day, the United States announced that it would withhold liquidation and increase bonding requirements for selected European products pending the completion of the arbitration proceeding. This action simultaneously respects the WTO ar-

bitration process, preserves U.S. rights to impose higher tariffs as of March 3, and imposes consequences on the EC for its failure to implement a WTO-consistent regime.

With respect to the *EC beef hormones* dispute, we are urging the EC to comply with the WTO rulings and are discussing with the EC ways to reach a mutually acceptable solution on that basis. If, however, we are not able to do so, the timetable for this dispute would permit the U.S. to increase tariffs on selected products in mid-June or, if the EC requests arbitration to review the level of concessions that the U.S. proposes to suspend, in mid-July. The Administration is in the process of taking the internal steps that precede the exercise of our WTO rights to increase tariffs, should that be necessary.

With respect to the *Canada magazines* dispute, Canada terminated the measures found to be in violation of its WTO obligations. However, Canada has proposed, but not yet passed, new magazine measures (C-55) which are equally discriminatory. We are working with Canada to persuade it not to adopt these new proposed measures. Should we fail to resolve this matter with Canada through a negotiated solution that opens markets, and C-55 is enacted, we have made it clear that we will withdraw trade benefits of an equivalent commercial effect.

COMPLIANCE BY OUR TRADING PARTNERS—EU

Question: The WTO beef, banana and other cases have highlighted a number of apparent defects in the Dispute Settlement Understanding. When the Uruguay Round Agreement was sent to Congress, it was well understood that losing parties would be given an automatic 15-month grace period to come into compliance—during which time they could continue to violate the WTO rules.

We did not anticipate, however, that some WTO members would try to turn the 15-month grace period into something considerably longer. The tension between “compliance procedures” and retaliation rights poses a significant problem for the United States. If it remains unresolved and affects future disputes, it could also undermine our support for the WTO. This question speaks to the credibility of the agreement.

Will the United States insist that these issues are addressed and resolved in the WTO Dispute Settlement Review now underway?

Answer: The dispute settlement review has been going forward through informal discussions in the WTO Dispute Settlement Body (DSB). The DSB did not complete discussions last fall on the proposals that had been tabled by governments, so the WTO General Council decided to continue and complete the review process by the end of July 1999. The United States tabled a paper in the review last October. In our paper, we focused on two important themes: compliance with the rules and transparency, including opening the dispute settlement process to the public. In the review we have called for clarification of the rules to better ensure prompt implementation of panel rulings, and stressed that we will not tolerate a situation in which one violation of WTO obligations is simply replaced with another, different violation. We have been working closely with the trade agencies, the Committees of jurisdiction and our private sector advisors to develop proposals on these issues, and also have also taken into account the comments we received from the public.

ENVIRONMENT

Question: The objective is to signal your longstanding and continuing interest in trade and the environment, by looking back at NAFTA and looking ahead to the upcoming WTO negotiations.

With respect to NAFTA, the Administration negotiated an environmental side agreement five years ago. Views about the success of the side agreement are mixed. The Administration’s 1997 report on the effect of the NAFTA notes that significant progress is being made, especially regarding trans-boundary pollution and infrastructure projects. It also claims that the Mexican government is improving its enforcement of environmental laws. On the other hand, some environmental groups remain critical.

Five years ago, as part of NAFTA, we negotiated an innovative side agreement to promote greater environmental cooperation and assure that Mexican environmental laws are adequately enforced. Looking back, what’s worked and what hasn’t? Looking ahead, what lessons can we learn, from the NAFTA environmental side agreement, for future trade negotiations?

Answer: The NAFTA’s environmental agreement was designed to improve cooperation towards addressing key environmental issues. This agreement is having concrete, positive effects on the North American environment. It has led to new environmental initiatives along the U.S.-Mexico border—including infrastructure

projects which could total \$500 million over the next three years. The environmental issues facing the three NAFTA parties existed long before the NAFTA, but NAFTA's environmental institutions have improved our ability to address North American environmental problems in real ways.

Two institutions were founded under a separate agreement: the Border Environment Cooperation Commission ("BECC") and the North American Development Bank ("NADBank"). In their four years of operation, these organizations have made substantial progress in addressing pollution problems on the U.S. Mexican border. Fifteen infrastructure projects supported by these institutions are under construction, worth a combined \$350 million. Seventy-five million dollars in EPA grants has been allocated to seven projects, leveraging an aggregate \$18 million, with most of these projects beginning construction in the first quarter of 1999. In addition, several dozen technical assistance efforts are underway to develop future projects.

The Commission for Environmental Cooperation (CEC), composed of a Ministerial-level Council, a Secretariat and a Joint Public Advisory Committee, that oversees the North American Agreement on Environmental Cooperation (NAAEC), has generated progress on numerous fronts, both in cooperative work that is designed to lay the groundwork for important progress as we enter the next century with our neighbors, and in specific projects to protect the environment. For example, the CEC has significantly advanced the conservation of North American birds; implemented regional pilot projects for the Global Program of Action to protect the marine environment; established a biodiversity information network starting with avian species; created a North American Pollutant Release Inventory; and initiated many other projects over its few years of existence. The CEC also helped the three NAFTA countries devise regional action plans for the phase-out, or sound management of, toxic substances, including DDT, chlordane, PCBs and mercury. Important work is also underway on enforcement cooperation, including training and other steps.

The NAAEC's process for public submissions on environmental enforcement matters is also working as intended, with the Secretariat evaluating all the submissions it has received in a fair and objective manner and pursuing issues further where warranted in accordance with the Agreements terms. We believe that these proceedings not only can act as a deterrent for the NAFTA parties to circumvent their environmental obligations, but that they can also provide a useful and transparent forum in which citizens can raise their concerns about environmental enforcement and have those concerns taken seriously and evaluated fairly.

The NAAEC is also a good illustration of the value of building public participation into international decisionmaking. Its Joint Public Advisory Committee and each Party's national level advisory committees ensure decisions are made utilizing valuable input from interested stakeholders in all three countries.

As a general matter, this Administration seeks to ensure that U.S. trade and environmental policies are consistent. For instance, we have been careful to negotiate trade agreements that preserve our ability to adopt and maintain laws and regulations to protect health, safety and environment in the United States. Beyond this, however, we believe that appropriate trade policies can advance our environmental objectives, and vice versa.

Looking towards future trade negotiations, it is important to note that environmental protection and enforcement issues vary greatly among U.S. trading partners. An approach that may foster improved environmental protection in one situation may be less effective in another. However, the Administration is committed to addressing these issues, through various fora and by various means. Moreover, as part of any process of preparing for and conducting negotiations we will consult widely with Congress and the public and will determine on a case-by-case basis the best approach to these issues.

Question: With respect to the WTO, a high level meeting of trade and environmental officials (including representatives of NGOs) for March in Geneva.

At the suggestion of the United States, the WTO is holding a high-level meeting, in March, to discuss the relationship between trade and environment. What do we hope to accomplish at this meeting?

Answer: The March 15-16 High Level Symposium on Trade and Environment was the first time that the WTO brought together high level officials from trade and environment ministries, along with environmental NGOs and the business community, to discuss these important issues. We had a thorough consideration of a broad range of issues that relate to trade and environment, including the various proposals that we have made to make the WTO more transparent and open. The meeting was not a negotiation, but an opportunity to help provide more guidance and energy to the WTO's work on these issues as we prepare for the 3rd WTO Ministerial Conference and the Round that we anticipate will follow from it.

JAPAN INSURANCE AGREEMENT

Question: Ambassador Barshefsky and Secretary Rubin, last July (more than 6 months ago) the US Trade Representative issued a public statement that the Government of Japan had failed to live up to a series of its obligations under the US-Japan Insurance Agreement (bi-lateral). Since that time, no further progress has been made. In fact, Japan's Ministry of Finance has refused to meet with the US claiming to have met all of its obligations according to its multi-lateral agreement on financial services under the WTO.

These bilateral commitments serve as the basis for Japan's new WTO insurance obligations which are scheduled to become effective as of March 1, 1999. Ambassador Barshefsky, I understand that you have raised questions about Japan's ratifications of its obligations to the WTO. But we must do more.

This behavior by Japan, in blatant disregard of our pre-existing bilateral agreement, underscores the need for both the USTR and Treasury to follow through when they negotiate a trade agreement. We can't afford to have Japan thumb its nose at us and hope that this issue is eventually resolved in the quagmire of the WTO dispute resolution process. Time is of the essence.

How does the USTR and Department of Treasury intend to address this problem, prior to the time (March 1) when the agreement is scheduled to go into effect? (without the specific deregulation actions called for).

What leverage can we use to ensure that Japan fully meets its primary sector deregulation obligations?

Answer: In December 1997, Japan agreed to bind many of the key provisions of the 1996 bilateral U.S.-Japan Insurance Agreement within its WTO Financial Services schedule. U.S. industry welcomed this action by Japan.

Japan has made some progress in opening and deregulating its insurance market. For example, in September 1997 the Ministry of Finance granted the first ever license for direct marketing of risk-differentiated automobile insurance to a U.S. firm. Nevertheless, the Administration is seriously concerned about Japan's unwillingness to fully implement all of the specific deregulation actions called for under our bilateral insurance agreement.

The United States has expressed its concerns on numerous occasions directly to Japan and at the WTO. We have also approached interested third parties, such as the EU, on this issue. The U.S. will continue to use every opportunity, both bilaterally and multilaterally, to convey to Japan the depth of our concerns and the urgency that our governments expeditiously engage in a constructive process to address outstanding issues. In accordance with U.S. industry's recommendation, we joined a consensus to allow the WTO Financial Services Agreement to come into force on March 1. We delivered a strongly worded statement in Geneva on February 15, 1999, expressing our serious concern with Japan's implementation of its bilateral market-opening commitments, which are now incorporated in the WTO agreement.

A USTR-led interagency team met with Japanese government representatives on March 4 in Tokyo to discuss preparation for the next round of consultations under the bilateral U.S.-Japan insurance agreements. Both governments agreed to hold consultations in mid-April. The venue and exact dates of these working level talks will be decided through diplomatic channels. Both governments agreed to address a wide range of issues and concerns related to primary sector deregulation, as well as the activities of large Japanese insurers and their subsidiaries in the third sector. The Japanese side was represented by officials from the Ministry of Foreign Affairs, Ministry of Finance, and the Financial Supervisory Agency. We have requested that, in addition to these three agencies, the Japan Fair Trade Commission also attend the upcoming consultations. We are working closely with other agencies and with U.S. industry as we seek to resolve these important issues.

The Administration is prepared to utilize all of the tools at our disposal to ensure the full benefits to U.S. industry from our bilateral Insurance Agreement. With the entry into force of the WTO Financial Services Agreement on March 1, the United States now enjoys multilateral rights of enforcement under the WTO Dispute Settlement rules with respect to measures Japan has committed to take to deregulate and open its insurance market. Of course, we continue to retain our rights under U.S. trade law to enforce our trade agreements.

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RESPONSES TO QUESTIONS SUBMITTED BY SENATOR BREAUX

Question 1: In your statement last week, you indicated that the APEC Tariff Initiative remained a priority for the Administration. According to the agreement

reached in Kuala Lumpur, an agreement on the nine sectors is supposed to be reached in time for the WTO Ministerial meeting in November. Can you tell us about the Administration's game plan to achieve this before the November WTO Ministerial?

Where are we at this point in the process?

What is the Administration doing to make sure that the Japanese live up to their commitment in Kuala Lumpur to work with the U.S. to get an agreement at the WTO?

Last year, President Clinton raised this issue with Prime Minister Obuchi. Following the obstructionism of the Japanese in Kuala Lumpur has the President been in communication with the Prime Minister to ensure that the Japanese do not scuttle this initiative again in November?

Answer 1: The Administration has made clear to both APEC members and non-APEC WTO members that concluding an agreement in 1999 on tariff liberalization for the eight sectors covered by the APEC sectoral liberalization initiative is a high priority. (The ninth sector, a telecommunication MRA, does not have a tariff component). We see this as a key goal for the WTO Ministerial.

In accordance with the agreement reached at the Kuala Lumpur APFC Leaders Meeting, we will introduce the APEC proposal into the WTO, promote and explain the proposal through a series of informal WTO and plurilateral meetings, and impress upon key WTO countries the importance and commercial value of these initiatives through extensive bilateral contacts. On the basis of these activities, which would involve close coordination with, and participation by other APEC members, we would hope to be able to begin WTO negotiations later this year with a view towards achieving a concrete result by the start of the WTO Ministerial.

The first part of the game plan has now been completed. On behalf of APEC, the New Zealand Chair formally introduced the APEC proposal to the WTO oil January 26. We have followed up this action with a series of bilateral contacts to non-APEC WTO countries. Also, we are now working with other APEC Countries at the Senior Officials I Meeting at Wellington to undertake further action to promote the proposal in the WTO.

A key factor in the Success of this effort is strong support by participating APEC members—all of which, including Japan, have committed to work constructively to achieve an agreement in 1999. We were, of course, very disappointed by the role Japan played in the APEC process last year. However, we expect them to abide by the commitments made at Kuala Lumpur. We will continue to remind them of this obligation, at every appropriate opportunity and at all levels of government.

Question 2: Your recent statement regarding the format for the next round of WTO negotiations indicated that there are some issues where you would expect to reach agreement even before the three year wrap up of the negotiations as 21 whole. Is it your thought that some of the APEC sectoral agreements might be included in such as "Early Harvest"?

Answer 2: As indicated above, in accordance with the agreement reached in APEC, we are seeking WTO agreement on the eight sectors in 1999—by the time of the WTO Ministerial. If we are successful, Implementation Could begin very shortly thereafter.

Question 3: Last week, Deputy USTR designate Susan Esserman told this Committee there are some remaining issues regarding the WTO accession agreement with Taiwan. According to the U.S. forest products industry, one of the most egregious of those issues is the continuing refusal of Taiwan to live up to its commitment regarding the elimination of paper tariffs by 2000 and wood tariffs by 2002. USTR has apparently raised this with Taiwan on several occasions—without a satisfactory answer. What do you plan to do to make sure that Taiwan lives up to this commitment?

Answer 3: As indicated above, we will be seeking to conclude negotiations on forest products, along with the other eight sectors, in the WTO this year. We have made clear and will continue to make clear to Taiwan, that we expect them to live up to their bilateral and APEC commitment in these negotiations.

Question 4: USTR Barshefsky committed that efforts will once again be made to conclude a WTO accession agreement with China this Spring. China is also an APEC Member Country, and the proposed APEC tariffs are significantly more liberal than the offers China has made in the WTO context. What is the Administration strategy to ensure that these two negotiations do not coincide in a way which reduces China's willingness to meet the higher APEC standard?

Answer 4: Negotiations on China's accession to the WTO and China's participation in the APEC sectoral initiatives are complementary. As a result of the Kuala Lumpur Ministerial, negotiations on the APEC sectoral initiatives has moved into the WTO where the APEC sectoral initiatives will be negotiated with other WTO

members with the Support of APEC members to achieve bound duty reductions by as many Countries as possible.

Since China is not a member of the WTO, it did not participate in the ITA sectoral initiative. Moreover, China considers the APEC initiatives as voluntary. Consequently, once China is admitted into the WTO, it will be pressed by other WTO members to implement the agreed sectoral initiatives as part of the necessary critical mass needed for approval.

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RESPONSES TO QUESTIONS SUBMITTED BY SENATOR GRAHAM

Question: In your testimony before the Senate Finance Committee, you indicated that the Administration's proposed resolution to the dispute with the European Community (EC) banana regime will not negatively impact the Caribbean banana industry. Please detail the terms of the Administration's proposed resolution to this dispute and explain how the proposal affords Latin American banana producers open access to EC markets, while EC preferences to the Caribbean banana industry continue.

Answer: The United States and Caribbean Countries share key objectives for European Union (EU) banana policy. Both want an EU system that provides sufficient incentives for growers in Caribbean countries to produce bananas and that enables Caribbean bananas to continue to enjoy access in the EU market. The United States believes that the EU can institute a system that achieves this shared objective in a WTO-consistent manner. The basic elements of such a system would include tariff preferences that would make Caribbean bananas competitive with Latin American bananas in the EU market and an incentive for distribution companies and importers to continue to purchase bananas from certain vulnerable Caribbean countries to supply the EU market.

The specific elements of such a system would include some combination of the following:

- a zero tariff on bananas from African, Caribbean and Pacific (ACP) countries entering the EU market; a non-prohibitive tariff on Latin American bananas entering the EU market;
- a WTO-consistent tariff-rate quota system (TRQ) for all countries supplying the EU market; a nondiscriminatory import licensing system if a TRQ system is used; and
- a reference price mechanism for certain vulnerable Caribbean countries, which would be determined by objective criteria, to provide an additional incentive to purchase their bananas;

We at USTR stand ready to discuss these ideas or to consider other proposals from Caribbean producing countries that would fulfill these objectives.

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RESPONSES TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Question 1: The European Union, which is the second largest market for U.S. agricultural products, made specific commitments pursuant to the Uruguay Round Final Act and the accompanying Agreement on Agriculture, to reduce tariffs on agricultural imports to zero by 2001. This means that the present three percent ad valorem tariff on pork imported from the U.S. will be completely eliminated.

However, pork, like other U.S. products imported to the European Union, is subject to special "safeguard" measures. The European Commission, on its own initiative, or at the request of a Member State, can impose new import duties if there is some perceived threat to the European Union's Common Agricultural Policy.

Isn't this a case of the exception swallowing the rule?

What can we do in our negotiations with the European Union to soften or eliminate the barriers to agricultural trade with the EU that will still exist after 2001?

Answer 1: Pork Trade: The Uruguay Round Agreement on Agriculture (URAA) made good first steps toward bringing agriculture into conformity with international trade rules governing other goods and services, but much remains to be done. Prior to the URAA, the EU operated a variable levy equal to the difference between the international price and the internal European price, high enough to ensure that imported pork could not underprice European pork. The URAA required that the variable levy be converted to a bound tariff (see accompanying schedule), consisting of a low tariff on limited quantities under a tariff rate quota (TRQ) and very high tariffs above the TRQ. The United States, which was shipping about \$10 million annually of pork products to the EU market prior to the URAA, exported around \$25

million of pork products to EU countries in 1997 and 1998. In the new WTO agriculture negotiations that will be launched at the Seattle Ministerial in December, the United States aims to increase TRQs and reduce tariffs.

The EU pork tariffs are backstopped by safeguard provisions that are widely applicable in the WTO, not just on European imports of U.S. pork. For instance, the United States used Section 201 for safeguard protection against EU wheat gluten in 1998 and is using again for lamb imports. In general, the U.S. position remains that we prefer only rare and brief usage of safeguards. The United States has used safeguards to protect some of our products from import surges. The EU has not invoked safeguard provisions on pork imports as of this date.

WTO and Other Negotiations:

Getting to the second part of your question, our office and USDA are continuously engaged in negotiations with the Europeans to reduce barriers to agricultural trade. This happens bilaterally on individual issues and in the Transatlantic Economic Partnership and multilaterally in the World Trade Organization. Regarding reform of the Common Agricultural Policy (CAP), we support Agenda 2000's focus on economic efficiency and global competitiveness. The more market orientation it brings to Europe, the better it will serve Europe and the global trading environment. However, current CAP reform proposals could go much farther toward achieving these objectives. We take every opportunity to encourage thoroughgoing CAP reform.

In the WTO Round that will be launched at the Seattle Ministerial late this year, the United States will pursue, among other things,

Elimination of export subsidies; Market access expansion through tariff reductions, further liberalization of tariff rate quotas, and improved disciplines on tariff rate quota administration; and Domestic support that does not distort trade.

Separately, the triennial review of the Agreement on Sanitary and Phytosanitary (SPS) Measures is underway. In that process, the United States is insisting that the SPS Agreement be upheld, ensuring that members' SPS measures accord with scientific evidence and scientific principles.

In addition, we will seek strengthening of disciplines or clarification of how the trade rules apply in some new areas:

State Trading Enterprises (STEs) can distort trade, and they frequently operate behind a veil of secrecy. The United States has much to gain from WTO disciplines on STEs because they allow some countries to undercut U.S. exports into third markets and restrict imports. We intend to build upon our ongoing efforts in the WTO's Working Group on STEs so that we will be ready to move aggressively in this area when negotiations begin.

Biotechnology holds tremendous promise globally for food consumers and producers, and the United States leads in developing these genetically modified organisms. With the world's Population growing by about 2 percent annually, there are 80 million more mouths to feed each year. The principal threats to realizing biotechnology's promise for improving the productivity of agricultural producers, enabling them to conserve habitat and helping to guarantee the food supply, are policies not based on science regarding importation, planting, and labeling of biotechnology products. To ensure that overly restrictive rules do not hobble biotechnology's potential, the United States led a coalition to stop a flawed Biosafety Protocol at an international conference in Cartagena, Colombia in February. Vice President Gore spoke strongly in favor of gaining the benefits of safe, scientifically approved biotechnology without fear of trade discrimination. Trade rules must ensure that the world's producers are able to use safe, beneficial scientific techniques that make farms and ranches more productive and friendly to the environment.

Question 2: Cashmere sweaters have been included on the list of items scheduled for punitive, 100 percent duties in our dispute with the European Union over trade preferences granted to Caribbean nations for the import of bananas into the European Union. You recently stated that items like cashmere were included on this list because they are luxury products not essential to the economy. However, cashmere is a key product for many retailers, who have absolutely nothing to do with our dispute with the European Union over bananas. The potential removal of these items from the shelves of U.S. retailers will ensure that these companies will lose revenue, and therefore lose jobs. Is there a way to enforce the dispute resolution panel's findings without targeting cashmere?

Answer 2: The Office of the United States Trade Representative, in conjunction with a number of agencies including the Departments of Commerce, Justice, Labor, State, and Treasury, and the International Trade Commission, develops the list of products to be subject to increased tariffs. The products that were selected for inclu-

sion on the bananas retaliation list are those that will inflict economic and political costs on the EC while causing minimal economic disruption to the United States economy (including consumers, manufacturers, importers, wholesalers, and retailers). The cashmere sweaters that are included on the bananas retaliation list serve both purposes. Scottish cashmere sweater manufacturers are pushing the UK government to help resolve the bananas dispute. The adverse impact on the U.S. economy resulting from an increase in tariffs on cashmere sweaters is less than the adverse impact resulting from an increase in tariffs on other products. (From a consumer perspective, there are substitutes for cashmere sweaters from Europe. From a retailer's perspective, very few retailers are dependent on cashmere sweaters from Europe.) USTR recognizes that this conclusion is of little comfort to the U.S. retailers that sell cashmere sweaters from Europe. But, we will always have to make tough choices about the products to include on a retaliation list as long as we believe that trade retaliatory measures—like the proposed increase in tariffs on selected products in response to the EC's failure to comply with WTO dispute settlement rulings—are an effective means of resolving trade disputes.

Attachment.

Tariff Item number	Description of products	Base rate of duty	Bound rate of duty	Implemen- tation period from/to	special safe- guard	initial negotia- ting right	other duties and charges	Comments
1	2	3	4	5	6	7	8	9
020230	-Boneless:							
02023010	--Forequarters, whole or cut into a maximum of five pieces, each quarter being in a single block; 'compensated' quarters in two blocks, one of which contains the forequarter, whole or cut into a maximum of five pieces, and the other, the hindquarter, excluding the tenderloin, in one piece	20.0 % + 3454 ECU/T	12.0 % + 2211 ECU/T		SSG			
02023050	--Crop, chuck and blade and brisket cuts(3)	20.0 % + 3454 ECU/T	12.0 % + 2211 ECU/T		SSG			
02023090	--Other	20.0 % + 4752 ECU/T	12.0 % + 3041 ECU/T		SSG			
0203	Meat of swine, fresh, chilled or frozen:							
	-Fresh or chilled:							
020311	--Carcasses and half-carcasses:							
02031110	---Of domestic swine	836 ECU/T	536 ECU/T		SSG			
02031190	---Other	3.0 %	free					
020312	--Hams, shoulders and cuts thereof, with bone in:							
	---Of domestic swine:							
02031211	----Hams and cuts thereof	1215 ECU/T	776 ECU/T		SSG			
02031219	----Shoulders and cuts thereof	939 ECU/T	601 ECU/T		SSG			
02031290	---Other	3.0 %	free					
020319	--Other:							
	---Of domestic swine:							
02031911	----Fore-ends and cuts thereof	939 ECU/T	601 ECU/T		SSG			
02031913	----Loins and cuts thereof, with bone in	1358 ECU/T	869 ECU/T		SSG			
02031915	----Bellies (streaky) and cuts thereof	729 ECU/T	447 ECU/T		SSG			
02031967	---Other	1358 ECU/T	869 ECU/T		SSG			
02031990	---Other	3.0 %	free					
	-Frozen:							
020321	--Carcasses and half-carcasses:							
02032110	---Of domestic swine	836 ECU/T	536 ECU/T		SSG			
02032190	---Other	3.0 %	free					
020322	--Hams, shoulders and cuts thereof, with bone in:							
	---Of domestic swine:							
02032211	----Hams and cuts thereof	1215 ECU/T	776 ECU/T		SSG			
02032219	----Shoulders and cuts thereof	939 ECU/T	601 ECU/T		SSG			
02032290	---Other	3.0 %	free					
020329	--Other:							

Tariff item number	Description of products	Base rate of duty	Bound rate of duty	Implementation period from/to	Special safeguard	Initial negotiating right	Other duties and charges	Comments
1	2	3	4	5	6	7	8	9
	---Of domestic origin:							
02022911	---Fore-ends and cuts thereof	930 ECU/T	601 ECU/T		SSG			
02022913	---Loin and cuts thereof, with bone in	1350 ECU/T	809 ECU/T		SSG			
02022915	---Bellies (streaky) and cuts thereof	729 ECU/T	467 ECU/T		SSG			
02022937	---Other	1350 ECU/T	809 ECU/T		SSG			
02022990	---Other	3.0 %	free					
0204	Meat of sheep or goats, fresh, chilled or frozen:							
02041000	--Carcasses and half-carcasses of lamb, fresh or chilled	20.0 % + 2677 ECU/T	12.0 % + 1713 ECU/T		SSG			
	--Other meat of sheep, fresh or chilled:							
02042100	--Carcasses and half-carcasses	20.0 % + 2677 ECU/T	12.0 % + 1713 ECU/T		SSG			
020422	--Other cuts with bone in:							
02042210	---Short forequarters	20.0 % + 1874 ECU/T	12.0 % + 1199 ECU/T		SSG			
02042220	---Chins and/or best ends	20.0 % + 2945 ECU/T	12.0 % + 1885 ECU/T		SSG			
02042270	---Other	20.0 % + 3400 ECU/T	12.0 % + 2227 ECU/T		SSG			
02042300	--Boneless	20.0 % + 4672 ECU/T	12.0 % + 3118 ECU/T		SSG			
02043000	--Carcasses and half-carcasses of lamb, frozen	20.0 % + 2013 ECU/T	12.0 % + 1280 ECU/T		SSG			
	--Other meat of sheep, frozen:							
02044100	--Carcasses and half-carcasses	20.0 % + 2013 ECU/T	12.0 % + 1280 ECU/T		SSG			
020442	--Other cuts with bone in:							
02044210	---Short forequarters	20.0 % + 1409 ECU/T	12.0 % + 902 ECU/T		SSG			
02044230	---Chins and/or best ends	20.0 % + 2214 ECU/T	12.0 % + 1417 ECU/T		SSG			
02044270	---Other	20.0 % + 2617 ECU/T	12.0 % + 1675 ECU/T		SSG			
02044300	--Boneless	20.0 % + 3664 ECU/T	12.0 % + 2345 ECU/T		SSG			
020450	Meat of goats:							
	--Fresh or chilled:							
02045011	---Carcasses and half-carcasses	20.0 % + 2677 ECU/T	12.0 % + 1713 ECU/T		SSG			
02045013	---Short forequarters	20.0 % + 1874 ECU/T	12.0 % + 1199 ECU/T		SSG			
02045015	---Chins and/or best ends	20.0 % + 2945 ECU/T	12.0 % + 1885 ECU/T		SSG			
02045019	---Legs	20.0 % + 3400 ECU/T	12.0 % + 2227 ECU/T		SSG			
	--Other:							
02045031	---Cuts with bone in	20.0 % + 3400 ECU/T	12.0 % + 2227 ECU/T		SSG			
02045039	---Boneless cuts	20.0 % + 4672 ECU/T	12.0 % + 3118 ECU/T		SSG			
	--Frozen:							
02045051	---Carcasses and half-carcasses	20.0 % + 2013 ECU/T	12.0 % + 1280 ECU/T		SSG			
02045053	---Short forequarters	20.0 % + 1409 ECU/T	12.0 % + 902 ECU/T		SSG			

Schedule LXXX - European Communities
 This Schedule is authentic only in the English language

PART I MOST-FAVOURLED-NATION TARIFF

SECTION I Agricultural Products

SECTION I - B Tariff Quotas

Minimum Access Quotas

Description of product	Tariff item number(s)	Initial quota quantity and in-quota tariff rate	Final quota quantity and in-quota tariff rate	Implementation period from/to	Initial negotiating right	Other terms and conditions
1	2	3	4	5	6	7
Boneless meat of bovine animals, fresh or chilled Boneless meat of bovine animals, frozen : - Other Edible offal of bovine animals : - Thick skirt and thin skirt, fresh or chilled - Thick skirt and thin skirt, frozen	ex 0201 30 00))) ex 0202 30 90)) ex 0206 10 95)) ex 0206 29 91)	4.000 t 20 %	4.000 t 20 %			"High quality" meat answering the following definition : "Special or good-quality beef cuts obtained from exclusively pasture-grazed animals presenting a slaughter liveweight not exceeding 480 kilograms, referred to as "special boxed beef". These cuts may bear the letters "ec" (special cuts)" Qualification for the quota is subject to conditions laid down in the relevant Community provisions.
Meat of swine, fresh, chilled or frozen : - Carcasses and half-carcasses of domestic swine, fresh, chilled or frozen	0203 11 10) 0203 21 10)	0 t 268 ECU/t	15.000 t 268 ECU/t			Import under the Europe Agreements may be taken into account when implementing this quota.
- Cuts of domestic swine, fresh, chilled or frozen, with or without bone, excluding tenderloin presented alone	0203 12 11) 0203 12 19) 0203 19 11) 0203 19 13) 0203 19 15) ex 0203 19 57) 0203 22 11) 0203 22 19) 0203 29 11) 0203 29 13) 0203 29 15) ex 0203 29 57)	0 t 389 ECU/t 300 ECU/t 300 ECU/t 434 ECU/t 233 ECU/t 434 ECU/t 389 ECU/t 300 ECU/t 300 ECU/t 434 ECU/t 233 ECU/t 434 ECU/t	5.500 t 389 ECU/t 300 ECU/t 300 ECU/t 434 ECU/t 233 ECU/t 434 ECU/t 389 ECU/t 300 ECU/t 300 ECU/t 434 ECU/t 233 ECU/t 434 ECU/t			Import under the Europe Agreements may be taken into account when implementing this quota.

Schedule LXXX - European Communities
 This Schedule is authentic only in the English language
 PART I MOST-FAVOURIED-NATION TARIFF
 SECTION I Agricultural Products
 SECTION I - B Tariff Quotas

Minimum Access Quotas

Description of product	Tariff item number(s)	Initial quota quantity and in-quota tariff rate	Final quota quantity and in-quota tariff rate	Implementa-tion period from/to	Initial negotia-tion right	Other terms and conditions
1	2	3	4	5	6	7
Meat of swine, fresh, chilled or frozen : - Fresh or chilled : --- of domestic swine --- loins and cuts thereof, bone-in - Frozen : --- of domestic swine --- bellies, streaky and cuts thereof	0203 19 13) 0203 29 15)	7.000 t 0 %	7.000 t 0 %			
- Boneless loins and hams, fresh or chilled - Boneless loins and hams, frozen	ex 0203 19 57) ex 0203 29 57)	5.087 t 250 ECU/t	34.000 t 250 ECU/t			Import under the Europe Agreements may be taken into account when implementing this quota.
- Tenderloins, fresh or chilled - Tenderloins, frozen	ex 0203 19 57) ex 0203 29 57)	833 t 300 ECU/t	5.000 t 300 ECU/t			Import under the Europe Agreements may be taken into account when implementing this quota.
Sausages, dry or for spreading, uncooked Other sausages	1601 00 91 1601 00 99	0 t 747 ECU/t 502 ECU/t	3.000 t 747 ECU/t 502 ECU/t			Import under the Europe Agreements may be taken into account when implementing this quota.
Preserved meat of domestic swine	1802 41 10 1802 42 10 1802 49 11 1802 49 14 1802 49 19 1802 49 30 1802 49 50	0 t 784 ECU/t 848 ECU/t 784 ECU/t 848 ECU/t 428 ECU/t 375 ECU/t 271 ECU/t	6.100 t 784 ECU/t 848 ECU/t 784 ECU/t 848 ECU/t 428 ECU/t 375 ECU/t 271 ECU/t			Import under the Europe Agreements may be taken into account when implementing this quota.

RESPONSES TO QUESTIONS SUBMITTED BY SENATOR KERREY

Re: Third Generation Wireless Standards

Question 1: What efforts has the USTR made and what measures does it intend to pursue to ensure that the EX market is opened in 1999 to all American Third Generation wireless technologies?

Answer 1: I will continue to make every effort in 1999 to ensure that the European market is open to all American third generation wireless technologies. In many conversations with European colleagues in the last three months I have heard repeatedly that Europe welcomes competition among wireless technologies. Nonetheless, with Secretaries Albright and Daley and FCC Chairman Kennard, I have sought and received written assurances from the European Commission that the European market will be open to all third generation standards that win approval in the industry-led standards negotiations now taking place under the auspices of the International Telecommunication Union (ITU).

While I welcome the assurances we have received, I will be vigilant in assuring that real market access opportunities develop for U.S. equipment and service suppliers in this highly regulated sector.

Question 2: What actions will USTR take in 1999 to curb the recent drop in telecommunications exports and assist the American digital industry in capitalizing on the tremendous worldwide growth of wireless services?

Answer 2: First, it is clear that recessionary conditions in Asia and elsewhere are largely the cause of the approximate 4% overall decline in telecommunications equipment exports witnessed in 1998. Our telecommunications equipment exports to Western Europe and other regions not in recession are growing, while those to Asian economies in recession have declined.

Second, we have laid a firm foundation for growth in U.S. telecommunications goods and services, including wireless technologies. Two major WTO agreements are in the process of implementation—the Information Technology Agreement and the Basic Telecom Agreement that will assure lower costs and higher demand for U.S. exports over the next few years and beyond. We are currently in the process of consultations with all interested U.S. parties as to how we can build on these agreements in the new round of WTO negotiations that will begin next year.

Finally, we have completed mutual recognition agreements (MRAs) for telecommunications equipment in Europe and APEC that will lower the cost and speed of regulatory approvals for these rapidly evolving high tech products. Telecommunications equipment MRA negotiations have just begun in Latin America, with a November 1999 target for completion.

Question 3: How can rapidly changing American high tech and digital industry interests be protected through the WTO when the inherent delay of such proceedings would render the sophisticated subject matter of the dispute obsolete and irrelevant before the case ever reaches resolution?

Answer 3: The WTO agreements are a strong positive force for open markets and fair, nondiscriminatory treatment of U.S. exporters of telecommunications goods and services. Under the new dispute settlement procedures adopted in the Uruguay Round, the speediness of the dispute settlement process has been improved significantly. Our trade partners take their obligations under these agreements seriously, and they understand the willingness of the United States to pursue dispute settlement when its rights under the WTO agreements are infringed. More often than not, U.S. trade complaints are resolved by our trade partners without resort to the WTO. We certainly have seen instances of unreasonable delay in product approvals which allowed overseas firms time to catch up to U.S. industry—this is one of the protectionist tactics which the MRA program will help us in the future to avoid, by making the process of obtaining regulatory approvals more transparent and streamlined.

Question 4: Does your office intend to press the Europeans about their 3G wireless standards position at the upcoming Trans-Atlantic Business dialogue in February and the U.S./E.U. Bilateral meeting in March?

Answer 4: The Trans-Atlantic Business Dialogue is a forum for exchange between private sector representatives of the United States and Europe. At the February meeting, a TAB D subgroup discussed the issue of third generation wireless standards and developed a compromise proposal on the standard which all parties concerned supported. We welcomed this development. As the matter of third-generation standards is primarily for marketplace actors to decide, our goal will be to ensure that industrial policy concerns of governments do not impede the industry-led effort to develop 3G systems.

On March 4-5, U.S. agencies and the telecommunications directorate of the Commission of the European Communities met for semi-annual talks on telecommuni-

cations policy matters. At those talks, both sides indicated support for the February TAB D compromise proposal on standards, and agreed that an industry-led approach was the best manner to resolve the issue. Industry consultations on this issue, coordinated by the International Telecommunication Union, were held in Brazil from March 8-19. We will, of course, remain vigilant to ensure that European member states remain open to any technology which emerges from industry-led efforts to develop third generation wireless standards.

Question 5: How does your office plan to counter the E.U.'s assertion of fair play in their telecommunications policies?

Answer 5: The negotiations on third generation wireless standards under the auspices of the ITU will come to a conclusion at the end of this year. An important milestone will be recorded in March, when the negotiators face a self-imposed deadline for determination of the key radio characteristics of these standards. We can and should take the assurances we have received from Europe at face value as these negotiations proceed. We will continue to indicate our concern, however, that European governments not undermine the industry-led ITU negotiations by prematurely specifying standards for licensing of third generation services or by foreclosing access to the standards eventually adopted by the ITU.

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RESPONSES TO QUESTIONS SUBMITTED BY SENATOR LOTT

Question 1: Given the refusal of the European Union to comply with WTO panel rulings regarding bananas and beef, the United States has been forced to threaten retaliation to enforce its rights. Retaliation in the bananas case is scheduled to occur imminently. Is USTR prepared to go forward with retaliation in the bananas case in accordance with the WTO-guaranteed timetable? That is, will USTR suspend concessions no later than February 1?

Answer 1: With respect to the banana dispute—on March 2, the WTO arbitrators announced an initial decision regarding the U.S. request for suspension of concessions as a result of the EC's failure to implement a WTO-consistent banana regime. The following day, the United States announced that it would withhold liquidation and increase bonding requirements for selected European products pending the completion of the arbitration proceeding. This action simultaneously respects the WTO arbitration process, preserves U.S. rights to impose higher tariffs as of March 3, and imposes consequences on the EC for its failure to implement a WTO-consistent regime.

Question 2: When the Administration testified before Congress regarding the Uruguay Round Agreements, it argued that one of the primary benefits of the WTO was the ability of victorious parties in WTO disputes to enforce decisions—either through compliance by the losing party or authorization of the winning party to retaliate. In practice, however, the compliance procedures under the WTO have exhibited serious defects and have called into question the ability to gain any meaningful relief from decisions of dispute settlement panels. What, if anything, is the Administration doing in conjunction with this year's review of the WTO dispute settlement system to address concerns about the enforcement of decisions by WTO dispute settlement panels, and the ability of parties to gain relief in a timely manner?

Answer 2: For the most part, the WTO dispute settlement system has proven valuable in achieving tangible gains for American companies and workers, and also as a deterrent—our trading partners know it is ready and available to us if they do not fulfill their obligations. We have been successful in reaching rapid resolution of many of our complaints through early settlement, and have also achieved substantial benefits from full litigation and resulting panel decisions which enforce our rights. Since the WTO's creation in 1995 we have filed more complaints—44 to date—than any other WTO member. At present, we have 29 active cases, including 20 as plaintiff and 9 as defendant, and are involved as a third party in a number of other cases. Our overall record of success is very strong. We have prevailed on 19 of the 21 American complaints acted upon so far, either by successful settlement or panel victory. While there have been some problems with compliance in individual cases, we believe we can address any failures in individual cases through the cases themselves, and in this year's review of the WTO dispute settlement system.

We find unacceptable the failure of the European Union to implement the WTO panel and Appellate Body rulings on bananas, and we are engaged in talks with the EU regarding its compliance deadline on beef hormones in May. As to both of these matters, we will continue to insist on full compliance, and as our actions on the banana case have shown, we will exercise our full rights to secure it. At the Finance Committee hearing of February 23, a number of Senators called attention

to the problems in the WTO dispute settlement system. We immediately took the Committee's message directly to the Director-General of the WTO and other Members in Geneva, and reminded them that all Members must abide by the rules.

As the Committee is aware, a 1994 Ministerial Decision called for a review of the WTO's dispute settlement provisions, to be undertaken four years after the entry into force of the WTO Agreement. This review has been going forward through informal discussions in the WTO Dispute Settlement Body (DSB). On December 9, 1998, the WTO General Council agreed to extend the DSU review into 1999, to conclude by the end of July 1999 with a report to the General Council. On February 11, 1999, the Dispute Settlement Body resumed the DSU review, and began an intensive discussion of compliance procedures, such as those that have arisen in the context of the European Union's failure to comply in the dispute involving banana imports.

The United States tabled a paper in the review last October. In our paper, we focused on two important themes: compliance with the rules, and transparency, including opening the dispute settlement process to the public. In the review we have called for clarification of the rules to better ensure prompt implementation of panel rulings, and stressed that we will not tolerate a situation in which one violation of WTO obligations is simply replaced with another, different violation.

In the review discussions this year, we will continue to seek enhancement of incentives for prompt compliance with WTO obligations, as well as enhanced transparency of the WTO dispute settlement process. We have been working closely with the trade agencies, the Committees of jurisdiction and our private sector advisors to develop proposals on these issues, and also have taken into account the comments we received from the public. We look forward to a continuing dialogue with the Committee on these issues.

Question 3: The European Union has mandated the use of a technical standard that effectively excludes American wireless telecommunications technology from European markets. This could deny American 3G wireless suppliers the chance to sell equipment and services to E.U. consumers, and will artificially encourage the E.U. standard as a de facto world standard. What efforts has the USTR made and what measures does it intend to pursue to ensure that the E.U. market is opened in 1999 to American innovation, as our market is open to European competition?

Answer 3: In many conversations with European colleagues in the last three months, I have heard repeatedly that Europe welcomes competition among wireless technologies. Nonetheless, with Secretaries Albright and Daley and FCC Chairman Kennard, I have sought and received written assurances from the European Commission that the European market will be open to all third generation standards that win approval in the industry-led standards negotiations now taking place under the auspices of the International Telecommunication Union (ITU).

While I welcome the assurances we have received, I will be vigilant in assuring that real market access opportunities develop for U.S. equipment and service suppliers in this highly regulated sector.

Question 4: The global market for wireless services is expected to triple in growth to one billion subscribers over the next five years, leading to an enormous potential for job creation in the United States. However, both second and third generation CDMA is now excluded from Europe (currently the biggest cellular market), significantly hindering U.S. exports of telecommunications equipment. Does the Administration intend to take any steps in 1999 to curb the recent drop in telecommunications exports and assist the American digital industry in capitalizing on the tremendous growth worldwide in wireless services?

Answer 4: First, it is not the case that third generation CDMA is excluded from Europe. We should await the outcome of the industry-led 3G standards negotiations in the ITU before we reach any conclusion about the future openness of the European market to American technologies in this area. Once industry has done its work in the ITU, we will look to European governments to deliver on the promises of openness we have received, and to fulfill their WTO commitments. In the interim, we will continue to monitor how EC Member States will ensure that their 3G licensing processes accommodate, on an equally timely basis, any newly converged standard(s) and all others agreed by industry and recommended by the ITU.

Second, it is clear that recessionary conditions in Asia and elsewhere are largely the cause of the approximate 4% overall decline in telecommunications equipment exports witnessed in 1998. Our telecommunications equipment exports to Western Europe and other regions not in recession have not faltered.

Third, we have laid a firm foundation for growth in U.S. telecommunications goods and services, including wireless technologies. Two major WTO agreements are in the process of implementation—the Information Technology Agreement and the Basic Telecom Agreement that will assure lower costs and higher demand for U.S. exports over the next few years and beyond. We are currently in the process of con-

sultations with all interested U.S. parties as to how we can build on these agreements in the new round of WTO negotiations that will begin next year. Finally, we have completed mutual recognition agreements (MRAs) for telecommunications equipment in Europe and APEC that will lower the cost and speed of regulatory approvals for these rapidly evolving high tech products. Telecommunications equipment MRA negotiations have just begun in Latin America, with a November 1999 target for completion.

Question 5: Europe's exclusion of U.S. wireless technology raises serious questions regarding its compliance with international agreements, including the WTO Agreement on Technical Barriers to Trade and the Basis Telecom Agreement. The ability to gain effective relief under such agreements, however, is uncertain due to the extreme delays that have plagued dispute settlement proceedings. How can the high tech and rapidly changing American digital industry protect its interests through the WTO when the inherent delays and uncertainty of the system would render the sophisticated subject matter of the dispute obsolete and irrelevant before a case ever reaches resolution?

Answer 5: The WTO agreements are a strong positive force for open markets and fair, nondiscriminatory treatment of U.S. exporters of telecommunications goods and services. Under the new dispute settlement procedures adopted in the Uruguay Round, the speediness of the dispute settlement process has been improved significantly. Our trade partners take their obligations under these agreements seriously, and they understand the willingness of the United States to pursue dispute settlement when its rights under the WTO agreements are infringed. More often than not, U.S. trade complaints are resolved by our trade partners without resort to the WTO. We certainly have seen instances of unreasonable delay in product approvals which allowed overseas firms time to catch up to U.S. industry—this is one of the protectionist tactics which the MRA program will help us in the future to avoid, by making the process of obtaining regulatory approvals more transparent and streamlined.

Question 6: The Administration recently sent a letter to European Commissioner Martin Bangemann expressing U.S. concerns over the E.U.'s discriminatory industrial policy relating to 3G standards for wireless equipment and services. While Commissioner Bangemann has denied that the E.U. was deliberately excluding competition from its markets, the steps taken by the E.U. appear to have the potential to block American companies from competing in the European wireless telecommunications market. Does your office intend to pursue this issue at upcoming meetings with E.U.? What specific steps do you intend to take?

Answer 6: USTR will certainly will take every opportunity to develop further the dialogue on 3G wireless standards that U.S. officials have initiated with counterparts in Europe. As the matter of third generation standards is primarily a matter for marketplace actors to decide, our goal will be to assure that industrial policy concerns of governments do not impede the industry-led effort to develop 3G systems, including the approval of converged or multiple standards, as deemed necessary by ITU participants.

We are continuing to monitor progress towards this goal in the ITU standards discussion, and in upcoming 3G licensing activities by European Community Member states.

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RESPONSES TO QUESTIONS SUBMITTED BY SENATOR MACK

While I remain impressed with the capable and tireless efforts of Ambassador Barshefsky in pursuing an expansive a trade agenda as possible given the tools she has at her disposal, I am disappointed by the apparent unwillingness of the Administration to get engaged in the fight to enact fast track legislation.

I believe the Administration's relative silence is reflected in the vocal lethargy of the business community. Business appears to have all but given up hope on seeing any such legislation until after the next round of elections. If the Administration believes, as I do, that this "fast track" negotiating authority is important to our country's economic well being, I will look forward to seeing their active involvement in the effort to enact this legislation.

Question 1: Most will ask about the Administration's intent with respect to environmental and labor objectives. However, I will be content simply to ask, what has the Administration done to respond to concerns over the monitoring and enforcement of trade agreements?

Answer 1: This Administration has made monitoring and enforcement of trade agreements a top priority in its trade policy. To ensure that agreements yield the

benefits bargained for, we have developed an ongoing strategy of active use of the dispute settlement provisions of our trade agreements, vigorous monitoring and enforcement of trade agreements, strategic application of U.S. trade laws, and continued engagement in multilateral, regional, bilateral and sectoral negotiations.

Much of our enforcement work takes place at the World Trade Organization. We have filed more complaints in the WTO—48 cases to date—than any other WTO member, and our record of success is strong. We have prevailed on 22 of the 24 American complaints acted upon so far, either by successful settlement or panel victory. In almost all cases, the losing parties have acted rapidly to address the problems. We will insist that this remain the case in all our disputes, including those with the European Union on beef hormones and bananas. The WTO arbitration panel's recent decision in the bananas case, finding \$191.4 million worth of damage from EU policies, and our recent settlement with Canada involving U.S. magazines, are important indications of the success and utility of this system. At the same time, the United States has complied fully with all panel rulings it has lost, although these are few in number.

We continually monitor implementation of WTO commitments. All WTO developing country members are scheduled to fully implement their intellectual property commitments, and all members are required to implement customs valuation commitments by January 1, 2000. We are insisting on strict compliance with these deadlines. Likewise, we are vigilant to ensure enforcement of textile quotas and implementation of textile market access requirements overseas. A number of our trading partners clearly have further work to do in market access, including some of our largest and fastest growing textile suppliers. We have and will continue to aggressively pursue our rights, whether through the consultation process or ultimately through the WTO dispute settlement regime.

U.S. trade laws are also a vitally important means of ensuring respect for U.S. rights and interests in trade. We will continue to challenge aggressively market access barriers abroad using laws such as Section 301, "Special 301" and Section 1377, to open foreign markets and ensure fair treatment for our goods and services, ensure nondiscrimination in foreign government procurement and ensure compliance with telecommunications agreements. To ensure that we have the maximum advantage of domestic trade laws, the Administration has extended by Executive Order the substance of two laws for which authority had lapsed: "Super 301" and Title VII. The Administration is also, of course, committed to full and vigorous enforcement of our laws addressing dumping and subsidies, and on injurious import surges.

Question 2: As some of you may be aware, in 1996 the U.S. Chamber of Commerce in Japan issued a report of nearly twenty years of trade agreements entitled, "Making Trade Talks Work." Among its findings was that agreements are often forgotten or ignored; there is minimal follow-up; and no government agency has access to the text of these agreements. Please describe any coordination efforts between our trade agencies to address these serious shortfalls?

I hope you will agree with me that in order to pass this "fast track" legislation, it is critical for the American people to know that there are safeguards for U.S. workers against unfair trade practices by foreign producers. I certainly hope any future discussions of "fast track" authority will include specific information on the types of enforcement and compliance initiatives this Administration has undertaken.

Answer 2: I would welcome an opportunity to discuss the types of enforcement and compliance initiatives this Administration has undertaken. To carry out this work as effectively as possible, we have added new personnel to carry out a larger enforcement workload, without compromising our efforts to negotiate further market access in key markets. Specifically, we have created an Enforcement unit headed by an Assistant U.S. Trade Representative, and Congress last year provided us with funds to hire seven new attorneys to handle the added volume of work at the WTO and elsewhere. We also work closely with the Commerce Department, the Customs Service, the Department of Agriculture, the State Department, the Department of Labor, the Treasury Department and other agencies involved in enforcement of trade laws and agreements.

As our record demonstrates, the Clinton Administration is strongly committed to the full enforcement of U.S. unfair trade laws to ensure that U.S. industries do not have to compete against injurious foreign pricing and unfair subsidy practices in the U.S. market. The assurance of fair trade is integral to the bargain of keeping and pursuing open markets, and USTR works closely with the Commerce Department to defend the consistency of U.S. law and practice whenever it is challenged in the WTO. By the same token, however, that bargain also requires that other countries play by the same rules when they take antidumping or countervailing duty actions which affect U.S. exporters. The steps we have taken and will continue to take, with help from the Commerce Department, to advance and protect U.S. interests in for-

oreign markets ensure that U.S. policy with respect to unfair trade practices is comprehensive, vigorous and balanced so as to provide the maximum benefit for our companies and workers.

Question 3: Ambassador Barshefsky, as you know, I have long been concerned over the historic failure of the Chinese to respect Intellectual Property Rights. Can you tell me what, if anything, the Chinese have been doing to address this shortcoming?

As a case in point, I have recently been informed of a dispute dealing with U.S. pharmaceutical companies and a Memorandum of Understanding (MOU) providing for their protection. It is my understanding that the Chinese have interpreted this MOU as providing protection to some, but not all, pharmaceutical companies. It is my understanding that you are aware of this matter and have already contacted the Chinese government. What has been the response of the Chinese to your concerns?

Answer 3: We have been continuously monitoring China's implementation of our bilateral agreements on intellectual property rights (IPRs) and we meet frequently with Chinese officials to discuss implementation issues and new concerns as they arise. Our 1992 MOU required basic changes in China's patent and copyright laws and regulations and also required China to provide "administrative" protection for certain pharmaceutical products. In 1995, we concluded a comprehensive agreement on enforcement of IPRs, focusing on stopping copyright piracy and trademark counterfeiting. We also obtained commitments from China on market access for copyrighted works, such as computer software, motion pictures and sound recordings. In 1996, we followed-up on the 1995 Agreement with an enforcement action under our trade law because China was not implementing its prior commitments under our bilateral.

As a result of our bilateral agreements and our continuing consultations on IPR protection and enforcement, China has revised its patent, trademark and copyright laws and regulations. New forms of protection for plant varieties and trade secrets have also been provided. China has also improved the enforcement of these laws. Chinese authorities have conducted numerous raids-seizing pirated goods and machinery-against the producers of these illegal products. China has also created an IPR enforcement infrastructure at the local and provincial levels so that IPR owners can take action against piracy and counterfeiting. Courts specializing in IPR cases have been created and judges and prosecutors are receiving training.

Notwithstanding these improvements, serious problems remain, especially in the retail markets. Pirated and counterfeit goods remain openly on sale and raids on local markets produce only temporary results. Sustained efforts to keep illegal goods off the market and to change consumers' attitudes are necessary to address this aspect of the IPR enforcement problem.

With respect to the specific example you cite, our 1992 MOU provided that certain pharmaceutical products that could not be patented in China prior to concluding the Agreement would receive "administrative" protection if they met certain criteria. Recently, a court in China revoked administrative protection granted to a product owned by a subsidiary of a U.S. company. The court based its ruling in part on an alleged U.S. interpretation of the MOU. I have clarified with Chinese officials the U.S. interpretation of the terms of the MOU. I understand that the case is now on appeal to the Supreme Court in China.

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RESPONSES TO QUESTIONS SUBMITTED BY SENATOR MURKOWSKI

Question: You recently indicated that the APEC Tariff Initiative remained a priority for the Administration. According to the agreement reached in Kuala Lumpur, an agreement on the nine sectors is supposed to be reached in time for the WTO Ministerial meeting in November. Can you tell us about the Administration's game plan to achieve this before the meeting?

Where are we at this point in the process?

Has the President been in communication with the Prime Minister on this issue since Kuala Lumpur to ensure that the Japanese do not scuttle this initiative again in November?

Answer: The Administration has made clear to both APEC members and non-APEC WTO members that concluding an agreement in 1999 on tariff liberalization for the eight sectors covered by the APEC sectoral liberalization initiative is a high priority. (The ninth sector, a telecommunication MRA, does not have a tariff component). We see this as a key goal for the WTO Ministerial.

In accordance with the agreement reached at the Kuala Lumpur APEC Leaders Meeting, we will introduce the APEC proposal into the WTO, promote and explain

the proposal through a series of informal WTO and plurilateral meetings, and impress upon key WTO countries the importance and commercial value of these initiatives through extensive bilateral contacts. On the basis of these activities, which would involve close coordination with, and participation by other APEC members, we would hope to be able to begin WTO negotiations later this year with a view towards achieving a concrete result by the start of the WTO Ministerial.

The first part of the game plan has now been completed. On behalf of APEC, the New Zealand Chair formally introduced the APEC proposal to the WTO on January 26. We have followed up this action with a series of bilateral contacts to non-APEC WTO countries. Also, we are now working with other APEC countries at the Senior Officials I Meeting at Wellington to undertake further action to promote the proposal in the WTO.

A key factor in the success of this effort is strong support by participating APEC members—all of which, including Japan, have committed to work constructively to achieve an agreement in 1999. We were, of course, very disappointed by the role Japan played in the APEC process last year. However, we expect them to abide by the commitments made at Kuala Lumpur. We will continue to remind them of this obligation, at every appropriate opportunity and at all levels of government.

Question: Your recent statement regarding the format for the next round of WTO negotiations indicated that there are some issues where you would expect to reach agreement even before the three year wrap up of the negotiations as a whole. Is it your belief that some of the APEC sectoral agreements might be included in such an "Early Harvest?"

Answer: As indicated above, in accordance with the agreement reached in APEC, we are seeking WTO agreement on the eight sectors in 1999—by the time of the WTO Ministerial. If we are successful, implementation could begin very shortly thereafter.

Question: Is Japan currently in compliance with the 1996 Insurance Agreement? If not, what steps do you intend to take to ensure that Japan lives up to its commitments?

Answer: The U.S.-Japan Insurance Agreement is designed to increase market access for U.S. firms by addressing a number of different aspects of the Japanese insurance market. Japan has made some progress in opening and deregulating its insurance market. For example, in September 1997 the Ministry of Finance granted the first ever license for direct marketing of risk-differentiated automobile insurance to a U.S. firm. Nevertheless, the Administration is seriously concerned about Japan's unwillingness to fully implement all of the specific deregulation actions called for under our bilateral insurance agreement.

We have conveyed to Japan our disappointment with its unwillingness to open its insurance market to genuine competition. We would urge Japan to take all necessary actions to ensure that the provisions of the Insurance Agreement are fully implemented.

A USTR-led an interagency team met with Japanese government representatives on March 4 in Tokyo to discuss preparation for the next round of consultations under the bilateral U.S.-Japan insurance agreements. Both governments agreed to hold consultations in mid-April. The venue and exact dates of these working level talks will be decided through diplomatic channels. Both governments agreed to address a wide range of issues and concerns related to primary sector deregulation, as well as the activities of large Japanese insurers and their subsidiaries in the third sector. The Japanese side was represented by officials from the Ministry of Foreign Affairs, Ministry of Finance, and the Financial Supervisory Agency. We have requested that, in addition to these three agencies, the Japan Fair Trade Commission also attend the upcoming consultations. We are working closely with other agencies and with U.S. industry as we seek to resolve these important issues.

The Administration is prepared to utilize all of the tools at our disposal to ensure the full benefits to U.S. industry from our bilateral Insurance Agreement. With the entry into force of the WTO Financial Services Agreement on March 1, the United States now enjoys multilateral rights of enforcement under the WTO Dispute Settlement rules with respect to measures Japan has committed to take to deregulate and open its insurance market. Of course, we continue to retain our rights under U.S. trade law to enforce our trade agreements.

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RESPONSES TO QUESTIONS SUBMITTED BY SENATOR ROBB

Question 1: I understand that the European Union is employing the use of a technical standard that effectively excludes American wireless telecommunications tech-

nology specifically third generation wireless equipment and services—from European markets. Concern has been expressed to me that such action will artificially encourage the EU standard as a de facto world standard, creating serious disadvantages for U.S. business firms.

What steps does USTR intend to take to ensure that the EU market is kept open in this particular area? What further actions might USTR take to assist the U.S. digital industry in capitalizing on the tremendous growth worldwide in wireless services?

Answer 1: First, I will continue to make every effort in 1999 to ensure that the European market is open to all American third generation wireless technologies. In many conversations with European colleagues in the last three months I have heard repeatedly that Europe welcomes competition among wireless technologies. Nonetheless, with Secretaries Albright and Daley and FCC Chairman Kennard, I have sought and received written assurances from the European Commission that the European market will be open to all third generation standards that win approval in the industry-led standards negotiations now taking place under the auspices of the International Telecommunication Union (ITU).

While I welcome the assurances we have received, I will be vigilant in assuring that real market access opportunities develop for U.S. equipment and service suppliers in this highly regulated sector.

Second, we have laid a firm foundation for growth in U.S. telecommunications goods and services, including wireless technologies. Two major WTO agreements are in the process of implementation—the Information Technology Agreement and the Basic Telecom Agreement that will assure lower costs and higher demand for U.S. exports over the next few years and beyond. We are currently in the process of consultations with all interested U.S. parties as to how we can build on these agreements in the new round of WTO negotiations that will begin next year. Finally, we have completed mutual recognition agreements (MRAs) for telecommunications equipment in Europe and APEC that will lower the cost and speed of regulatory approvals for these rapidly evolving high tech products. Telecommunications equipment MRA negotiations have just begun in Latin America, with a November 1999 target for completion.

Question 2: A number of American wireless firms insist that Europe's exclusion of U.S. wireless technology amounts to an unfair trade practice under WTO rules. They argue that the European Union maintains obligations, under the WTO Agreement on Technical Barriers to Trade and the Basic Telecom Agreement, that are being compromised by the EU's adoption of a single, exclusionary wireless standard.

How can the American digital industry protect its interest through the WTO when inherent delays in that organization's review process may well render the subject matter of the dispute obsolete before the case ever reaches resolution?

Answer 2: We are monitoring very closely European Community Member State actions with respect to 3G standards and licensing, to assure they comply with all relevant WTO obligations in this vital area. As Commissioner Bangemann has said, we expect that EC Member States will be open to all third generation standards that win approval in the industry-led standards negotiations now taking place under the auspices of the International Telecommunication Union (ITU).

In general, the existence of the WTO agreements, including the Agreement on Technical Barriers to Trade, is a strong positive force for open markets and fair, non-discriminatory treatment of U.S. exporters of telecommunications goods and services. Under the new dispute settlement procedures adopted in the Uruguay Round, the speediness of the dispute settlement process has been improved significantly. Our trade partners take their obligations under these agreements seriously, and they understand the willingness of the United States to pursue dispute settlement when its rights under the WTO agreements are infringed. More often than not, U.S. trade complaints are resolved by our trade partners without resort to the WTO. We certainly have seen instances of unreasonable delay in product approvals which allowed overseas firms time to catch up to U.S. industry—this is one of the protectionist tactics which the MRA program will help us in the future to avoid, by making the process of obtaining regulatory approvals more transparent and streamlined.

Question 3: On December 19, 1998, you joined Secretary of State Albright, Secretary of Commerce Daley, and FCC Chairman Kennard in a letter to European Commissioner Bangemann expressing U.S. concerns over the EU's policies relating to 3G standards for wireless equipment and services. As I understand it, in his return correspondence Commissioner Bangemann denied that the EU was deliberately excluding competition from its markets.

How would you assess Commissioner Bangemann's January 19, 1998 response to your letter? Will your office raise this matter at the upcoming Trans-Atlantic Busi-

ness Dialogue in February and the U.S./E.U. bilateral meeting in March? If so, what would be the most effective approach for solving the problem at hand?

Answer 3: I welcome the assurances provided by Commissioner Bangemann in his January 15, 1999 letter. He reaffirmed Europe's support for the outcome of the industry-led, multilateral negotiation in the International Telecommunication Union (ITU) on third generation wireless standards. The United States had sought reassurances that European industrial policy would not inhibit efforts to use any standards in the European market that emerge from the ITU's industry-led talks. His response fell short, however, of specifying how EC Member States will ensure that their 3G licensing processes accommodate, on an equally timely basis, any newly converged standard(s) and all others agreed by industry and recommended by the ITU.

The TransAtlantic Business Dialogue is a forum for exchanges between private sector representatives of the United States and Europe. At a meeting in mid-February of a TABD subgroup, private sector representatives indicated that tentative progress was made towards identifying a standards proposal acceptable to all sides.

USTR will certainly will take every opportunity to develop further the dialogue that U.S. officials have initiated with counterparts in Europe on 3G wireless standards. As the matter of third generation standards is primarily a matter for market-place actors to decide, our goal will be to assure that industrial policy concerns of governments do not impede the industry-led effort to develop 3G systems, including the approval of converged or multiple standards, as deemed necessary by ITU participants. We are continuing to monitor progress towards this goal in the ITU standards discussion, and in upcoming 3G licensing activities by European Community Member states.

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RESPONSES TO QUESTIONS SUBMITTED BY SENATOR ROTH

Question 1: What will be the goal of the United States when the dispute settlement body of the World Trade Organization goes under review?

Answer 1: The DSU is under review and this will be completed by the end of July. The US goals in this process are improved transparency and better assurance of compliance. The United States tabled a paper in the review last October. We focused on two important themes: compliance with the rules, and transparency, including opening the dispute settlement process to the public. In the review we have called for clarification of the rules to better ensure prompt implementation of panel rulings, and stressed that we will not tolerate a situation in which one violation of WTO obligations is simply replaced with another, different violation. We have been working closely with the trade agencies, the Committees of jurisdiction and our private sector advisors to develop proposals on these issues, and also have also taken into account the comments we received from the public.

Question 2: How deeply does the Administration seek to include the issues of labor and the environment in trade negotiations?

Answer 2: We strongly believe that as we negotiate to expand our trade opportunities we also must ensure that workers in all countries are among the beneficiaries of international trade. The President feels that international trade should lead to increased standards of living internationally and not a race to the bottom. The American people will not support trade liberalization if they conclude that it leads to the exploitation of workers through the denial of their fundamental human rights.

The legislation implementing the Uruguay Round requires that the Administration seek the establishment of a WTO working party on the relationship between trade and labor. We are taking this instruction seriously, and we made a substantial, but unsuccessful, effort at the Singapore Ministerial to accomplish this goal. We just have proposed that the 1999 WTO Ministerial initiate a forward work program that will address trade issues related to labor standards. We are continuing to search for ways to build support for this initiative among our trading partners.

Other trade laws, such as those authorizing preferential duties, require that eligibility be based on internationally recognized worker rights. We have been successful in using the trade preference programs to improve core labor standards in several beneficiary countries and have withdrawn preferences when we have been unable to achieve progress. We also have raised core labor standards in our trade negotiations when appropriate, most recently in negotiating a textile agreement with Cambodia.

An open trading system fosters prosperity and gives nations additional resources to devote to environmental protection. It also fosters the diffusion of environmental

technologies. Expanded trade and environmental protection can and should be mutually supportive.

Where there is a potential for conflicts, trade agreements must strengthen our ability to resolve them in a manner that protects the environment without undermining the trading system. Environmental standards must not be used as disguised trade barriers. At the same time, we will not compromise on the achievement and maintenance of high levels of environmental protection. We will retain our right to exclude products that do not meet strict health and environmental standards.

Addressing environmental concerns is integral to the success of our trade agenda. As the President said in May of 1998, the world trading community must do more to harmonize its goals of increasing trade and improving environmental conditions. Expanded trade can and should enhance the environment. Ensuring they do will be one of our key goals in trade negotiations. Progress in this area is crucial to the future of the world trading regime.

With respect to the WTO, our goal is to ensure that the WTO's forward agenda contributes to sustainable development, an objective set forth in the WTO Agreement's Preamble. At the suggestion of the United States, the WTO is convening a high-level meeting on trade and the environment this month to fully address these questions. We expect the discussions to feed into our goals for the new round of world trade negotiations.

Question 3: Is the European Union institutionally incapable of complying with WTO rulings, and, if so, what should we do about it?

Answer 3: The EU has repeatedly expressed its strong support for the multilateral trading system and the rules of the WTO. Our preferred approach is to work with the EU when it loses a case to us in order to find an acceptable solution. We believe that the EU is capable of doing this, and hope our future disputes can be resolved in this manner. However, the United States must demonstrate to the EU that when it is unwilling to convert these words into deeds that there will be a cost.

PREPARED STATEMENT OF HON. MAX BAUCUS

Thank you, Mr. Chairman. I applaud you for calling these hearings.

Last week, as I prepared, I remembered one of the first times that I attended a Finance Committee hearing, back in 1979. You were on the Committee. So were Senators Moynihan and Chafee. Senator John Heinz was making a point about a provision of a tariff law. I tried hard to follow the debate. But it was one of the most arcane things I'd ever heard in my life.

That hasn't changed. Trade policy still is pretty arcane. But the stakes have changed. America's stake in the trade debate is vastly higher than it was twenty years ago.

For the first time, we face a united, aggressive European Union, with a common currency.

China, the world's most populous country, has entered the global marketplace, with a bang.

We have a new, fragile, fledgling institution, the WTO, whose ultimate effectiveness remains uncertain.

Economic turmoil has hit Asia, Russia, and Brazil. This has shown, more vividly than ever before, the importance of international markets to the incomes of American families.

I'll give you an example. Over the past year, Montana beef producers lost their entire Korean export market. U.S. producers lost \$60 million dollars in annual sales. And the problem cascaded. Canadian ranchers, also unable to export beef to Korea, turned around and dumped their beef in the U.S.

The same is true for wheat. The turmoil in Asia sharply reduced exports, and that has had a cascading effect. Yesterday, I heard from a wheat farmer in Eastern Montana, Ellis Murdock. He said: "The trains won't come pick up my wheat, because no wheat is leaving the west coast for Asia. So I've got 40,000 bushels sitting in a bin, and creditors demanding their money."

The same goes for timber, pork, lamb, steel.

That's why the upcoming round of trade negotiations, beginning in November, is critical.

I'd like to make several points about the U.S. agenda for those negotiations.

The first hits me more and more, whether I'm talking to a trade minister in Jakarta or a rancher in Glasgow, Montana.

If we truly want to expand trade, we have to think "outside the box." It's not just trade policy. It's currency valuation. It's lending practices. It's transparency. In

some countries, it's an independent judiciary. Gone are the days when we can focus solely on tariff laws.

Because of this, one key to our success will be our ability to cut across bureaucratic lines and develop an integrated and comprehensive American position.

Three additional points.

First, China. It's the world's fastest growing economy and will be a major economic force in the 21st Century. We have to figure out a way to bring China into the WTO on acceptable terms. Here in Congress, we must, finally, establish permanent normal trade relations.

Second, agriculture. Despite all of the problems, agriculture still provides the U.S. with a considerable trade surplus. But we face threats. One is the WTO's apparent reluctance to enforce some recent decisions, especially the decision regarding hormone-fed beef. Another is the Europeans' likely attack on our food aid and GSM support programs. Yet another is the scheduled decoupling of producer support payments in 2002.

And we must address the EU's common agriculture policy, so that we don't face so many export barriers and subsidies in Europe.

We must, in short, expand trade in a way that helps our family farmers.

Finally, the link to environmental protection and labor protection. We started down this path with the side agreements to NAFTA, and, as early as the Uruguay Round, some of us have been calling for a "Green Round" of trade negotiations. We must expand trade in a way that leads to greater protection of the environment, and of labor rights, not less.

As President Clinton said last week, "Trade has divided Americans for too long.

We must find the common ground on which business, workers, environmentalists, farmers, and government can work together."

I thank the distinguished witnesses for joining us, and look forward to exploring these issues with them.

Thank you, Mr. Chairman.

**STATEMENT OF GEORGE BECKER
INTERNATIONAL PRESIDENT
UNITED STEELWORKERS OF AMERICA
BEFORE THE UNITED STATES SENATE
COMMITTEE ON FINANCE
WEDNESDAY, JANUARY 27, 1999**

I. THE STEEL CRISIS

Mr. Chairman and distinguished members of the Senate Finance Committee, let me first thank you for inviting me to appear before you today to discuss what is truly a crisis in the American steel industry and for steelworkers all across this country.

Today, the jobs and future of steelworkers all across America are being threatened by a flood of foreign steel, which has been dumped, into our market. Already, over 10,000 steelworkers' jobs in basic steel, iron ore mining, and coke production have been lost and more will soon follow.

Perhaps worst of all, the current crisis was neither unforeseeable nor inevitable. We are in a crisis today because for over a year, our policymakers ignored our warnings as foreign producers dumped millions of tons of steel into the U.S. market.

When the Asian currencies collapsed in late 1997 and early 1998, we warned then that if decisive action was not taken that foreign-made steel would be dumped into the American market as foreign producers struggled to avoid economic collapse. We warned then that the International Monetary Fund's (IMF) insistence on export-based solutions to the economic problems facing Asia, Russia, Latin America, and other regions would be a prescription for disaster for our own industries. We warned that the longer action was delayed, the more damage would be done, and the more difficult this problem would be to solve. Eventually, we were joined in this effort by the major American steel producers who saw their orders for new steel products evaporate.

Unfortunately, our predictions have been realized.

1998 was a disastrous year for the steel industry and our steelworkers. In the first half of 1998, U.S. imports of foreign steel reached a record 18 million tons. As the year went on, the crisis worsened. During the third quarter of 1998, a record 12.4 million tons of imported steel surged into the U.S. market; an increase of 56 percent over the same period in the previous year of 1997. The third quarter import level, if annualized, would be over 49 million tons, or almost half of all expected shipments this year by the entire U.S. steel industry.

While the most recent monthly steel import figures for November, 1998 show that Japanese steel imports to the U.S. have fallen slightly, nevertheless, they remain far

above their pre-crisis level. Shipments from South Korea rose 11.6 percent and Russia's shipments rose 22.4 percent.

Finished steel imports are up 133 percent from key Asian producers and up 54 percent from Russia and two nations of the Commonwealth of Independent States (CIS). Other examples of import surges in 1998 include Australia, up 170 percent, South Africa, up 120 percent, Romania, up 63 percent, and Latvia, up 59 percent.

Mr. Chairman, there's a human face behind these cold statistics. Up to 10,000 steelworkers now face layoffs, reduced work hours, and even termination because of bankruptcies at some steel companies. The list of companies where steelworkers have lost their jobs or had their work hours cut goes on and on: Gulf States Steel in Gadsden, Alabama; Geneva Works in Provo, Utah; Bethlehem Steel's Lukens Division plants in Houston and Washington, Pennsylvania, Sparrow's Point in Baltimore, Maryland; WCI, Inc. in Warren, Ohio; USX's Fairless Works in Bucks County, Pennsylvania; and LTV's Cleveland Works. And the list goes on and on.

American steelworkers are the most productive steelworkers in the world. Whether it's hot-rolled, plate, coil, specialty, or any other category of product, we are the most efficient producer of the highest quality steel in the world.

After the last steel crisis in the late 1970s and early 1980s, the steel industry lost over 350,000 jobs as the industry downsized and modernized its outdated plants and equipment. Literally hundreds of thousands of our members lost their jobs in Pennsylvania's Mon Valley, in Ohio, Indiana, Illinois, and across this nation. Investments in the revitalization of basic steel totaled over \$50 billion.

In the iron ore mining industry in northeastern Minnesota, another \$1 billion was spent to modernize as employment went from 16,000 jobs in 1980 to 1,500 in 1982. In fact, the Eighth Congressional District, which covers northeastern Minnesota, saw its gross domestic product plunge by 50 percent as 28,000 people left the district during the 1980s. This scenario was repeated in other communities across America as well.

When steelworkers lose their jobs, there are consequences that go far beyond the unemployment statistics. States and communities lose income tax revenue, which is used to finance schools, health care, police and fire protection, highway construction, and all of the necessary services which government provides. Instead, federal, state, and local governments are put in the position of having to make outlays for unemployment insurance payments, food stamps, increased Medicaid costs, and increased welfare costs.

When steelworkers lose their jobs, it impacts many other businesses in the community. Unemployed steelworkers can no longer afford to buy a home, buy a new car or truck, buy new appliances, buy new clothes, or buy much of anything else. Businesses that depend upon steelworkers as customers suffer too when steelworkers lose their jobs.

When a steelworker permanently loses his or her job, that's usually one more name added to the list of some 42 million Americans, including millions of children, who have no health insurance in the richest country in the world.

The current crisis affects not only the men and women who work in our steel mills, but also those who mine iron ore and coke, and those who ship these products on the Great Lakes to our steel mills in the East and Midwest. Their jobs are in jeopardy as well because American steel producers are now turning to low-cost foreign sources for iron ore and coke in a desperate bid to reduce their costs and recapture lost market share.

Mr. Chairman, steelworkers and the steel industry did what all of the economists and commentators said we had to do to survive. We did all of this at a tremendous cost, and not just in terms of money spent. It was also done at a tremendous cost in terms of jobs lost, communities that suffered, families that were displaced, and lives that were broken. We simply cannot go through such a terrible experience again. Let me be clear: there will not be a steel industry in America in the 21st century if we do not act decisively in the current crisis.

II. THE CONGRESSIONAL RESPONSE

Many in Congress have taken notice of our plight. During the last session of Congress, five separate measures were introduced in both the Senate and the House to address this crisis.

Senator Specter took the lead in the Senate last September when he introduced Senate Concurrent Resolution 121, calling upon the President to take "all necessary steps" to respond to the increase in foreign steel imports from Asia, Russia, and other parts of the world. Senate Concurrent Resolution 121 was included in the Continuing Resolution which passed both the House and Senate and was signed into law last year.

In the House, House Concurrent Resolution 350 by Representative Archer, the Chairman of the Ways and Means Committee, was brought to the floor on the suspension calendar, but failed to muster the necessary two-thirds vote for passage. Unfortunately, the Archer Resolution was misdirected in that it hardly recognized the scope and cause of the problem at all and did not really call for a strong or effective response.

Subsequently, Representative Aderholt introduced a bill, H.R. 4762, providing for a temporary ban on steel imports from Japan, Russia, and Brazil, and the retroactive assessment of anti-dumping duties. While several Members joined as cosponsors of this bill, it was clear from the outset that it would not get far after its referral to the Ways and Means Committee where the Chairman, Mr. Archer, opposed any substantive action.

The Chairman of the House Steel Caucus, Representative Regula, introduced House Concurrent Resolution 328 with over 76 cosponsors, calling on the President to "take all necessary measures" to deal with the steel crisis and calling for enhanced

enforcement of U.S. trade laws with respect to the surge of steel imports. The Regula Resolution also called for the establishment of a task force within the Executive Branch to monitor U.S. steel imports and to report to Congress with a plan for responding to the effects of the import surge on employment, prices, and investment in the steel industry. This measure also failed to get floor action before Congress adjourned.

Finally, Representative James Traficant of Ohio introduced House Resolution 598 calling for the President to order an immediate 10-day review period of all steel products coming into the U.S. from Australia, China, South Africa, Ukraine, Indonesia, India, Japan, Russia, South Korea, and Brazil. The Resolution calls for a one-year ban on the import of all steel products from any of these countries which are found to be violating any international trade agreements with the United States. The Resolution also provides for the establishment of a task force in the Executive Branch to closely monitor steel imports into the U.S. to determine whether or not international trade agreements are being violated and to report to Congress, as the Administration did, this month.

The Traficant Resolution passed on the House suspension calendar on October 15, 1998 by a vote of 345 to 44; a strong and unequivocal statement of bipartisan support for enforcing our trade laws, including the anti-dumping laws.

In this session of Congress, Senator Specter has introduced S. 261, The Trade Fairness Act of 1999, which would amend Section 201 of the Trade Act of 1974 to make it compatible with the World Trade Organization (WTO). This proposed change would make it easier to prove illegal injury. S. 261 would also implement a new steel import permit and monitoring process and provide for the dissemination of more information about foreign steel imports arriving in U.S. ports. While not a part of this particular bill, Senator Specter has also expressed his support previously for creating an expanded legal right of action for companies, unions, and others injured by trade law violations, including providing injunctive relief. This may be a subject for further legislation by the senator in the future.

While we support Senator Specter's bill and other legislative efforts to find relief for the steel industry and steelworkers, nevertheless, it is all too apparent to us that our existing trade laws are not working because they do not prevent the injury in the first place. Instead, they rely upon action only after serious economic injury has already been inflicted in the form of dumping and its associated lost markets and job losses.

Along with the steel industry, the Steelworkers have filed for relief under our anti-dumping trade laws. The Clinton Administration has promised us an expedited review of the pending cases and the Commerce Department has even made a finding of "critical circumstances" in the pending hot-rolled steel dumping investigations of Japan and Russia. I applaud the Administration's actions in this regard. However, these steps alone are not enough. It has become increasingly clear to us that successive anti-dumping and countervailing duty petitions will not solve the problem.

When a doctor is confronted with a bleeding patient, the first thing the doctor does is to stop the bleeding. Similarly, when confronted with the continuing loss of jobs and lost markets, our policymakers need to act immediately to stop the assault of illegally-dumped foreign steel in U.S. markets. This would be a first step in stopping the bleeding and then moving on to address more permanent solutions which will make our antidumping laws meaningful.

We favor any proposal that would strengthen the trade laws, speed up the process, or deter foreign violators from exporting their economic problems to the U.S. and destroying the jobs of American workers. Specifically, we favor the early passage of legislation to impose a temporary quota on foreign steel imports. We are working closely with Senator Rockefeller and other friends in the Senate, as well as with Representative Visclosky and others in the House who will introduce such legislation in the near future.

III. THE ADMINISTRATION'S RESPONSE

Earlier this month, the Clinton Administration also unveiled what it called "A Comprehensive Plan for Responding to the Increase in Steel Imports." As I said in my January 8 letter to the President, "unfortunately, this Plan is neither comprehensive nor terribly responsive." The centerpiece of the Administration's plan appears to be \$300 million in tax credits for steel companies adversely affected by the flood of foreign steel imports and increased assistance for displaced steelworkers. But tax credits and more money for newly unemployed steelworkers will do nothing to stop the flood of illegal imports. In fact, in the absence of further effective action, it represents a surrender of our markets, the surrender of steelworkers' jobs, and a further step toward the dismantling of our nation's domestic industrial manufacturing base.

IV. THE NAFTA DISASTER

Mr. Chairman, it would be bad enough if the only crisis we faced was from foreign steel being illegally dumped into our market. Other events, however, have also magnified the impact of the current crisis.

The implementation of the North American Free Trade Agreement (NAFTA) has been an unmitigated disaster for steelworkers and working people all across the United States as well as working people in Canada and Mexico. By the government's own admission, over 4,000 steelworkers have lost their jobs and been certified as eligible for NAFTA trade adjustment assistance because their employers have shifted production to Mexico and Canada. Nearly half a million American workers have lost their jobs because of NAFTA.

NAFTA has transformed the U.S.' \$1.7 billion trade surplus with Mexico in 1993 into a projected \$14.7 billion trade deficit for 1998. During the five years from 1993 to 1998, other developed countries - such as those in the European Union - have

maintained their trade surpluses with Mexico, even during the 1995 devaluation of the peso. Likewise, the U.S. trade deficit with Canada in 1998 is projected to be \$18.5 billion. The final trade deficit figures will be released in mid-February.

The so-called "free trade" system that NAFTA established across North America has given predatory corporations a license to hunt for the cheapest labor and the lowest environmental and safety standards on the continent. To make matters worse, the twisted logic of NAFTA encourages even socially responsible corporations to join this hunt in order to remain competitive.

No working person – U.S., Canadian or Mexican – should be forced to trade hard-earned economic security and occupational safety for the "opportunity" to work harder and longer for less. And no community should have to accept lower environmental standards or imports of tainted food for the chance to keep some of its citizens working. But that kind of blackmail is what NAFTA is all about.

As a result of NAFTA, thousands of companies have moved their U.S. operations to Mexico. They include many familiar and prominent names: RCA television sets, Oshkosh overalls, American Standard plumbing fixtures, TrueTemper hardware products, Fruit of the Loom t-shirts, Farah pants, Woolrich coats, Smith Corona typewriters, and Goodyear tires.

For working families and communities, NAFTA has failed, and not just in the United States. It's also failed in Mexico, where workers have seen their wages drop by at least 27 percent since the treaty was implemented. And it's failed in Canada, which has lost more than 137,000 highly paid industrial jobs as a result of NAFTA.

North American workers, and our communities, deserve better. We deserve a trade treaty that recognizes working families and communities as central to the economy and that allows people to earn enough to actually buy the goods they produce.

V. THE INADEQUACY OF THE WORLD TRADE ORGANIZATION (WTO)

December 8, 1998 marked the fifth anniversary of the Uruguay Round Agreements Act and our nation's participation in the World Trade Organization (WTO). The Act mandates a review by the Administration and Congress of the effects of the WTO on domestic interests and the costs as well as the benefits to the United States of its past participation. Most importantly, Congress must consider the matter of this nation's continued participation in the WTO. Should Congress conclude that continued participation in the WTO is not in the national interest, it can, under the law, require the withdrawal from the WTO by enacting a joint resolution early this year (and overriding any presidential veto). What's more, if Congress does not act, we must remain in the WTO until the next opportunity for review and withdrawal, which does not occur until December, 2004.

Mr. Chairman, if, as we are constantly being told by the Administration and others, our commitment to the WTO prevents us from dealing effectively with an import crisis that threatens to destroy the American steel industry, then surely it is time for Congress and the Administration to revisit that commitment.

As the steel import crisis has worsened, the Steelworkers union has pleaded with the Administration for some restraint on imports. The Administration's response has invariably been that quantitative restraints on imports, whether voluntarily agreed upon in the form of VRAs (voluntary restraint agreements) or imposed in the course of trade actions, just will not pass muster under the WTO. Ironically, it is the Administration's own plan to provide \$300 million in unsolicited tax breaks for the steel industry as a response to the crisis that has now drawn the anger of European producers who charge that it is an "illegal subsidy" under the WTO rules.

The Europeans have also filed an action before a WTO tribunal seeking to bar the application of the 1916 Anti-Dumping Act. If the Europeans' view of our anti-dumping law is upheld, it will mean that when the U.S. entered into the WTO global trade arrangement, we unwittingly wiped long-standing legislation off our own statute books and willingly agreed to handcuffs that prevent our dealing with industry-threatening massive trade law violations. Apparently, the view of some of our trading partners is that there is literally nothing that we can do or should do to stop this catastrophe for the steel industry and steelworkers. This is yet a further illustration of why we cannot rely upon the WTO to solve the problem of illegal and unfair trade practices.

VI. THE LOSS OF OUR MANUFACTURING INDUSTRIAL BASE

The current steel crisis, the negative consequences of NAFTA, and the inadequacy of the existing WTO structure in addressing that crisis, are all factors which have resulted in the weakening and the loss of our industrial manufacturing base.

While most economic observers have noted the overall strong growth and performance of the nation's economy over the past six years, these statistics obscure a very different story of what is happening in manufacturing. According to the Bureau of Labor Statistics (BLS), from December, 1997 to December, 1998, our nation lost 237,000 manufacturing jobs.

Many of these lost manufacturing jobs are the kind of jobs that pay decent wages which allow families to buy homes, cars, clothing, and the necessities of life. They are the kind of jobs that provide health care benefits for workers and their families. They are the kind of jobs that provide decent pensions so that workers need not fear living in poverty in their old age. The loss of these manufacturing jobs also guarantees that the continuing disparities in incomes between the highest income earners in America and those at the lowest end of the wage scale will continue to increase even further.

Recently, the Commerce Department announced that the trade deficit for the month of November, 1998 was a record \$15.5 billion. From January to November last year, the trade deficit was \$153.9 billion. Economists at the Economic Policy Institute have estimated that a \$100 to \$200 billion increase in the U.S. trade deficit would mean the loss of 700,000 to 1.5 million jobs in manufacturing and other industries producing tradeable goods.

The issue for us is not whether there is going to be a global economy, but what kind of global economy we're going to have.

Is it going to be a global economy that entraps the poorest workers in the world in permanent, deepening poverty or is it going to be a global economy that can truly lift people out of poverty by raising wages, benefits, and living standards?

Is it going to be a global economy that denies the right of workers to form unions and to fight for better wages and benefits and safer and healthier workplaces, or is it going to be a global economy that promotes and protects the rights of workers?

Is it going to be a global economy that accelerates the destruction of our environment and the depletion of our natural resources, or is it going to be a global economy that protects the environment and our natural resources?

Is it going to be a global economy that means the further loss of good-paying manufacturing jobs here at home?

We must create a global economy that truly works for working families and communities, raising wages, working conditions and environmental standards for us all.

In his State of the Union address, the President expressed his desire that we find common ground to agree upon in advancing an international trade agenda. But until there is tangible recognition that trade must benefit everyone and not just corporate interests, it will be difficult to achieve such a consensus for all of the reasons described earlier. A recent Wall Street Journal/NBC News Poll indicated that 58 percent of the public thinks that foreign trade has been bad for the U.S. economy because cheap imports have taken U.S. jobs. The way to change the public's negative perception about foreign trade is to take the forceful steps we are advocating to stop blatant violations of our nation's trade laws and the associated job losses. Perhaps then we can begin building an international trade regime that truly serves the broad national interest and not just the financial interests of a few.

Mr. Chairman, can we as a nation afford to sit by and watch the further loss of tens of thousands of manufacturing jobs? Can we afford to sit by and watch the loss of thousands more steelworkers' jobs and the loss of our domestic steel industry? If we fail, there will be no American steel industry.

PREPARED STATEMENT OF GARY G. BENANAV

INTRODUCTION

Mr. Chairman and Members of the Committee:

My name is Gary Benanav, and I am the Chairman and Chief Executive Officer of New York Life International, a wholly owned subsidiary and the international business arm of New York Life Insurance Company. New York Life is one of the nation's largest insurance companies—a Fortune 100 company with annual sales of \$12.5 billion in 1997 and operations in all 50 states and overseas through a network of 12,000 employees and 10,000 agents. New York Life International has overseas business operations in Argentina, Mexico, Indonesia, Korea, Taiwan, Hong Kong and representative offices in China. To date, the company has over \$156 million in foreign sales and has created 4,600 jobs in these markets. We are committed to strengthening our presence in the international marketplace and believe U.S. leadership on international trade issues is essential to achieving that goal.

I also am representing the Coalition of Service Industries (CSI). CSI was established in 1982 to: create greater public awareness of the major role services industries play in our national economy; promote the expansion of business opportunities abroad for U.S. service companies; advocate for an increased focus on liberalization of trade in services in international trade negotiations; and encourage U.S. leadership in attaining a fair and competitive global marketplace. CSI represents a broad array of U.S. service industries including the financial, telecommunications, professional, travel, transportation, and information technology sectors, among others.

I believe the Committee's hearings are both timely and important, for as a nation we face a critical time in meeting the demands and responsibilities of being the global economic superpower. I appreciate the opportunity to offer views today on the future direction of U.S. trade policy and on the importance of the services sector in fueling the engine of economic growth and prosperity in the United States and abroad. I will focus my remarks on four topics: (1) the need for a reinvigorated American trade policy; (2) the need for the United States to pursue aggressively new negotiations to liberalize services trade, including, in particular, financial services trade; (3) specific negotiating objectives of the services sector; and (4) the need for trade negotiating authority.

THE NEED TO REINVIGORATE U.S. TRADE POLICY

Some suggest that globalization caused the current economic crisis that started last year in Asia, but I suggest this is a confusion of cause and effect. Markets reward sound economic policy, and capital moves in direct relation to the soundness of policy. The challenge is not to retreat from globalization, but rather to pursue trade, investment and economic policies that encourage dynamic domestic and international growth. This requires continued U.S. leadership in securing an open and fair rules-based global trading system.

The crisis in Asia, and the accompanying threat of contagion, underscores the sense of urgency in squarely addressing global trade barriers today. If further economic meltdowns are to be prevented and the U.S. economy protected from after shocks, the United States must take the lead in multilateral and bilateral efforts to eliminate trade and investment barriers and establish a system of international trading rules buttressed by national pro-competitive regulatory supports. It is time to formulate a new American trade agenda and trade policy. But to lead by example and articulate a trade policy that can achieve liberalization on a global scale, we must create a strong domestic consensus that the benefits of open international trade outweigh the costs of continued engagement.

THE NEED FOR SERVICES TRADE NEGOTIATIONS

The growing economic strength of service industries is the best argument for continuing the U.S. commitment to liberalizing services trade worldwide. Let me provide some background on the role of services trade in the U.S. economy and globally.

The U.S. services sector has contributed to domestic prosperity through innovation and the efficient production of services necessary for economic growth. The abilities to transport goods overnight to meet customer demands, communicate with business partners around the globe instantaneously and mobilize necessary financial resources rapidly have facilitated the sustained growth of the U.S. economy—furnishing capital, enabling commerce and providing jobs. As the marketplace expands globally, our greatest competitive advantage as a nation may now lie in the export of services. This reality necessarily fosters concern with the economic viability of our trading partners and the global trading system.

The creation and preservation of the traditional core and economic infrastructures within nations depend upon the provision of key services to the population. In particular, the financial services industries facilitate economic growth and stability by attracting long-term capital for investment, allocating resources and transferring technology. Given that my particular area of expertise is insurance, I would note the unique role played by our industry in protecting against risk and indemnifying for losses—necessary securities for the promotion of entrepreneurial activity and the protection of capital. By mobilizing savings into investment, insurance companies provide liquidity in the market and help improve the health, safety and retirement security of working people.

In 1997, the U.S. services sector represented three-quarters of U.S. national economic output, employed 80 percent of the workforce and recorded a record trade surplus of almost \$88 billion, with services exports reaching \$258 billion and services imports reaching \$170 billion. The services sector constituted 27% of all U.S. exports in 1997 and the total services export surplus is projected to be \$105 billion in 2001, compared to just \$300 million in 1985. Let me mention one industry that clearly highlights the change from a manufacturing to a services-driven economy. The U.S. travel and tourism industry contributed over \$25 billion to the service trade surplus in 1997. This amount constitutes the largest contribution to the overall services surplus. In addition, travel and tourism support over seven million direct jobs and generate roughly \$71 billion in tax revenues for federal, state and local governments.

The expansion of trade in services has been a powerful engine of growth for the global economy. Cross border trade in services now represents more than 20 percent of world cross border trade, or more than \$2 trillion; services account for at least 60 percent, or some \$210 billion, of annual flows of direct foreign investment. Service industries are essential to the economies of both developed and developing countries as a major source of innovation, especially in electronic commerce, providing essential infrastructure for trade in goods.

In his State of the Union Address last week, the President said that the United States must “tear down barriers, open markets and expand trade” through new WTO trade talks aimed at expanding exports of services, manufactures and farm products. We fully support that declaration and the launch of trade negotiations in conjunction with the 1999 U.S.-hosted WTO ministerial meeting.

We believe it is critical for the United States to pursue aggressively new negotiations to liberalize services trade, in particular trade in financial services. Liberalization of services markets, defined as open, fair and competitive markets, will enhance global economic growth, provide developing countries with the infrastructure necessary to sustain development and help restore investor confidence. Liberalization of financial services is especially critical to the ability of countries to develop modern, efficient, well-regulated financial markets and attract private capital flows for long term investment.

The WTO is the appropriate forum for pursuing the next stage of services trade liberalization and the General Agreement on Trade in Services (GATS) provides a sound basis from which we can seek further liberalization commitments. Though admittedly complex, the GATS does provide a dynamic framework for achieving substantive trade commitments for global liberalization in the shortest time. New WTO negotiations will give us the best opportunity to seek improvements to the evolving international rules-based trading system for services. Given the sense of urgency prompted by economic recessions hitting Asia, Latin America and Russia, U.S. leadership in the WTO is essential.

SERVICES TRADE NEGOTIATING OBJECTIVES

While past negotiating efforts have produced important liberalizations for service industries, all industries in the services sector continue to face uneven implementation of past commitments and continued maintenance of impediments to free and fair trade, especially through regulatory systems that are used to limit competition.

Open, fair and competitive environments for services trade may be enhanced globally by obtaining commitments to:

- Expand the scope of commitments countries undertake to liberalize services trade by limiting the exceptions countries are permitted to take in their national schedules;
- Ensure rights of establishment and ownership for U.S. foreign investors through wholly-owned or other forms of business ownership;
- Ensure national treatment for U.S. companies abroad, whereby foreign investors have the same access as domestic companies in the market;
- Eliminate unnecessary restrictions on cross border transactions;

- Promote pro-competitive regulatory reform focused on adequacy of appropriate and consistent rules as well as transparency and impartiality of regulatory administration; and
- Remove obstacles to the free movement of people by allowing business personnel to easily obtain visas.

Pro-competitive Regulatory Principles

In particular, the financial services industry faces formidable barriers in countries with arbitrary and non-transparent regulatory systems. The pro-competitive regulatory principles I just mentioned, complement market access commitments by providing for balanced financial systems. For example, my company may be able to enter a market as a result of a market access commitment, but the lack of a pro-competitive regulatory system would make business operations unpredictable and unprofitable.

While the WTO Financial Services Agreement completed in December 1997 sets out a solid legal framework for market access, fair competition is not yet assured. Regulatory requirements and restrictions too often deny foreign companies the opportunity to compete on an equal basis with domestic firms. A lack of transparency in regulations, along with uneven enforcement, undercuts the benefits of market access.

We advocate pro-competitive regulatory reform to ensure that financial services markets are both competitive and solvent. Effective regulations that open markets to fair competition will focus on solvency of the financial institutions not on limiting the number of firms in the market, restricting the types of products that can be sold, controlling the pricing of products or requiring burdensome approval procedures. This is not to suggest that financial services firms want to eliminate any regulation of financial services. Quite the contrary, we strongly favor effective regulation. We want to assure that firms are solvent and that accurate information is available to evaluate a firm's solvency. To achieve those goals, we believe individual regulations must be substantively adequate, impartial, minimally intrusive, and transparent.

With regulatory systems that promote competition and solvency, financial services firms can introduce innovative products, reduce prices, achieve efficiencies in operations, improve the quality of services provided, attract capital for long term investments, introduce new technologies, and create new employment opportunities.

By pressing to eliminate restrictions on foreign establishment or ownership and cross border transactions, by removing obstacles to the free movement of persons and by affirmatively promoting national treatment and pro-competitive regulatory principles, the United States will be helping to shape an agenda at the WTO that will produce genuine global economic liberalization with positive benefits for U.S. business and consumers.

Other Trade Initiatives

As CSI has noted, trade liberalization through new WTO negotiations offers a significant chance for a quantum leap in world prosperity. But I would also like to briefly address some other trade initiatives that are important in their own right. While each of these initiatives is regional in scope, each complements the efforts currently underway in the WTO to deepen and broaden the open global trading system.

Free Trade Area of the Americas (FTAA). In our own hemisphere, regional trade grew 15 percent in 1997—twice the world average. Two-thirds of U.S. export growth has been in the Western Hemisphere. Countries in the region are negotiating with each other and the Europeans to secure the benefits of this trade expansion. The United States must take the lead in pursuing trade and investment liberalization if we want to receive the benefits of this expansion.

We support efforts in the context of the FTAA to reach a hemispheric free trade area, which would ultimately expand NAFTA to virtually all of North, South and Central America. FTAA represents an enormously ambitious undertaking that merits the full commitment of the United States government. From the perspective of New York Life, a regional free trade agreement that would break down existing barriers and open up new opportunities in the vibrant markets of Latin America would be an invaluable contribution to the potential to grow our company.

Transatlantic Economic Partnership (TEP). The United States and the European Union are each other's single largest trading partner with two-way trade representing about 20 percent of world trade in goods. Our bilateral investment ties are extensive, with the EU accounting for nearly 60 percent of total incoming foreign direct investment stock in the United States. The Transatlantic Economic Partnership (TEP) effort aims to capitalize on these economic ties by intensifying U.S.-EU co-

operation on trade issues. TEP specifically is designed to establish a common U.S.-EU agenda for new WTO talks, as well as secure mutual recognition agreements in a number of commercial sectors. Issues of consequence to all business transactions, for example, data privacy protection under the recent European Union Directive, are actively discussed within this context with the aim of achieving transatlantic agreement that can then be used as a basis for securing broader multilateral agreement.

Asia Pacific Economic Cooperation (APEC). The APEC economies represent over one-half of total world production and almost one-half of world trade and U.S. bilateral trade with these economies is roughly two-thirds of all U.S. trade. The United States has been an active participant in the APEC effort to achieve free and open trade in the region. We must ensure that the momentum generated by APEC's work to date is not derailed by the Asian financial crisis, and that APEC economies move forward to implement previously agreed market opening steps. We strongly support inclusion of pro-competitive financial services regulatory reform in the APEC work program.

China. The Administration also must continue to vigorously pursue bilateral negotiations with our important trading partners. These negotiations are particularly important with regard to China which has not yet opened its services sector to full participation by foreign companies.

Expansion of U.S.-China trade is vital to America's future economic prosperity. Over the past decade U.S. exports have increased over 20-fold and those exports support more than 200,000 U.S. jobs. As the largest emerging economy in the world, China's integration into the rules-based international trading system is essential to ensuring that China undertakes the obligations and responsibilities of the trading system as well as receiving the benefits. We believe that China's participation in the WTO is critically important not only for China, but the rest of the world. We support the Administration's efforts to reach a commercially acceptable WTO accession agreement that will enable our industry to fully participate in the Chinese market. We urge USTR to insist that China accept that opening its service sectors is equally important as reducing tariffs on merchandise. Without meaningful commitments on services, there simply can be no deal with China. And if China agrees to play by WTO rules, then the United States should be prepared to provide permanent extension of normal trade relations status to China.

TRADE NEGOTIATING AUTHORITY

What will it take to implement a broad and ambitious trade agenda and policy?

As the world's economic superpower, only the United States has the capacity to lead the international community by setting the example at home. I urge Congress to extend broad, multi-year traditional trade negotiating authority to the President. This negotiating authority is the essential foundation or infrastructure needed to be able to conclude with credibility liberalization agreements with our trading partners.

Another important step is to adopt domestic economic policies, including tax policies, that help create an environment that encourages competition and reduces the costs of competing overseas. Congress' support and leadership last year in revising and extending the deferral rules for U.S.-based financial service companies represents a tremendous step forward in conforming U.S. tax rules to U.S. trade policies. Permitting deferral of active financial services income is essential to maintaining the competitiveness of our financial services firms, and I urge you to further extend this provision this year.

CONCLUSION

Mr. Chairman, as I suggested earlier, a pro-active American trade policy must rest on a solid consensus among the Congress, the Administration, the business community and the public that we have realistic and appropriate goals on the full range of domestic economic interests affected by our participation in the international trading system. These hearings are the first step toward crafting a consensus that expanding international trade and investment improves the lives of Americans and that continued U.S. leadership in strengthening the rules-based international trading system is the surest way to sustain our domestic economic strengths. U.S. services industries are committed to working with the Congress to develop that consensus.

RESPONSES OF GARY G. BENANAV TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Question 1: I strongly believe that reducing trade barriers in services is crucial to sustaining our economic vitality and enhancing our competitiveness. It is no surprise that the United States is the world's largest exporter of services, accounting for an astonishing sixteen percent of global services exports. There are two issues that concern me with respect to the General Agreement on Trade in Services (GATS), one of the Uruguay Round Agreements. As you may know, the first part of the General Agreement on Trade in Services is a group of multilateral principles for trade in services. The second part contains schedules of specific commitments. This second part is where we would expect to see immediate reductions in trade barriers.

My first concern is that while many countries made many specific commitments in a large number of services sectors, these commitments cover only a fairly small proportion of actual service production.

My second concern is that most of the commitments contained in the General Agreement on Trade in Services reflected only a standstill on existing barriers to trade. The commitments did not include real reductions to barriers to trade.

I would hope that, in future multilateral negotiations, we would at least have two goals. First, I hope that we could expand the market access commitments that were part of the national schedules.

Second, I hope that we could actually reform regulations that restrict competition in services. How do you think we could achieve these goals? Are there some service sectors that have higher trade barriers than others, and that demand immediate attention?

What specific actions or reforms should we look at in the new multilateral negotiations to achieve results in this area?

Answer: New York Life International and CSI agree that reducing trade barriers in services is crucial to sustaining American economic growth and enhancing our global competitiveness. As services industries such as insurance, finance, telecommunications, transportation and information technology underpin all forms of global trade and commerce, we believe that utilizing all bilateral and multilateral efforts to ensure an open and competitive global marketplace should be of critical priority to our government. As preparations for new World Trade Organization (WTO) negotiations are undertaken, we share your expectation that such negotiations should achieve meaningful reductions of trade barriers as a result of scheduled commitments in the General Agreement on Trade in Services (GATS) and that new commitments should be specific, covering a substantial proportion of actual services trade. To achieve the goal of meaningful liberalization of global trade in services, New York Life International and CSI urge the United States Trade Representative (USTR) to secure broader market access commitments covering substantial areas of trade in services within the context of the GATS as well as through bilateral negotiations. As a necessary complement to market access, we also urge the acceptance of pro-competitive regulatory principles within the framework of trade agreements to reform national regulatory structures that currently inhibit competition within markets.

MARKET ACCESS

In anticipation of new negotiations to be initiated at the WTO Ministerial Meeting in Seattle this November, the Office of the United States Trade Representative requested public comment on setting U.S. trade agenda priorities. In response to this Federal Register request for comment, CSI submitted a detailed statement (attachment 1) outlining specific trade barriers faced by a number of service industries. In this response, CSI also proposed recommended negotiating objectives, including:

- Obtaining rights of establishment and ownership for foreign firms;
- Eliminating cross-border trade restrictions;
- Ensuring national treatment for foreign firms on par with domestic firms; and
- Removing obstacles to the free movement of persons—particularly key business personnel.

Each service sector experiences problematic trade barriers as a result of restrictive laws and/or regulations which may impair the ability to open businesses, maintain a majority ownership in a business venture, control a distribution system, oversee cohesive electronic cross-border transactions or manage human resource/staffing issues. CSI and the group of organizations with whom it works maintain continuous dialogue with USTR on the nature of barriers that limit their trade and on goals for the next negotiations.

PRO-COMPETITIVE REGULATORY PRINCIPLES

To ensure meaningful commitments can be effectively implemented within national markets, CSI advocates the adoption of a set of principles for "pro-competitive regulatory reform." Government's role in promoting a competitive environment within a market-based system may be effectively carried out through the adoption of pro-competitive regulatory rules with four central features:

- Transparency, which secures a fair and open process for developing and disseminating regulations;
- Adequacy, which is sufficient to address serious market imperfections and protect public interests;
- Impartiality, which ensures no one or group of competitors whether foreign or domestic is offered a more favorable position; and
- Least Intrusive, which ensures that regulations are applied to maintain efficient open markets but not distort them.

Within the framework of the GATS, WTO members should undertake commitments for regulatory reform in tandem with market access commitments.

Question 2: Last July, negotiators for the United States, the European Union, Canada and Japan explored new approaches to liberalizing trade in services. One new way to liberalize services trade that was discussed at this meeting is the so-called "horizontal" approach: the parties take on commitments such as the right of establishment or national treatment and apply them across all service sectors. These methods would result in a "top down" approach that assumes liberalization, and puts the onus on countries to seek specific exemptions from their market access commitments. This differs from the current approach taken by the General Agreement on Trade in Services, which now applies the central obligations of national treatment and market access only to those sectors that countries positively identify.

I realize that this change in the structure of the General Agreement would require support from a substantial number of WTO members.

What do you think of this approach? Wouldn't it put the ball back into the court of nations that want to make lesser commitments to free trade?

Answer: The process of removing trade barriers by scheduling specific commitments to opening markets through the GATS structure has provided invaluable instruction on the complexities of facilitating a free global trading system through the implementation of fair and consistent rules promulgated by the consensus of the WTO membership. The United States should be able to take these lessons learned and apply them to new and creative negotiating methods or modalities.

As discussed at the July 1998 Quad Meeting among the negotiators representing the United States, the European Union, Canada and Japan, the horizontal approach assumes liberalization as a central obligation applying across-the-board in a sector and puts the affirmative obligation on signatory nations to seek specific exemptions from the comprehensive commitment. In contrast to the current approach of scheduling commitments only in areas positively identified in a national commitment schedule, the horizontal or "top down" approach assumes a wider scope of commitments. This approach may be used within the context of the GATS structure if agreed to by member signatory nations.

New York Life International and CSI support efforts to identify new and creative methods of negotiations which have as their goal achieving substantive commitments to liberalize in the greatest number of countries within the shortest time frame. While would agree that U.S. trade negotiators should utilize horizontal approaches to negotiations should these prove useful, other methods of negotiation should not be foreclosed. Improvements to the GATS structure is an ongoing process which should be continued. Comprehensive liberalization of the global marketplace should remain our primary goal.

Question 3: Electronic commerce, or e-commerce—commercial transactions by electronic means—has soared in the last two years. In fact, e-commerce was not even discussed—or was certainly not an issue—when the Uruguay Round was negotiated. It did surface as an issue at the Geneva Ministerial, where WTO members agreed not to impose tariffs on electronic transactions for one year.

Since e-commerce is likely to be on the services negotiating agenda in new multilateral talks, what recommendations do you have to make sure that this promising new commercial area is able to reach its full potential?

Answer: As the services sector encompasses approximately three-fourth of U.S. GDP with an increasing proportion of this commerce both domestically and internationally occurring through electronic means, New York Life International and CSI agree that electronic commerce or "e-commerce" will necessarily be an important issue of high priority in new multilateral talks. As an organization comprised of service industries that utilize the dynamic global interconnection e-commerce pro-

vides, CSI has assembled an Electronic Commerce Working Group with representatives from a wide range of member service companies concerned with the innovative and balanced development of e-commerce. This Group has undertaken an analysis of e-commerce issues affecting the services sector and has proposed a number of recommendations for trade negotiating objectives relating to e-commerce [attachment 2].

In order to ensure that e-commerce reaches its full potential in a manner which will benefit consumers and business, New York Life International and CSI recommend that U.S. trade negotiators propose the acceptance of the following principles within multilateral and bilateral trade negotiations:

- **Delivery Technology:** the basic recognition of e-commerce as a technology for delivery of goods and services rather than a separate services industry—as a technology it may be utilized by all services industries for the effective distribution and management of services products.
- **Open Market Prerequisite:** premature limitation or regulation of e-commerce may stifle the potential for innovative growth.
- **Non-discriminatory Access and Interoperability:** free flow of information and connection should be enabled and protected.
- **Privacy Protection:** business is committed to achieving consumer confidence in data privacy—a balanced approach to protecting consumer personal data privacy would include recognition of differing data protection regimes consisting of laws and industry self-regulation.
- **Jurisdiction:** choice of law should govern; where not specified, the default should fall to the laws of the supplier of service to ensure consistent application of contract law.

Attachments.

COALITION OF SERVICE INDUSTRIES

RESPONSE TO

Federal Register Notice of August 19, 1998 [FR Doc. 98-22279]

Solicitation of Public Comment Regarding U.S. Preparations for the World Trade Organization's Ministerial Meeting, Fourth Quarter 1999

INTRODUCTION

The Coalition of Service Industries, in coordination with the Air Courier Conference of America, the Information Technology Association of America, the International Communications Association, and the United States Council for International Business is pleased to submit our recommendations to the United States Trade Representative (USTR) pursuant to the Federal Register Notice of August 19, 1998: Solicitation of Public Comment Regarding U.S. Preparations for the World Trade Organization's Ministerial Meeting, Fourth Quarter 1999. We appreciate the opportunity to provide these comments and look forward to continuing to consult with the USTR and all involved government agencies as we work toward launching and a successful conclusion of the negotiations.

Organizations which assumed primary responsibility for the initial drafting of specific portions of this submission are as follows:

I.	General Issues	Coalition of Service Industries
II.	Distribution	National Retail Federation
III.	Express Delivery	Air Courier Conference of America
IV.	Financial Services	Coalition of Service Industries
V.	Health Care	U.S. Council for International Business
VI.	Information Technology	Information Technology Association of America
	Professional and	
	Business-Related Services	Coalition of Service Industries
VIII.	Telecommunications	International Communications Association
IX.	Travel and Tourism	Coalition of Service Industries

Other associations that have been involved in the process of reviewing and

I. GENERAL ISSUES

A. IMPORTANCE OF THE SERVICES 2000 ROUND

Multilateral trade negotiations in services are complex and have had a short history. The global trading community is only at the beginning of a process of removing complex barriers to free trade in services through negotiation.

The Services 2000 Round is, therefore, a critical element in maintaining and expanding world prosperity – the first in which we can apply lessons learned about the structure of the GATS and the difficult specialized services negotiating process. In general, the overarching objective of the United States Government in the negotiations should be to both broaden and deepen the commitments made in the GATS. Contestable markets in every sector and in every WTO member is the ultimate goal.

Trade liberalization through Services 2000 offers the main chance for a quantum leap in world prosperity. The new industrial revolution – the information revolution or the "Third Wave" - has made innovation and efficiency in the production of services integral to economic growth. Services inputs are now a central factor in competitive success in manufacturing and agriculture. Telecommunications, transportation, finance, insurance, distribution and information services underpin all forms of international trade and all aspects of global economic activity.

To maximize opportunities of Services 2000 it is essential that the format for the broader negotiations permits sufficient allocation of resources to the GATS negotiation and does not hamper reaching substantive agreements on services in a short time frame.

We believe that the following factors should come to bear toward a successful new effort in services.

A sound basis for making substantial progress in services in the 2000 negotiations exists. Progress made in sectors such as telecommunications and financial services is due to the realization by developing economies that services are the basis for economic modernization.

The tumultuous financial and economic stresses of the past year will lead not to retrenchment, but instead will further progress toward liberalization.

Through several rounds of negotiations under the WTO, countries learned to negotiate within the complex GATS framework.

B. STRUCTURAL AND NEGOTIATING ISSUES

Since its conclusion in 1994 the GATS has drawn considerable criticism because of its complex structure which facilitates obfuscation, not liberalization. In this paper, we will not elaborate on the reasons for this. Instead, the primary issue for negotiators is whether in these negotiations the failings of the GATS architecture should be addressed.

We believe the answer must be derived from the twin objectives of (1) obtaining maximum liberalization in (2) the shortest time. If improvements in the GATS structure can be made quickly and in a way that facilitates the liberalization process, then it is a worthwhile effort. Otherwise, trade liberalization should not be delayed by a concentration of resources on structural GATS reform. In our view, GATS reform is secondary to liberalization.

Classification and Dynamic Definition of Services

The existing classification of services used in the GATS is outdated and inadequate. It omits certain services and inappropriately categorizes others. It should be revised to reflect accurately the real structure of services industries in order to facilitate the removal of barriers to trade in those services. We make specific recommendations with regard to classification in the sectoral sections of this submission. However, we feel that another useful exercise would be to review the classification scheme across sectors so as to rationalize the entire structure to reduce overlap and redundancy where appropriate. This has not been undertaken as a part of this submission.

Extending the Coverage of GATS Commitments

Apart from the issues of GATS architectural reform is the need to broaden and deepen the substantive commitments to liberalization made within the GATS. The GATS lacks, for the most part, substantive commitments. The new negotiations must secure broader commitments to national treatment and market access in as many sectors as possible. Current scheduled exceptions are too broad, and must be honed so only the most sensitive issues are excluded.

Innovative Negotiating Strategies

We urge negotiators to explore options in developing generic or formulaic approaches to negotiating the liberalization of market access barriers, including negative list schedules, sectoral commitments, horizontal commitments of revised modes of supply,

and other approaches which can move beyond the traditional "request-offer" format and speed the conclusion of agreements.

C. REGULATORY REFORM

In order to pursue meaningful services negotiations, WTO members will have to consider making adjustments to their regulatory regimes. "Regulatory reform" is a common set of principles that should be used as a guide or a test to regulations in individual sectors. Sometimes referred to as "pro-competitive" regulatory principles, they create a transparent framework of rules that permit markets to operate as freely as possible while providing necessary protections - for example in the case of the banking sector, ensuring safety and soundness.

The "Reference Paper" negotiated as part of the WTO Agreement on Basic Telecommunications is a model that should guide the development of a framework for dealing with regulatory reforms in the Services 2000 Negotiations. The regulatory principles embodied in this paper have already had an important influence on reshaping national regulatory systems towards a more market-oriented approach. The key is effective implementation of those principles -- in their common, pro-competitive, open market interpretation and application. We must learn from experience. The Reference Paper, we are discovering, must be interpreted clearly and forcefully for dispute settlement to be effective in most instances. Similar initiatives in other sectors should attempt to include specific and targeted language where possible.

Regulation should ensure that consumers (users) have access to quality, reasonably-priced services that are available from reliable producers. Government's role is to promote fair competition, protecting buyers from misleading, collusive, and other anti-competitive practices. Regulation should have four central attributes:

Adequacy: it should be sufficient to rectify serious market imperfections and thus protect the public.

Impartiality: governments should accord no one or no group of competitors, foreign or domestic, a more favorable position than accorded other competitors.

Least intrusive: governments should apply regulation in ways that efficiently opens that market and that least disrupt the smooth functioning of markets once opened.

Transparency: laws and regulations should be easily available to the public, and the processes for arriving at regulations should be open and accessible to the public for comment.

There is a substantial basis of support in certain industry sectors for efforts to achieve

"regulatory reform". Regulations are easily used to frustrate market access and national treatment commitments. Regulatory conflicts are often a major source of trade disputes. Countries should have an interest in regulatory reform because it is a key to reviving high growth rates. This area should be a major focus of the new negotiations, especially where incumbent producers have monopoly or residual market power as a result of their incumbency or historic position.

D. ELECTRONIC COMMERCE

International trade in services, particularly cross-border trade, is conducted to a large and increasing extent through electronic means. Computer technology has made many services tradable, which until recently were not. Electronic commerce and the Internet have thus added a new technological means of facilitating trade, adding digitized information flows to physical flows, much as ships increased trade over merely land-based movement of goods.

The supply of services by electronic means can take place in any of the four modes set out in the GATS framework, just as the supply of services by physical means can. Accordingly, the supply of services by electronic technology is covered by the GATS in the same way as all other means of delivery. Countries' commitments in the GATS apply to transactions whether by digital, or traditional, forms of communication.

We reject the idea that there is a class of services that can be labeled electronic commerce and thus be negotiated separately. There may be services products that result from wholly new technological applications or inventions that might be identified as electronic commerce, but these are more appropriately labeled "information technology services", or services within specific sectors. Barriers to these new forms of services can be negotiated by sector or in a separate information technology services sector.

On the other hand, it is also necessary to recognize the relationship between electronic commerce and specific industry sectors. Electronic commerce as a means of delivery cannot reach its full potential without significant commitments in virtually every industry sector. The ability to provide services across borders is a necessary prerequisite for the robust development and growth of electronic commerce. If service provision across borders is not permitted, then the ability to deliver those services electronically will be constrained and fragmented in national markets.

E. GOVERNMENT PROCUREMENT

Governments spend billions of dollars on procurement of services. In many countries this procurement is conducted in closed processes that work against foreign suppliers.

A two-pronged effort is now under way in the WTO. One prong of this effort is to achieve agreement on transparency measures so that all WTO members can commit themselves to transparent procedures without yet making new commitments to market access and national treatment. The other is to simplify the existing Agreement on Government Procurement which has 27 signatories, including the U.S., to increase its adoption by member countries. The core of this document would remain a commitment to permit foreign bidders to receive national treatment as they compete for government awards. We understand that government procurement is a sensitive subject and that commitments in this area may need to be phased over a period of time. However, we also feel it is an important area for progress to be made. The impact of governments being able to obtain services globally is quite substantial. The possibility is to dramatically improve the services which governments provide to their citizens, and to lower costs. This will have a beneficial effect on economies and society worldwide.

We support the goal of the Quad to achieve a Transparency Agreement in 1999. In addition, we feel that there are a set of overall objectives for services which need to be achieved in this area. Whether these objectives can best be met through existing mechanisms or through the Services 2000 negotiations is of less consequence to us than the fact that they are actually achieved. Therefore, we believe that the objectives in this area should be the following:

Insure transparency.

Insure access to an independent appeals and dispute resolution process.

Insure full market access and national treatment.

F. CONCLUSION

The Services 2000 Negotiations, thus, are an important milestone. They offer the opportunity to move considerably beyond the status quo and to make progress in all service industry sectors. It is important not to be sidetracked by architectural and negotiating structure, rather all the effort should focus on achieving further liberalization of services and the inclusion of regulatory reform and government procurement.

II. DISTRIBUTION SERVICES

A. SECTOR STATUS

The U.S. retail industry, represented by its trade association, the National Retail Federation (NRF), strongly supports negotiations at the World Trade Organization (WTO) to further liberalize trade in distribution services. A growing number of U.S. retailers recognize that there are many attractive business opportunities outside the United States. Many foreign countries have a growing middle class that increasingly demands the quality of service and broad selection of products that U.S. retailers can offer at competitive prices. At the same time, many of these countries have comparatively few retail outlets per capita.

Retail opportunities abound even in mature markets where one increasingly sees the business signs of familiar U.S. stores in many downtown and suburban shopping areas. Notwithstanding the current global economic situation, many U.S. department, specialty, discount, and mass merchandise retail companies have opened stores abroad and are looking to expand their foreign operations to meet this growing consumer demand outside the United States.

In the Uruguay Round General Agreement on Trade and Services (GATS), a number of countries agreed to include commitments in their GATS schedules to bind at least some part of trade in distribution services under the rules of the WTO. These countries include our largest trading partners — Canada, Mexico, the European Union, and Japan. Among the general categories included under distribution services:

- 33 countries scheduled commitments on retail services.
- 34 countries scheduled commitments on wholesale services.
- 23 countries scheduled commitments on franchising.
- 21 countries scheduled commitments on commercial agents.
- 2 countries scheduled under "other" distribution services.

In many instances, these scheduled concessions were rather modest and included broad exceptions.

B. CLASSIFICATION

The WTO Services Sectoral Classification List defines "distribution services" as encompassing retailing, wholesaling, franchising, and commission agents. This

definition is, however, quite broad and somewhat vague. Therefore, negotiations at the WTO in this sector must take into consideration the entire network of activities that are necessary to support retail and other distribution services operations. For example, in the negotiations between the United States and China on China's accession to the WTO, the area of distribution services covers all activities that support retail and other distribution services operation, from the port of entry to the store, and ultimately to the customer – e.g., customs clearance, storage and warehousing services; road, rail, water, and air transportation services; marketing; after-sales services and customer support; control of distribution networks and wholesale outlets; and protection of retail trademarks. It is necessary to recognize that barriers in any of these areas will disrupt the efficient operation of the distribution chain and, in order to support successful retail and other distribution services operations, barriers in all areas supporting distribution services operations must be addressed in some manner.

C. BARRIERS

In many countries, opportunities for U.S. retailers and other providers of distribution services to establish and maintain a commercial presence are limited by various laws, regulations, and policies. Some countries have protected their small stores from competition by limiting the size of retail establishments and placing arbitrary and onerous restrictions on where they may locate, price they may charge, and how they may promote products. Restrictions imposed by countries to protect so-called "cultural industries" have significantly hindered the establishment of retail operations by large U.S. booksellers. U.S. direct sellers and other retail companies have been severely hampered in establishing and/or expanding business operations in countries as a result of local sourcing requirements, and tight limitations over ownership and control of distribution systems. Restrictions on investment, limitations on foreign ownership, restrictions on opening hours, constraints on the types of products that may be sold to protect local monopolies, lack of adequate protection for retail trademarks, and the non-transparent and arbitrary application of commercial laws and regulations are further examples of barriers facing U.S. retailers. In addition, some countries have undermined the value of commitments they have already scheduled at the WTO on distribution services by including broad exceptions permitting restrictions to be imposed under a vague "economic needs test."

The reduction of such barriers to trade in distribution services warrants greater attention through specific sectoral negotiations at the WTO for several reasons. Since trade in distribution services includes wholesaling, retailing, and franchising, this sector represents the last link in the trade chain to the consumer and is, therefore, essential to a well-functioning free and open trading regime. Larger retail establishments are more likely to sell imported along with domestically-made products. Moreover, market access is only meaningful if goods can be effectively distributed at the retail level.

D. NEGOTIATING OBJECTIVES

The U.S. retail industry strongly urges U.S. negotiators to seek the elimination of foreign restrictions to trade in distribution services. Once negotiations are underway, the United States should focus generally on:

Obtaining commitments from as many countries as possible to bind the distribution services sector in their GATS schedules.

Limiting as much as possible the number of exceptions taken by countries in their schedule of commitments on distribution services.

Persuading countries to refrain from general, open-ended exceptions in their schedule of commitments on distribution services.

Broadening and deepening the commitments from countries that have already included distribution services in their GATS schedules.

Obtaining commitments that allow for full market access for distribution services under the principle of national treatment, rather than merely enshrining the current status quo.

E. ECONOMIC IMPACT

In order to achieve the goals listed above, U.S. negotiators should emphasize the economic and employment benefits that other countries would realize by opening up and liberalizing their distribution services sector. For example, the United States has no significant restrictions on the retail services. Nearly one in five American workers is employed in retail jobs that are well-paying and require a marketable set of skills. Moreover, the U.S. retail industry registered sales receipts in 1997 of more than \$2.5 trillion and economic activity in the sector has a significant multiplier effect throughout the U.S. economy. Thus, the retail sector alone adds substantially to U.S. Gross Domestic Product (GDP), economic growth, higher employment, and lower inflation. In addition, the ability of the U.S. retailers to provide American consumers with a wide variety of reasonably-priced products is a substantial contributor to a high standard of living in the United States.

U.S. negotiators should impress on their foreign counterparts that, as in the United States, an open and thriving retail industry and distribution services sector generally, will be an important factor in improving the standard of living of their citizens, expanding economic activity and growth, and developing a modern consumer society. Those benefits should not be taken lightly. When U.S. retailers establish commercial operations in a foreign country, those operations:

Provide much needed local investment.

Create jobs for many local people, not only in the retail establishment itself, but also in the warehouses, and transportation and advertising services that support those operations.

Allow local workers to develop business expertise and a better understanding about proper business practices in the services sector.

Provide local consumers with a better selection of goods at lower prices that will help improve the quality of their lives.

Make their country's retail sector and the economy as a whole more efficient.

III. EXPRESS DELIVERY SERVICES

A. SECTOR STATUS

Express delivery service, as provided by companies such as DHL, Federal Express, TNT and United Parcel Service, is a relatively new and rapidly expanding industry, having evolved during the past two decades in response to the needs of global international commerce. The express transportation industry specializes in time-definite, reliable transportation services for documents, packages and freight. Express delivery has grown increasingly important to businesses needing to use time-sensitive, "just-in-time" manufacturing techniques and supply-chain logistics in order to remain internationally competitive. The express industry has revolutionized the way companies do business worldwide, enabling businesses to rely on predictable, expeditious delivery of supplies. Producers using supplies from overseas no longer need to maintain costly inventories, nor do business persons need to wait extended periods of time for important documents. In addition, consumers now have the option of receiving international shipments on an expedited basis.

Increased reliance on express shipments has propelled the industry to average annual growth rates of 20 percent for the past two decades. The industry's explosive growth is reflected in the rapid expansion of air cargo shipments: the expedited movement of cargo by air now accounts for 37 percent of the value of world trade, a share which is expected to continue to increase.

The express transportation industry is essential to the future growth of world trade and commerce, as more and more trade is centered on the type of high-value goods that are carried by our industry, such as electronics, computers and computer parts, software, optics, precision equipment, medicine, medical supplies, pharmaceuticals, aircraft and auto parts, avionics, fashions and high-value perishables. In addition, the industry encourages small and medium-sized businesses to grow by enabling them to participate in international trade. The express transportation sector, with its integrated services that provide door-to-door delivery, frees small businesses from the burdensome and costly tasks of arranging for the transportation of their goods through a myriad of unrelated and often non-communicating parties.

Express delivery operators, represented through their trade association, the Air Courier Conference of America (ACCA), strongly support free and open trade and investment worldwide. Express operators provide integrated, door-to-door delivery service for documents and packages, and customers expect value-added services like time guarantees, electronic information, brokerage services and more. Express customers are not as concerned with how their documents or parcels are moved -- just that they

arrive on time. This could be by plane, train, truck, van, automobile, motorcycle, or even gondola. Consequently, a broad spectrum of issues affects the express industry, and includes laws and regulations in the areas of intermodal transportation, air auxiliary services, distribution, warehousing, customs, postal, telecommunications, logistics, brokerage, insurance, and freight forwarding. For this reason, barriers to international trade in the express industry can involve trade restrictions and trade distorting measures in any of these pertinent service sectors.

B. CLASSIFICATION

Under the Uruguay Round's Services Sectoral Classification List, express delivery services are currently classified as "courier services" -- a communications service (CPC 7512), along with postal, telecommunications and audiovisual services. This classification fails to reflect the true nature of express delivery services, which provide for regular exchange of physical items over a network of locations and, as described above, incorporate transportation, communications and other services.

Express delivery services should be reclassified to more accurately reflect the nature of express operations which, at a minimum:

Provide the business community and general public with regular (usually every business day), expedited and reliable collection, transport and delivery of physical objects across a network of geographic areas.

have management and communication systems that monitor and ensure end-to-end quality of service; and

Involve the operation of such offices, buildings, telecommunications facilities, computers, sorting equipment, automobiles, trucks, aircraft, and other vehicles as may be necessary to accomplish the basic function of express delivery.

A reclassification of the industry would facilitate GATS 2000 negotiations that are meaningful to the industry.

C. BARRIERS

As described above, barriers in any of the numerous operational areas encompassed by express operators can hinder express delivery services. Among the most persistent problems faced by the industry are inconsistent customs clearance policies that add costs and delays to express services. These barriers include:

Restrictions on the value and weight of express shipments.

Delays, generally of at least one day and up to 96 hours, from lengthy customs clearance procedures.

Cargo handling restrictions that force express carriers to use local handling companies -- rather than our own employees -- to transport our express shipments from the baggage collection area to warehouses where they can clear local customs.

Arbitrary revaluation of declared value of shipments by customs.

Imposition of a variety of charges and fees for express shipments, including shipments that are transiting one country on their way to their ultimate destination.

To eliminate these and other barriers, ACCA believes that the WTO should require all members to adopt and implement the express guidelines of the World Customs Organization.

Because express operators provide integrated, door-to-door services, barriers to any element of transportation linked to these services pose a problem for the industry. Unfortunately, in markets worldwide ACCA members encounter a variety of transportation restrictions that limit -- and increase the cost of -- express service. For the express sector to achieve meaningful trade liberalization under the WTO, it must be accorded access to land, air and other transportation infrastructures in all markets. For Example, arbitrary operating restrictions on carriers to limit their market, such as types of equipment and vehicles that can be used, and weight or size of packages, must be prohibited.

Firms also face anti-competitive practices in many markets, particularly with respect to postal operations. Because some of the industry's operations are postal-related (e.g., the delivery of documents and small packages), express operators are frequently affected by postal policies in foreign countries. In fact, throughout the world, countries exercise varying degrees of authority over the delivery of printed matter.

Many countries have vested the national postal service with local monopolies over the pick-up and delivery of letters and documents. This often imposes unfair or unreasonable restrictions on international service, which limits the operations of international express service companies. While we are not advocating that U.S. policymakers seek the dissolution of national monopolies for domestic postal services, we do believe that the domestic monopoly claim should not be extended unfairly and unreasonably to encompass cross-border services. Unified, end-to-end administrative control makes rapid and reliable international express service possible.

U.S. negotiators should seek WTO commitments that would:

Prohibit a foreign government from determining unilaterally the basic conditions of express service to and from the United States (market entry, price regulation, operating restrictions, and extraordinary or discriminatory taxation).

Ensure that a foreign postal monopoly does not have an outright prohibition against the provision of international service by U.S. express delivery providers.

Prohibit profits derived from services provided by national postal authorities from subsidizing services that compete with foreign companies.

Prohibit taxation of private sector companies from subsidizing a national postal administration's services.

Ensure that national postal administration's parcel and non-monopoly document services that compete directly with foreign companies would be subject to effective and impartial regulatory scrutiny to protect against illegitimate cross-subsidy.

Ensure that a postal administration's competitive services be subject to the same laws and regulations imposed on private companies.

Prohibit a foreign country from unilaterally selecting the U.S. express carriers that may service an international market with restricted entry.

Prohibit a tax on bilateral services that exceeds the net cost to a legitimate local monopoly carrier.

Prohibit discriminatory treatment of U.S. carriers.

D. NEGOTIATING OBJECTIVES

With respect to the WTO negotiating agenda, we urge that express delivery services be a focus of the GATS 2000 Negotiations. Specifically, we advocate the negotiation of pro-competitive regulatory principles for the express sector. These principles should be legally binding on all WTO members, just as is the case for the telecommunications pro-competitive regulatory principles agreed to during the previous GATS negotiations.

ACCA has detailed a proposed set of pro-competitive regulatory principles in a separate submission to USTR. These principles would encompass liberalized customs, postal, air cargo and other policies. We look forward to working with USTR throughout the GATS 2000 process to liberalize treatment of express delivery services, thereby expediting the flow of goods globally.

IV. FINANCIAL SERVICES

A. BENEFITS

Increasing competition in financial services markets through liberalization of restraints on foreign participation in financial services activities will enhance economic growth for all countries. Such liberalization will help provide developing countries with: (1) essential information and infrastructure to speed their modernization; (2) improved health, safety and retirement security for working people and; (3) the broadest range of products and services at the lowest cost for consumers. Additionally, it will help enhance investor confidence, and attract and retain private long-term direct investment. Liberalization promotes the development of modern, efficient, well-regulated financial markets.

B. SECTOR STATUS

WTO financial services negotiations provide an excellent opportunity to achieve meaningful liberalization on a global scale. By securing binding commitments by a significant number of countries of the right of foreign companies to establish and to own all or a majority share of their direct investments, the 1997 negotiations made important progress.

Even though the 1997 agreement didn't include comprehensive agreements to reduce or eliminate investment barriers for foreign financial service providers, the agreement made major progress in a number of countries. Much remains to be done in the upcoming negotiations and the 1997 Agreement serves as a strong foundation to add truly liberalizing commitments.

C. BARRIERS

The financial services 2000 negotiations offer an extremely important opportunity to build on this base in a number of ways:

Further the scope of commitments by reducing the number of exceptions countries have written into their commitment schedules.

Expand rights of establishment and ownership. While progress has been made in

securing bindings of existing practice in regard to establishment and full or majority ownership, these rights should be expanded and secured from more countries that made no such commitments.

Expand cross border trading rights. Little attention has been given to securing rights to sell financial services across borders in negotiations to date. WTO members should, where appropriate take into account the views and legitimate objectives of the regulators.

Modernize and reform regulatory structures that frustrate trade commitment and competition. Regulatory regimes can be used to block gains made in trade negotiations by imposing unnecessary restraints on foreign financial services suppliers, and thus favoring local suppliers. Such practices prevent realization of the goal of national treatment. They are inherently anti-competitive and inefficient. These "pro-competitive regulatory reforms" should be directed at establishing fair, competitive markets by focusing on solvency and transparency to provide the most effective protection of consumers and markets.

Achieve impartial administration of regulations. Article VI of the GATS, applying to Domestic Regulation, requires that "in sectors where specific commitments are undertaken, each Member shall ensure that all measures of general application affecting trade in services are administered in a reasonable, objective, and impartial manner." It further requires each member to set up tribunals or procedures which provide prompt review and remedies for administrative decisions affecting trade in services, and it establishes that members must provide impartial review of these procedures. These requirements for reasonable, objective and impartial administration of regulations should be amplified by the establishment of principles against which regulations should be tested.

Promote administrative and regulatory transparency. Clear and reliable information about a country's financial services laws and practices advances equitable trade and competition, reduces the possibility of manipulation, and is an essential component of a liberalizing agreement. Non-transparent regulations hamper foreign firms' ability to do business. Transparency requirements make countries more accountable for their actions and provide information needed to evaluate compliance with the agreement.

Reduce and remove obstacles to the free movement of people. The temporary posting of key business personnel should be facilitated by creating a system of easily obtainable and renewable visas, and by easing or removal of other restrictions.

D. CLASSIFICATION

Should include language necessary to provide for protection and applicability for

pensions, long-term care, disability income and life insurance and reinsurance.

NEGOTIATING OBJECTIVES

Foreign investors should have the right to establish through a wholly owned presence or other form of business ownership, and to operate competitively through established vehicles available to national companies.

Foreign investors should have the same access to domestic and international markets as domestic companies. They should be treated to regulatory and other purposes on the same basis as domestic companies.

Unnecessary restrictions on cross-border financial services businesses and consumption of services abroad should be removed, to encourage trade without requiring establishment.

Creating a system of easily obtained and renewable permits should facilitate the temporary posting of key business personnel.

Existing investments should be grandfathered by Member countries that did not commit to do so in the 1997 Agreement.

Countries wishing to accede to membership in the WTO should do so on the basis of commitments to substantial financial liberalization consistent with the 1997 Financial Services Agreement and the goals set forth above, resulting in commercially meaningful access. Countries should be permitted to participate in the negotiations in a way which encourages them to make such commitments.

Financial regulation principles leading to the development of sound, more competitive markets should be negotiated. Such regulation will foster risk management standards, transparency, product diversification and consumer choice important for public policy purposes. It will also enhance financial security for citizens, nations and the global financial system.

Transparent laws and regulations are necessary to liberalize financial services. Clear and reliable information about a country's financial services laws and practices promotes equitable trade and competition, and reduce the possibility of manipulation.

A notification waiting period for all new national and sub-national taxation of financial services should be established to provide industry and governments with a minimum of one year to factor changing taxation rates in technical, solvency and pricing decisions.

Nations should commit to lock in and improve pension policies that encourage private savings for retirement, in recognition of worldwide aging populations and related pressure on government social security systems.

V. HEALTH CARE SERVICES

A. SECTOR STATUS

There appears to be little coverage of healthcare services in current agreements between countries; therefore, these comments reflect preliminary thought process around GATS negotiations for health care services. We intend to continue to gather information and talk with businesses that are working throughout the world in the health care services sector to bring additional clarity to the submission.

There are several emerging global trends that could benefit U.S. health care service suppliers in overseas markets including the rapid growth in health care expenditures in a large number of countries. Rapidly expanding health care expenditures in many developed countries are due to an increase in their aged populations, the demographic segment that uses health care services most intensively. The entire spectrum of geriatric services, both community and institutionalization, for senior citizens should be explored. Increased health expenditures in rapidly developing economies are occurring as newly emerging middle classes demand the levels of health care previously enjoyed only in more developed economies, such as the U.S. and Western Europe.

We believe we can make much progress in the negotiations to allow the opportunity for U.S. businesses to expand into foreign health care markets. In the U.S. competition has provided reductions in the cost of health care as well as increased quality in the care that is being provided. Some types of services are consulting and training for local pharmacy management; consulting and training for health care including treatment of abusive behaviors; telemedicine; development of treatment protocols to enhance healthcare quality; sharing expertise on appropriate treatment; and, management of overseas health care institutions.

According to official statistics from the U.S. Department of Commerce, in 1996 U.S. receipts of health care services amounted to \$872 million. This number was 2 percentage points less than the average annual export growth rate of nearly 6 percent for health care services during 1991-1995. U.S. cross-border imports of health care services amounted to an estimated \$550 million in 1996. U.S. receipts and payments for health care services accounted for less than 1 percent of such cross-border trade in all service industries in 1996. The U.S. cross-border trade surplus in health care services was \$322 million in 1996.

CLASSIFICATION

Below are the health care entries from the WTO's Services Sectoral Classification List (W-120) with reference numbers to the UN's Central Product Classification (CPC) numbers. In current practice, many WTO members do not use the CPC references in their scheduled commitments; practices may vary per sector. While the W-120 and CPC classifications provide a reasonable start toward definition of the health care services that should be covered in this negotiation, we need flexibility. We do not want to be locked into only these specific existing classifications. For example, we need flexibility to include some services which may not be captured by these definitions. We also recognize that some of these services may be included as parts of goods negotiations or in the definitions of other service sectors. We will continue our work to provide negotiators with the most detailed and comprehensive description of the health care services we are now providing or which we will want to provide.

WTO SERVICES SECTORAL CLASSIFICATION LIST (W-120)

Sectors and Sub-Sectors

Business Services

Professional Services

Medical and Dental Services	9312	
Veterinary Services	932	
Services provided by midwives, nurses, physiotherapists and para-medical personnel		93191

8. Health Related and Social Services

A. Hospital Services	9311
B. Other Human Health Services	9319

C. BARRIERS

Historically, health care services in many foreign countries have largely been the responsibility of the public sector. This public ownership of health care has made it difficult for U.S. private-sector health care providers to market in foreign countries. In addition, there are substantive differences in emerging markets vs. OECD countries. In most emerging markets there are few barriers to these services but barriers can be erected in the future as laws and regulations are enacted absent commitments in writing. Existing regulations are by and large not a problem in emerging markets.

However, existing regulations do present serious barriers in OECD countries, including:

Restricting licensing of health care professionals.

Excessive privacy and confidentiality regulations.
Lack of transparency in the OECD countries' regulations.
Difficulty processing permits for work and for facilities.

D. NEGOTIATING OBJECTIVES

Three general objectives are to encourage more privatization, to promote pro-competitive regulatory reform, and to obtain liberalization. Specific objectives are:

Transparent licensing of health care professionals and facilities, which do not place unnecessary or discriminatory burdens on U.S. providers.

Obtain market access and national treatment commitments allowing provisions of all health care services cross border.

Allow majority foreign ownership of health care facilities.

Obtain a commitment for the cross-border provision and transfer of health care information.

Seek inclusion of health care in WTO government procurement disciplines.

Strengthen international co-operation to promote pro-competitive regulatory reform across countries.

Negotiate Mutual Recognition Agreements (MRAs) for licensing of professionals and cooperative agreements on regulation of facilities.

Develop principles to guide regulators so as to minimize unnecessary costs on trade and investment in the health care sector.

Simplify regulations and provide transparency for movement of personnel, both professionals and patients.

VI. INFORMATION TECHNOLOGY SERVICES

A. SECTOR STATUS

The information services industry has a vital interest in the successful conclusion of the World Trade Organization (WTO) 2000 Services negotiations. Information technology, while a service industry itself, is critical to the success of the other services industries, which, in turn provide a substantial market for information services. As the services sector thrives, so will the information services sector.

While substantive commitments by many countries in the area of value-added services (information services) are included in the General Agreement on Trade in Services (GATS), some commitments are weak, while others are non-existent. The 2000 negotiations provide an opportunity to broaden and deepen the current commitments.

Recent international agreements affecting information technology services have opened related sectors, such as basic and enhanced telecommunications and offered protection and trade liberalization in other sectors (Trade-related Intellectual Property – TRIPS, and the Information Technology Agreement – ITA).

GATS Annex on Telecommunications and the WTO Agreement on Basic Telecommunications Services

The Enhanced Telecommunications Annex provides substantial commitments for information technology services and for access to telecommunications networks for the provision of such services. Examples of services covered under this Annex are electronic mail, on-line information and database retrieval, code and protocol conversion, data processing, and electronic data interchange. While a number of countries listed significant limitations with regard to foreign ownership and the required use of public networks, on the whole, the provision of information technology services is relatively open and burden-free.

The 1997 WTO Agreement on Basic Telecommunications Services (GBT) and its reference paper on pro-competitive regulatory principles is an integral element of providing a liberalized environment for trade in information technology services. Under a very broad and essentially open-ended definition employed for the negotiations, basic telecommunications are considered any telecommunications transport networks or services and the schedules of commitments cover a wide variety of services fitting this definition. Some examples of basic telecommunications include: voice telephone

services, packet-switched data transmission services; circuit-switched data transmission services, telex, telegraph, facsimile and private leased circuit services, analog/digital cellular/mobile telephone services, mobile data service, paging, personal communications services, satellite-based mobile services, fixed satellite services, VSAT services, gateway earthstation services, teleconferencing, video transport and trunked radio system services. Categories of service included: local, long distance, international, wire-based, radio based, resale, facilities-based, for public use, and for non-public use (closed user groups).

The agreement, which opened trade in the \$600 billion global basic telecommunications market, will promote competition in world telecommunications markets, spur innovation and competition-based pricing and speed the delivery of robust information products and services to consumers everywhere. Ultimately, we believe the agreement will expand the market not only for telecommunications, but for other information service providers as well.

The GBT commitments are a key element in securing the infrastructure for trade in information services. Together with the agreement on enhanced telecommunications services, we believe many of the basic elements to secure access to infrastructure over which information technology services thrive, are subject to existing liberalization commitments. It is our understanding that the GATS Annex on Enhanced Telecommunications Services and the GBT cover the delivery of services electronically. We urge the USTR to enforce these existing commitments, expand commitments from those who made limited commitments, and seek new commitments from those who have not signed on to the GBT.

Information Technology Agreement (ITA)

Concluded in December 1996, the ITA provides for the elimination of customs duties and other charges on information technology products through equal annual tariff reductions and covers five main categories of IT products: computers, telecommunications products, semiconductors, semiconductor manufacturing equipment, software, and scientific instruments. The tariff reductions, which are scheduled to begin on July 1, 1997 and to conclude on January 1, 2000, are to be implemented by signatories on a most-favored-nation (MFN) basis.

The ITA will open up global trade in a wide array of information technology products, valued at over \$500 billion, and spur growth of the global information infrastructure. The USTR estimates that the ITA will provide a competitive boost of 1.8 million jobs in the U.S.

The agreement will bring significant benefits to software and telecommunications companies. The agreement includes a broad definition of software products, which covers multimedia and interactive software and "Nuisance tariffs" on software (tariffs below 3%) will be eliminated as soon as July 1, 1997. The agreement also covers a

they are provided by many information technology providers as a routine service offering. Customer loyalty programs, order fulfillment functions, remote monitoring services, remote inventory services and remote maintenance and repair services are examples of such services. Some involve physical functions while others such as remote monitoring are performed entirely electronically. Current computer and related services section of the CPC (listed immediately below) is somewhat limited given the rapid advances in this dynamic sector.

CPC Computer and Related Services:

Consultancy services related to the installation of computer hardware (841)
 Software implementation services (842)
 Data processing services (843)
 Data base services (844)
 Other (845 + 849)

The USTR should expand the definition of information technology services. We recommend a number of services be included and the category be changed to information technology services. We recommend the USTR consider the classification revised CPC scheme below.

Information Technology Services:

Consultancy services related to the installation of computer hardware
 Software implementation services
 Data processing services
 Data base services
 Management consulting
 Services related to management consulting
 Customer services
 Other

C. BARRIERS

The private sector has been the driving force behind the rapid growth, innovation, and development of information technology services, the Internet and electronic commerce. Despite this rapid growth, a few barriers remain. Elimination of these barriers must be industry led and market driven. Consistent with the U.S. Administration's Framework for Global Electronic Commerce, we strongly recommend that the USTR continue to recognize the course of industry leadership and self-regulation

Barriers also remain with regard to the current commitments of some countries. Restrictions on foreign ownership and requirements for local partners of varying descriptions hamper the ability to provide information technology services seamlessly.

In addition, requirements to use public networks and restrictions on the use of leased lines also provide barriers to true global market access. Finally, national treatment is not a reality in every country.

Practices in government procurement vary dramatically across the globe and offer considerable barriers to the provision of information technology services to governments. They range from many of the OECD nations which have, both on paper and in practice, highly organized and wholly transparent processes, to nations which conduct procurement entirely behind closed doors. Likewise, a number of nations have very open procurement markets while others are closed both to foreign firms and to those firms not in favor, regardless of capability. Finally, there is the same range of conduct regarding the ethics of procurement, with many "clean" systems and just as many in which bribery and corruption are the norm.

The greatest barrier to the continued development of the information technology industry globally, however, is the lack of market access and national treatment in the industry sectors which information technology serves. If the financial services industry is not permitted to sell mutual funds across borders, then the capability of the information technology services industry to provide that service electronically is moot. For the information technology services industry to reach its full potential to deliver benefits to individuals as well as entire economies, the markets in every other industry sector must be opened and liberalized.

D. NEGOTIATING OBJECTIVES

We urge the USTR to set the following negotiating objectives.

Expand the coverage of existing agreements in information technology related and enabling areas such as the Enhanced Telecommunications Annex, the Basic Telecommunications Services Agreement, and the Information Technology Agreement.

Develop a consensual view of and acceptance of the modes of supply as applied to information technology services in the section above.

Expand the definition of information technology services.

Insure information technology services can be performed and delivered without establishment.

Achieve full market access and national treatment for information technology services and for services in a broad range of other sectors.

Seek commitments in government information technology services procurement for full market access, national treatment, transparency, access to independent appeals, and dispute resolution processes.

PROFESSIONAL & BUSINESS-RELATED SERVICES

SECTOR STATUS

Professional and business-related services are those services for which the provider requires specialized, technical knowledge – acquired through post-secondary education or equivalent training or experience – which is adapted and applied to the specific needs of business clients. Many of these services are performed by licensed professionals for which the right to practice is controlled by the government and/or professional bodies. These licensed professions tend to be more regulated than commercial services because the license holders are authorized to practice restricted activities in return for which they are expected to assume public interest responsibilities. Examples include accountancy, architecture, engineering and law. Other business-related services share common characteristics with the professions, such as high levels of human and intellectual capital input and close interaction between the provider and the client, but generally are not highly regulated or controlled by licenses granted by government or professional bodies. Examples include management and business, including computer-related, consulting services. Thus, this discussion topic overlaps, with some extent, with the section on information technology services. [Please note that this section addresses the licensed professions most closely associated with services provided to businesses and, thus, does not cover medical doctors, dentists, nurses, pharmacists, beauticians, etc. The medical professions are covered in the "Health Services" section].

Statistics on trade in services are notoriously poor, so it is difficult to know the volume of trade in professional and business-related services worldwide. In the U.S. balance-of-payments category of "business, professional and technical services," U.S. providers exported \$17.6 billion in 1996 and \$21.3 billion in 1997. Imports were valued at approximately one-quarter of these amounts. There is reason to believe, however, that these numbers substantially understate the level of international business in this sector, because they do not include data on earnings from foreign investments and foreign affiliates, especially with respect to "accounting" firms and information technology companies. Nor do they include fees generated by mobile service providers, such as lawyers, architects, engineers and consultants, who serve temporarily in foreign countries but are paid at home.

Professional and business-related services received substantial coverage in the schedules of commitments under the General Agreement in Trade in Services (GATS).

More than 60 WTO member governments have made commitments in accountancy and related services, accounting for approximately 90 percent of the world market

measured by gross revenues. Virtually all these commitments confirmed the *status quo* with respect to market access and national treatment.

More than 40 WTO member governments made commitments on architectural services, and just fewer than 30 made commitments on urban planning and landscape architectural services.

More than 50 WTO member governments made commitments on engineering services.

More than 40 WTO member governments have made commitments in one or more aspects of legal services. The commitments mostly cover advisory services on international and home country law. The commitments are mostly in the nature of a standstill and do not achieve the American bar's objectives on Foreign Legal Consultants or rules for examinations in foreign jurisdictions.

More than 60 WTO member governments also made commitments in computer-related services and management consultancy, also accounting for about 90 percent of the world market measured by gross revenues. Again, the commitments largely confirmed the *status quo*, which for the most part is relatively free of trade restriction and discriminatory regulation.

It should also be noted that the WTO and the GATS have created an international legal umbrella over substantial work initiated by the professions themselves in the areas of mutual recognition and standards. Two examples follow:

The International Union of Architects (UIA) Professional Practice Commission has produced the "UIA Accord on Recommended International Standards of Professionalism in Architectural Practice." The American Institute of Architects and the Architectural Society of China serve as the Commissions' joint secretariat. The document was initially adopted by the UIA's 91 national member sections in July 1996. A revised and expanded edition, including recommended policy guidelines, will be presented for adoption at the XXI UIA Assembly in June 1999 in Beijing. A primary objective of this document is to allow member sections to more easily negotiate bilateral mutual recognition agreements (MRAs).

The American Institute of Certified Public Accountants (AICPA) strongly supports the work of the International Federation of Accountants and the International Accounting Standards Committee in developing a body of widely-accepted international accounting and auditing standards and international guidelines on ethics. In addition, the AICPA has joined with the National Association of State Boards of Accountancy to complete MRAs with the Canadian Institute of Chartered

Accountants and the Institute of Chartered Accountants in Australia. Additional discussions are continuing with other professional bodies in Australia, England, Ireland, Mexico and Scotland.

CLASSIFICATION

The professional and business-related services covered by this paper are found in the following categories listed in the World Trade Organization's (WTO) "Services Sectoral Classification List."

BUSINESS SERVICES

- Professional Services
 - Legal services
 - Accounting, auditing and bookkeeping services
 - Taxation services
 - Architectural services
 - Engineering services
 - Integrated engineering services
- Computer and Related Services
 - Consultancy services related to the installation of computer hardware
 - Software implementation services
- Other Business Services
 - Management consulting services
 - Services related to management consulting

CSI recommends that the U.S. Trade Representative seek the inclusion of several additional classifications of professional and business-related services in the specific commitments made by member governments. These are:

- Actuarial services.
- Counseling in business transactions.
- Participation in the governance of business organizations.
- Mediation, arbitration and similar non-judicial dispute resolution services.
- Public advocacy and lobbying.

In the area of computer-related services, the "Information Technology" section of this paper makes a number of useful recommendations.

BARRIERS

International trade in professional and business-related services is conducted both by individuals who have met specified professional qualification requirements or have specialized business knowledge and by firms owned by and/or employing these individuals. Professional and business-related services are rendered in all four modes of delivery contemplated by the GATS. They may be provided across borders by professionals travelling to another country or communicating electronically with clients there. More typically, the services are provided by locally-established firms affiliated with others abroad through ownership, contract or cooperative agreement. And in some cases they are provided to foreign consumers visiting the provider's home jurisdiction.

The impediments to trade in professional and business-related services stem from regulations intended to protect local providers from competition and, probably more importantly, from domestic regulations intended to protect defined national interests. Most professions are enveloped in national and/or sub-national systems of regulation, which were developed to respond to particular circumstances and political demands. These distinct systems have persisted even as the globalization of markets has accelerated and, thus, have given rise to trade and investment barriers.

Impediments to Professional Firms

Restrictions on the movement of capital and investment, such as foreign equity limits, screening of investments and the application of economic needs tests, and reserving ownership to locally-qualified professionals.

Restrictions on making current payments, such as profit remittances and the payment of royalties and fees across borders.

Restrictions on the types of business structures permitted.

Numerical, geographic or other restrictions on the establishment of branch offices.

Requirements to employ only local people and professionals or the use of quotas to limit intra-firm transfers.

Inadequate protection on intellectual property, such as software, practice methodologies and training materials, as well as restriction on the use of international firm names.

Impediments on Individual Professionals

Onerous professional qualification requirements, such as citizenship, permanent and/or prior residency, local university degrees, and excessively long experience requirements, and administering qualification examinations in languages other than the WTO working languages.

The use of different technical standards or standards of practice in each national and/or sub-national jurisdiction.

Difficulties in obtaining visas and work permits.

Impediments Affecting both Firms and Individuals

The lack of transparency in the regulatory process, including the failure to make laws and regulations available, closed decision-making processes, the lack of opportunity to comment before rules are adopted, and the absence of appeal processes.

Local establishment requirements.

Rules either requiring or prohibiting relationship between foreign and local professionals or professional firms.

Customs duties on professional documents, project models, training materials, promotional publications, and software.

Scope-of-practice limitations that may prohibit the provision of selected or multiple services to clients.

The assignment of contract by government agencies, the mandatory rotation of providers, and "Buy National" policies.

Prohibitions on advertising professional services.

Reciprocity laws or regulatory requirements.

D. BENEFITS OF LIBERALIZATION

Professional and business-related services are part of the intellectual capital infrastructure essential to the operation of modern economies. For example:

Accounting and auditing services are critical to management control of enterprises and provide the assurance that underlies efficient capital markets.

Architectural and engineering services are essential to the creation of modern business structures and processes.

Legal services make possible effective relations between buyers and sellers and among business partners, as well as help to protect the investments and property of national of one country transferred to another.

Consulting services provide valuable management know-how, competitive insight, and advice on modernizing and reengineering business enterprises.

Liberalization of trade and investment in this sector makes available to business users state-of-the-art inputs to their production processes. Moreover, the international operation of professional and business-related service providers are important conduits for transferring state-of-the-art technology and training, which has ripple effects throughout the host economies. And many professional services firms provide international networks by which host country services can be exported.

F. NEGOTIATING OBJECTIVES

U.S. negotiators should press governments that have not made specific commitments on professional services to do so. The goal should be that all 132 WTO member governments apply the GATS rules to professional and business-related services. Some significant markets, such as India, Indonesia and the Philippines, are now missing.

U.S. negotiators should press other governments to remove as many of the "exceptions" in their scheduled commitments as possible. The aim should be full application of the market access and national treatment rules to professional services.

U.S. negotiators should champion "freedom of association" for U.S. and foreign professionals, seeking to eliminate requirements or prohibitions of professional associations in partnership or in other forms of "corporate" practice.

U.S. negotiators should work for an agreement on business mobility (temporary entry of business people), which would remove the visa requirements and red tape for qualified professionals entering another WTO member country for specific, temporary assignments.

U.S. negotiators should work for horizontal disciplines on domestic regulation of

professional and business-related services under GATS Article VI that go beyond the disciplines developed for the accountancy sector. In particular, they should seek a meaningful "necessity test" under which onerous regulations could be challenged as "more burdensome than necessary, transparency rules that allow interested parties to comment in advance on proposed legislation, and pro-competitive regulatory structures.

U.S. negotiators should seek an extension of the principles of the Agreement on Technical Barriers to Trade to service industries and professions.

With respect specifically to legal services, U.S. negotiators should focus on two objectives: (1) adoption of the concept of "foreign legal consultants" whereby lawyers are permitted to practice their home country law (as well as third country and international law) in foreign jurisdictions; and (2) "model rules" on bar examinations that assure the exams are related the areas of law to be practices, follow transparent procedures, are based on information readily available (through training courses, etc.), and are administered in one of the working languages of the WTO.

TELECOMMUNICATIONS

A. SECTOR STATUS

As the new millennium fast approaches, it has become obvious that telecommunications networks provide the underlying infrastructure and services upon which most of the world's information and commerce depend. It is safe to say that without a robust telecommunications infrastructure, the global economy as we know it today would simply not exist. Vice President Gore has recently recognized that not only is the telecommunications-enabled Global Information Infrastructure a vital underpinning of world trade, the GIi has the capacity "to extend knowledge and prosperity to our most isolated inner cities, to the barrios, the favelas, the colonias and our most remote rural villages; to bring 21st Century learning and communication to places that don't even have phone service today; to share specialized medical technology where there are barely enough family doctors today; to strengthen democracy and freedom by putting it on-line, where it is so much harder for it to be suppressed or denied."

Privatization and liberalization of the world's telecommunications markets will provide the most efficient and effective means of insuring the global telecommunications infrastructure's growth and enhancement. As experience in a number of countries now amply demonstrates, a liberalized market leads to significant increases in infrastructure development, more and better services, and lower prices for consumers. Moreover, a liberalized, modern telecommunications system should increase capital investment, thereby strengthening and facilitating growth of a nation's economy.

It now appears that much of the world's commerce in the future will be transacted over the Internet's network of networks. A good deal of the communications will be of the multimedia variety which will require advanced, broadband telecommunications services. Without liberalized open telecommunications markets, there will not be sufficient incentives to upgrade what is rapidly becoming in many parts of the world an inadequate, outdated telecommunications infrastructure.

WTO Agreement on Basic Telecommunications Services

The 1997 WTO Agreement on Basic Telecommunications Services (GBT), with its accompanying Reference Paper, truly represents a watershed event not only for the telecommunications industry, but also for the entire world economy. Seventy countries participated and agreed to move in varying degrees toward full, technology-neutral, liberalization of their telecommunications sectors through market access, foreign

investment and adoption of pro-competitive regulatory principles.

The GBT was a landmark agreement in a number of ways. It was the first successful sectoral negotiation — the agreement dealt only with telecommunications. Changes in agriculture import quotas, for instance, could not be traded for concessions in telecommunications, insuring that all benefits of the agreement accrue to telecommunications alone. In addition, a Reference Paper containing pro-competitive regulatory principles was developed and was incorporated into a majority of the countries' offers. This Reference Paper legally binds the countries into "how" they will implement many parts of the agreement. Thus, promulgation of regulations in accordance with the Reference Paper's principles must be considered an integral part of a country's implementation of the GBT.

Under a very broad and essentially open-ended definition employed for the negotiations, basic telecommunications was considered any telecommunications transport network or services and the schedules of commitments cover a wide variety of services fitting this definition. Some examples of basic telecommunications include: voice telephone services, packet-switched data transmission services; circuit-switched data transmission services, telex, telegraph, facsimile and private leased circuit services, analog/digital cellular/mobile telephone services, mobile data service, paging, personal communications services, satellite-based mobile services, fixed satellite services, VSAT services, gateway earth station services, teleconferencing, video transport and trunked radio system services. Categories of service included: local, long distance, international, wire-based, radio based, resale, facilities-based, for public use, and for non-public use (closed user groups). As discussed below, some rethinking of these categories of facilities and services may be in order.

In sum, the GBT and accompanying Reference Paper represents a tremendous first step toward the ultimate goal of a fully open, competitive telecommunications market worldwide. A good deal of work remains to be done, however. In addition, it is important that new negotiations do not provide for countries to re-evaluate or back away from existing commitments. New negotiations should build on existing commitments.

B. CLASSIFICATION

Sector Classifications and Sub-Sectors (CPC Codes):

Clearly, telecommunications market developments of the past few years warrant a reexamination of the applicability of the Standard Classification System last revised in 1991. It may be appropriate for countries to agree to a standardized set of services that are independent of the particular technology used to provide those services.

C. BARRIERS

Although a monopoly telecommunications environment provided a fairly reliable, working telephone system which served the world well for almost 100 years, most of the rapid technological developments of the past two decades have resulted from the increasingly competitive marketplace in a number of countries. Experience has shown that the more open the market, in terms of free entry and exit and the number of competitors present, the more robust the competition and the better the result for consumers.

Unfortunately, even in the wake of the GBT, most of the world's telecommunications markets still contain barriers that restrict access, curtail the scope of the playing field, or tilt it in a variety of ways. In accordance with their GBT commitments, many countries already have privatized their national telecommunications carriers, and others plan to do so in the near future. Privatization is an important step toward introducing competition into markets, but privatization by itself will not produce an open and fair competitive environment. Whether the incumbent carrier is controlled by the government or is privately held, new entrants cannot effectively compete in the market without full liberalization. In order for competition to flourish, the regulator must be completely independent of the dominant carrier and must actively implement and enforce pro-competitive principles such as those enumerated in the GBT Reference Paper.

Barriers remain even under the current commitments of some countries. Restrictions on foreign ownership and requirements for local partners of varying descriptions hamper the ability to provide telecommunications services seamlessly in these countries or worldwide. In addition, requirements to use public networks and restrictions on the use of leased lines provide barriers to true global market access. Nor is national treatment a reality in every country.

The licensing schemes of many countries pose another significant barrier to the market and to full and fair competition. Restrictions on the number of licenses awarded per geographic area, onerous qualifications for licensees, exorbitant fees, and lack of transparency in the bidding and award process must be eliminated. In many cases, the totality of these requirements effectively limits participation to a handful of large carriers and prevents smaller, perhaps more responsive or innovative carriers from participating.

Variations on the same theme are regulations which favor facilities-based providers over resellers. Many countries that have otherwise committed to liberalize their telecommunications in the GBT have adopted policies designed to encourage infrastructure investment. For example, carriers may be required to implement a certain number of switches before they are permitted to interconnect with the incumbent. These sorts of requirements, while attempting to achieve an arguably laudable goal, act as a barrier by depriving consumers in these markets of a very valuable source of

supply—resellers.

As experience has shown in this country, resellers continue to play a vital role in the telecommunications marketplace. There are literally hundreds of these entities, with their numbers increasing every month. These companies are usually small by comparison with the giant facilities-based carriers, but they are able to stay ahead of their much larger competitors by constantly introducing new pricing arrangements, new services, and innovations for consumers.

Another barrier to competition in many countries is the lack of number portability. Number portability is essential in order for competition to develop because it allows customers to keep their telephone numbers when changing carriers. Where no number portability exists, residential consumers in particular are much more reluctant to shift their business away from the incumbent, even when they are offered a significant price break.

Even in the business market, the lack of portability acts as a major deterrent to competition. Businesses must incur significant expenses to reprint stationery and business cards and to inform customers, suppliers, and others that they have changed telephone numbers. For example, before portability was implemented in the domestic 800 service market, some competition did exist. However, soon after the introduction of portability, overall demand rose and prices dropped.

D. NEGOTIATING OBJECTIVES

We urge the USTR to set the following negotiating objectives:

Update the 1991 Standard Classification System to emphasize services rather than the technology employed to deliver the services.

Expand and deepen the commitments of countries that agreed to partial liberalization in the GBT to include full liberalization and adoption of the Reference Paper, by a date certain in the near future.

Schedule commitments to full liberalization and adoption of the Reference Paper, by a date certain in the near future, of countries that are WTO Members but have not made commitments under the GBT.

Seek commitments to full liberalization and adoption of the Reference Paper by countries wishing to accede to the WTO.

IX. TRAVEL AND TOURISM

BENEFITS OF LIBERALIZATION

The travel and tourism industry is the world's largest industry, employing over 230 million people worldwide, and is expected to grow to almost 320 million by 2010. The travel and tourism industry is growing faster than world GDP growth. Its share of gross domestic product is expected to increase from about 11.6 percent in 1998 to 12.5 percent by 2010. The travel and tourism industry creates good jobs spanning the spectrum from entry level to executives. It is clearly a driver of economic growth in the world. Liberalization of the industry will lead to faster industry growth, which will not only spur direct growth in the industry, but growth in related industries such as manufacturing of transportation equipment, and building and related critical infrastructure development projects. Moreover, the travel and tourism industry represents sustainable and ecologically friendly development.

B. SECTOR STATUS

In general, the tourism and travel related services sector tends not to be heavily regulated and competition tends to be vigorous. There are, however, some significant exceptions to this broad generalization.

C. CLASSIFICATION

This sector includes hospitality, restaurants, travel agencies, tour operators, tourist guides services and other travel related services. The industry has developed since these classifications were drawn up, and the specific services covered under these broad categories need to undergo a thorough review and analysis to ensure that all services that should be covered are included. It should also be clarified that this sector includes travel reservation services and travel-related financial services, e.g. travelers checks and certain foreign exchange services, which are distinct from those covered under the banking, insurance and securities sector. (The tourism and travel related services sector does not include air or other transportation sectors, which are covered under the transport services sector.)

D BARRIERS

Two of the most prevalent types of barriers fall under the rubrics of competition and investment, which could be addressed either horizontally or on a sectoral basis. (Needless to say, this industry, like many others, has substantial investments in trademarks and intellectual property, and has an interest in the outcomes on these and other general business concerns.)

Competition

Many countries impose significant restrictions, often only against foreign firms or enforce them in ways that favor domestic firms, on marketing and promotional initiatives, including loyalty reward programs.

Investment

One hundred percent foreign ownership is often prohibited, and the form of doing business is commonly restricted or controlled. In addition, when operating through a franchise network, repatriation of profits, payment of royalties, and other similar issues frequently become problematic.

Movement of Personnel

A third horizontal issue is of particular concern to the industry, and that regards the freedom of movement for business personnel. The ability of travelers to move freely around the world is the lifeblood of the travel and tourism industry. The industry has an abiding interest in liberalizing the restrictions, not only on tourists and the industry's own management, but generally on businesses' ability to locate the proper personnel in the locations where they are most needed.

The other barriers are not covered in the general issues, though some do affect other sectors, as follows:

Privacy

Many companies in the travel industry maintain records regarding customers' travel preferences in order to serve particular needs better. Many countries are proposing, or have already enacted, onerous restrictions on the flow of this type of information. Many countries also require the disclosure of overseas spending by customers, thereby discouraging foreign travel by their citizens.

Tourist Financial Services

Many countries proscribe significant restrictions on the provision of financial services for travelers. Sale of travelers checks are often restricted to certain limited types of financial institutions, as are foreign currency exchange services even though they pose no risk to a country's financial system. Finally, access to local ATM networks is occasionally prohibited.

Taxes on Overseas Spending

Some countries penalize their citizens when they travel abroad by imposing taxes on overseas spending, often in ways that unfairly discriminate among payment products. One large South American country, for example, imposes a 2 percent transaction tax on credit and charge card spending abroad, but imposes no special taxes on cash purchases. As a large proportion of spending by international travelers is transacted through credit card payment systems, this tax discourages international travel and tourism.

E. NEGOTIATING OBJECTIVES

The U.S. objective should be the removal of as many of these barriers as possible. Unfortunately, it is too early in the process to identify firm industry-wide priorities.

PREPARED STATEMENT OF HON. JOHN BREAUX

[APRIL 28, 1999]

Mr. Chairman, I commend your holding this trilogy of Trade Hearings in the Senate Finance Committee. With a fragile world economy, despite a robust US economy, we can't afford to sit on our laurels. We must, as the Chairman has said, develop a new consensus on US trade policy especially before we host the next WTO Ministerial meetings later in the year.

So how do we form this new consensus? At a minimum, we need to respect and enforce our current trade laws and trade agreements; we need to honor the transition periods negotiated in trade agreements upon which vulnerable US industries rely; we need to resist or at least be very smart about offering unilateral trade concessions; we should require proper and adequate consultations with the Congress during all stages of trade negotiations and we should front-load private sector input into the negotiations via more explicit negotiating objectives; we must recognize and give credit to our trade policy for its contribution to our robust US economy and expand this growth potential; and we should further encourage voluntary efforts by industry to improve labor and environmental conditions at home and abroad.

On this last point, I'd like to note that I've been impressed by the efforts that the Nike Corporation has taken to address labor and environmental concerns and wonder about the extent to which other multinational companies, both foreign and US, are implementing similar programs. I offer a written summary of these Nike efforts as an example for inclusion into the record.

Finally, I urge the Committee to push an aggressive trade agenda which should include: passing the OECD Shipbuilding Agreement; passing fair CBI Parity and Africa Trade bills; passing FAST TRACK authority in time for the WTO negotiations to break down telecommunications and financial services barriers as well as market access barriers to US agriculture. We must also work aggressively for greater market access for US forest products in Japan and Europe and I submit questions for Ambassador Barshefsky and Secretary Rubin in this area.

I look forward to working with the committee to form a successful US consensus on international trade and to passing trade legislation that can be enacted into law. Attachment.



Labor and Environmental Initiatives

For the quarter century that NIKE has been producing performance sports footwear and apparel, we have been a leader in innovation. We believe that with leadership comes responsibility. NIKE has accepted for many years that it is not enough to produce the best performance athletic products in the world; those products must also be produced in good working conditions and manufactured in ways which minimize the impact on the environment.

As a global company, NIKE manufactures products on six continents, in more than 30 countries including the United States. Although NIKE doesn't own the factories, through our subcontracted factories, we help create new jobs for over 500,000 people worldwide. NIKE also directly sustains over 10,000 high paying jobs in the United States. NIKE is proud of many of the initiatives that we and our subcontractors have undertaken to improve factory working conditions, promote environmental sustainability, and to contribute to economic and community development. Consider that NIKE:

- Wrote the industry's first Code of Conduct in 1992 and has a comprehensive system to enforce the code through internal and independent, external third party monitoring. Based on International Labor Organization (ILO) standards, the Code covers a range of worker rights including fair wages, hours and working conditions; prohibitions on child and forced labor; and zero tolerance for worker mistreatment (including sexual harassment).
- Established a special labor practices department dedicated solely to ensuring proper implementation of the Code and subcontractor compliance. As well, we have over 1,000 NIKE employees in the factories every day helping to monitor working conditions.
- Works with, and is continuing to learn from, several non-governmental organizations (NGOs) to directly incorporate their expertise into our external monitoring system.
- Participates, as one of only a handful of companies in the President's Apparel Industry Partnership (AIP) – a coalition of companies, human rights and labor rights organizations which have created a Fair Labor Association dedicated to improving working conditions in factories worldwide.
- Has been singled out as a leader in efforts to eradicate child labor by the US Department of Labor for NIKE's initiatives to end child labor in soccer ball production in Pakistan.
- Is committed to providing a safe and healthy environment for workers in all factories. NIKE has conducted air quality testing in foreign footwear factories and is committed to ensure that air quality in these factories are at or below the U.S. Occupational Safety & Health Administration's (OSHA) permissible exposure limits (PELs).
- Accelerated a program to replace industry standard petroleum based solvents with safer water based compounds for all footwear products. Currently 95 out of every 100 pairs of NIKE shoes are made with water based adhesives, and parallel efforts are being made in all other solvent types and processes.
- Seeks to integrate principles of environmental sustainability into all major business decisions including in the design, development and manufacture of product.
- Increased support of its current micro-loan program to 2,000 families in Vietnam and broadened the program to three other Asian countries.
- Expanded worker education programs, including middle and high school equivalency courses for workers in all NIKE footwear factories worldwide.

**Prepared Statement of the Honorable Carol M. Browner
Administrator of the Environmental Protection Agency
before the
Committee on Finance
United States Senate
January 28, 1999**

Thank you Mr. Chairman, and other members of the Committee, for inviting me here to discuss this Administration's global environmental objectives, EPA's international mission and our role in defining the interface between trade and environment policies. I would like to take this opportunity to identify for the Committee the goals of our strong international program and the many ways we work to achieve those goals both within and outside the trade agenda. I hope to assist you in attaining an appreciation for EPA's interest in trade and environment issues and to make progress towards a common approach for developing a new consensus on these issues.

EPA's International Mission

EPA is a leader in the nation's efforts to protect and preserve public health and the vitality of natural ecosystems in this country. My Agency is committed to achieving these goals by reducing risks to human health and the environment, preventing pollution, and fostering environmentally sound and sustainable economic development in a cost-effective and efficient manner.

International cooperation is a key element in EPA's ability to achieve this mission. The United States faces significant challenges in protecting the health of its citizens and its natural resources from environmental hazards. In today's world, since pollution does not honor national boundaries, overcoming these challenges requires the cooperation of other countries. Some examples include:

- ▶ Cross-border air, water and waste pollution from Mexico, Canada and other areas affect the health, environment and well-being of American citizens living along borders as well as other areas of the United States.
- ▶ Improper use of chemicals abroad can affect the safety of food and other products imported into the United States.
- ▶ Health and environmental benefits resulting from the multi-billion dollar U.S. investment by industry under the Clean Air Act to reduce emissions of stratospheric ozone depleting compounds could be undermined by failure to control production or

use of these chemicals in other countries, such as China, India or Russia.

- ▶ Pollution of the marine environment in the wider Caribbean region can damage U.S. fisheries and coral reefs and jeopardize tourism and other livelihoods.
- ▶ Pollution of the oceans and irreversible loss of species and habitat worldwide damage natural systems critical to our well-being and quality of life, and deprive us of commercially valuable and potentially life-saving genetic materials.
- ▶ The long-range transport of persistent organic pollutants like DDT, chlordane and polychlorinated biphenyls (PCBs) can adversely affect health and environment in the United States.

One of the major goals of EPA's Strategic Plan under the Government Performance and Results Act is aimed at reducing global risks that affect health and environment in the United States. EPA's efforts under this goal are grouped in five major areas: (1) protecting North American ecosystems, including marine and Arctic environments, (2) meeting U.S. commitments under the U.N. Framework Convention on Climate Change, (3) reducing stratospheric ozone depletion in conformance with U.S. commitments under the Montreal Protocol on Substances that Deplete the Ozone Layer, (4) protecting public health and ecosystems from persistent organic pollutants that circulate at global and regional scales, and (5) strengthening environmental protection worldwide and achieving cleaner and more-effective environmental protection in the United States.

EPA's international environmental programs help protect the health and environment of American citizens. They enlist the cooperation of other nations in reducing transboundary and global environmental threats to the United States and reduce the cost of the nation's environmental protection. They also serve the nation's broad foreign policy, economic and national security interests.

Reducing Environmental Threats Along Our Borders

Over half of the U.S. population lives in the 19 States that form our borders with Mexico and Canada. Nowhere are the benefits of EPA's international programs more apparent than along our common borders with Mexico and Canada and in the Arctic and wider Caribbean region.

In 1993, this Administration concluded the U.S.-Mexico Border Environmental Cooperation Agreement, which created the Border Environmental Cooperation Commission (BECC) and the North American Development Bank (NADBank). In addition, the Administration negotiated the North American Agreement on Environmental Cooperation. These efforts have led to specific environmental gains in all three countries. NAFTA highlighted the problems unique to the U.S.-Mexico border and, as a result, Congress, border state legislators, federal and state agencies have devoted their efforts and resources to effectively resolving these problems in strong cooperation with Mexico without interfering with the trade agenda.

- The BECC and NADBank have been established to certify and fund environmental infrastructure projects. Fifteen BECC-certified projects, worth a combined \$350 million and serving 3.5 million U.S. and Mexican citizens are now under construction or complete. The institutions, using their own and EPA resources, are developing additional projects for future construction.
- Since 1995, EPA has provided \$425 million for border drinking water and wastewater infrastructure construction, as well as \$200 million specifically for colonias water facilities.
- Border XXI, the binational border environment plan, brings together many federal, state, and local agencies on both sides of the border, as well as Tribal entities and non-government organizations to ensure cooperation to maximize resources and avoid duplicative efforts. In advancing the goal of sustainable development, Border XXI emphasizes public involvement in its development and implementation and works to build capacity and decentralize environmental management.
- The second phase of Border XXI includes efforts to address pressing health and natural resource needs. The addition of the Environmental Health, the Natural Resources, and the Environmental Information Resources Workgroups to the Border XXI Program resulted in the participation of Health and Human Services Department and the Department of Interior.
- The ten border states (U.S. and Mexico) are cooperating by developing state-to-state strategic plans to address the degradation of the border environment.
- Border XXI places an emphasis on measuring the progress of border environmental efforts which has resulted in a process to develop environmental indicators for the U.S.-Mexico border area. The first Indicators Report was released in July 1998.
- A binational joint advisory committee representing various sectors of the public was established to provide recommendations to the Air Workgroup on air pollution improvement efforts in the El Paso-Ciudad Juarez-Doña Ana County air basin.
- The United States has jointly developed an emissions inventory methodology with Mexico, which Mexico adopted. As a result, Mexico is now systematically developing compatible air pollution emission inventories all over the country, including cities along the border.
- Continuous air monitoring data is now being collected in three priority areas—El Paso-Juarez-Sunland Park, Imperial-Mexicali, and San Diego-Tijuana.
- The Good Neighbor Environmental Board and Region 1 of the Mexican National Advisory Council for Sustainable Development—the two national public advisory committees on U.S.-Mexico border issues—are working individually and jointly to develop recommendations on a number of sustainable development policy issues.

- Regional subgroups, such as the Environmental Enforcement and Compliance subgroups, are being established along the border to facilitate the cooperation of various entities working in the border area on specific projects. The regional subgroups also allow opportunities for the public to have input into environmental improvements.
- Fourteen sister city pairs along the border are developing joint contingency plans for chemical emergency response. To date, three pairs of sister cities have developed and signed binational joint plans and several others are preparing or finalizing their plans.
- Mexican and U.S. federal entities are cooperating in the area of environmental enforcement and compliance through the sharing of information and through training and technical and legal consultations on many aspects. In particular, voluntary environmental compliance, including environmental auditing and adoption of pollution prevention practices and technologies, is promoted by environmental agencies on both sides of the border.
- Many efforts have been made to expand availability of environmental information and to increase public participation in environmental decision making in the border area. Among these efforts is the creation of a bilingual Border XXI web site as a mechanism to increase public access to information.

Long-standing cooperation with Canada has resulted in corresponding environmental gains along our northern border. Benefitting from the Great Lakes Water Quality Agreement and other cooperative agreements, mercury levels in fish in Lakes Michigan, Huron and Erie have dropped by more than 75 percent since 1970. Phosphorous loadings into Lake Erie decreased by more than 50 percent over the same time period, improving water quality and raising fish stocks. EPA and Environment Canada are working closely with public and private interests on both sides of the border to eliminate health and environmental risks from persistent organic pollutants in the Great Lakes.

U.S. and Canadian efforts to achieve the goals of the U.S.-Canada Air Quality Agreement resulted in reductions of sulfate wet deposition over eastern North America by over 20 percent of 1979 levels. U.S. and Canadian federal, British Columbia provincial and Washington state agencies are cooperating to achieve shared goals for the Puget Sound-Straits of Georgia Basin eco-region. Their top four priorities are minimizing habitat loss, protecting marine plants and animals, minimizing introduction of non-native species, and creating marine protected areas. Joint contingency planning with Mexico and Canada is helping prevent and ensure appropriate response capabilities for chemical accidents or other hazardous spills along inland borders.

Reducing Global and Regional Environmental Risk

Global threats have local effects since they can affect the health and well-being of every U.S. citizen. Depletion of the stratospheric ozone layer increases the amount of the sun's ultraviolet radiation reaching the earth's surface, thereby increasing risk of skin cancer, cataracts and suppression

of human immune systems. Pollution of the oceans originating in other countries threatens health and environment along U.S. coasts. Similarly, the United States is vulnerable to the impacts of climate change caused by global greenhouse gas emissions. Even if we are able to reduce our emissions to 1990 levels (as called for in the Framework Convention on Climate Change), we believe there is a delayed effect from already accumulated emissions which will continue to effect global temperatures and result in rises in sea levels through the next century. Loss of biological diversity is damaging the health of ecosystems and depleting the world's commercially valuable and potentially life-saving genetic materials. The global ramifications of the nuclear accident at Chernobyl underscored U.S. vulnerability to the results of environmental mismanagement in other countries. Environmental problems like ozone depletion and water pollution also have adverse economic effects for industries like agriculture and fishing.

The Administration is committed to meeting the challenge of these global environmental problems, working at the global, multilateral, regional, and bilateral levels. EPA plays a role, in coordination with the Department of State, in negotiating certain global and regional environmental agreements. The Agency also, in accordance with its statutory authority, draws on its policy and technical expertise to implement international agreements and programs on global and regional environmental problems directly affecting the United States. The Agency was a leading policy and technical voice in the international negotiations on the Montreal Protocol on Substances that Deplete the Ozone Layer. EPA was a key participant on the U.S. delegation to many technical working group meetings, and had lead responsibility for domestic implementation of the Protocol through the promulgation of regulations under the Clean Air Act. The Agency is also instrumental in carrying out U.S. responsibilities related to the provision of technical assistance to developing-country Parties to the Protocol. EPA is has a leading role in the inter-agency effort to reduce illegal exports and imports of chlorofluorocarbons (CFCs) through enforcement cooperation with other countries.

EPA also provides policy and technical leadership in international efforts to implement the Framework Convention on Climate Change, as well as international agreements to prevent and reduce pollution of the marine environment from dumping, vessels and land-based sources. The recent agreement under the London Convention to ban the sea disposal of radioactive and industrial wastes, for example, helps protect U.S. coastal areas, fisheries and human health. Through U.S.G. activities like the U.S. Country Studies Program and the United States Initiative on Joint Implementation (USIJI), EPA assists developing countries in identifying innovative, cost-effective ways to reduce greenhouse gas emissions. Increasing private sector investment in developing countries while enhancing environmental and human health benefits are goals of the USIJI, the Country Studies Program and related programs. These activities stimulate the development and diffusion of clean, energy-efficient technologies in developing countries, while lowering the cost of greenhouse gas reductions to the U.S. industry.

EPA has been a global leader in international efforts to control the long-range transport of persistent organic pollutants, such as DDT, chlordane and polychlorinated biphenyls (PCBs). The Agency recently helped secure international consensus on the need for a legally binding convention on these pollutants. Such a convention will enlist the cooperation of nations in limiting the

production of chemicals long banned or restricted for use in the United States and whose continued use abroad poses a threat to health and environment in this country. EPA played a major role in international negotiations resulting in the adoption of the prior informed consent (PIC) agreement for the transboundary movement of certain toxic chemicals and pesticides.

Similarly, EPA has a key role on implementing the Global Programme of Action on Land-Based Sources of Marine Pollution adopted at the Washington Conference in 1995, and in negotiations on a Land-Based Marine Pollution Protocol under the Cartagena Convention for the Wider Caribbean Region. The development and implementation of effective controls on land-based sources of marine pollution such as outfalls and runoff will go far toward advancing important U.S. environmental and economic interests. Clean beaches and healthy coral reefs, for example, are very important to the tourist, fishing and recreation industries.

This Administration will continue efforts to improve regional environmental cooperation, and to build such cooperation arrangements in regions targeted for trade liberalization, such as APEC and the FTAA. In the Western Hemisphere, we are leaders in the follow up to the Miami Summit Action Plan and the 1996 Bolivia Sustainable Development Summit:

- In the area of biodiversity, USAID is initiating or expanding projects on environmental health and education, and on the Central American Biodiversity Corridor, a biodiversity Internet site (in cooperation with UNDP). In the energy sector, DOE has focused its resources on renewable energy, technology exchange and rural electrification.
- EPA and the Department of Justice are cooperating to develop a network of experts in environmental law and enforcement to explore strengthening laws and regulations in the hemisphere. EPA and Justice are also examining ways to address water issues -- both clean drinking water and waste water -- and land-based sources of marine pollution.
- NOAA, working under a cooperative agreement with USAID, is considering the establishment of a Marine Environment Center in the Caribbean Basin.
- Regarding transparency and enhancing the participation of civil society, with our leadership, the Bolivia Summit has mandated the OAS to develop an Inter-American Strategy for Public Participation in Sustainable Development Policy-making.

With respect to the Asia Pacific region, our leadership role on environmental issues will continue:

- The United States has taken the lead on implementing two of the sustainable development initiatives launched at the July 1996 APEC Environment Ministerial.
 - 1) "clean production", whose goals are to reduce pollution in key industry sectors by promoting appropriate cleaner production technologies, policies and practices while also striving to achieve broader adoption of cleaner production technologies through institutional

and professional partnerships; and

2) the marine environment, whose goals are to develop integrated approaches to coastal management, prevent, reduce and control marine pollution and manage marine resources in sustainable way. (The initiative is "sustainable cities").

- The United States is working to integrate environmental issues within the scope of other APEC working groups, e.g., the energy working group is looking at issues of energy efficiency and clean technology.

Elevating the Quality and Reducing the Cost of Environmental Protection in the United States

The United States is a world leader in environmental protection, with significant expertise residing in both the public and private sectors. Cooperative research and regulatory development enables the United States to share the costs of environmental protection efforts and to benefit from scientific and technological breakthroughs in other countries, thereby elevating the quality and reducing the cost of environmental protection in the United States.

Cooperative research with several countries, including Canada, Germany, Sweden, Japan, China, and India, has yielded valuable information to the United States at a fraction of the cost of collecting and analyzing the data here. In a cooperative study with China, for example, EPA was able to assess the loss of lung function in children due to their exposure to coarse and fine air-borne particulate matter. Joint testing with Germany on the development of thermal destruction techniques for hazardous waste saved the U.S. taxpayer millions of dollars and accelerated the U.S. domestic program in this area three to four years. Shared testing through the Organization for Economic Cooperation and Development (OECD) of over 700 high production volume chemicals greatly reduces the cost and administrative burden of chemical testing in the United States. OECD's long-standing Test Guidelines harmonization program for toxic chemicals data has been expanded to explicitly consider pesticides data, thereby leading to even greater resource savings for national regulatory agencies and industry as well as more consistent scientific and regulatory conclusions. Cooperation with the European Union is helping to enhance the effectiveness of ecolabeling as a market-based environmental policy tool.

EPA is also working with many developed countries in sharing environmental management expertise on new, non-regulatory mechanisms for protecting the environment. Other countries are extremely interested in our experience with voluntary, non-regulatory programs like the Common Sense Initiative, a multi-stakeholder approach to environmental protection. In addition, as EPA moves away from the medium-by-medium approach of the past toward a more integrated view of the environment, it can learn much from the experience of other countries that have already applied such techniques. Swedish and Dutch authorities, for example, have been implementing multi-media systems of environmental protection for many years. Similarly, experience in Germany and other countries in rehabilitating derelict industrial sites offers valuable lessons for the "Brownfields" program in the United States.

Serving Broader National Objectives

As emphasized by the General Accounting Office in its recent review of international environmental programs across the U.S. government, "EPA's international programs also serve important U.S. economic, foreign policy, and security interests."¹ Working closely with other U.S. agencies, for example, EPA has actively supported regional cooperation under the auspices of the Middle East Peace Process Multilateral Working Group, including bringing together regional parties to cooperate on reducing risks from pesticides, small community wastewater, and preventing and responding to chemical accidents or oil spills.

The Agency's emphasis on community-based environmental management plays an important role in encouraging the development of more responsible, participatory decision-making in countries around the world. Reduced environmental problems can relieve pressures for illegal immigration, promote economic and political stability, and serve other national security interests.

EPA's Interest in Trade and Environment Issues

Export Credit Agencies

Our national programs dealing with trade and investment abroad should complement the effort to raise the environmental quality and sustainability of the multinational investments made by the U.S. taxpayer. At Congress' direction and with EPA technical support, the US Treasury Department has made sure that the lending and guarantee policies of the multilateral development banks assess and address the environmental and social impacts of the projects of their borrowers. This is good business, as well as sound policy, because sustainable growth ensures that the markets for US goods will be there not just tomorrow but also the day after tomorrow.

For the same reason, my agency has supported the development of minimum environmental standards by the US Export-Import bank and the effort to harmonize the environmental standards of our major trading partners upward. We can all be proud of these examples of global U.S. leadership. The process of dialogue has been slow, at times disappointingly so. The good news is that recent European elections appear to have brought greater receptivity from our friends and competitors to the idea that we should not compete at the expense of the environment.

Environmental Technology Export Promotion

Technical cooperation has played an important role in foreign policy initiatives in Latin America and with Mexico, China, India, Russia, and South Africa. EPA's technical assistance and training programs create demand -- and markets -- for environmental technologies and expertise, thereby enhancing commercial opportunities for U.S. business and industry and creating high-wage jobs for American citizens.

Senior private sector individuals and groups have recently reaffirmed the key role EPA's

international technology and capacity-building programs play in creating commercial opportunities for U.S. suppliers of environmental technologies and expertise. In so doing, they have differentiated the export assistance (supply-side) role of the Department of Commerce, Export-Import Bank and other export promotion agencies from EPA's role in creating demand for U.S. technologies and expertise through the development of environmental standards, institutions and human resource capabilities. EPA's short-term technical assistance to the Royal Thai Government, for example, not only helped solve a pressing health and environmental problem in the Mae Moh Valley, it also led to the sale of almost \$200 million for U.S.-made air pollution monitoring and control equipment.

In the Report which accompanied EPA's FY 1998 appropriations bill, the Senate Appropriations Committee urged EPA to "play a stronger role in enhancing opportunities for industry to export environmental technologies to other countries." It specifically directed the Agency to "develop a strategy to coordinate and promote the export of environmental technology and services and coordinate such activities with other Federal agencies." In response to this appropriations report, EPA this past October published a Report to Congress entitled "EPA Strategy For Promoting U.S. Environmental Exports." The Report noted that EPA's international initiatives help the U.S. environmental technology sector expand its export base and that EPA's export-enhancing activities can be grouped into five general categories:

Creating Demand for U.S. Technologies and Services: EPA's international training, technical assistance and other capacity building programs help to drive the demand for U.S. environmental goods and services. Joint funding for environmental training of foreign officials, for example, has helped strengthen environmental management capabilities worldwide while leading to over \$150 million in sales for small and medium-sized companies in the United States.

Cooperation With Other Federal Agencies: EPA works with other Federal agencies and departments, such as Ex-Im Bank and DOC, to help match U.S. technology and service providers with opportunities which arise from our capacity-building programs. EPA also participates as a partner in AID's Asia Environmental Partnership and co-chairs, along with DOC, the Environmental Trade Working Group.

Cooperation With The U.S. Private Sector: EPA works both with intermediary organizations such as the National Association of State Development Agencies and directly with U.S. private sector firms to organize technology demonstrations in other countries, strengthen technology development and dissemination through programs such as the Small Business Innovation Research grants and the Environmental Technology Verification (ETV) programs, and to direct U.S. businesses toward specialized export assistance at local, state, federal and international levels.

Strong Environmental Standards: By encouraging the adoption of strong environmental standards at bilateral, regional and global levels, EPA helps to drive the demand for increasingly sophisticated environmental technologies.

Removing International Barriers to the Flow of Environmental Goods and Services: Through fora such as NAFTA, APEC and the WTO, EPA is working with its partner Federal agencies to reduce tariffs for environmental goods and services. We are also working with these other agencies to reduce non-tariff trade barriers.

EPA's reputation as the world's foremost national environmental agency has been a key element in the success of our international programs. Equally important, however, has been our reputation for honesty and objectivity. EPA is careful to stress that we do not endorse particular private sector firms or seek to promote certain goods or services. Our programs form a foundation upon which export promotion agencies such as DOC and programs such as the Asia Environmental Partnership may build. In essence, EPA helps to foster the rising global demand for environmental technologies; our partner agencies help U.S. business to fill the demand.

The Trade Institutions

In the 1999 State of the Union address, President Clinton said "we must ensure that ordinary citizens benefit from trade -- a trade that promotes the dignity of work, and the rights of workers, and protects the environment...[w]e have got to put a human face on the global economy." Our goal in seeking to ensure that trade negotiations support protection of the environment is to do just that -- put a human face on the global economy by ensuring that we continue to protect the health, safety and environment of our citizens.

EPA works extensively with the Office of the U.S. Trade Representative (USTR), particularly its Office of Environment and Natural Resources, to ensure that U.S. international trade policies are mutually supportive with environmental policies, reflecting the Administration's continuing commitment to sustainable economic growth with strong health and environmental standards. EPA is represented on the sub-cabinet Trade Policy Review Group (TPRG) and the Trade Policy Staff Committee (TPSC), coordinated by USTR and responsible for the development of U.S. international trade policy.

Through my Agency's participation in the negotiation of the NAFTA, the Uruguay Round Agreements Establishing the WTO and, most recently, the ongoing Free Trade Area of the Americas (FTAA) negotiations, EPA has worked to ensure that U.S. obligations under international trade agreements do not hamper, but rather further, the ability of federal and state governments to maintain and enforce high levels of domestic environmental protection that we deem appropriate. The dispute settlement bodies of trade institutions should not be able to second-guess levels of protection that countries determine to be necessary to protect their citizens. President Clinton reiterated this goal at the WTO 50th Anniversary in May 1998 when he said "international trade rules must permit sovereign nations to exercise their right to set protective standards for health, safety and the environment and biodiversity".

As we approach the 1999 WTO Ministerial to be held in the United States in November, we have a platform in the greatest country on earth to inspire our trading partners to fulfill the President's

call for ensuring that "we do more to make sure that this new economy lifts living standards around the world, and that spirited economic competition among nations never becomes a race to the bottom in environmental protections...we should level up, not down." WTO rules should be consistent with leveling environmental, health, or safety standards upwards, i.e., towards more protective standards.

International harmonization of good laboratory practices, test guidelines and mutual acceptance of data for industrial chemicals and pesticides means more efficient data development by industry and greater assurance of the quality of data EPA uses in determining acceptable use of these products. The mutual acceptance of data for risk assessment purposes must now be expanded beyond countries of the Organization for Economic Cooperation and Development to include emerging markets in Asia and Central and Eastern Europe. EPA's efforts to promote the "leveling up" of health and environmental standards improves health and environmental conditions, and also protect U.S. business who already must comply with high domestic standards, while respecting its international obligations.

There are other ways to maintain the high levels of health and environmental protection in the United States and to share these levels with other nations. The first is to maintain our right to deny entry of products that do not meet our health and environmental standards. In order to adequately protect the health of American citizens, we must maintain our right to prohibit entry of products -- particularly food products -- that do not meet our standards. Certain products (e.g., pesticides, foods with pesticide residues) must be approved before they can be marketed. Consistent with our statutory obligations (e.g., FIFRA, TSCA, FFDCA), the United States will continue to prohibit the entry or use of these products unless the exporting country/producer provides information that the product meets our health, safety or environmental requirements.

EPA also tries to achieve its goal through its international programs on safe pesticide use, which help to improve the quality of the U.S. food supply. Many off-season fruit and vegetables are imported from developing countries whose health and environmental inspection and regulatory systems are considerably less stringent than those in the United States. By working with foreign health and environmental protection agencies and agricultural producers, EPA is able to promote safer pesticide use and food production practices in countries producing a significant amount of export crops for the U.S. market. Since 1991, for example, EPA has provided technical assistance on pesticide management to many countries in Central America. Much of the produce grown in Central America is intended for the U.S. market.

North American Agreement on Environmental Cooperation

As you are probably aware, I represent the United States, in consultation with the other federal agencies, on the Council of the CEC. To date, the CEC has focused its cooperative work program on environmental issues important to the North American region. This cooperative work program has been very successful in creating dialogue among our nations, fostering the exchange of information, and causing the development of cooperative plans of action on many issues. Last year,

my counterparts and I began the development of a more comprehensive trade and environment program in the CEC intended to build on our project looking at the environmental effects of the NAFTA, increase our understanding of our trade and environment issues generally, and specifically work with civil society to find useful solutions.

The U.S. and its NAFTA partners have determined that some transboundary environmental issues related to Mexico and Canada are better addressed on a regional scale through the Commission for Environmental Cooperation (CEC), which was established under the North American Agreement on Environmental Cooperation, rather than bilaterally. For instance, the three parties have developed regional actions plans for the elimination or sound management of DDT, mercury, PCBs and chlordane, and are negotiating procedures to notify and assess transboundary environmental impacts of significant federal actions. They are also considering a conservation strategy for North American migratory songbirds. The CEC has facilitated cooperation among the North American nations on several other issues such as environmental enforcement; development of a North American pollutant release inventory; regional greenhouse gas emissions trading; and regional implementation of global environmental agreements.

The positive focus on the cooperative work program may have diminished the need for the Part V dispute settlement mechanism, which could eventually lead to revocation of NAFTA benefits. In fact, no country has raised an issue under Part V and to our knowledge, no government has been subject to public pressure to do so. The Article 14 citizen's submission process, on the other hand, has been used many times by NGOs in all three countries and is quite successful. The ultimate outcome of this process, if the CEC Secretariat decides to take it to completion for any submission, is a factual record on an assertion that one government has failed to effectively enforce its domestic environmental law. Thus, the process enables citizens to question the environmental enforcement actions of any government in North America and to get an answer to those questions.

This leads me to what I find to be one of the most useful aspects of the NAFTA side agreement: the commitment of the three governments to effectively enforce their existing domestic environmental laws. I believe the NAFTA environmental review process was critical to assessing the environmental regimes of our trading partners early in the trade negotiations. This review enabled us to enter into the NAFTA with a better understanding of what the environmental repercussions of that agreement were, without imposing any of our own standards abroad.

The United States is committed both to ensuring that the trade agreements we negotiate are consistent with our environmental objectives, and to ensuring that Congress and the public are informed about the possible impact of such agreements on the environment. At the beginning of the NAFTA negotiations, the Administration issued a study evaluating potential environmental effects of a trilateral free trade agreement. At the conclusion of both the NAFTA and the Uruguay Round negotiations, the Administration issued a reports describing how environmental issues had been addressed in the agreements, and outlining the potential environmental implications of those agreements.

As the United States has entered into negotiations on new trade agreements, we have sought to include mechanisms for considering the environmental implications of those agreements. For instance, as part of the US-E.U. Transatlantic Economic Partnership initiative (TEP), we are creating an Environment Working Group that has been tasked, inter alia, with informing trade negotiators of the potential impact of other TEP negotiations on health, safety, and environmental interests. In addition, we have been working with the Secretariat of the NAFTA Commission on Environmental Cooperation on a methodology to identify the environmental effects of trade liberalization.

Multilaterally, in the WTO Committee on Trade and Environment (CTE), the United States has shared our positive experience with the NAFTA and the Uruguay Round reviews and pressed for agreement in the WTO/CTE that governments should review the environmental implications of trade agreements. With your support, EPA stands ready to offer appropriate technical cooperation and assistance to help partners strengthen their environmental regimes.

Transparency and Public Participation

Finally, the CEC demonstrates the value of public participation to other international institutions. President Clinton, in his May speech at the WTO, proposed that the WTO "provide a forum where business, labour, environmental and consumer groups can speak out and help guide further evolution of the WTO." In my experience, an openness to the public benefits international decision-making. At each of the annual CEC Council sessions, my Canadian and Mexican counterparts and I spend a few hours in an open meeting with the public to hear their concerns and ideas regarding the implementation of the NAFTA side agreement so that our decisions are informed by public comment. Each CEC Party has established National Advisory Committees so that each delegation stays in touch with its own public. The Joint Public Advisory Committee, a senior level group that advises all three governments, is actually one arm of the CEC itself. When appropriate, representatives of the advisory committees have been invited into the Council sessions. These types of public participation efforts are useful and should be models for other institutions.

It is my hope that the WTO ministerial to be held on American soil can promote transparency and public participation in a future WTO round of negotiations. The President has called for an opening of the process at the WTO. He specifically asks that "hearings by the WTO be open to the public, and all briefs by the parties be made publicly available,... that the WTO provide the opportunity for stakeholders to convey their views, such as the ability to file amicus briefs." I look forward to a high-level meeting that brings together the trade and environment ministers in order to provide strong direction on these and other issues important to the environment in the WTO and comparable fora.

Let me close by saying that I believe the trade and environment issue needs to be addressed on a dual track: we need to tear down barriers, open markets and expand trade, but at the same time we need to make parallel progress on environmental protection. EPA's international program, as described above, aims to achieve this parallel progress through technical assistance, environmental technology export promotion and international cooperation. I appreciate your continued support for these efforts. Thank you for holding these timely hearings on this very important issue.

RESPONSES TO QUESTIONS FROM SENATOR GRASSLEY

Question: In 1990, the Carter Administration released an official, \$1 million study called "Global 2000." This report, which was sponsored by our State Department and twelve other federal agencies, offered a frightening vision of the future. This terrifying study predicted, among other things, that energy, minerals, and even food, would be in severe shortage by the year 2000. Of course, nothing of the sort happened. Thanks to the free market reforms of the Reagan Administration, we now have the longest economic expansion in American history. Thank goodness we did not adopt the Carter Administration's proposals for price controls, population stabilization policies, synthetic fuels, command and control type energy rationing, and other government-sponsored limits on economic growth.

But if we had taken this Carter program seriously—if we had planned our trade policies according to the analysis and assumptions of the "Global 2000" report, for example—we might have done grave damage to our economy.

I have a healthy skepticism about these doomsday predictions. My question for you is this: If thirteen United States government agencies could be so wrong in 1980, how can you now ask us to believe that the environment will suffer if we do not pursue environmental goals in the context of multilateral negotiations?

Answer: This responds to your question regarding the relationship between trade negotiations and the environment. In your reference to the Global 2000 report, you ask why it is important for the U.S. to pursue environmental goals in the context of multilateral trade negotiations.

The decision to pursue environmental policies and considerations in the context of multinational trade negotiations currently rests on many important considerations. In my prepared and oral statements to the Committee on Finance, I described how environment and trade issues already intersect in today's world in numerous ways. These intersections create challenges as well as opportunities for democratic societies. The U.S., like many other countries, has found that the principles of protecting human health and the environment, while maintaining global competitiveness is not necessarily incompatible. Today, the U.S. has one of the strongest economies, and some of the strongest environmental protections in the world. Indeed, in the long run, we cannot have a prosperous economy without a healthy environment, and vice versa.

As this Administration has stated, international agreements and investments must permit sovereign nations to set tough environmental and public health standards—and that nations should work together to harmonize these standards upward. This Administration will be calling for a trading system that is even more protective of health, the environment, and American competitiveness.

PREPARED STATEMENT OF CALMAN COHEN

Good morning, Mr. Chairman. My name is Calman Cohen, and I am President of the Emergency Committee for American Trade (ECAT), an association of the heads of major American companies with international operations representing virtually every sector of the economy. I am pleased to have the opportunity to present ECAT's views to the Committee on U.S. trade policy in the era of globalization.

Mr. Chairman, before I begin my testimony I would like to take the opportunity to thank you and Senator Moynihan for your continued leadership on trade and investment policy and particularly for the bipartisan manner in which you have developed trade legislative initiatives.

Before addressing the specifics of ECAT's views on the U.S. trade agenda, I would like to discuss how the global trade and investment activities of American companies are producing significant returns for the U.S. economy.

GLOBAL INVESTMENTS, AMERICAN RETURNS

As you and other members of the Committee may be aware, at the end of last year the chief executive officers of thirty three of our member companies joined ECAT's Chairman, Ernest Micek, Chairman and CEO of Cargill, Incorporated, in sending a letter to the President stressing the importance of pursuing a positive trade agenda in order to promote the continued health of the U.S. economy. Above all else, ECAT member companies believe that a policy of expanding U.S. international trade and investment is essential to sustain U.S. economic growth and standards of living.

American companies, both large and small, are operating in a global economy that is increasingly concentrated outside the United States. Indeed, 96 percent of the world's consumers are located outside the United States. With the lowering of trade

barriers and technological advances, American companies are increasingly able to reach these consumers. As a result, trade has accounted for one-fourth of our Gross Domestic Product (GDP).

Global integration has strengthened the U.S. economy by generating new economic activity here at home in research and development and capital investments, as well by creating better, higher paying jobs. As documented in ECAT's pathbreaking 1998 study, *Global Investments, American Returns*, the trade and foreign direct investment of American companies have complemented rather than reduced economic activity in the United States in areas such as research and development and investment in physical capital. American firms engaging in trade and investment have provided important new business opportunities in the United States, as they purchase over 90 percent of the intermediate inputs—totaling \$2.4 trillion—for their products from U.S. suppliers. At the same time, the foreign affiliates of American firms are an important market for U.S. products and services, accounting for 40 percent of U.S. exports. This new economic activity generated by U.S. trade and investment promotes U.S. economic growth and a higher standard of living overall.

IMPORTANCE OF POSITIVE TRADE AGENDA

The expansion of U.S. trade and investment that has occurred over the last 50 years would not have been possible without U.S. political and economic leadership in maintaining an open trading system which has led to the tearing down of trade barriers and the dramatic rise in world trade. As our economy has become more closely integrated into the world economy, it is now more important than ever that the United States not abandon its over half-century of leadership of the world trading system.

The gains we have made over the last 50 years can be lost if we are not vigilant in maintaining our commitment to an open trading system. The United States also achieved an extensive degree of global integration from the late 1800s to 1913, during which trade and investment reached high levels. This period was followed by decades of global fragmentation caused by political conflicts, as well as protectionist trade and investment policies such as the prohibitive U.S. tariffs under the infamous Smoot-Hawley Tariff Act of 1930. It was only in the early 1980s that the world began to move beyond the level of international economic integration achieved in 1913.

In this time of global economic challenges, the United States must lead by example by keeping its markets open and moving forward with a positive trade agenda that promotes greater economic opportunities for U.S. companies and American workers and their families. A positive trade should set out a framework and negotiating objectives to be agreed to at the 1999 WTO Ministerial that will, first, ensure continuing liberalization of trade in goods, services, and agriculture and, second, call for WTO members to enter into an immediate standstill of trade restrictive measures. An agreed standstill would help the United States and other WTO member countries resist domestic pressures to close markets in the face of rising imports but would not prevent in the United States and elsewhere the provision of appropriate relief under existing law to affected industries. It is imperative that U.S. trade remedy statutes, that serve as models for trade remedy statutes throughout the world, remain WTO consistent. These laws must also remain balanced, reflecting the interests of domestic petitioners as well as U.S. importers and exporters. If they do not, U.S. manufactured and agricultural exports will suffer as targets of foreign trade remedy statutes that are likely to be made harsher to mirror any imbalanced U.S. standards. U.S. exports will also be put at risk of foreign retaliation in response to WTO inconsistent U.S. trade remedy laws.

The positive trade agenda should also include a commitment to achieve China's full integration into the international trading system, but it should not be at any price. As the largest emerging economy in the world, it is imperative that China adopts the rules and responsibilities of the multilateral trading system. Bringing China into the international trading system as a full participant will help ensure the possibility of global trade expansion for decades to come. If China agrees to abide by the WTO rules and to a commercially-acceptable protocol of accession, the United States should extend normal trade relations status to China on a permanent basis.

Renewal of the President's fast-track negotiating authority is also an integral part of a positive trade agenda in order to provide the basic domestic infrastructure to achieve further trade liberalization and other trade policy objectives. Fast-track renewal legislation needs bipartisan support and should reflect an agreement among the Administration, the Congress, and the private sector on realistic and appropriate objectives on labor and environment.

In order to create momentum for action on these critically important trade policy initiatives, the positive agenda should also encourage early action on items on which consensus can be achieved, such as CBI-Parity legislation and a miscellaneous tariff bill. In order to move forward on this positive agenda, we must re-engage the support of the Congress, the Administration, and American workers and their families for trade expansion. Among other things, we must do a better job of explaining to the American people the benefits that accrue from expanding international trade and investment. In doing so, we must recognize that while trade, investment, and improved technology lead to a growing economy and a higher U.S. standard of living overall, dislocations occur which must be addressed through meaningful worker retraining and adjustment assistance. ECAT is contributing to what must be a comprehensive trade education effort, supported by government and the private sector, through the dissemination of the findings of its study, Global Investments, American Returns, and its work with member companies to develop an innovative trade education program for workers entitled, "TradeWorks."

THE CHALLENGES AHEAD

The United States and its trading partners must face the reality of a rising trade deficit and the pressures on the open trading system by acting in accordance with the rules of the multilateral trading system. This will not be an easy task. Our trading partners must join us in this endeavor. For this reason, we stress the importance of an agreed multilateral standstill on the imposition of trade restrictive measures in the period leading up to the WTO ministerial.

The integrity of the WTO and its dispute settlement process must be maintained by insisting that the European Union and our other major trading partners uphold the decisions of WTO dispute settlement panels. In preparing for the next ministerial and the possibility of a new global round of trade negotiations, we must ensure that the framework and results of any negotiations strengthen WTO rules and expand market access for U.S. goods, agriculture, and services. Finally, in seeking more constructive partnership with China, we face the complex and difficult challenge of securing China's entry into the WTO on the basis of a commercially-acceptable protocol of accession at a time when the Chinese Government is renewing its effort to repress political dissent and has imposed new restrictions on trade and investment.

While ECAT's membership is clear-eyed about the seriousness of the challenges that lay ahead, we believe that armed with a positive trade agenda, ECAT and the U.S. business community, together with the Administration and our allies in Congress, will be well positioned to offer constructive alternatives to protectionist initiatives. We believe that, in both the short and long run, pursuing a positive trade agenda is the best means to guarantee that the trade and global investments of U.S. companies will continue to produce American returns in the form of continued economic growth and higher U.S. standards of living.

I appreciate the opportunity to present ECAT's views and would be happy to address any questions the Committee may have and ask that the letter of ECAT CEOs and the executive summary of ECAT's study, Global Investments, American Returns, be made a part of today's record.

Attachment.

EMERGENCY COMMITTEE FOR AMERICAN TRADE

December 30, 1998

The President
The White House
1600 Pennsylvania Avenue
Washington, DC 20500

Dear Mr. President:

As you prepare to present the State of the Union address to the nation, we in the Emergency Committee for American Trade (ECAT) are writing to share our views regarding the focus of America's international trade agenda. Above all else, we believe that a policy of expanding U.S. trade and investment remains essential to sustain U.S. economic growth and standard of living. It requires your leadership and the maintenance of an open trade system in which foreign markets continue to provide growing opportunities for America's manufacturers, farmers, and service providers.

To encourage our trading partners to keep their markets open despite the ripple effects of the Asian financial crisis, the United States should lead by example and enunciate a positive trade agenda. First, such an agenda should set out clear objectives for the 1999 WTO Ministerial, including U.S. goals for the liberalization of agriculture and services trade, as well as other sectors. It should also call for our trading partners to enter into a standstill of restrictive trade measures in advance of the ministerial. An agreed standstill would help the United States and other WTO members resist domestic pressures to close markets in the face of rising imports, but would not stymie the provision of appropriate relief to affected industries in the United States and elsewhere. It is imperative that U.S. trade remedy statutes, which serve as models for trade remedy statutes in other WTO countries, remain consistent with WTO rules and take into account the interests of U.S. importers and exporters. If they do not, U.S. manufactured and agricultural exports will suffer, as they are frequent targets of foreign antidumping and countervailing duty laws.

A commitment to achieve China's full integration into the international trading system should be the second key aspect of a positive trade agenda. As China is the largest emerging economy in the world, it is imperative that China adopts the rules and responsibilities of the multilateral trading system. Bringing China into the international trading system as a full participant will help to ensure the possibility of global trade expansion for decades to come. If China agrees to abide by WTO rules and to a commercially acceptable protocol of accession, the United States should agree to support the permanent extension of normal trade relations status to China.

Renewal of broad, multi-year trade negotiating authority, or "fast track", should be the third part of the U.S. trade agenda to provide the basic domestic infrastructure for achieving trade liberalization and other trade policy initiatives. Any such legislation should reflect a consensus

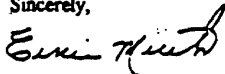
among the Administration, the Congress, and the business community on realistic and appropriate objectives on labor and environment.

The agenda should also include early action on items on which consensus can be achieved, such as CBI-Parity legislation and a miscellaneous tariff bill. Early action on these bills in the 106th Congress could create momentum for progress on the broader positive trade agenda.

To move forward on this positive trade agenda will require the re-engagement of the Congress and American workers for trade expansion. Toward that end, ECAT is developing a trade education program designed to improve ECAT member company employees' understanding of how expanding international trade and investment improve the lives of Americans. In addition, ECAT recognizes that while trade, investment, and improved technology lead to higher U.S. living standards overall, dislocations occur and must be addressed through meaningful worker re-training and adjustment assistance.

We believe that the United States and its trading partners are at a crossroads on international trade and investment. Under your continued leadership and armed with the above outlined trade agenda, our country can continue to improve living standards here at home for American workers and farmers and their families and lead the way toward increased global prosperity. We would welcome the opportunity to discuss our recommendations with you.

Sincerely,



Ernest S. Micek
Chairman and Chief Executive Officer
Cargill, Incorporated and
Chairman
Emergency Committee for American Trade



Beth Pritchard
President and Chief Executive Officer
Bath and Body Works Inc.



John R. Stafford
Chairman, President, and Chief Executive Officer
American Home Products Corporation



Charles R. Shoemate
Chairman, President, and Chief Executive
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Bestfoods



H. Laurance Fuller
Chairman and Chief Executive Officer
Amoco Corporation



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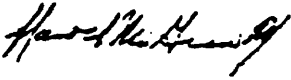
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Ray Holman

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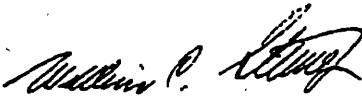
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3M



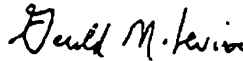
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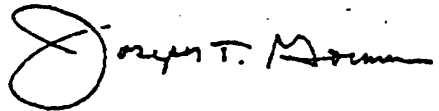
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Chairman and Chief Executive Officer
Time Warner Inc.



John Clancey
President and Chief Executive Officer
Sea-Land Service, Inc.



Joseph T. Gorman
Chairman and Chief Executive Officer
TRW Inc.

Alton J. Brann

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Cynthia A. Fields

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Steven R. Rogel

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President and Chief Executive Officer
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EXECUTIVE SUMMARY

In public and private-sector debates over U.S. trade and investment policies, the role in the U.S. economy of American companies with global operations¹ has often been misunderstood. Although there is no doubt that the United States plays an important role in the world economy, most Americans are unaware of the critical contributions that trade and foreign direct investment (FDI) of American companies with global operations make to the U.S. economy.

To broaden public understanding of the positive role of these companies, this study expands upon the research in ECAT's previous *Mainstay* studies in two important ways. First, it focuses on the key issue of the U.S. standard of living. Second, it broadens the scope of the study to include all three major sectors of the economy: manufacturing, agriculture, and services.

There are two key points in *Mainstay III*. First, by raising U.S. worker productivity, American companies with global operations help raise the U.S. standard of living. Second, because the U.S. and foreign activities of these companies tend to complement each other, the ability of these companies to help raise the U.S. standard of living depends crucially on their ability to undertake foreign direct investment abroad.

Mainstay III is based upon analysis of the investments, research and development, exports, imports, and purchases from suppliers of American companies with global operations and many other data from 1977 through 1994. The primary data source is surveys of such companies conducted by the Bureau of Economic Analysis (BEA) within the U.S. Department of Commerce.

The following sections summarize the major findings and conclusions of the study:

I. Setting the Stage: The World Economy in which American Companies with Global Operations Compete

American companies today operate in a world economy that is increasingly concentrated outside the United States and that is rapidly expanding its international linkages through FDI and international trade.

- **The U.S. share of the global economy is shrinking.** For decades, the U.S. economy has been growing more slowly than the rest of the world, such that the U.S. share of total world output has been declining. This share was approximately 50 percent in 1945, but is down to only 20 percent today.
- **FDI and trade help U.S. integration into the global economy.** American companies with global operations have helped integrate the United States more closely into the growing world economy. Average annual outflows of FDI from the United States quadrupled from the 1960s through the 1980s, and total trade as a share of U.S. output rose from 5.6 percent in 1945 to 24.7 percent in 1995.

By participating in the world economy, American companies with global operations maintain a significant presence in the United States.

- **Most employment is in the United States, not abroad.** In 1977, U.S. parent companies accounted for 72.8 percent of total worldwide employment of American companies with global operations and by 1994, they accounted for 74.3 percent of the total.

- **Profits earned by foreign affiliates are mostly repatriated.** In 1989 (the most recent year for which these data are available), U.S. parents repatriated 72.8 percent of their foreign affiliates' net income.
- **Most intermediate inputs are purchased from domestic suppliers, not foreign suppliers.** From 1977 through 1994, more than 90 percent of all intermediate inputs purchased by U.S. parents came from American suppliers, not foreign suppliers.

Overseas, American companies with global operations are located primarily in developed countries, and the sales from these operations are overwhelmingly in local markets.

- **Most affiliate activity abroad is in developed — not developing — countries.** In 1994, developed countries hosted nearly two-thirds of U.S. foreign affiliate employment and accounted for more than three-quarters of foreign affiliate assets and sales.
- **Foreign affiliate sales are mostly abroad, not back to the United States.** In 1994, only 10 percent of total U.S. affiliate sales went to the United States. The other 90 percent stayed abroad, and fully 67 percent of all sales were within the host countries of the foreign affiliates.

II. The Importance of American Companies with Global Operations to the U.S. Standard of Living: Generating High Productivity

American companies with global operations contribute in several important ways to the U.S. standard of living, and this contribution is larger than that of purely domestic firms.

- **Investment in Physical Capital.** American companies with global operations undertake the majority — 57 percent in most years — of total U.S. investment in physical capital in the manufacturing sector.
- **Research and Development.** American companies with global operations perform the majority — between 50 percent and 60 percent — of total U.S. research and development.
- **Exports.** American companies with global operations ship the large majority — between 60 percent and 75 percent — of total U.S. exports. Their foreign affiliates are important recipients of these exports; their share has increased to over 40 percent today.
- **Imports.** American companies with global operations also receive a sizable share of U.S. imports — roughly 30 percent. These imports benefit the U.S. economy in many ways, including giving U.S. companies access to foreign-produced capital goods and technologies.

All these activities help increase U.S. productivity and thereby enhance the U.S. standard of living.

III. The Importance of American Companies with Global Operations to the U.S. Standard of Living: Paying Higher Wages

American companies with global operations pay their workers higher wages than those paid by comparable American companies without global operations.

- A study of 115,000 U.S. manufacturing plants indicated that U.S. parent plants pay comparable workers higher wages than purely domestic plants. Production workers receive an average of 6.9 percent less at comparable domestic plants employing more than 500 employees and 15.2 percent less at comparable domestic plants employing fewer than 500 employees.

Non-production workers receive an average of 5.0 percent less at comparable domestic plants employing more than 500 employees and 9.5 percent less at comparable domestic plants employing fewer than 500 employees. These results control for possible wage differences attributable to variations across plants in age, industry, location, and size. In light of all these controls, it seems likely that these wage differences are attributable to workers at U.S. parents being more productive than workers at comparable domestic plants.

IV. The Importance of American Companies with Global Operations to the U.S. Standard of Living: Linkages to American Suppliers

In addition to directly raising the U.S. standard of living themselves, American companies with global operations may also raise the U.S. standard of living through their interactions with domestic U.S. suppliers.

- Evidence exists that companies benefit from being exposed to other dynamic, successful firms. Exposure to "worldwide best practices" — whether those best practices are in the same country or abroad — tends to foster innovation, cost control, and other improvements that boost firm productivity.
- The very large amount of purchases of intermediate inputs from domestic suppliers by U.S. parents of American companies with global operations suggests the possibility that U.S. domestic suppliers have sufficient exposure to these high-productivity parents to realize some productivity gains. For the past 20 years, U.S. parents have purchased over 90 percent of their intermediate inputs — \$2.4 trillion in 1994 — from domestic, not foreign, suppliers.

V. How Foreign Direct Investment Abroad Complements U.S. Parent Activity and Contributes to a High Standard of Living in the United States

Because the U.S. and foreign activities of American companies with global operations tend to complement each other, the ability of these companies to raise the U.S. standard of living depends crucially upon their ability to undertake FDI abroad.

- Analysis of BEA data, academic research, and case studies of 10 major American companies demonstrates that U.S. FDI generally complements rather than substitutes for U.S. parent activity. Within American companies with global operations, affiliate expansion generally triggers in U.S. parents additional investment, research and development, trade, and input purchases from domestic suppliers. As stated earlier, these activities are key determinants of the U.S. standard of living.
- Restrictions on FDI that prevent U.S. companies from expanding abroad generally will reduce U.S. parent activity and thus lower the U.S. standard of living.

VI. Conclusions and Policy Recommendations

The United States must continue to strengthen the open system of global trade and investment in order to maximize the contributions of American companies with global operations to an improved standard of living for all Americans. To that end, U.S. trade and investment policies should take into account the following recommendations based on the research and findings in this study:

- The U.S. government should maintain its open trade and investment policies. Moreover, these policies should recognize the ways in which trade and foreign direct investment benefit the U.S. economy.
- The U.S. government should continue to negotiate aggressively for more open foreign markets and should persuade foreign governments to end restrictions on trade and investment. Removing these restrictions will create a "win-win" situation that benefits both foreign countries and the United States.
- The U.S. government should strive to continue to harmonize its international trade, investment, and tax policies. In the case of American companies with global operations, this harmonization should take into account the many ways that their foreign operations tend to complement their U.S. activities.
- Given that most services are inherently non-tradable, firms in these industries must invest abroad to serve global markets. Accordingly, efforts to liberalize trade and investment should focus special attention on the unique needs of U.S. services industries.

EMERGENCY COMMITTEE FOR AMERICAN TRADE

October 22, 1998

**Comments of the Emergency Committee for American Trade (ECAT)
Regarding U.S. Preparations for the World Trade Organization's
Ministerial Meeting, Fourth Quarter 1999**

ECAT's views are submitted in response to the Federal Register notice of August 19, 1998, by the Trade Policy Staff Committee (TPSC) requesting public comment on proposals for the agenda of the 1999 Ministerial WTO Conference. ECAT is an organization of the heads of leading international business enterprises representing all major sectors of the American economy. Their annual worldwide sales total over \$1 trillion, and they employ approximately four million persons. A copy of ECAT's membership list is included as an appendix.

L. Focus of the 1999 Ministerial

As the United States approaches the next ministerial, ECAT believes that the enactment of broad-based, multi-year fast-track trade negotiating authority with strong bipartisan support must remain a priority. Renewal of fast-track authority is essential to reinforce our global trade infrastructure and maintain America's leadership in the global economy. We urge early action in the next Congress to enact fast-track legislation, which will support the ongoing liberalization process in the WTO and allow the United States to reap the benefits of regional and bilateral trade agreements.

While renewal of fast-track negotiating authority remains a key U.S. trade policy objective, even in the absence of fast track we believe that the United States can use the occasion of the ministerial to make progress on the built-in agenda, enhancing its chances for success through a number of initiatives. It is an important opportunity to try to multilateralize the liberalization effort in the nine sectors identified under the APEC Early Voluntary Sectoral Liberalization (EVSL) initiative and to secure an "early harvest" in some or all of these sectors which can serve as a downpayment for the upcoming WTO negotiations under the built-in agenda. Calls for a major new round of negotiations should not delay the achievement of these objectives.

Progress on the built-in agenda and broader sectoral liberalization can also be promoted by renewed efforts to broaden WTO membership to include those emerging economies that are not currently subject to WTO rules, particularly China. China's admission to the WTO on the basis of a commercially viable protocol of accession should be given top priority on the ministerial agenda. The continuing financial instability in Asia and the slowdown in the global economy make it more important than ever that China be subject to the discipline of WTO rules and a participant in sectoral liberalization initiatives.

The ministerial also provides an important opportunity for the United States to provide leadership in responding to the global economic crisis by urging a closer working relationship among the WTO, IMF, and World Bank. Finally, the United States can assume a constructive role within the ministerial on divisive issues such as labor and environment by emphasizing those areas and initiatives in which international cooperation and consensus have been achieved. In emphasizing consensus in these areas,

the United States can lessen the chances that disagreements on these issues will impede progress on other aspects of the built-in agenda, such as the agriculture and services negotiations.

II. Implementation of Existing Agreements and Work Programs

ECAT believes that the full and effective implementation of the WTO Agreement should continue to receive the highest priority on the ministerial agenda. The chief areas of concern of ECAT member companies include: the implementation of market access commitments for industrial goods, trade in services, and agriculture; full implementation of the telecommunications and financial services agreements; implementation of obligations under the Agreement on Trade Related Aspects of Intellectual Property (TRIPS), particularly by developing countries; and the removal of residual balance of payments restrictions, particularly with respect to India and its prohibitive tariffs. The implementation of the obligation under the Agreement on Trade Related Investment Measures (TRIMS) to phase out prohibited measures such as local content and trade balancing requirements by the year 2000 is an important goal. In seeking to implement this goal, the United States should work in close consultation with U.S. industries to ensure the maintenance of their competitiveness in foreign markets.

At a time when WTO member countries are facing increasing global economic pressure, it is paramount that the United States, whose unfair trade remedy statutes have long provided a model for other WTO countries, affirm its commitment that its trade remedy laws remain balanced and consistent with WTO rules. Nearly half of the WTO membership now have their own antidumping laws in place--many of them patterned after U.S. law. Developed and developing WTO member countries are aggressively enforcing these laws. As a result, U.S. manufactured and agricultural exports are increasingly the target of foreign antidumping actions. It is, therefore, imperative that the United States ensure that its antidumping and other unfair trade remedy laws give due consideration to the interests of both import sensitive industries and U.S. exporters.

To help the United States and other WTO members resist domestic pressures to enact protectionist measures to close their markets in response to the global economic downturn, the United States should take the lead in the ministerial in proposing that WTO members enter into a standstill commitment. Such a commitment would ensure that the liberalization achieved under the Uruguay Round and subsequent GATS and sectoral negotiations is preserved, and a foundation is created for future liberalization.

III. Mandated Negotiations

Agriculture

The new round of agricultural negotiations is an important opportunity to achieve further liberalization in market access and to reduce domestic support and export incentives. The negotiations should be broad in scope and not allow for exemption of trade-distorting measures. The negotiations are likely to have the best chance for success if they are expanded to include other sectors of the economy in order to allow for a balancing of concessions. The United States should make it clear that it expects to achieve substantial, progressive reductions in support and protection as a result of the negotiations, and is willing to continue the negotiations until this goal is reached.

The negotiations should aim to reduce tariffs across the board, with the suggested goal of a reduction in average tariff bindings over six years by 50 percent from current levels. Special effort should be made to reduce the highest tariffs to levels that would not prohibit imports. The negotiations should clarify that tariff-rate quotas are only transitional measures and should provide for their phase-out. Sectoral zero-for-zero tariff agreements should also be encouraged.

The negotiations should seek another reduction in the aggregate measure of support beyond the Uruguay Round level. The agreement on domestic support should be structured to provide incentives for market-oriented reform. The negotiations should also seek an immediate end to export subsidies. With regard to state trading entities (STEs), the United States should seek to eliminate their monopoly control and discipline non-market behavior. The monopoly powers of STEs should be ended in ways that ensure the rights of establishment, non-discrimination, and national treatment for foreign and domestic firms.

General Agreement on Trade in Services (GATS)

In seeking to expand liberalization commitments under the GATS, the United States should adopt a negotiating strategy that aims to narrow reservations as a means to secure broader, more meaningful market-access commitments. In addition, in order to make the existing GATS national treatment provisions and market access commitments meaningful, the negotiations should promote the establishment of strong, transparent, and impartial regulatory regimes in local markets. Strong regulatory regimes in local markets are essential to the international competitiveness of U.S. services providers.

TRIPS Agreement

The TRIPS Agreement, establishing minimum standards for both the protection and enforcement of a broad range of intellectual property elements, represents a major advance in the protection of intellectual property around the globe. It, therefore, is critical that the United States make clear that the TRIPS Agreement provides a baseline for the protection and enforcement of intellectual property rights and that it will not be a party to any weakening of the agreement. Whether at this stage, when many developing countries have yet to fully implement the TRIPS agreement, a new multilateral negotiation is necessary to facilitate continued progress in gaining additional improvements in protection of intellectual property is an open question. The built-in agenda for the TRIPS Agreement provides an active program, in and of itself, for the timely and proper implementation of the agreement and for the strengthening of some of the protection currently found in the agreement that is of interest to U.S. intellectual property-right holders.

One area of particular concern is widespread violation of trademarks of U.S.-branded apparel by WTO member countries. The WTO should continue to encourage member countries to implement the TRIPS agreement and to actively monitor on-going compliance in this area.

Agreement on Textiles and Clothing (ATC)

The ministerial agenda should include an assessment of WTO members' compliance with the ATC, particularly their adherence to the bound tariff rates on textile and apparel items agreed to during the Uruguay Round. As part of this review, WTO members should reaffirm their commitment to abide

by bound rates and to adhere to the phase-out schedule for textile and apparel quotas negotiated under the ATC.

It is also important for the United States to recognize the important role that the ATC played in securing concessions on intellectual property rights and other key issues from textile and apparel supplier countries during the Uruguay Round negotiations. The textile and apparel sector can play a similarly significant role in any future major trade negotiations. Further liberalization in the textile and apparel sector, particularly in the area of tariff reductions which remain high relative to most industrial products, would promote the competitiveness of U.S. apparel manufacturers in world markets. We would urge that any agreement to initiate a new round of negotiations include discussions to further reduce textile and apparel tariffs to begin before the termination of textile and apparel quotas in 2005.

IV. Singapore Ministerial Work Program

Trade Facilitation

ECAT strongly supports the inclusion of business facilitation issues in the ministerial agenda. We believe the United States should seek a WTO agreement on trade facilitation which would encompass the adoption of a binding WTO agreement based on the rules contained in the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention), a work program on trade facilitation, and a commitment to simplify rules of origin.

The United States should urge the WTO to support the efforts of the World Customs Organization (WCO) to strengthen the Kyoto Convention. The United States should propose that the revised convention be used as a basis to develop a set of binding WTO rules establishing high standards for customs procedures to be adopted by WTO members.

The United States should also encourage the WTO to focus its trade facilitation efforts on customs procedures and establish a WTO working group on the harmonization and simplification of customs procedures. The working group should be given a mandate to examine the impact of customs-related barriers to trade on WTO commitments, assess the feasibility of enforcing the Kyoto Convention through WTO dispute settlement procedures, develop new initiatives to simplify trade procedures, and consider ways to improve customs transparency as required under GATT Article X.

In addition, the United States should support the simplification and harmonization of non-preferential rules of origin so that they no longer create unnecessary trade impediments.

Government Procurement

ECAT supports the efforts of the WTO Working Group to develop elements for a WTO agreement on transparency in government procurement. Such an agreement is essential in order to promote predictable and competitive bidding environments within WTO member countries. ECAT also believes that efforts should continue to broaden the membership and coverage of the WTO Government Procurement Agreement.

Information Technology Agreement (ITA)

ECAT believes that implementation and continuing expansion of the ITA agreement should remain on the ministerial agenda. In addition, if negotiations on ITA II on non-tariff barriers—such as reform of government product regulations to facilitate trade—do not make progress over the next several months, the ministerial agenda should include efforts to reinvigorate these discussions.

WTO Accessions

The ministerial agenda should include an update on the progress of major accession negotiations. ECAT members believe that it is vitally important to bring China under the discipline of WTO rules. China's admission to the WTO should not be at any price. It must be based on a commercially viable protocol of accession, which provides meaningful market access for U.S. goods, services, and agriculture.

The accession negotiations with Saudi Arabia and the Ukraine are also of particular importance to ECAT member companies. The Russian accession negotiations are also of concern. ECAT believes that as economic and political stability are restored in Russia, efforts should continue within the accession negotiations to secure meaningful market reforms and market access.

V. Sectoral Market Access Initiatives

The 1999 Ministerial should be used as an opportunity to continue efforts to expand ongoing market access initiatives. The United States should urge that the ministerial agenda support multilateralization of the Early Voluntary Sectoral Liberalization (EVSL) market access packages on toys, chemicals, medical equipment and instruments, and energy sector goods, as well as on the four other sectors being prepared for endorsement at the November APEC Leader's meeting. The EVSL negotiations present an important opportunity to expand the liberalization achieved in the zero-for-zero negotiations in sectors covered in the Uruguay Round and to extend the negotiations to include non-tariff barriers. The multilateralization of the EVSL negotiations could provide important momentum for progress on the built-in agenda.

For example, in the toy sector, even after entering into the Uruguay Round zero-for-zero agreement, the EU, Canada, Japan, and Korea maintain high tariffs on a number of major toy categories which could be lowered as a result of the EVSL initiative. In the chemicals sector, multilateralization of the EVSL initiative could provide the opportunity for gaining broader membership for the Chemical Tariff Harmonization Agreement at an earlier date than might otherwise have been achieved.

Prepared Statement of the Honorable William M. Daley
Secretary of Commerce
before the
Committee on Finance
United States Senate
January 26, 1999

I. INTRODUCTION

Thank you, Mr. Chairman, and as always it is a pleasure to meet with the Committee. I am particularly pleased to be here today because this hearing shows the Committee's concern for the trade position of the United States and demonstrates the Committee's intent to work with the Administration in addressing the challenges we face. This year is one in which the Congress and the Administration must work together in a nonpartisan manner. The jobs of American workers and the future of our economic growth depend on this cooperation.

The Asian financial crisis has slowed growth and affected the world economy, including American farmers and workers, as well as on other key emerging markets, such as Brazil. Along with the rest of the Administration, the Commerce Department supports the efforts of our trading partners to work their way out of the current financial crisis and restore growth to their economies. We have urged Japan to open its economy, reform its financial system, and stimulate domestic demand; we have encouraged Korea to open its markets and follow the prescriptions of the International Monetary Fund (IMF) stabilization package; and we have worked closely with Russian officials to help them adopt market-based reforms. At the same time, President Clinton and I have made it very clear that we will not stand by and allow U.S. workers, communities and companies to bear the brunt of other nations' unfair trade policies.

The Asian crisis is cutting deeply into our exports. We do not like it, but we understand that Asian countries cannot afford to buy our products as their economic tragedy cuts deeply into their living standards. Mr. Chairman, we are working to ensure that other countries markets remain open and to seek further trade liberalization. Our markets are open to them, and they must do the same for us.

There is much progress to be made. We still have market access concerns with American-made flat glass in Japan. American soda ash, power generators, and telecommunications equipment markets in China remain limited despite their 1992 commitment not to engage in import substitution practices. We see Korea refusing to treat American companies fairly in competing for contracts for the huge new airport they are constructing.

These matters must be addressed by our trade policy. Our support for an open trading system has always been contingent on fair trade rules, strong trade remedy laws and compliance with our trade agreements. We have been enforcing our laws and our agreements as vigorously and as expeditiously as possible and will continue to do so with Congress's help. In addition, we need trade negotiating authority so we can negotiate a more open and level playing field. We look forward to working together with this Committee on these matters.

II. THE SETTING

Mr. Chairman, let me now turn to discuss the economic and trade situation that faces us as we near the end of this millennium.

While we face many trade challenges, we cannot forget that fair and open trade has provided remarkable benefits to the world and the U.S. economy. Since the formation of the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT), in 1948, world trade has grown 15 fold and tariffs have been reduced by 90%. Where the trade club once comprised only a handful of developed countries, the WTO now comprises 133 members -- most of them developing economies. Trade has contributed to enhanced global understanding, world-wide economic development and the solidification of democracy in many countries.

U.S. exports have been at the forefront of our economy, and through 1997 provided one-third of all our economic growth. Jobs supported by exports of goods pay significantly more than the average U.S. job. Good jobs and good wages are the keys to an expanding economy and a rising standard of living.

As we meet today, our economic expansion is entering its 94th month -- the longest peacetime expansion in history. Employment is at record levels, and unemployment is at nearly a 30-year low. Inflation is low and economic growth and productivity are strong.

Still, we face challenges. As exports to the financially distressed Asian economies have plummeted, our trade deficit is rising at a rapid rate, and we are almost certain to set a new trade deficit record again in 1999. The deficit with Asia accounts for about 70 percent of our global trade deficit.

However, we must appreciate what this deficit represents. The main reason the trade deficit is rising is that our strong growth enables us to buy hundreds of billions of dollars of goods and services from abroad, as well as the many trillions of dollars of goods and services we produce at home -- while many of our trading partners are caught in recessions and have sharply cut back the goods and services they can buy from us. Most of the trade deficit is due to a sharp drop in exports, highlighting the need for recovery in Asia. The American economy has demonstrated its resilient capacity to respond to faltering foreign demand for our exports by shifting capital and labor to non-export sectors, keeping U.S. growth and employment strong.

But we cannot ignore areas of concern. Thousands of firms and workers have been hit hard by the impact of the Asian crisis on our exports, which fell 15 percent to Asia last year. We must look ahead and work hard to ensure that foreign markets are as open to our goods and services as ours is to those made abroad. We must also equip our firms with the information and resources to compete effectively in foreign markets. Finally, we will actively enforce U.S. trade statutes to ensure that every foreign exporter to the United States follows the rules and does not dump below-cost exports on our markets or unfairly subsidize its exports to us in a manner that injures U.S. firms and workers.

By far our two largest deficits are with Japan and China. Last year we ran an estimated deficit of \$63 billion with Japan and \$58 billion with China. Measured in dollars, the \$5 trillion Japanese economy accounts for 70 percent of all of Asia's production of goods and services. There is simply no substitute for strong *domestic* measures by Japan in order to boost its demand, which is essential for a recovery of intra-Asian trade as well as U.S. exports to Japan and Asia. The deficit with China continues to grow, going from \$18 billion to nearly \$60 billion in six years. The causes for the growth in this deficit are many, but clearly real and sustained access to that market for U.S. firms is a major objective.

The global financial crisis is hurting American manufacturing, and that crisis needs to be solved. It is also imperative that ways be found to head off future crises. That is why Secretary Rubin's efforts to develop a new global financial architecture are so important. But our trade architecture needs attention as well.

Trade is certainly having an impact on U.S. manufacturing jobs. Total employment in the United States in December 1998 was at an all-time high of 132 million American workers -- representing the creation of a net 1.7 million new jobs in just one year. Almost all of the job expansion was in America's thriving services sectors. Manufacturing, though, did not fare as well; and over the last year 237,000 manufacturing jobs were lost. Many of these job losses were related to the decline in America's exports to Asia. What makes this particularly troubling is that export-related manufacturing jobs are among the highest paid jobs we have, paying 13-16 percent more than the overall U.S. average.

III: AMERICA'S TRADE POLICY IN THE 21ST CENTURY

The Administration has a trade policy in place designed to respond to these and other challenges that will face America as we move into the 21st century.

President Clinton outlined the principal elements of the Administration's trade policy in his State of the Union Address last week. The President stated that "we ought to tear down barriers, open markets, and expand trade." The President also emphasized that we must vigorously enforce our trade laws; provide assistance to U.S. manufacturers who have been hurt by the present financial crisis; and participate with other nations in a new round of global trade negotiations to expand exports of services, manufactured goods and farm products. To maximize the likelihood of

success of our trade policy, it is essential for Congress to grant the President the trade negotiating authority he needs to effectively engage our trading partners.

I intend to continue working with Secretary Rubin and Ambassador Barshefsky to pursue open markets everywhere because that is where our economic future lies. Expanded trade is a key element of the President's strategy for a strong U.S. economy. This Administration fundamentally believes free and fair trade will create a level playing field that will secure the benefits of global integration for American workers as well as the 96 percent of the world's population that lives outside our borders.

The Department of Commerce is working to advance the President's trade policy by addressing three key objectives.

First, we will aggressively promote and adequately finance our exports. Thousands of smaller companies are not coming near their export potential. We need to help them.

Second, we will enforce our trade laws in a manner consistent with our international obligations and ensure that our existing trade agreements are fully implemented.

Third, we will work to remain engaged with our trading partners in new negotiations, eliminate trade barriers, and strengthen the multilateral and regional trading system. We can ill afford to rest on past accomplishments in an age when standing still means falling behind.

1. Expand Trade Promotion to Enhance Export Growth

The first point I want to make concerns the depth of our commitment to promote our exports. Thousands of smaller and medium-sized enterprises (SMEs) are not coming near their export potential, nor are they able to take advantage of the opportunities available to them. In general, we must accept a sense of urgency in our drive to promote export activity in the United States. In addition to the jobs and revenues it generates, exports create loyal clienteles, and shape consumer preferences and market standards that multiply business opportunities in the future.

Helping small businesses export is one of the central missions of Commerce, as these firms offer great potential for export growth and are the most likely to need assistance. If we are to succeed in restoring the contribution of exports to our overall economic growth, we need to enlist the drive and creativity of our small business sector.

We are focusing on delivering our export products and services over the Internet and maximizing our use of e-commerce and video-conferencing to bring distant markets closer to home. One exciting concept we are working with is called the virtual 'gold key', employing the Internet to bring U.S. exporters and foreign buyers together without the expense of setting up and attending a full-scale show or mission.

In the past fiscal year, we have begun using technology to reach traditionally underserved exporting communities through a series of conferences made available to exporters across the country by satellite broadcasting. These events reach deep into America's rural communities thanks to our special Rural Export Initiative.

We are expanding the U.S. Export Assistance Center (USEAC) network and dedicating one individual in selected domestic field offices as a small and medium-sized enterprise outreach specialist. And we are establishing formal linkages between the National Institute of Standards and Technology's (NIST's) Manufacturing Extension Partnership centers and the International Trade Administration's (ITA's) Export Assistance Centers to identify and assist "export ready" manufacturing firms. We are also beginning to work with the National Governors Association to increase our already close relationship with the states on export promotion efforts.

Our 105 Export Assistance Centers regularly co-sponsor 'Basics of Exporting Seminars' in partnership with a variety of public and private sector partners. In addition, USEAC staffs regularly participate as visiting lecturers in undergraduate and graduate-level international management courses throughout the United States and its territories. In addition to augmenting the training provided by our partners, our USEACs constantly recommend focused training possibilities to their clients. Vital issues like the Asian financial crises, the implementation of the euro, opportunities in Northern Ireland, Y2K, and e-commerce have all been the focus of conference series held across the United States by our offices.

Our educational efforts are not necessarily directed only to U.S. companies; we also attempt to reach out to importers of U.S. goods. For example, together with the American Business Information Center, our staff in Japan has undertaken outreach to small and medium-sized Japanese importers to show them how to find U.S. vendors and exporters via Internet. These efforts reached 800 Japanese importers in ten Japanese cities in 1998.

Since the Asian financial crisis began, our overseas Senior Commercial Officers in East Asia have provided weekly "snapshots" of the economic and commercial situation at their posts. We share these with our client companies through our USEAC network.

We have further expanded our export promotion assistance by consolidating both general and country-specific counseling and information services within the Trade Information Center. Now callers to 1-800-USA-TRADE can receive even more help. In order to guarantee that this increased information will be available to SMEs, the Center has upgraded its websites extensively to include country-specific information on most regions of the world, including ongoing information on the Asian financial crisis.

As Chairman of the Trade Promotion Coordinating Committee (TPCC), I am working together with other agency heads in a coordinated fashion to respond effectively to real-time market dynamics in emerging markets, increase our outreach to SMEs, and promote and foster e-commerce. The TPCC is also developing and undertaking strategies to help U.S. exporters take

advantage of new opportunities created by the introduction of the euro, as well as Latin America's pursuit of regional market integration.

President's Initiative to Promote Manufacturing Exports: Let me highlight a number of our more targeted export promotion initiatives. This month the President announced a new initiative to expand and enhance the Administration's export promotion efforts to reflect these new global realities and respond to stepped-up export advocacy by other countries. By expanding the availability of export credit, reaching out to new customers and markets, and delivering higher quality services to U.S. exporters, we can increase U.S. manufacturing exports and protect high-wage jobs. This \$108 million initiative will support \$1.8 billion in new U.S. manufacturing exports that will sustain or create 16,000 high-wage U.S. manufacturing jobs. There are five components to the initiative.

- Increase funding for Ex-Im Bank by 10 percent. Ex-Im Bank will use this money to help meet the demand for financing capital equipment and aircraft exports in developing markets, expand its insurance and guarantee programs to keep U.S. products flowing to emerging markets and expand environmental technology exports that create U.S. jobs while protecting the environment.
- Increase funding for Trade and Development Agency-funded feasibility studies to allow additional opportunities for U.S. firms to enter the planning stages of major export-generating infrastructure projects.
- Provide a new type of political risk insurance through the Overseas Private Investment Corporation (OPIC) to make possible up to \$1 billion in new export-generating investment. Let me note here that multi-year reauthorization of OPIC, a vital TPCC agency, will be critical to promoting U.S. private sector efforts in many developing markets and emerging economies. We strongly urge Congress to reauthorize OPIC before its current authorization expires in September 30, 1999.
- Expand the number of commercial officers overseas, increase the number of manufacturing-related trade missions, and improve coordination between the U.S. and Foreign Commercial Service (US&FCS) and the Manufacturing Extension Partnership to begin delivering export promotion services to all of the Department's small business clients.
- Support greater participation by U.S. industry and government in international standard-setting bodies, assigning attachés in key overseas markets to promote product standards that help expand U.S. exports, and increasing the Department's efforts to help these countries establish the legal and regulatory "infrastructure" to promote transparent commercial transactions.

Let me emphasize this last point. U.S. exporters continue to face intense and well-funded efforts by foreign governments to promote their own standards and product certification processes in

target markets, creating barriers to market entry for U.S. products. One example of our recent efforts in this area involves Third Generation Wireless Standards. Along with Ambassador Barshefsky, Secretary Albright, and FCC Chairman Kennard, I have sought assurances from the European Union that it will support the outcome of the industry-led standards-setting talks for the Third Generation Wireless Standards at the International Telecommunications Union (ITU). In reply to a letter we sent last month, Commissioner Bangemann reaffirmed the EU's support for the outcome of the ITU's industry-led, multilateral negotiation. However, we felt the response fell short of addressing several specific U.S. concerns regarding Europe's acceptance of all standards that are adopted by the ITU. We will therefore continue to press for an outcome that is satisfactory to the U.S. industry. I was pleased that the President's initiative included \$9 million to support our standards strategy. Two agencies of the Department -- ITA and NIST -- will cooperate on this initiative to make it easier and cheaper for U.S. exporters to sell their products in developing markets.

Recognizing the pivotal role of trade finance in helping U.S. firms compete overseas, the US&FCS implemented a significant change in the way it operates in the domestic field. The USEACs now are regularly co-staffed by International Trade Officers from the Small Business Administration (SBA), along with Ex-Im Bank Finance Officers. Combining the trade counseling of the US&FCS with the financial assistance provided by Ex-Im Bank and SBA is one way we are working to ensure that small and medium-sized companies can compete internationally. Our proposal to improve linkages between USEACs and MEP centers is also a logical extension of this effort.

Trade financing will also be essential for restoring trading relationships. Commerce has worked with Ex-Im Bank, the Department of Agriculture, and other partners in the TPCC to meet U.S. exporters' demand for financing support in light of the credit crunch in Asia. These programs now support over 20 percent of U.S. exports to Thailand and South Korea, up from just four percent a year ago. Our strategy is to maintain trade finance liquidity in the Asia region; assist in the privatization of projects, particularly in the infrastructure area; and encourage these countries to liberalize their markets and undertake essential structural reforms.

We are also helping U.S. exporters adjust to the financial crisis by strengthening their position in other dynamic markets where U.S. goods and services continue to enjoy good prospects.

Europe: On January 1, 1999, 11 of the 15 members of the European Union (EU) created a new currency, the euro. The resulting euro market has more than \$6 trillion in GDP. Our goal is to ensure that U.S. companies have a competitive edge in vital European markets, and that our businesses are fully equipped with the requisite marketing and financial information to seize these opportunities.

In order to raise the level of awareness among U.S. firms of opportunities in Europe, Commerce has conducted a major series of seminars around the country. In these seminars, we give U.S. firms expert advice and timely information on the euro. This is especially important to small and medium exporters who may otherwise lack access to the information they vitally need.

The introduction of the euro is an integral part of the European Union's larger economic strategy to increase the competitiveness of its firms and stimulate greater investment and growth across Europe. Europe will and should set its own growth strategy, and reforms that produce higher growth in our European trading partners should be good news for Americans. We export more than \$100 billion a year to the European Union, and the European subsidiaries of U.S. firms sell many multiples of that amount every year in the European market. Growth in Europe, in short, is good for American firms and workers.

In addition to the ongoing efforts that we have implemented over the past year, the Department will conduct a public assessment in six months of how U.S. companies are faring under the euro. We expect this assessment to be a tremendous resource to companies interested in evaluating the EU as a possible market for their product or for companies looking for ways to improve their business processes and expand business in the EU.

Mr. Chairman, one constant in U.S. trade policy is our strong economic partnership with the European Union. While we have disagreements from time-to-time, such as our current dispute over bananas, our bilateral trading relationship remains the largest in the world at about \$300 billion in two-way trade. And we are aiming to strengthen this relationship even further through the Transatlantic Economic Partnership, or TEP, which is aimed at reducing remaining barriers to transatlantic trade. A Joint Action Plan for these government-to-government talks was announced at the December 18 U.S.-EU Summit and calls for cooperation and negotiation on multilateral and bilateral issues, such as dispute settlement, transparency, trade facilitation, industrial tariffs, intellectual property, procurement, and regulatory cooperation.

The Commerce Department has also been the U.S. Government lead for the Trans-Atlantic Business Dialogue -- TABD -- since its beginning in 1995, and we have been greatly impressed with the valuable contributions it has made to liberalizing transatlantic trade, including its tireless work to improve regulatory cooperation. The TABD Small Business Initiative is a collaborative effort between the United States and the European Union to facilitate international trade between U.S. and European businesses. Commerce staff has been designing matchmaking missions to Europe and supporting European Union-led missions to the United States. We have also supported TABD partnering events by actively promoting the events to US&FCS customers who might benefit through participation. We are looking forward to another very productive year working with the TABD in 1999.

One of the most critical trade issues we face with Europe concerns implementation of the European Data Protection Directive, which could lead to disruptions in millions of cross-border data flows from Europe to the United States. Any such disruptions could have a significant impact on trade between the U.S. and Europe. We have been working closely with the European Commission and U.S. industry to seek a resolution to the issue that will allow data flows to continue unimpeded while ensuring that personal data receives adequate privacy protection. We hope to be able to conclude the discussions successfully as soon as possible.

South and Central America: The devastation wrought upon Central America and the Caribbean by Hurricanes Mitch and Georges was unprecedented. The cost in lives, disruption of social services and destruction of infrastructure is staggering. My Department will play a major role in the Administration's effort to assist in the economic reconstruction of Central America.

Last week, a Commerce assessment team, comprised of representatives from the National Oceanic and Atmospheric Administration (NOAA), ITA, and my Office visited the region to assess damage and determine the role of the U.S. private sector in the reconstruction effort. The NOAA contingent met with its counterparts in Central America to discuss ways to improve climate prediction and methods of disaster preparedness to preclude the level of damage and loss of life in future natural disasters. The findings from this mission will be presented at a business roundtable that I will host in early February and will also serve as the basis for a subsequent commercial reconstruction business mission to the region in March. ITA's interest is not only in the actual reconstruction, but also in the transformation of the region into a healthy, viable economic structure with up-to-date commercial and legal frameworks.

Looking beyond the nations affected by the tragic Hurricanes, I see countries whose long-term commitment to lowering trade barriers and introducing competition will help them weather the current financial crisis. Given these prospects, we are intensifying our export promotion efforts through a number of new and ongoing initiatives. Again, we are happy to see that the trade finance agencies are stepping up their activity in the region.

Another important factor is the involvement of high-level U.S. Government officials in promoting U.S.-Latin American partnership. Over the last two years, I have embarked on five trips to Latin America. Commerce has also established an Inter-Americas Center in Miami to take advantage of that city's status as a gateway to Latin America and the Caribbean.

Through new programs, we have been able to expand the way we promote the export of U.S. products and services across the world. One key example is the increased emphasis that our officers place on advocacy. By bringing the significant personnel resources we have in place around the world, we are improving the competitive position of U.S. companies when they compete head to head with foreign companies on major projects.

Advocacy: Another key focus of our export promotion efforts is advocacy on behalf of U.S. firms for specific contracts and projects. Foreign governments have been employing aggressive tactics to help their firms expand exports. Foreign governments are particularly effective in using their high-level officials as advocates for firms seeking business contracts from developing nations. It was not until 1993, with the creation of the National Export Strategy, the Advocacy Center, and the Advocacy Network, that the U.S. Government realized that international business lost by American firms was far too important to ignore, and that our non-interventionist strategy was tantamount to unilateral economic disarmament.

The Advocacy Center at Commerce is a unique, central coordination point that marshals the resources of 19 U.S. Government agencies in the Advocacy Network to ensure that sales of U.S. products and services have the best possible chance abroad. The Advocacy Center provides a novel, creative approach to promoting U.S. exports. Advocacy Center project managers work one-on-one with small and large U.S. exporters. Firms of all sectors and sizes are learning that the best way to ensure sales growth is to enter global markets now. In addition to supporting large U.S. companies, the Advocacy Center has consistently provided small and medium-sized U.S. companies with high-level United States Government advocacy.

More than 50 percent of the U.S. companies that have received direct support from the Advocacy Center are small or medium-sized businesses. Hundreds more have benefitted from its services as subcontractors and suppliers on large-scale infrastructure projects. With the Advocacy Center's assistance, these companies have won billions of dollars in business both directly and as subcontractors for larger projects. For example, during fiscal year 1998, small and medium-sized businesses accounted for one-third of the Advocacy Center's more than 60 advocacy successes. These companies accounted for an estimated \$330 million in U.S. export content. Since the inception of our aggressive advocacy program in November 1993, over \$1 billion of advocacy successes are attributed to small and medium-sized companies.

To further promote small and medium-sized businesses, the Advocacy Center will establish an Advocacy Coordinator to implement a strategy designed specifically to create additional small and medium-sized advocacy successes in the export market.

2. Ensure Enforcement of Trade Laws and Compliance with our Agreements

My second point about our trade policy is the critical importance of aggressively enforcing our trade laws in a manner consistent with our international obligations, especially regarding steel, and enforcing compliance with trade agreements.

Trade Laws and Steel: This Administration is focused on the challenges we are facing in the area of steel. The President's recent report to Congress outlined a number of Administration efforts to address the steel issue, supporting efforts to restore economic growth in Asia and Russia; import monitoring; foreign subsidy monitoring; and the vigorous enforcement of our trade laws. We will continue to work closely with the Congress and all of our industries and workers to ensure that the economic crises abroad do not result in a crisis at home.

We at Commerce are pursuing an aggressive program to ensure that American steel producers and workers are not injured by unfair foreign competition. We are currently enforcing more than 100 antidumping and countervailing duty orders on steel products from a number of countries. When we received antidumping petitions on hot-rolled steel from Russia, Japan and Brazil in September, I immediately shifted resources to ensure that we could expedite the investigations. We initiated the cases early, and we are on schedule to issue preliminary determinations in these investigations by February 12 -- which is an unprecedented 25 days early.

Also for the first time, we made an early critical circumstances determination in the Japanese and Russian investigations, which is designed to prevent import surges when a petition is filed. This will allow for the imposition of duties on imports of hot-rolled steel back to November 12, 1998, if dumping is found.

When the global financial crisis began, we started an extensive monitoring program that closely tracks imports and prices in key import-sensitive sectors, such as steel, to help us formulate a swift response to potential import surges. And, in the past week, I obtained approval from the Office of Management and Budget for early public release of preliminary steel import data from the Census, so that we can share these preliminary data with the industry. We have also relied on these data to keep up the pressure on our trading partners, the EU and Japan in particular, to adequately respond to the financial crises in Asia and Russia.

Additionally, we recognized at the onset of the crisis that countries might resort to subsidies in an effort to export their way out of trouble. We, therefore, expanded our subsidy monitoring program. For example, we stepped up our joint efforts with the U.S. Trade Representative to confirm that the Korean government is not subsidizing the steel industry generally and Hanbo steel in particular and to encourage the sale of the government's one-third stake in Korea's largest steel producer, POSCO.

In addition, we recently issued tough new countervailing duty regulations that will strengthen our ability to combat unfair subsidies. We considered carefully the comments we received from the steel industry and Members of Congress in preparing the regulations.

Let me emphasize that the United States has a critical economic interest in seeing financial stability return to Asia and Russia. If and when our trading partners return to prosperity, increase transparency, and adopt market-based reforms, they will be much less inclined to violate our trade laws. In the meantime, as the Administration has made abundantly clear, we will remain vigilant in enforcing all of our trade laws.

Trade Compliance Center: Mr. Chairman, we understand that the bulk of our export losses is due to the economic downturns in Asia and elsewhere. Still, while non-compliance with trade agreements by our trading partners is not a primary reason for our trade deficit, this Administration will not allow it to be a cause for further deterioration in the trade balance.

Wherever we discover a violation or restriction of our access, the Administration moves aggressively. This is the mission behind the Trade Compliance Center (TCC) that we created in the Commerce Department's Market Access and Compliance unit two years ago to seek compliance by our trading partners with their obligations. The TCC relies on the country and industry desk expertise in Washington, contacts in the field and overseas in our Embassies to accomplish its mission. In addition, I have asked over 150 associations to name compliance liaisons to work with the TCC in a partnership to identify and resolve compliance problems.

Working carefully and closely with the Trade Enforcement Unit at the office of the U.S. Trade Representative (USTR), the TCC coordinates compliance advocacy efforts that are aimed at full foreign implementation of trade agreements short of dispute settlement where possible. The TCC supports USTR in developing information and strategies when dispute settlement cases are necessary.

For example, a current case is a Korean procurement for escalators and elevators for the new \$6 billion Incheon International airport -- the largest in Asia. A U.S. firm, a world technological leader in elevators and escalators, was told it was ineligible to bid. We have pressed Korea to acknowledge that our bilateral agreement under the WTO Government Procurement Agreement (GPA) applies to contracts by its airport construction authority. Our understanding that it was covered was a basis that enabled us to reach an agreement when Korea joined the GPA. We are prepared to take this matter to dispute settlement in the WTO if we cannot resolve this issue.

In addition, Department of Commerce analysts and country specialists are working in cooperation with USTR staff and U.S. business to enhance efforts to obtain trade compliance and market access in several areas of concern. One is the European aircraft market, where the European Commission has proposed a regulation that would prevent many U.S. aircraft from being used or sold within the European Union because they use "hushkits" or replacement engines to comply with international noise standards even though these products meet the very noise standards to which the EU itself agreed. We are also working to obtain market access in the Philippines where the use of a certain kind of plumbing pipe made by small U.S. manufacturers is prohibited while a similar product by Philippine producers is evidently freely sold.

At the Department of Commerce, we are taking every effort to obtain full compliance wherever we see a problem. But if we cannot obtain compliance on the part of other countries the Administration will not hesitate to seek enforcement either through the World Trade Organization or through the use of U.S. trade laws.

Market Access in Japan: Our bilateral trade relations with Japan have shown mixed results in the past year. While concrete progress has been made under the deregulation initiative, our medical technology, semiconductors and cellular phone agreements, and on banking and securities, problems have cropped up in sectors such as insurance, rice and flat glass.

I am also disappointed that the Japanese government denies access through a wide array of barriers, including anticompetitive and restrictive business practices; non-transparent, discriminatory standards; discriminatory procurement policies; and a business environment that protects domestic companies and restricts the free flow of foreign goods and services into the Japanese market.

U.S. access to the Japanese market remains restricted in sectors ranging from autos and construction to glass and insurance. Our access has been undermined by continuing anticompetitive practices in the Japanese economy or by overly narrow interpretations by Japan of

the agreements' provisions. Reversing these situations remains a trade policy priority for the Administration.

Anticompetitive practices are still tolerated to too great an extent in Japan and allow Japanese companies a protected home base from which to export. Flat glass is a case in point. After years of keeping out American flat glass from Japanese markets, for example, Japan finally entered into an agreement with the United States in 1995 aimed at promoting a more open market with fair opportunities to compete in Japan. Today American glass manufacturers still have only a 1-2 percent share of the Japanese market, despite the fact that Japanese companies freely admit U.S. glass not only is better and technically superior -- but is also less expensive than Japanese glass even after U.S. companies ship it across the ocean. Compare this figure to the 10-20 percent and higher market share that the U.S. flat glass industry enjoys in other countries' markets.

In addition, I have been disappointed with Japan's recent actions on several critical issues for the international economy. From its failure to support tariff cuts in the Asia-Pacific Economic Cooperation (APEC) forum to its current efforts to retie substantial parts of its overseas economic assistance, Japan's record is not what one would expect from the world's second leading economy. And its falling imports from those Asian nations seeking to recover from the crisis shifts an even larger burden to the United States.

Japan's recent fiscal decisions are encouraging. It will be important to implement these fully and rapidly. Japan is in a serious recession. The Japanese Government has formulated an economic recovery program, and we hope it works. But recession is no reason for Japan not to fully implement its trade obligations, open its markets, deregulate its economy, or to do its part to absorb imports from recovering nations.

China: Total two-way trade with China has grown from \$5 billion in 1980 to \$75 billion in 1997 -- more than fifteen fold -- since relations were first normalized, making China our fourth largest trading partner. U.S. imports from China, which have grown exponentially and outpace U.S. exports five to one, account for the lion's share of total trade. Our most recent figures through November show our exports at \$12.9 billion and our imports at \$65.8 billion. In light of this burgeoning deficit, our trade policy and compliance efforts must address aggressively the problems of access to China's markets and any abuses of our existing trade relationship.

While some elements of China's trade regime have improved, with overall reductions in tariffs, overlapping non-tariff barriers to trade continue to hamper market access. Burdensome export performance, local content, technology transfer, equity, and other investment requirements constrain investor options and long-term investor interest. New restrictions over the past eight months in a variety of sectors (telecommunications, power generation, pharmaceuticals, retailing), as well as foreign exchange controls, added to existing restrictions (insurance, distribution, telecommunications, and services overall, agriculture), irritate the overall commercial relationship.

The best solution to these problems would be a commitment by the Chinese to market openness and WTO accession on a commercially meaningful basis. The United States has been engaged on

China's accession to the WTO since 1986; negotiations began to intensify in 1994 and have continued to the present. Progress has been made in a variety of areas, including tariffs, the Agreement on Trade-Related Aspects of Intellectual Property Rights, and trading rights. However, much more remains to be done, including a solid market access package which satisfies our concerns for greater market access for manufactured products, agricultural goods and services. We have maintained all along that China's accession will be driven by the quality of China's offers, not a preconceived deadline or timetable.

But while we continue on this process, we must push for the full measure of the trade rights for which we have already bargained. This includes the 1992 Memorandum of Understanding on Market Access. Importantly, Mr. Chairman, China promised in the 1992 agreement that it would not maintain import substitution programs or policies. Here we have some significant concerns. We intend to pursue these concerns vigorously, while we simultaneously continue to support and work for China's commercially meaningful accession to the WTO.

For example, the Department is reviewing the concerns raised by the American Natural Soda Ash Corporation alleging Chinese import substitution measures keep out U.S. soda ash even though it is of superior quality and much less expensive than domestic production. China has also publicly stated that certain types of power generating equipment used in Chinese power projects must be of Chinese origin -- harming exports of very competitive U.S. equipment. And, recently, the Chinese authorities issued detailed instructions and targets for substituting Chinese for foreign telecommunications equipment.

Last month I co-chaired the 12th session of the U.S.-China Joint Commission on Commerce Trade (JCCT) with China's Minister of Foreign Trade and Economic Cooperation Shi Guangsheng. The JCCT, established in 1983, is a government-to-government forum that meets yearly to enhance senior level dialogue on and expand U.S.-China commercial relations. The concerns of our exporters and investors and how to resolve them in the near term have been a focal point of the JCCT meetings and my discussions with Minister Shi. Industry, represented by individual companies and industry associations, participated extensively in JCCT proceedings.

Over the course of our meetings, we agreed that our companies and enterprises in China would meet to discuss market restrictions they face on power generation equipment, pharmaceuticals, telecommunications, services and equipment, retailing, foreign exchange, and in a host of other areas. However, we still need government-to-government consultations to augment these discussions. Working with Ex-Im Bank, we also announced our intent to appoint a U.S. trade finance officer in Beijing to advance project finance discussions, provide enhanced and expanded support to U.S. exports and projects, and help address the trade deficit. In addition, we agreed to hold further information exchanges and seminars on export controls, expand sectoral cooperation, and deepen our dialogue on commercial law. This spring, we will organize a major conference on enhancing joint efforts in the area of standards, testing, and certification, and the first ever multi-agency infrastructure mission to China.

Progress in trade relations is more important than ever to our overall relationship with China. Without progress, we face managing and coping with a growing source of irritation.

Anti-Bribery. Before we leave the subject of compliance, we should reflect on a momentous achievement that has gotten far too little public notice. Twenty-one years ago, the United States Congress passed the Foreign Corrupt Practices Act (FCPA) -- a courageous and farsighted unilateral action. Bribery is a pernicious act that undermines democracy and robs the poor. This Administration placed a high priority on getting the world's largest industrialized countries up to our standard, to ensure that our firms would no longer labor under a competitive disadvantage in international trade. Finally, with the strong support of the business community and members of Congress, we have achieved that goal with a new Organization for Economic Cooperation and Development (OECD) convention.

Thirty-four nations have agreed to enact criminal laws that will follow closely the prohibitions found in our FCPA. Now, the world's largest economies must outlaw the bribery of foreign public officials in international business transactions.

The OECD Working Group on Bribery is monitoring the progress that the parties to the Convention are making towards its effective implementation. The Administration will devote sufficient resources to this exercise so that no party will get a free ride at the expense of U.S. exporters. The Commerce Department is committed to ensuring that the other parties to the Convention live up to their obligations.

In the next year or two, we will also focus on the WTO, on Latin America, on Asia, and on getting developing countries to reform their legal systems.

The WTO's Government Procurement Agreement is a tough agreement under which countries agree to open, on a reciprocal basis, much of their government purchases and commit to operate their procurement systems in an open and fair way. Because of its high standards and reciprocal market opening requirements, its membership has not been large. Consequently, we hope to conclude a WTO agreement on transparency in government procurement later this year which would not require specific purchases to be opened to international bidding. We want it to address how governments publish laws, and regulations, and procurement opportunities. We would like to have governments establish clear criteria for how proposals will be evaluated; and most importantly, award contracts based on those criteria.

We have also been involved in the Inter-American Convention, negotiated in the Organization of American States (OAS), which requires countries to criminalize the bribery of foreign government officials. We signed this agreement in 1996 and President Clinton sent it to the Senate for ratification last year. We hope to see action on it in the near future.

We also want to work with the countries in Asia to address the problems of corruption. Two of the major countries -- Japan and Korea -- signed and ratified the OECD Convention.

Implementation and enforcement may be problems in both cases, but we will urge them to play a leadership role on the issue in the region.

It seems logical that APEC should be the forum for our efforts, as it has agreed to pursue transparency in government procurement and has begun drafting nonbinding principles for adoption on a voluntary basis. At the APEC leaders meetings in New Zealand in September, we will pursue this further.

Finally, when Premier Zhu visits the United States this year, we want anti-corruption efforts on the agenda. In December, I met with the Chinese, and we agreed to hold a seminar in China this year on how to control corporate corruption.

As important as these agreements are, we also have to find ways to work toward domestic reforms in countries with the most serious problems. As I travel around the world, I always raise this issue with my counterparts. For 20 years the Commerce Department has conducted seminars around the world on anti-corruption and the rule of law. We have organized training programs. We set up resident advisors on government procurement and ethics. We have worked particularly in Eastern Europe, the former Soviet Union, and the Middle East. I want to expand this program in other parts of the world.

3. Continue to Tear Down Barriers and Strengthen the Global Trading System

My third point concerns our continued need to bring down barriers to U.S. exports and to demonstrate our commitment to strengthening the multilateral and regional trading system.

As the President has said many times, we cannot create enough good jobs and increase wages if we do not expand trade. And, trade negotiating authority is an important mechanism to achieve this goal. While we may be able to *begin* negotiations, the lack of fast track can affect the momentum of negotiations, and its prolonged absence ultimately delays our trade agenda.

Mr. Chairman, we must ensure that the WTO built-in agenda -- encompassing, among other issues, talks on agriculture, services, and intellectual property rights to begin this year -- stays on track. WTO members must ensure that the WTO continues to be an engine for increased trade liberalization as we move into the next century. The 1999 Ministerial is going to prove to be very important for the World Trade Organization, and I am proud that Ambassador Barshefsky was unanimously chosen by her colleagues in the WTO to chair this meeting.

We must move ahead with tariff reductions. Work on sectoral tariff cuts begun in the APEC forum must move ahead in the WTO. In addition, we need to work on reducing the gap between bound tariff rates and applied tariff rates. It is simply inconceivable to me that a country can apply a tariff of 10 or 15 percent to our exports for years -- high as that may be -- yet face no penalties under international trade rules for raising that tariff to 70 percent when it chooses to offer protection, for example, to a new investment. We must get those bindings down.

WTO members must deepen their commitment to services liberalization, which is also part of the built-in agenda. Many countries need to move from standstill commitments made in the Uruguay Round to elimination of barriers to services trade.

Continued emphasis needs to be placed on further protecting intellectual property rights in the WTO. We need to ensure that certain less developed countries fully implement their intellectual property rights obligations even as we look at expanding those obligations.

Increased attention must be given to addressing problems caused by technical barriers to trade. Many WTO members continue to struggle with properly implementing their obligations in this area and these technical barriers are quickly becoming more important impediments to doing business overseas than tariffs.

Finally, we must push for expanded participation in the WTO Agreement on Government Procurement and work to improve transparency in government procurement around the world.

Latin America and the Caribbean: The United States has been at the forefront of free trade negotiations with our partners in this hemisphere (the Free Trade Agreement of the Americas (FTAA)) -- negotiations designed to open new markets for U.S. exports. Greater access to the dynamic Latin American market is a major objective for U.S. trade policy. Since tariffs in the countries of the FTAA are four times as high as ours, it makes sense for us to tackle them.

For the first time in 1997, our export sales to Mexico surpassed those to Japan, making our North American Free Trade Agreement (NAFTA) partners our first and second largest export markets. In just six years (1991-1997), U.S. exports to Latin America and the Caribbean Basin, including Mexico, have more than doubled, from \$63 billion to \$134 billion. Latin America and the Caribbean (excluding Mexico) was the only major region with which the United States recorded a significant trade surplus in 1997. There is no other part of the world where the United States is so competitively positioned.

The Administration has long been committed to the Caribbean Basin Initiative (CBI). Chairman Roth's omnibus trade bill approved last year by this Committee included CBI enhancement, and the House has also considered several proposals. The devastation wrought by the hurricanes in Central America and the Caribbean underscores the importance of rapid passage of this legislation. When the Presidents of Central America came to Washington in December, they told us the most important thing the United States could do to support the reconstruction in the region is to pass CBI enhancement.

We cannot afford to be complacent while Europe and Asia are actively courting the Latin American and Caribbean regions. The EU has agreed with Argentina, Brazil, Paraguay and Uruguay (the Southern Common Market, or Mercosur) to negotiate a reciprocal agreement. The largest trading partner of the Mercosur is the EU, which also is negotiating agreements with Chile and Mexico.

Africa: Sub-Saharan Africa is emerging from years in which it was largely an afterthought in U.S. foreign economic policy. President Clinton's historic visit to Africa last March stimulated a process of expanded partnership between the United States and Africa on several fronts, including the commercial front, and the result will be a brighter future for Africans and Americans.

The U.S. Government is focused on Africa as never before. The African Growth and Opportunity Act legislation introduced in the last Congress energized the policy debate about Africa and stimulated new thinking within the Clinton Administration. We expect the bill to be reintroduced shortly, and we hope the 106th Congress enacts it promptly.

Meanwhile, the Administration is moving ahead to implement those portions of the President's Africa Initiative, the Partnership for Economic Growth and Opportunity in Africa, which do not require new legislation. These measures include: debt reduction, new Overseas Private Investment Corporation investment funds, and technical assistance. The Partnership aims to help integrate Africa into the global economy, and to build lasting commercial ties with the region's emerging markets.

The Department of Commerce is fully engaged on Africa. Next month, I will make my fifth visit to Sub-Saharan Africa as Secretary of Commerce, for the meetings of the U.S.-South African Binational Commission and Business Development Committee in Cape Town. I co-chair the Commission's Trade and Investment Committee with my South African counterpart, Minister of Trade and Industry Alec Erwin. We will continue our discussions on how to further build the U.S.-South African commercial relationship.

Just last month I led a Presidential Business Development Mission to South Africa, Kenya, Cote d'Ivoire, and Nigeria. The Mission, comprised of 15 U.S. firms, two Members of Congress, and representatives of three U.S. Government trade finance agencies, was a major milestone in our efforts to forge a commercial partnership with Africa. I look forward to continuing our commercial dialogue with African leaders in March at the ministerial-level Dialogue for African Partnership in Washington.

Mr. Chairman, these are what I view as the critical elements of our trade policy: providing our dynamic exporters with help and tools to enter markets, enforcing our trade laws and ensuring compliance with our agreements, and working to knock down trade barriers through negotiations and strengthen the global trading system.

IV. CONCLUSION

Before closing, I want to mention some additional matters that warrant our attention and will be critical to sustain our trade policy objectives. This involves the need to address that situation of those who have to date not shared equally in the benefits of trade. I understand there will be a separate hearing to discuss labor and environmental issues, but I want to make two basic points today.

First, the Commerce Department has an important role to play in aiding U.S. firms that must adjust to changing trade patterns. Our Economic Development Administration implements the Trade Adjustment Assistance (TAA) Program for Firms which, through a national network of 12 Trade Adjustment Assistance Centers, certifies the eligibility of firms, conducts a rigorous diagnosis of the firms' operations, and provides technical assistance, on a cost shared-basis, designed to develop new methods, markets, and products. A recent independent evaluation conducted by the Urban Institute concluded that the program is effective in helping firms recover from the loss of sales or production caused by foreign imports. This year, the TAA Program for Firms will come up for reauthorization, and Commerce is committed to working with the Department of Labor and the Congress to reauthorize this important program.

Second, we need greater education throughout the country about the importance of trade to our domestic economy and future prospects. Every man or woman who has lost a job to trade knows it and feels it intensely, but so few of our workers who owe their jobs to international trade are fully aware of its beneficial impact. We must do better about educating our nation about the objectives of trade and trade policy. We must convince our workers that trade can be on their side, and that it speaks to their needs as much as to those of CEOs.

Of course, if we are to make that argument, we must work to ensure it is a reality by taking better account of concerns expressed by labor unions and environmental groups. As we head to a new century, let's stop fighting the old fight. As President Clinton stated last week in his State of the Union Address, "Somehow we have to find a common ground on which business and workers and environmentalists and farmers and government can stand together." What we should be doing is finding ways to improve trade, and the environment, and labor standards -- all at the same time. One way of doing so is to strengthen the working relationship between the World Trade Organization and the International Labor Organization, an issue in which members of this Committee have been quite interested for some time.

Perhaps then, when the worker on the factory floor can see trade working on his behalf just as it does for the CEO in the executive suite, all the elements of a successful trade policy will have come together.

I want to close, Mr. Chairman, by noting that on the 15th Street side of the Commerce Department is engraved a quote from a wise American forefather, Benjamin Franklin. It says, "Commerce among nations should be fair and equitable." That was wise policy guidance in his time, it is equally wise today, and it is the goal we are pursuing.

Thank you, Mr. Chairman.

RESPONSES OF SECRETARY DALEY TO QUESTIONS SUBMITTED BY SENATOR ROTH

Question: What exactly does putting a "human face" on the global economy mean?

Answer: It means making every effort possible to ensure that all Americans—and ordinary citizens in other countries too—understand that the global economy has a direct and very important impact on their daily lives. It also means that we take steps to ensure that all people have a voice in decisions we make regarding the world economy.

Much needs to be done to accomplish this goal. President Clinton, in his address to the World Trade Organization in May 1998 and also in his recent State of the Union address, laid out his vision of how we can accomplish these goals.

We must make international organizations more accessible to ordinary citizens. Only in this way can we build faith in institutions such as the World Trade Organization (WTO). We continue to push for increased transparency in the WTO. WTO documents should be made more readily available to the public, and we must open up WTO dispute settlement proceedings to the public.

Stakeholders—labor and environmental groups, for example—must be given a greater opportunity to have their views taken into account as decisions in international organizations are made. Labor standards, the environment, and trade—especially enforcement of trade agreements—can be improved at the same time. In addition, we need to work with the International Labor Organization (ILO) to continue to promote the recently adopted core labor standards set out in the Declaration on Fundamental Principles and Rights at Work.

Here at home, we must do a better job of educating ordinary Americans about the real benefits of trade. Exports support over 11 million U.S. jobs, and imports provide Americans with a wide range of excellent products from which to choose.

We need to find a way to promote a more equitable sharing of the benefits of international trade.

By opening up international institutions, by working to improve labor standards and the environment as we work to open markets, and by educating ordinary people in America and around the world about the benefits of trade, we will be putting a human face on the global economy.

RESPONSES OF SECRETARY DALEY TO QUESTIONS SUBMITTED BY SENATOR
MURKOWSKI

Question: Does Commerce consider the impact that the imposing of more AD duties on steel will have on the steel consuming industries, which employ forty times as many employees as the US steel mills?

Answer: We believe that industrial consumers, such as the steel-consuming industries, have an important role in antidumping proceedings. Commerce's commitment to ensuring that the interests of all parties are fairly considered is reflected in our recently-revised regulations. We codified in those regulations two new procedures to address domestic availability issues. See 62 FR 27323 (May 19, 1997).

First, the regulations require Commerce to question petitioners on the scope of the petition during pre-filing consultations to ensure that the scope accurately reflects the product for which the domestic industry is seeking relief. Second, the regulations set aside a specific period early in an investigation for parties to raise issues regarding product coverage so that petitioners will have an opportunity to reconsider product coverage and Commerce can amend the scope of the investigation if warranted.

These new procedures have already yielded positive results. For example, in the ongoing antidumping and countervailing duty investigations on stainless steel sheet and strip, Commerce successfully utilized these procedures to eliminate five types of steel products from the scope of the investigation.¹

Other recent examples include the antidumping and countervailing duty investigations of fresh Atlantic salmon from Chile in which, as a result of Commerce's pre-initiation consultations, petitioners decided to exclude from the scope salmon that is not farmed. Similarly, in the recent investigations on steel wire rod from various countries, in response to a request by a domestic consumer of steel wire rod, Commerce was successful in working with the parties to fashion an exclusion that met the needs of both petitioners and the consumer.

¹The products eliminated from the scope are: (1) flapper valve steel (similar to grade AISI 420F); (2) suspension foil steel, a specialty steel used in the manufacture of suspension assemblies for computer disk drives; (3) permanent magnet iron-chromium-cobalt alloy stainless strip, which is commonly used in electronic sensors; (4) certain electrical resistance alloy steel used in the production of circuit breakers, industrial furnaces, and locomotive parts; and (5) certain stainless steel strip used in the production of textile cutting tools.

In addition to these new procedures, Commerce routinely addresses the issue of product coverage through what are called "changed circumstances" reviews. Through these proceedings, Commerce has the authority to revoke an order with respect to a particular product, if the domestic industry expresses no further interest in subjecting that product to the disciplines of the order.² The 1997 regulations establish deadlines for initiating and conducting these reviews.

Question: What consideration does Commerce give to imports that fill a niche in the US market since US steel producers cannot or will not meet the domestic demand for that product?

Answer: The examples of specific product exclusions listed in the answer to the first question regarding steel consumers above, illustrate our efforts to address this type of issue. Our experience indicates that the practices and procedures Commerce has established are working to ensure that the scope of antidumping and countervailing duty investigations provides the relief sought by the U.S. producers while taking into account the needs of industrial consumers. In almost every instance where a legitimate issue of product coverage has been raised, we have been able to resolve the issue to the satisfaction of all parties.

Question: What role should US industrial users and consumer organizations play in anti-dumping and countervailing duty proceedings?

Answer: In the Department's revised regulations issued in May 1997, we added explicit provisions to ensure that industrial users and consumers have the opportunity for meaningful participation in investigations, including participation in shaping the scope of the investigation. They have the right to submit information and argument to the Department and comment on the submissions of others. We are committed to giving full and fair consideration to the comments on the record made by industrial users and consumer organizations.

We also have tightened our requirements for submission of public summaries of proprietary business information so that industrial users and consumers will be better able to comment on data placed on the record.

Finally, as noted above, we have set aside a period soon after initiation of an investigation for the purpose of receiving input from industrial users and consumers on supply and other scope concerns, so that petitioners can reconsider product coverage and the Department can amend the scope of the investigation accordingly.

Question: Is it true that Commerce does not take any action to relieve the burden on downstream users unless the domestic producers consent? If true, does Commerce require the producer to state the grounds for the objection?

Answer: It is important to keep in mind that we are dealing with a remedy for unfair trade practices. Where there is injurious dumping or subsidization, the domestic industry is entitled to the relief provided by the law. The fact that there is limited domestic supply for a particular product may be the result of past unfair trade practices that eliminated or discouraged competition by U. S. producers. Thus, it would be inappropriate and would undermine the purpose and effectiveness of the law if we were to make changes in the scope of relief over legitimate objections by the domestic industry. Where a member of the domestic industry does object to revocation, the Department has carefully inquired as to the basis of the objection, including the nature of the party's interest in the relief provided by the order. In our experience, domestic producers have agreed to changes in the scope of investigations or product-specific revocations of orders when there is a legitimate issue of domestic availability.

Question: Does Commerce verify the basis of a producer's objection to relieving the burden on downstream users and does Commerce verify that domestic producers make or plan to make the product? If so, how?

Answer: The critical question is whether the domestic industry that succeeded in gaining relief from unfair trading practices continues to be interested in coverage of the product by the order. Nonetheless, as noted above, the Department does inquire as to the basis of the domestic industry's objection and as to its plans for producing the product, in an effort to resolve scope issues to the mutual satisfaction of both the domestic industry and of industrial users. We make these inquiries during the period for considering scope and supply issues soon after an investigation is initiated, as well as after an order is issued when a scope or supply issue is raised. We have consistently found the domestic industry to be forthcoming in response to our inquiries and to have legitimate reasons for any objection.

² Examples of where the Department has used this authority to grant product-specific revocations include: microwave amplifiers from Japan, rayon yam from Germany, corrosion-resistant steel from Japan, cookware from Taiwan and Korea, steel rails and steel plate from Canada, and sugar from France.

RESPONSES OF SECRETARY DALEY TO QUESTIONS SUBMITTED BY SENATOR BAUCUS

Question: What do you see as the major issues in China's WTO accession talks and what would you like to achieve during Zhu Rongji's scheduled visit to Washington in April?

Answer: The major issue in China's accession talks is whether it is prepared to join the WTO on a commercially meaningful basis. It must be willing, like other new Members, to make significant market access commitments (reducing or eliminating tariffs and non-tariff barriers) and apply all WTO provisions (like national treatment, non-discrimination, etc.). The negotiation concerns the details and timing of these commitments.

I am looking forward to Premier Zhu's visit this spring, and working actively with other Cabinet officials on plans and arrangements for that visit.

While the Premier has broad responsibilities, he has had a particular focus on the economic area, and we expect economic and commercial issues will be a large component of the visit.

Commerce will be very interested in addressing trade and investment issues, market access concerns, and the large U.S. trade imbalance with China. As you know, our trade imbalance with China will approach \$60 billion for 1998, the highest level since normalizing relations and double what it was four years ago—this is second only to our deficit with Japan.

While there are a number of factors underlying the deficit, China's maintenance of multiple, overlapping market access barriers clearly is one of the most significant causes.

With USTR as the lead, we are continuing discussions with Chinese counterparts on WTO accession, and hope the Premier's visit will spur Chinese negotiators to make efforts that would further progress. A good market access package will be extremely important in reversing the trend in U.S.-China trade relations.

Given the importance of effective enforcement of our nation's unfair trade laws, specifically the United States antidumping law, one of the Administration's major objectives in these talks is to preserve our ability to use, as we do now, our nonmarket economy methodology for measuring dumping in cases involving China.

British Columbia's Reduction of Timber Fees.

Question: First, I hope you can discuss your agency's efforts to address British Columbia's breach of the Agreement. Why was our response—and the beginning of arbitration—plagued by delay? Can we make Canada respond to arbitration in a more timely manner?

Answer: From January to May, 1998, British Columbia discussed with us its plans for changes in its stumpage regime. During this time, British Columbia was developing its proposal to change its stumpage regime and had not yet taken any action that was in violation of the Agreement. We consulted extensively, though informally, with Canadian and British Columbian officials about their proposal.

Our goals during this period were twofold: first, to understand fully the stumpage reduction that was contemplated in order to determine whether it violated the Agreement, and second, to try to reach a mutually agreeable solution, i.e., a way for British Columbia to accomplish its goals without violating the Agreement. Throughout this period, we made clear our intent to go forward with dispute resolution immediately after British Columbia's stumpage change was implemented if the reduction was not accompanied by an acceptable offset.

Having failed to alter British Columbia's course, the U.S. Government promptly requested consultations (the first step in the dispute resolution process contained in the Agreement) once British Columbia reduced its stumpage effective June 1, 1998. Our goal, which was supported by the U.S. industry, was to use the consultations to identify a mutually agreeable solution. However, when it became clear that a solution was not within reach, the Administration proceeded with arbitration.

The Administration worked with the Government of Canada to assemble a panel that would arbitrate this issue fairly and justly. This selection process took some time, but we are pleased with the selected panel. Since the panel was finalized, the arbitration proceedings have progressed smoothly and in a timely manner. The U.S. Government brief and Canada's first response have already been filed. The briefing process will be completed by the beginning of March, and it will be followed by a hearing. Soon thereafter, the panel will begin its deliberations and will rule on the issue this spring.

Question: Second, I understand that the Lumber Agreement contemplates "curing" a breach. British Columbia's lumber companies have now been receiving additional subsidies—in violation of the Agreement—for more than 7 months. What measures

will be taken to compensate for these additional subsidies? Will additional duties be collected?

Answer: We believe that this does violate the Agreement. We have made it clear to Canada and we are forcefully arguing before the panel convened under the Agreement. We are confident we will prevail at the panel. If we prevail, the panel does not prescribe a cure, but we intend to ensure that the Canadians remedy the situation. Should we not prevail, we will be in close consultations with the industry to determine what next steps should be taken.

Question: Recent reports indicate that the BC Government is considering additional changes to its timber policies to lower its already subsidized costs. BC took other actions to lower the cost of timber by cutting back its environmental regulations last year. Has your agency sought clarification of British Columbia's recent proposals in this area? What actions will your agency take to ensure that BC's proposals are consistent with the Agreement?

Answer: The Softwood Lumber Agreement requires Canada to notify the United States of any changes to provincial forestry practices, including stumpage policies, within 45 days of the change. While we have not yet been formally notified of the most recent changes in British Columbia, we were notified informally prior to the public announcement. Thus, we have had some preliminary discussions with British Columbia and Canada.

We have sought clarification of these recent changes, and we are awaiting additional information about them. We will closely scrutinize the information provided and, if we believe that British Columbia's actions violate the Agreement, we will work with the U.S. industry to protect its interests.

Question: What steps is this Administration taking to secure such a long-term solution?

Answer: The United States has been pursuing stumpage reform in Canada for seventeen years now. The Administration's position has always been that the only way to guarantee a long-term solution to the lumber trade dispute is the adoption of market-oriented forestry management systems in Alberta, British Columbia, Ontario and Quebec.

Of course, Canada may manage its natural resources in whatever manner it chooses, but we will continue to press for such a long-term solution at every opportunity. In the meantime, we will continue to protect our industry's interests until such a long-term result is achieved. The Agreement is currently the best alternative on both sides of the border, and we will continue to strictly enforce it, while we continue to encourage Canada to move toward market pricing.

Question: Issues of great interest to the cattle industry were raised as part of the recent U.S.-Canada discussions on agricultural problems. Specifically, the tremendous distortions created on feed barley prices available to Canadian cattlemen was raised by the U.S. but not resolved during the negotiations. Can you confirm that this issue and other issues of interest to the cattle industry will continue to be pursued with Canada at a high level?

Answer: Last December the Commerce Department initiated a countervailing duty investigation of Live Cattle from Canada. One of the allegations on which the case was initiated was the claim that the Canadian Wheat Board restricts exports of feed barley. According to the petition filed in the investigation, this practice allegedly suppresses feed barley prices in Canada, which, in turn, benefits Canadian cattle ranchers.

Recently, Commerce sent the Government of Canada a detailed questionnaire asking about the operations of the Canadian Wheat Board. A response is expected in mid-March. A preliminary countervailing duty determination with respect to this issue, and other alleged subsidy programs, will be made on May 3, 1999. While the final determination is currently due on July 15, 1999, it is expected that this date will be extended to match the final determination date in the companion antidumping investigation.

Question: As you are aware, prices remain very depressed in the cattle sector. The industry has filed unfair trade petitions against imports of live cattle. These cases will hopefully provide some significant measure of relief if affirmative determinations are made. However, there are also very large volumes of imported beef, which are also contributing to the distressed prices of live cattle. It is my understanding that U.S. cattlemen cannot pursue unfair trade practices in the trade of beef. The slaughter houses in the U.S. also own facilities abroad (both packing & producers) and so are unlikely to take action to correct the problems flowing from imports. What actions can the Administration take to eliminate the pricing pressure on cattle from the historic highs of beef imports? An escape clause action under Section 201 requested by USTR? Changes to U.S. antidumping law to permit cattle producers

to file against beef imports where unfair trade practices are perceived? Bilateral consultations with Canada and other countries?

Answer: While it is true that under the antidumping and countervailing duty laws, parties requesting an investigation must be producers of the goods to be investigated, based on our current knowledge we cannot say that some combination of ranchers and beef producers cannot successfully file a petition under the law. This is further complicated since Commerce may disregard the position of certain affiliated producers who oppose the petition or import the subject merchandise.

As with all situations such as this, the Administration would be pleased to work with the affected industry, and we would be happy to meet with U.S. cattle ranchers to examine ways to address unfairly traded beef imports.

PREPARED STATEMENT OF HON. BOB GRAHAM

[JANUARY 27, 1999]

Let me first thank Chairman Roth and Senator Moynihan for holding these three days of hearings to set the stage for this year's trade agenda, as we address the many significant issues that will arise as we prepare for the WTO Ministerial.

As we begin the work of the 106th Congress and focus on global trade liberalization, it is important that we give the affected U.S. constituencies an opportunity to express their concerns regarding U.S. trade policy and the impact, both positive and negative, that our actions may have on their industries.

Developing free trade agreements and encouraging investment between the United States and both its trading partners is necessary to assist those nations that are committed to economic reform, the eradication of poverty, the protection of workers and the preservation of the environment.

Our efforts to promote free and fair global trade will not only benefit our trading partners, but will also strengthen our position in the global economic community and promote growth in the U.S. economy.

Binding and enforceable agreements to open international markets to U.S. agricultural exports must be a primary component in our overall international trade agenda.

Agricultural exports represent the only area of surplus in an otherwise increasing trade deficit.

Agricultural exports are a critical component in the thriving U.S. economy.

However, our trading partners must be willing to liberalize their trade policies and abide by existing trade agreements, allowing U.S. agricultural products access to their markets.

We must be prepared to enforce trade agreements, consistent with our WTO obligations, when faced with unfair and restrictive trade practices that impede our access to international agricultural markets.

As we work to liberalize trade agreements with Europe, Asia, Sub-Saharan Africa and the states of the Former Soviet Union, we must continue to fulfill our commitments within our own hemisphere.

We can begin to fulfill these commitments through enhancements to CBI legislation which will ensure the Caribbean Basin nations are able to compete for a share of the U.S. market.

If we fail to address the needs of our neighbors in the Caribbean Basin, we will bear the responsibility for the economic uncertainty and political instability that have too often befallen these countries.

As we prepare to begin a new century, it is our responsibility as a good neighbor to bring the countries of the Caribbean Basin into the era of global free trade.

Today's witnesses have an extraordinary opportunity to help shape U.S. trade policy for the new millennium; they are particularly qualified to comment on new trade legislation and policy may effect the U.S. economy, industry and agriculture.

I look forward to hearing their views.

PREPARED STATEMENT OF HON. TOM HARKIN

[JANUARY 28, 1999]

Good Morning. I would like to commend Chairman Roth and the Committee for holding this series of hearings seeking input from a broad spectrum of groups. The information we gather will help us craft a trade bill that will be in the best interests of the United States. I appreciate this opportunity to testify today on an issue that I believe is vital to the future peace and stability of the world. One which the U.S.

must take a leadership role in because of the very nature of our society. I am speaking about abusive and exploitative child labor. Personally, this is an issue I have been working on for the past decade.

First, let me be clear about what I mean by abusive and exploitative child labor. It is not kids helping on their family farm. It is not after school work. There is nothing wrong with that. I worked in my youth—you probably did too. Abusive and exploitative child labor involves children—some as young as three—forced to work under hazardous and slave-like conditions. They endure long hours for little or no pay. They are denied an education and the opportunity to grow and develop. I am talking about kids who are ripped from their families and sold into bondage, sometimes even by their own parents. But just because parents sell their children doesn't make it right.

These kids are forced to do the kind of work that endangers their physical and emotional well-being. The International Labor Organization (ILO) estimates that there are tens of millions of children worldwide who are engaged in such economic activity. Kids like the young Mexican boys and girls harvesting vegetables in the fields of Hidalgo State. They are out there working long hours, all day long. They are not in school. Sadly, many of these products end up here in the U.S.

Unfortunately, they are not alone. There are children just like them in Pakistan, India, Bolivia, South Africa and elsewhere in the world working in fields or at other hazardous jobs. I have visited Nepal where I witnessed first hand children as young as eight years old making hand-knotted carpets for export. Make no mistake, what I witnessed there is the last vestige of accepted and condoned slavery. This must end.

For the record, I believe in free trade. That is why I voted for the North American Free Trade Agreement. But I also believe in a level playing field. U.S. workers cannot compete with slaves. You can call it what you want to. You can dress it up with all kinds of fancy words and cover it up, but these children working under slave-like conditions out in the fields don't have a choice. And isn't that the definition of slavery?

When children are exploited for the economic gain of others, the child loses, his family loses, and his country loses. And the world loses too. Every child lost to the work place in this manner is a child who will not receive an education, learn a valuable skill, help their country develop economically or become a more active participant in the global market. When just one child is exploited, every one of us is diminished.

Recently, I came across a startling statistic. According to the UNICEF report entitled, "The State of the World's Children 1999," nearly 1 billion people will enter the 21st century unable to read a book or sign their name because they are illiterate. This is a formula for instability, violence and conflict. Nearly one-sixth of all humanity, about 3-1/2 times the population of the United States, will be functionally illiterate on the eve of the new millennium. That's shocking, and the main reason for this appalling situation is that many of these people were forced to work as children instead of attending school.

ILO Convention 138 is clear—the minimum age for employment is 15 years of age—developing countries may invoke a transitional age of 14. This is not a Western standard but the world's standard. While some may argue that the United States cannot and should not be the world's labor inspector, I believe that there is a sound economic rationale for holding countries to international standards regarding abusive and exploitative child labor.

Children making pennies a day will never buy a computer or the software for it. They will never purchase the latest music CD or a VCR to play American movies. By allowing abusive and exploitative child labor to continue, we not only doom the child to a future of poverty and destitution, we doom future markets for American goods and services. The markets of tomorrow are taking shape today. If we want American goods to be purchased the world over, people must be able to afford them.

Some would argue, however, that traditional trade agreements under GATT/WTO must not take into account non-traditional areas that are not directly related to trade. Yet, at one time, agreements on intellectual property rights were not considered measures to be addressed by trade agreements. In the beginning, only tariffs and quotas were addressed by the GATT because they were the most visible trade distorting practices. Eventually, the GATT evolved to include intellectual property rights and services, which have become an integral part of our trade agreements. Now, the WTO will consider rules dealing with foreign direct investment and competition policy.

So, there has been a steady evolution of what is considered "directly related" to trade. Is it so radical to now include basic protections against abusive child labor into our trade agenda? Is seeking to stop abusive child labor so different than efforts

underway in the WTO to prevent trade distorting government procurement practices? Labor considerations, especially the most egregious forms of labor exploitation such as abusive and exploitative child labor, are clearly issues that can and should be dealt with through trade policy.

Of course, trade policy alone could never end abusive and exploitative child labor. That is why I am very supportive of the campaign by the International Labor Organization (ILO) to end abusive child labor. Efforts, like the ILO's International Programme for the Elimination of Child Labor, which assists countries in removing children from the work place and placing them in schools, are an integral part of the international approach to end this scourge. They should be encouraged and strengthened. Ending abusive and exploitative child labor takes the combined efforts of businesses, consumers, governments, international bodies and non-governmental organizations. But, just because trade policy alone will not end child labor it is not an excuse to do nothing.

Even the GATT recognizes that trade in some goods is simply beyond the bounds of acceptable practice. For example, Article XX of the GATT allows measures restricting trade in prison labor. And, before the GATT was formed, the U.S. banned the importation of goods made with prison labor beginning in 1930. Seeking to stop the importation of goods made with abusive child labor would fall under the same vein. Some practices are just beyond the realm of acceptable, and international law recognizes them as such. In fact, this year the ILO will adopt a new convention dealing with the most egregious forms of child labor.

While I commend the ILO's efforts, their conventions have no enforcement mechanisms and rely on international pressure to "enforce" them. Unfortunately, the practice of abusive child labor is so pervasive, this has proved insufficient on a global scale. Clearly, the WTO with its ability to move quickly and enforce its decisions would be an ideal place to decide trade disputes arising from unfair labor practices, which can distort trade as much as any other government action or inaction.

So, Mr. Chairman, I hope I have established that ending abusive child labor should be an integral part of U.S. trade policy. It is not only an issue of development or human rights, but an important aspect for the future of the global economy and the future of U.S. markets. In order to effectively combat abusive child labor through our international trade policy, I believe the Committee and the Clinton Administration should place at the top of the trade agenda the following two important initiatives.

First, I would strongly urge that during the next round of WTO trade discussions taking place this fall in Seattle, Washington, the United States continue to seek the formation of a working party to examine the relationship between workers' rights and international trade issues. At the very least, this group should examine the effects that core labor standards, including abusive child labor, have on trade. The Labor Working Party could also build on the work of the OECD in this area. The OECD found that trade liberalization and core labor standards are mutually reinforcing in terms of their economic benefits. Furthermore, the implementation of core labor standards will benefit all economies no matter their level of development.

Second, the United States should continue to promote labor standards as a part of any trade agreement. During the "fast track" debate in the 105th Congress, I intended to introduce an amendment to promote adequate and effective protections against abusive child labor as one of the principle trade negotiating objectives of the United States. I firmly believe that a child deserves as much protection in our trade laws as a song or a microchip. Should "fast track" legislation be introduced in the 106th Congress, I would seek similar language. It is my hope that the President and this Committee would recognize the importance of such language and include it.

In closing, I would just like to say that I welcome the opportunity to work with you, Mr. Chairman, and the other members of the Committee. In my experience, I have not met a child or a family that did not want to put an end to abusive child labor. Together, we can ensure that our trade legislation includes protection for the most vulnerable—children—and at the same time promotes U.S. economic interests.

PREPARED STATEMENT OF HON. ORRIN G. HATCH

[JANUARY 26, 1999]

Mr. Chairman, this series of trade hearings is a landmark event. Not since the 1987 hearings leading to the Omnibus Trade Act has this committee taken the bold step of a top-down examination of our trade policies and their effect on our economy. It may be regrettable that we seem to do this only once a decade, and we may not have that luxury again. For one thing, the actual practice of international commerce

is outpacing our ability to manage it. At the same time, the trade issues are affecting more Americans still more directly as our share of GDP devoted to trade grows.

Just look at some of the major issues on the USTR negotiation menu:

- In the agricultural area, disputes affect as many different commodities as they do countries and regions—with the EU, we have differences over bananas, wine, rice, beet wheat, and peaches. With Eastern Europe and Russia, our negotiators are battling high tariffs and non-tariff barriers on imports of U. S. grains, oil seeds, pork, and poultry. In the Western Hemisphere, we differ with our NAFTA partners on bans of US poultry, fruits, beet grains, milk, and eggs.
- Intellectual property barriers to US imports are no less severe, with Special 301 investigations affecting Greece, Italy, other EU states, Poland, Hungary, Russia, several Latin American states, and China and other Asian countries.

Over the next three days, we will hear from many US companies and associations that are disadvantaged not only by foreign trade barriers, but by unfair trade practices, such as dumping, for which purpose this country has continuously insisted on strong and legislated defenses in the form of our domestic trade laws.

Democracies tend to spawn conditions for protest. And trade can create many good reasons to protest. Our policymakers have the somewhat daunting task of aligning trade policies with trade practices that are at once fair and mutually beneficial; and Congress has the equally nettlesome task of informing constituents that some trade-related economic setbacks are the result of fair trade practices that will never be seen by the victim as anything but fair.

Getting our WTO partners, for example, to agree on what's fair has been evolving for more than 50 years, through over 12 GATT rounds. We're still not there, as evidenced from my list of ongoing trade disputes mentioned above.

But we have something of a model on how to proceed from here, in the important financial practices area. I refer to the work of the US Treasury Department. Through close cooperation with such institutions as the Bank of International Settlements, the RAF, and the G7. Together with the Federal Reserve, these two US Government entities have been laying the groundwork to establish international early-warning mechanisms that alert us to the types of banking and currency crises through which we have all been suffering.

I, along with several other colleagues on this committee, have been troubled by the spontaneity with which these crises have emerged, derailing much of our foreign trade, and adversely affecting US producers through cheap imports, some of which were dumped because of the economic crisis abroad. Currency and banking issues are not usually the sole cause of unfair trade practices. But they can trigger, even sustain the motives to engage in unfair trade.

In our January 20, 1999, committee nomination hearing, I challenged Treasury nominee Timothy Geithner to tell this committee what Treasury has been doing, and what it intends to do, to mollify the effect of these crises when they occur and, more importantly, to inform us as to how we can foresee them. With your permission, Mr. Chairman, I would like to insert my statement along with Mr. Geithner's response in the hearing record. I invite my colleagues, as well as all serious students of US trade policy to take due notice of the Treasury response. I believe it is a model for responsible and responsive international cooperation and behavior to avert financial crises. Is it a blueprint for building a new international crisis alert system? Of course, not. But it's certainly a road map to get there. Will all countries agree to the new standards that this cooperative effort seeks to establish? I doubt it. But few countries will be able to ignore the value of these foundational standards if they have any hope of attracting foreign direct as well as portfolio investment.

I thank the chair.

Attachment.

RESPONSES FROM TIMOTHY GEITHNER TO QUESTIONS FROM SENATOR HATCH

[JANUARY 20, 1999]

Question: Mr. Geithner, we just don't seem to be able to put in place the early-warning mechanisms that alert us to impending crises. Please tell the committee what steps you would recommend to deal with both currency and banking crises that threaten global stability and, ultimately, our own national interests, to include those of international trade, commerce and finance?

In responding to my question, please take into consideration some of the concerns that motivate the question. They include the following:

On the matter of currency crises, how do we detect speculative pressures that are building a crisis and do we have a truly reliable index to track nominal currency devaluations?

And, on the matter of banking crises, my concerns are several.

- Do we have reliable databases that foresee such events as runs on domestic deposits or other banking services?
- How reliable are the institutional balance sheets of foreign institutions?
- Are we able to assess the ability of foreign banks to roll over debt?
- And, how do we ascertain the real value of assets held in reserve by foreign banks?

Finally, we don't seem to have a good grasp on the length of banking crises, although they seem to last about three years in developed economics and longer in the lesser developed economics. However, Japan's banks are now headed into their fifth year of problems.

Answer: We share your view of the importance of developing a stronger capacity to anticipate and prevent financial crises. Improving the quality and distribution of financial information and improving financial and banking systems around the world are two of the most important things we can do to establish the right incentives for better behavior by countries and investors. We have been working with our colleagues at the Federal Reserve and with our finance and central banking colleagues around the world to formulate and agree upon practical measures to improve these capabilities, as well as to reduce the frequency of financial crises and the severity of those that occur. While it will take some time to complete this work, we have made meaningful progress and have begun to implement a number of initiatives.

A key to anticipating potential financial difficulty in the global financial system is the ability to compile and make available to decisionmakers as much accurate and timely information as possible about a country's financial condition. Those decisionmakers include both private investors and creditors, on the one hand, and the official community of national governments and multilateral institutions, on the other. Serious efforts are underway to improve the availability of this data in a number of ways.

After the Mexico financial crisis of 1995, the need for better and more transparent data of this kind was widely recognized, and the International Monetary Fund (IMF) agreed to establish a mechanism for the transmission of such data. Under the IMF's Special Data Dissemination Standard (SDDS), established in 1996, participating countries are to publish a range of key country data such as foreign reserves, monetary aggregates, interest rates, trade statistics, inflation data, etc. There are now 47 participating countries. The program is being evaluated and improved continuously, and the United States is at the forefront of current efforts to enhance the quality of the SDDS data on international reserves, a key element in assessing a country's potential vulnerability. This would include the dissemination of more comprehensive and disaggregated data on reserves and related items, including reserve-related liabilities, financial derivative positions and other supplementary information that would make more transparent both countries' reserve positions and potential demands on reserves. We expect to achieve agreement in the IMF to implement these enhancements in the coming months.

As part of the intense international effort to meet the challenges presented by recent international financial crises, the Finance Ministers and Central Bank Governors of the G-7 countries¹ issued a broad-ranging statement on October 30, 1998 (See Attachment A). That statement outlines a number of measures designed to improve crisis prevention, many of them focussing specifically on improving practices and policies for wider provision of better data, by both the public and private sectors. In addition to strengthening the SDDS, these recommended measures include:

- compliance with the IMF's Code of Good Practices on Fiscal Transparency;
- agreement on a Code of Good Practices on Transparency in Monetary and Financial Policies;
- completion of work on a Code of principles of sound corporate governance and structure;
- finalization of a proposal for a full range of internationally agreed accounting standards;
- examination of the question of appropriate transparency and disclosure standards for private financial institutions involved in international capital flows, such as investment banks, hedge funds and other institutional investors;
- surveillance by the IMF of country compliance with internationally agreed transparency codes and standards, with results published in the form of a Transparency Report.

Through the implementation of these and other measures—under consideration, we believe we will enhance considerably the ability to detect signs of potentially

¹United States, Japan, Germany, United Kingdom, France, Italy and Canada.

threatening imbalances or currency difficulties. We do not pretend that any such measures are foolproof. We are committed, however, to continue our intense work to put in place all those mechanisms that we believe could help to prevent crises.

Going beyond the issue of transparency and disclosure broadly, we have also been working with the international community to better anticipate and prevent crises in banking sectors overseas. These efforts include: (1) developing standards and sets of "best practiced"; (2) creating incentives, market and perhaps regulatory, for countries to adhere to these standards and implement them and for creditors and investors to assess risk better; and (3) improving the quality of supervisory regimes through, among other methods, improved international regulatory cooperation and coordination.

Basic standards for banking supervision (the *Basle Core Principles*) and securities (IOSCO's *Statement of Principles*) have already been developed and are now being refined and implemented by countries. Work is underway in developing additional standards dealing directly with bank-related issues, including risk management; liquidity management; asset valuation and loan loss provisioning; deposit insurance; and bank resolution (in normal times and in crisis situations). Further, ongoing work in developing international accounting standards and principles for good corporate governance will also address issues fundamental to sound banking.

We are working with the Bank for International Settlements (BIS) to improve the quality of information that financial institutions report by broadening the coverage, increasing the frequency and shortening reporting lags. This effort in itself will not necessarily forestall banking crises—deposit runs often result from a crisis of confidence which may neither be "predictable" nor directly related to asset quality or bank management, for example—but they will help identify conditions, both micro- and macroeconomic.

Improved accounting data will also help regulators, creditors and investors understand the quality of financial institutions. Accounting and regulatory standards, such as the valuation of assets and measures of bank capital and reserves, vary considerably among countries (as does the quality of reported data). Improved minimum international accounting standards should help to ensure the reliability of the balance sheet and income statement information that is reported by financial institutions. While market conditions can still affect the ability of institutions to maintain their capital cushions and rollover their funding, adequate capitalization, proper disclosure and a sound reporting and regulatory compliance regime should help to forestall, or at least mitigate, crises.

Improving transparency and the quality of financial information should help to provide the signals to both regulators and investors needed to head off banking crises, or to contain them when they do occur. Indeed the breadth and depth of banking crises will vary depending on when authorities recognize problems in the sector and take the steps necessary to address them. Increased transparency and appropriate, high quality data will make it more difficult to hide problems that can develop into crises, which should ultimately tend to make "shocks" less frequent and severe.

To better monitor national efforts to strengthen financial systems, we are also seeking to improve the level and quality of international financial sector surveillance. Enhanced IMF surveillance and improved cooperation between the World Bank and the IMF is part of this effort as is improving cooperation between the IFIs and the international regulatory community. New mechanisms are under discussion that should lead to improved cooperation and coordination between national and international authorities with responsibilities for ensuring financial stability. We are working, with our G-7 colleagues and in various fora to further strengthen and promote this agenda.

The length of banking crises, of course, is to an important degree a function of the underlying economic and financial conditions that have contributed to the crisis, but also of governments' willingness and ability to take the necessary actions to address banking system weaknesses. Unless banks are able to recognize their losses and participate in debt workouts, companies will not be able to emerge from their debt burdens, the healthy flow of credit will not resume, and economic recovery will be postponed. While governments in Asia have taken important steps to put in place frameworks to guide restructuring of over-indebted corporations and insolvent banks, we are attempting to accelerate the pace of restructuring through the Asian Growth mid Recovery Initiative. This multilateral initiative, which was crafted in conjunction with Japan, the World Bank, and Asian Development Bank, aims to support the adoption of strengthened policies for restructuring and to mobilize capital necessary to restructure and rebuild banks and enterprises in the most affected economies in the region.

With respect to the severe problems in the Japanese banking sector, we have consistently urged the Japanese authorities to take decisive action to restructure the sector, including through the closure of insolvent institutions. We have also urged other macroeconomic policy adjustments to stimulate domestic demand-led growth, which we view as the key not only to the recovery of the Japanese economy and banking system, but to the recovery of Asia as a whole.

PREPARED STATEMENT OF HON. ORRIN G. HATCH [JANUARY 27, 1999]

Mr. Chairman, I appreciate the fact that these hearings are examining the big picture of U.S. trade policy, and I commend you for holding them.

But, at this moment, I am concerned less about the forest than I am about some of the specific trees—trees which could very well become endangered species if we do not take some strong action.

Mr. Chairman, the serious plight of the American steel sector is just not being addressed squarely and comprehensively by the Clinton Administration.

I received a letter from President Clinton's chief of staff, John Podesta, dated December 16, 1998. In response to my pleas, as well as those of other Senate Steel Caucus members, the White House advised me that "we're [really] attacking this problem. . . ." Then in a succeeding paragraph, Mr. Podesta says that, as regards Russia, a major steel dumping culprit, Vice President Gore has "expressed strong concern about the surge in imports from Russia. . . ."

Mr. Chairman, "strong concern" has not kept Geneva Steel, in my home state of Utah, from the precipice of bankruptcy. The company has invested hundreds of millions of dollars in modernizing its facilities only to have Vice President Gore respond by saying that he has "strong concern" about the 133 percent surge of dumped Russian imports that are putting steel workers in unemployment lines in Utah, Alabama, Texas, Pennsylvania, Maryland, and Ohio. Mr. Chairman, "strong concern" from the Clinton administration is not going to cut it.

I am not surprised by the Vice President's remarks. He has long championed Russian recovery, a cause I am not entirely unsympathetic to. But let us not rescue Russia at the expense of steel workers in Utah. The Clinton administration's efforts have been badly misdirected here, as they have been with our U.S. rocket launch industry, which happens to be an other prime Utah business sector.

Our rocket propulsion sector has been gutted by liberalized licensing of commercial use of Russian launchers. Instead of committing to the rebuilding of a U.S. domestic rocket launch capability, using the resources and know-how that won the Cold War, Vice President Gore has turned to the Russians first. This was to keep the Russians from exporting their technologies, he argued. Well, he couldn't have been more wrong on that account, too.

Mr. Chairman, with the leadership of Senators Rockefeller and Specter, we have introduced a bill to strengthen Section 201, the emergency safeguards of our domestic trade laws. I hope that this committee will commit itself unanimously to the passage of the Emergency Steel Relief Act of 1999.

Mr. Chairman, I am and have always been a free trade advocate. I believe that American industry can compete globally in any sector. I believe our industry should have access to markets abroad and, in turn, that competition strengthens U.S. productive ability and new development. But, there is also such a thing as shooting ourselves in the foot. That is what is happening in several sectors.

We cannot afford to have our U.S. trade policy be simply an expression of "strong concern." That will not pay the mortgage on a home in Orem, Utah. It will not justify investment dollars in new facilities or technology in Pittsburgh, Gary, or Wheeling.

I urge my colleagues on this committee to think seriously about these gaps in our big picture trade policy. I thank the chair.

THE WHITE HOUSE,
WASHINGTON, DC.
December 16, 1998.

Hon. ORRIN G. HATCH,
U.S. Senate,
Washington, DC.

Dear Senator Hatch: The President asked me to inform you of the actions we are taking to address the steel situation. The President and the Vice President are deeply concerned about the recent surge in low-priced steel imports and its impact on America's steel industry and the workers and families that depend on it for their livelihoods. There is no more important challenge than to ensure the strength of the

U.S. economy and to minimize the impact of the international financial crisis on all Americans.

We are attacking this problem in a number of ways. Collapsing demand and declining currencies abroad have resulted in a decline of U.S. exports and a surge in certain low-priced imports. Unless foreign economies recover, a strong U.S. economy will remain a magnet for excess global steel production, and our exports abroad will continue to suffer. The President is therefore leading the world in efforts to restore global growth.

While America will take our fair share of imports of all goods, we will not be a dumping ground. The President and Vice President have made clear in numerous statements to the American people and foreign leaders that they are firmly committed to full, expeditious and vigorous enforcement of U.S. trade laws and to doing what is necessary to eliminate any and all unfair practices. I have attached a variety of their recent statements on this issue.

The Department of Commerce is currently enforcing more than 100 antidumping and countervailing duty orders on steel products from a number of countries. On November 23, Commerce issued a preliminary ruling of critical circumstances in the Japanese and Russian investigations, which will allow for the imposition of duties on imports of hot-rolled steel up to 90 days before the preliminary dumping determination. If dumping is found in February by the Department of Commerce, importers may be retroactively assessed dumping duties on imports reaching back to mid-November. This could have an impact right now on imports from Russia and Japan, because importers know they may face retroactive dumping duties on current imports. Further, Commerce has shifted resources to expedite the pending dumping cases on hot-rolled steel from Japan, Russia and Brazil.

The dumping cases are proceeding consistent with legal requirements. The dumping laws also allow the United States Government to negotiate agreements limiting imports of products covered by pending dumping cases. In this context, the Commerce Department is exploring whether a possible suspension agreement could provide timely, effective relief from the surge of Russian steel imports consistent with statutory requirements. Let me assure you that the entire Administration is committed to strong enforcement of our trade laws and that the Department of Commerce will work closely with U.S. industry and union petitioners throughout this process.

The Commerce Department also issued tough new countervailing duty regulations on November 5, which will greatly strengthen our ability to combat unfair subsidies. Commerce carefully considered the comments we received from the steel industry and members of the Steel Caucus in preparing these regulations.

The President and the Administration are continuing to press our trading partners at every opportunity to end unfair trading practices and subsidization, and fairly share the burden of absorbing additional steel imports. When he was in Japan—which accounts for half of the increase in steel imports—the President warned of the danger of mounting protectionist pressures in response to unfair trade practices and underscored the need for fair, rules-based trade, full enforcement of trade commitments, greater market opening, and the need to avoid import penetrations not associated with market forces. In Korea, the President pressed President Kim to eliminate unfair trade practices and subsidization. President Kim indicated a desire to make progress on this issue in the context of our bilateral steel dialogue. In addition, during her recent visit to European capitals, Ambassador Barshefsky pressed for greater openness of Europe's steel markets.

The Vice President has also been outspoken and active on this issue. For instance, he expressed strong concern about the surge in imports from Russia during his recent meeting at the APEC meeting in Kuala Lumpur with Prime Minister Primakov and strongly urged the EU to open their markets and absorb their fair share of imports in his speech to the TransAtlantic Business Dialogue.

In closing, let me say that the President and Vice President are personally determined to provide an effective response to this difficult challenge. The steel industry and its workers are a critical part of our economic strength. The industry has undergone a difficult transformation over the last decade to become a world class competitor. We want to work closely with you to ensure these companies and workers have a fair chance to compete and succeed.

Sincerely,

JOHN PODESTA.

PREPARED STATEMENT OF HON. ALEXIS M. HERMAN

Chairman Roth, Ranking Member Moynihan, members of the Committee, I am pleased that you are holding this important set of hearings on international trade policy, and even more pleased that you have invited me to testify on the Administration's international labor agenda.

What I would like to do is to set out for you our framework for approaching international labor issues, especially as they have emerged in the context of globalization. Before doing that I think it is important to step back and put this discussion in the context of our current economic prosperity. We have added nearly 18 million jobs to our economy since President Clinton took office. At 4.3 percent, unemployment is the lowest its been in almost 30 years and wages are growing at more than twice the rate of inflation. The Administration's policies of controlling spending, making targeted investments in our people, and opening markets has given the longest peacetime economic expansion in our Nation's history.

Increased trade has been an important source of growth for our economy and export-related jobs are good jobs, paying about 13-16 percent more than the overall U.S. average. The process of globalization clearly has provided new opportunities for U.S. workers, but has also posed challenges. We are seeing changes in ways of producing goods and doing business as profound as those brought on by the industrial revolution two centuries ago. Globalization includes mobility of trade, technology and capital. That has placed a premium on people—on human capital and the skills of workers.

At the same time the global economic turbulence brought about by the Asian financial crisis has added urgency to our international labor agenda. We have seen dislocations, instability, and adverse impact on workers' lives in countries with inadequate labor standards or social safety nets.

In order to rise to the challenge of managing globalization successfully we must keep several principles in mind. We seek both free and fair trade, and we will actively enforce our trade laws if unfair trade is injuring U.S. industries and workers. We should seek to ensure that globalization provides broadly shared-prosperity so that within a society all can reap its rewards. We must ensure that working conditions are leveled up—not pushed down.

These principles not only make good economic policy but they also maintain our confidence and willingness to remain engaged in the global economy. All of this means that just as our world, our hemisphere, and our economies become more integrated, so, too must our trade, our finance and our labor policies. Our challenge is to work with you and other members of Congress to build an architecture that best accomplishes the objectives of all three principles.

My approach to this effort begins with certain imperatives in mind.

First, all workers must have the skills they need to compete in this global economy. By investing in our workers we are recognizing that job security starts with skills. For those workers who become dislocated, we need to provide reemployment services and training that will enable them to find new jobs faster and at better rates of pay.

Second, there is a need to build greater consensus and understanding for our view that international labor standards and global trade liberalization are not mutually-exclusive, but are mutually-reinforcing goals.

Third, we need to encourage the implementation of international labor standards because they can improve long-term global economic growth by contributing to the development of the middle class, and assuring more broadly-based prosperity.

Fourth, we need to build a consensus and understanding that worker rights are important human rights, and an important barometer of democratization. It is neither right nor pragmatic to believe that global economic policy can be isolated from such concerns.

Fifth, we can be more successful if we build partnerships with other governments, and also partnerships with employer, worker and non-governmental groups to advance our international labor concerns.

Now let me provide some background on our current initiatives in the international labor area.

I will cover three primary elements in our international policy: (1) placing our concerns on the global agenda; (2) building international agreements to advance our concerns; and (3) supporting the International Labor Organization (ILO) as the indispensable institution to advance action on international labor standards.

BUILDING THE AGENDA: A CONSENSUS ON CORE LABOR STANDARDS

First, the Administration has sought to place global labor standards squarely on the world's agenda through various international fora, and we have sought to build a level of consensus on international labor standards and globalization where little seemed to exist.

Surprising progress has been made. For example, the Administration was instrumental in launching working groups in the ILO and the OECD in 1994 to look at the issue of the labor dimension of trade liberalization. By 1996, both organizations had developed a consensus on the concept of "core labor standards"—a set of standards that ought not be seen as dependent upon a country's level of economic development. Indeed, the implementation of such standards is now understood to actually enhance economic performance.

The list of such standards were agreed to include:

- freedom of association
- collective bargaining
- non-discrimination
- prohibition on forced labor
- prohibition on abusive child labor

This list now reflects not only the view of the OECD, but also the ILO's over 170 member countries, and employer and worker organizations. And although today the notion of "core" or "fundamental" standards is widely-recognized and referred to—it only emerged as an accepted principle recently.

This set of standards was agreed upon to be differentiated from other types of "outcome" standards, such as levels of wages and benefits and other social protections that might be expected to vary with the economic development of a country. We have made it clear that we are not in the business of trying to set wage rates—we are in the business of trying to make sure that workers have a fair chance to bargain for what their productivity suggests they might earn.

President Clinton has elevated the importance of international labor standards on the global economic agenda through meetings of the G-8 and other regional efforts, as well as placing the issue before the economic institutions of the international system.

Next month, I will be hosting the G-8 labor ministers for a meeting here in Washington, and the labor dimension of globalization will be a significant part of our agenda.

We also have active labor dimensions as part of our on-going framework relationships with the European Union under the New Transatlantic Agenda and the Transatlantic Economic Partnership, as well as in the Asia-Pacific Economic Cooperation (APEC) forum. I am scheduled to host the APEC labor ministers later in 1999.

Last year, President Clinton addressed both the World Trade Organization and the IMF/World Bank meetings. In both of those speeches, he referred to the role of the ILO in the global economy, and the need for those institutions to work more closely with the ILO.

After all, the mandate of the ILO goes to the heart of the central mission of all international economic institutions—including the WTO, the IMF and the World Bank. Clearly, trade, investment and development are not objectives in and of themselves—they are objectives because we believe them to be the key to improving people's lives.

Indeed, just last week in his State of the Union Address, President Clinton summed up our challenge this way. "When you come right down to it," he said, "now that the world economy is becoming more and more integrated, we have to do in the world what we have spent the better part of this century doing here at home. We have to put a human face on the global economy."

I believe that recent criticisms of globalization, of freer trade, of open financial markets, makes it more important than ever that we support a greater working relationship between the ILO and the WTO, IMF and World Bank. And this is not a one-way relationship where the ILO has all the talking to do. But rather the ILO also must continue—as it has often done—to find the best possible ways to support the mandates of the WTO, the IMF and World Bank. We need to maximize the role of all of these institutions in the interests of a successful global economy. We are pleased that consistent with the request of the Administration, last October the first high level dialogue between ILO and IMF/World Bank officials was held in Washington. Further such exchanges and cooperation are expected, and supported by the Administration. We have also encouraged a similar dialogue between the ILO and WTO.

REACHING AGREEMENTS ON LABOR STANDARDS

That leads to the second policy initiative—shaping international agreements to reflect our agenda.

Last June we took a very important step forward. After nearly two years of effort, the ILO, with the support of global worker and employer groups, negotiated and adopted a new Declaration on Fundamental Rights and Principles at Work, and a follow-up mechanism to measure compliance. In so doing, the ILO has affirmed that membership connotes certain obligations, which include adhering to the core rights of freedom of association, collective bargaining, and non-discrimination in employment, and the abolition of forced labor and abusive child labor. The first follow-up reports measuring country compliance under the new declaration are expected to be completed in 2000.

The new declaration is the most important development in expressing the ILO's mandate since the historic Declaration of Philadelphia in 1944, which sought to provide the foundation to reconcile concerns for social justice with the economic recovery strategies for the post-war period. The ILO declaration of 1998 provides the same path forward as we attempt to place labor standards priorities in the context of the global economy of the 21st century. What we need to do is invest the effort to assure that the new follow-up mechanism counts in the world—that it has teeth.

North American Agreement on Labor Cooperation

We have also moved forward in new ways to develop labor agreements at the regional level. You are well aware of the North American Agreement on Labor Cooperation that was negotiated with NAFTA and implemented in 1994 between the United States, Mexico and Canada.

This was the first agreement we signed that addressed our trade and labor agenda, and we believe that it has been an important vehicle to assure that the concerns of workers have received sustained attention over time as part of the NAFTA relationship.

The main objective of the NAALC is to improve working standards and living conditions in the three countries. This is largely carried out through a cooperative plan of exchanges on the broad range of labor matters. The agreement also permits an oversight mechanism on the effective enforcement of labor laws by the three countries. This process is aimed at promoting a greater public understanding of labor law implementation procedures, and enhancing transparency of enforcement.

The NAALC has contributed significantly to building a more cooperative relationship with Mexico and Canada on labor matters. It promotes international scrutiny of labor conditions, generates public debate, and provides greater understanding of labor law matters. Since 1994, some 13 submissions concerning labor law practices in Mexico have been reviewed by us and a number have been the subject of consultations at the ministerial level. They have covered issues of industrial relations, gender discrimination and health and safety matters.

And although I won't tell you that we have never had disagreements with Mexico under the agreement, I do believe that the level of cooperation with Mexico has been improving. The current Secretary of Labor of Mexico has invited me on an official visit to Mexico, when we expect to work together on women's workplace issues, and the working conditions and industrial relations situation in the maquiladora sector.

Hemispheric Integration and Labor

As you also know, we have a schedule to complete the Free Trade Area of the Americas by 2005, and in that regard we have also focused our attention on the labor aspect of this process. With President Clinton in the forefront, hemispheric leaders agreed in Chile last spring that their labor ministers needed to work to strengthen basic worker rights and modernize and improve the ability of labor ministries to deliver services to workers and employers. The leaders directed the labor ministers to meet to move this agenda forward, and we completed a successful meeting of the hemisphere's labor ministers in October, also in Chile. We adopted a detailed plan of action, and we have better engaged the OAS, the Inter-American Development Bank and the ILO in working with us in the implementation. We are committed to produce a work plan by April, and we will meet again in a year's time in the Dominican Republic to continue our progress.

STRENGTHENING THE ILO

A third, and related policy initiative that we are pursuing is to strengthen the capacity of the International Labor Organization. As we look at the process of globalization and the labor issues moving to the center—we must again recognize that the ILO is the indispensable institution to our objectives.

We need the ILO. We need an ILO that works. We need an ILO dedicated to excellence.

As President Clinton has said with regard to the labor dimension of globalization, "We should level up, not level down. Without such a strategy, we cannot build the necessary public support for the global economy. Working people will only assume the risks of a free international market if they have the confidence that this system will work for them." Our strategy very much includes the ILO.

We have worked to strengthen at least three aspects of the ILO.

Implementing Labor Standards

The first area where we are trying to strengthen the ILO is in its ability to support the implementation of the new Declaration on Fundamental Rights and Principles at Work. We certainly want to be tough on accountability under the new follow-up mechanism—and we will be.

But we also want to be able to encourage those governments prepared to come into compliance with such standards if resources were available to help them do so. That is precisely why the President is requesting that the Congress support providing an additional \$25 million to the ILO to set up a new arm of the organization to back its political and moral commitment on fundamental rights with resources targeted to the task.

This funding would be built upon the IPEC model of targeted, project-specific programs with measurable results. The funding could, for example, support the development and implementation of industrial relations institutions that would assist governments to move away from authoritarian or non-democratic ways of resolving labor disputes, to one based upon the rule of law. It could also provide funding to support the application of basic labor standards in a particular sector of an economy, such as programs we are currently developing to improve standards in the garment sectors of Haiti and Cambodia.

In addition, this new arm could assist the ILO to work with the IMF and World Bank to incorporate appropriately fundamental labor rights into their programs. Such an arm might also help the ILO assist countries adversely affected by the Asian financial crisis in developing more adequate social safety net strategies. While many recognize the need to mitigate the impacts on the millions of workers displaced, the inadequacy of social safety net programs, including unemployment insurance, pensions, and employment strategies, makes clear a need to enhance the ability of the ILO to respond quickly with the highest quality policy assistance in these areas.

The President is also proposing that the Department of Labor be provided \$10 million to expand our capacity to respond to the some 50 countries who have sought our assistance to improve working conditions and labor programs in the last two years.

For example, we recently have worked with South Africa, Guatemala, Hungary, and Paraguay to improve health and safety conditions, and with the Ukraine and Peru on mine safety conditions, as well as with Poland and Bulgaria on the reform of employment services.

Child Labor

Second, we have been building a consensus for greater action in the ILO through our efforts on child labor. We have been a leader in making the ILO—a leader in the fight against abusive child labor. And support from the Congress has been central to that leadership. Last year President Clinton requested \$30 million in funding for the ILO's International Program on the Elimination of Child Labor—or IPEC—to put us in the forefront of that program. The Congress fully responded to that request.

As all of you know, the ILO estimates that there are some 250 million working children under 14, with tens of millions of those working in abusive conditions. And although there are no simplistic solutions to this problem, and none of us wants to see a child being driven from a bad job to a worse one, neither can we simply tolerate the type of abuse that widely exists—bonded child labor, children in mines, children trafficked for commercial sexual exploitation, and children exposed to intense heat, harmful chemicals and dangerous machinery.

Moreover, the stain of child labor on the global economy threatens to undermine increased trade and commerce by calling into question trading rules that are silent on such abuses.

If you don't believe that child labor concerns can shake trading relationships, ask the industries and associations that we have worked with to remove children from work and to place them in schools—with monitoring programs run by the ILO to assure commitments are kept. We have partnered with employers and other groups

in Bangladesh to remove 10,000 children from the garment industry, and with Pakistan to remove 7,000 children from stitching soccer balls, and 30,000 children from knotting carpets. We are currently looking at programs with ILO monitoring to take children out of the fireworks and coffee industries in Central America, the sporting goods and brassware industries of India, and commercial agriculture in certain African countries.

Furthermore, it should come as no surprise that the issue of child labor has called into view concerns about international labor standards more generally. After all, concerns about child labor that emerged in the latter part of the 19th century led to the first international labor standards. And four of the first 10 conventions adopted by the ILO after its creation in 1919 dealt with setting minimum ages for the employment of children in industry, at night, at sea and in agriculture.

Our concern for child labor today in our global economy is in keeping with this tradition of the ILO, and we hope, as the President said in his State of the Union Address, to lead the conclusion of a new ILO convention in June that would ban the worst forms of child labor.

In addition, the Customs Service has been stepping up its efforts to ensure that items made by forced or indentured child labor are not imported into the United States. The Department of Labor has been collaborating with the Customs Service on this issue.

In September 1998, Customs officials visited Nepal, Indonesia, and Thailand, where they interviewed government officials and NGOs and visited facilities suspected of using forced child labor. As a result of these efforts, detention orders have been issued. The Customs Service is planning other fact finding missions to India and Pakistan in February 1999.

Codes of Conduct

A third area where we have sought to strengthen the engagement of the ILO is in the question of codes of conduct for working conditions, and building greater private sector partnerships. In the last several years there has been a great and growing interest in firms and employer associations to adopt codes of conduct covering various labor standards. These are often done with reference to ILO standards.

And, of course, the Administration has encouraged efforts such as the Apparel Industry Partnership to work out a code of conduct and elements of monitoring and implementation. The AIP group has done ground breaking work and we are encouraging leaders in business, labor, universities, and the human rights community to work together to improve global working conditions. We have held two joint programs with the European Union to also encourage a transatlantic partnership on codes of conduct.

Also at our urging, the ILO has done an extensive review of codes of conduct initiatives, and is being asked to look more carefully at what role it could play in the further development of codes of conduct. It is important to keep in mind that this type of work is, and can only, go forward in the ILO with the support of the employer and worker groups—and in this regard the ILO could be part of important future partnerships on codes of conduct.

OTHER ADMINISTRATION ACTIONS

The Administration has also pursued the promotion of core labor standards in a number of other fora.

International Financial Institutions (IFIs)

In the past year, the United States has made notable progress in advancing core labor standards in the international financial institutions. We have heightened the visibility of core labor standards in meetings with the G-8 finance ministers, and meetings of the Governors of the World Bank and IMF. As a result, dialogue and interaction among the IFIs, and the ILO as well as academics and labor representatives have increased.

One significant, tangible result is that the World Bank's Multilateral Investment Guarantee Agency (MIGA) and the International Finance Corporation (IFC) have adopted a common policy to include in all their contracts a prohibition on the use of forced labor and exploitative child labor. Recently the International Development Agency (IDA) of the World Bank Group instructed the Bank to incorporate an analysis of core labor standards in the preparation of assistance strategies for borrowing countries.

The Department of Labor is working closely with the Treasury Department to maintain and intensify the momentum created by the Administration's efforts to advance core labor standards in the policies and programs of the international financial institutions.

Generalized System of Preferences (GSP)

The GSP statute requires that countries receiving preferential trade benefits be taking steps to afford internationally recognized worker rights. The Labor Department works closely with the United States Trade Representative's office to encourage developing countries whose worker rights practices are brought under the scrutiny of the GSP program, to take appropriate steps to come into compliance with the statute's criteria.

Under this program, significant strides in promoting worker rights have been made in several countries. For example, El Salvador, Costa Rica, Panama and Paraguay enacted labor code reform consistent with ILO norms. The Dominican Republic was found to be taking steps to promote worker rights following adoption of measures to enforce the labor code in export processing zones.

The Administration has also acted to restrict GSP benefits where countries failed to protect worker rights. In 1996, the Administration removed 50 percent of GSP benefits from Pakistan because of child labor abuses and restrictions on worker rights in export processing zones. In addition, the Administration suspended GSP benefits from the Maldives in 1995 because of restrictions on freedom of association and from Mauritania in 1993 because of failure to enforce laws prohibiting slavery.

Overseas Private Investment Corporation (OPIC)

Like the GSP program, the Overseas Private Investment Corporation also has a legislative mandate making adherence to internationally recognized worker rights a criteria for OPIC activity in a country. The Department of Labor is a statutory member of the OPIC Board of Directors and has been an active participant in its deliberations.

For example, the current DOL representative of the Board participated last year in an OPIC mission to examine the extent to which South Korea complies with the OPIC's worker rights standards. Following the mission, Korea was made eligible for OPIC programs in June 1998 because of evidence that it has taken a number significant steps to promote freedom of association and the right to organize and bargain collectively.

Worker Adjustment

Even as we focus on our international labor agenda, we need to be mindful of the first imperative I raised this morning: we must ensure that our workers who face change from the global economy are given the tools to manage that change and that no one be left behind. We must assure that workers who are dislocated from their jobs due to trade—and for that matter for any reason—get the tools they need to find and prepare themselves for new jobs.

The President's budget to be announced next week will emphasize our commitment to this principle, and will put us on a path that will ensure that within five years reemployment services and training will be available to all dislocated workers who need it. This investment will be coupled with an initiative to improve rapid response to worker dislocations and improve information which will link aid off workers with services available in their communities.

But we have always had a special commitment to workers dislocated by trade. Beginning with the passage of the Trade Expansion Act of 1962 all the way to the 1993 enactment of the NAFTA Transitional Adjustment Assistance (NAFTA-TAA) Program this commitment has been reaffirmed. And I am hopeful that we will continue—on a bipartisan basis—to support our system of assistance to trade-impacted workers.

A little over a year ago, the President expressed his commitment to improving and expanding the programs which assist workers who lose their jobs as a result of trade. He proposed both administrative measures and legislative reforms that would expand the coverage of workers who are adversely affected by trade and increase the emphasis on the retraining of workers in a manner that would enhance their ability to compete in the global economy.

As we began to consider ways to enhance and improve the programs, it became apparent that the most meaningful reform would be the creation of a single trade adjustment assistance program which would serve all workers whose jobs are lost as a result of increased trade, regardless of which countries that trade may be with. This includes covering workers who lose their jobs because of shift in production—whether it be to Canada or Mexico, or elsewhere in the world.

In designing this consolidated trade adjustment program, we adopted the best features of TAA and NAFTA-TAA. We not only provided for increased resources for training, but also included provisions to make our assistance more timely, encourage prompt readjustment and to make sure that workers access training that is most suited to their individual needs.

Our approach is consistent with the provisions of the recently-enacted Workforce Investment Act. The bill anticipates the delivery of services through the One-Stop career centers which are being established in all States and many communities. And, consistent with the Government Performance and Results Act (GPRA), the bill would also enhance program accountability by requiring that TAA and other dislocated worker programs have common performance outcome measures.

I would like to recognize the efforts of Congressmen Robert Matsui and David Bonior for introducing trade adjustment assistance reform legislation in the last Congress and for collaborating closely with both the Administration and organized labor in design of the consolidated program. And I am especially grateful that Senator Moynihan, who has a long record of championing quality worker adjustment assistance for trade-impacted workers, last week introduced S. 220, the Trade Adjustment Assistance Improvements Act of 1999, which provides for these same important enhancements and expanded program coverage. I also want to recognize the long-standing commitment of Chairman Roth to trade adjustment concerns. The President's FY 2000 Budget will propose the funding for this reform legislation and I look forward to working with this committee to ensure its early enactment.

If we can achieve these objectives, then I think we will be much closer to the need, as President Clinton said, to "put a human face on the global economy."

Thank you.

PREPARED STATEMENT OF ABRAHAM KATZ

Mr. Chairman, thank you for the opportunity to testify on labor and environmental issues related to trade policy. Your review of U.S. trade policy is especially timely as we approach the WTO Ministerial meeting later this year. Labor and environmental issues will no doubt figure prominently in the discussions; indeed, if not properly handled, they may undermine U.S. trade policy objectives in the coming trade negotiations.

As you may know, my organization, the U.S. Council for International Business (USCIB), represents American business in the International Chamber of Commerce (ICC), the Business and Industry Advisory Committee to OECD (BIAC), and the International Organisation of Employers (IOE), whose members represent business in the tripartite International Labor Organization (ILO). We are therefore called upon to formulate and promote American business views in the main international organizations dealing with economic, labor and environmental policy. For this purpose, we have strong corporate policy committees on a whole range of issues including—and notably relevant to this discussion—trade, investment, labor, and environment. For many years—and well before the NAFTA negotiations—we have been concerned with the nexus between trade, investment, labor and the environment.

Let me summarize the business position.

First, business has a major stake in the success of future trade negotiations. These should build upon the achievements of trade liberalization which have accounted in large measure for world and American growth and prosperity since the Second World War.

Second, business shares the growing concerns and interest in improving the conditions of workers not only in our country but worldwide. Similarly, business shares the concern of protecting the ecology of the planet and has a major stake in assuring that development is truly sustainable. Business is convinced that both objectives require continued economic growth, which, in turn, depends on further liberalization of trade and investment.

Third, the difference between business on the one hand and organized labor and environmental NGOs on the other is on the basic approach to pursuing these objectives in our relations with foreign countries, especially developing countries and emerging markets. Labor and environmental groups advocate a unilateral sanction-based approach, using trade as a weapon to impose their objectives on foreign countries. Business continues to assert the importance of multilateral cooperation, not only in trade but in matters relating to labor and the environment. Business fears that a unilateral sanction based approach would undermine the rule-based trading system in which most countries have a stake, destroying the certainty and predictability that is essential to future growth.

Fourth, the majority of countries will reject any attempt to impose on the rule-based international trading system a unilateral sanction-based approach under which their legal and contractual rights could be overridden by political decisions in this or other industrialized countries. No matter how high minded the purpose, they see such attempts as a protectionist threat, depriving them of their compara-

tive advantage, an unacceptable interference in their internal governance and a violation of their sovereignty.

Fifth, from a business point of view, American corporations which, according to numerous impartial studies, have led the way in both labor relations and environmental management, would be at risk if their trade and investments were to be seriously impaired by sanctions imposed on the countries in which they do business for reasons totally extraneous to the companies' actions.

Sixth, how our government articulates its policy on environmental and labor matters in relation to trade policy will be closely watched abroad. I include the outcome of the debate on Fast Track legislation. Other countries are sensitive to even implicit espousal of the unilateral sanction-based approach. As the experiences at the WTO Ministerial meetings in Marrakech (1994) and Singapore (1996) have demonstrated, they are not buying. Returning to the charge will threaten the achievement of our trade policy objectives and undermine our ability to make progress on our labor and environmental objectives through multilateral cooperation.

Seventh, business recognizes that if it is to be persuasive on a multilateral cooperative approach, it must contribute constructively and creatively to achieving the fundamental objectives of improved conditions of workers throughout the world and environmental protection. I believe that the initiatives we have taken thus far have made such a contribution. If business is to continue to be successful in countering the unilateral sanction-based approach, it must continue to work for a multilateral cooperative approach.

My remarks thus far concern the basic concept relating to both labor and the environment. I will now illustrate my points by describing some of our constructive initiatives in each of the subject areas.

LABOR

Let me turn first to the labor question. For many years now, the international trade union movement has sought to introduce the "social clause" into the international trade system. The idea, which had its origin in the last century, was to equalize labor costs across borders either by a cost equalization tax, as the U.S. and the U.K. did in the early thirties, or by the threat of use of trade sanctions against countries that do not adhere to what are described as core labor standards. This approach was basically rejected in favor of voluntarily adopted standards when the ILO was set up by the Treaty of Versailles. On the trade side, it has been repeatedly rejected by both the GATT and the World Trade Organization. Nevertheless, this innocuous sounding "social clause" has a long shelf life. The arguments in its favor are spurious. Both the OECD and GATT cite empirical studies that low labor standards do not lead to a "race to the bottom." Nor is labor an item in international commerce like commodities, services, or intellectual property which are subject to contractual agreements under GATT rules providing for the withdrawal of concessions. Sanctions will not improve labor rights abroad; growth through trade and investment will.

In the context of the NAFTA negotiations, business argued successfully that worker rights should be kept out of the trade agreement. Instead, they were made part of a broader cooperative sidebar labor agreement. The USCIB, even before the negotiations got under way, initiated a cooperative program with Mexican business associations to exchange best practices in human resource management. In the context of the North American Agreement on Labor Cooperation, we continue to emphasize cooperative programs rather than resorting to confrontational complaint procedures which can prove counterproductive.

In the global context, I am proud to say that USCIB played a key role in moving the multilateral cooperative approach forward through the ILO's Declaration on Fundamental Principles and Rights at Work. This was basically our idea. We first sold it to the IOE which, at its June 1996 General Assembly, incorporated it in a resolution against the social clause. We ultimately succeeded in winning the support of the ILO's tripartite structure encompassing labor, business, and government. And the constructive, collaborative work on the U.S. side with the U.S. Department of Labor and the AFL-CIO, and internationally between the IOE and the International Confederation of Free Trade Unions (ICFTU), bore fruit against what seemed at times insurmountable odds.

What will the Declaration do? Put simply, the Declaration provides a political track, as distinct from the ILO's traditional juridical track, for the protection of workers' rights. The Declaration, and a follow-up mechanism being developed as we speak, will allow ILO members to deal with egregious cases of violation of workers' rights in deliberate and persistent patterns of bad governmental behavior. We believe that "sunshine," in the form of peer review and publicity, and targeted tech-

nical assistance will do much more—and much more quickly—to promote workers' rights than the sledgehammer approach of trade sanctions, which is bound to encounter strong resistance from other countries.

I should point out that negotiating the Declaration with developing countries was made difficult by previous attempts by the Administration to link trade and labor standards and by the explicit statements and actions of trade union leaders and labor activists. That is why developing countries insisted that the Declaration include a paragraph that states explicitly:

“ . . . labor standards should not be used for protectionist trade purposes, and that nothing in this Declaration and its follow-up shall be invoked or otherwise used for such purposes; in addition, the comparative advantage of any country should in no way be called into question by this Declaration and its follow-up.”

The President has announced that the U.S. will contribute \$25 million to support the implementation of this Declaration and to help, on a project basis, with necessary technical assistance to poorer countries that lack the institutional framework and infrastructure to meet their obligations under the Declaration. I would argue that we should do all in our power—and together—to make the Declaration work. This is an approach that is likely to prove most effective in lifting up labor standards in developing countries.

The U.S. Congress could help ensure the success of this effort by fully funding the Administration's initiative. The Congress should make clear in any future Fast Track legislation that the proper approach to improving labor standards internationally is to make this particular Declaration work and charge the ILO with vigorous action to bring about that result. Such a statement would build on language in S.2400 which you considered last year. It should make clear that the ILO, not the WTO, is the appropriate body to address concerns about labor rights.

The President has also mentioned a U.S. contribution of \$30 million to the ILO's program on the Elimination of Child Labor (IPEC). He also referred to the convention being negotiated in the ILO on the most abusive forms of child labor. I am proud to say that the idea of this convention also sprang from an employer initiative in the form of a resolution adopted at the same IOE General Assembly that I mentioned earlier. The basic concept is to deal with the most egregious forms of child labor through cooperative programs which provide alternatives to the children and their families in the form of schooling and income support. The guiding principle is to assure that the children and their families are not worse off as they might well be under a heavy-handed trade sanction or boycott approach. The employers of the IOE have not waited for the convention to take action. By the same resolution of 1996, they commissioned a manual of best practices to guide employers' organizations as to what has worked in other countries in eliminating and alleviating the problems associated with child labor.

ENVIRONMENT

Let me now turn to environmental issues. Clearly, we in the business community, like all Americans, are anxious to do all that we can to protect the ecology of this planet. But we do not see, as many environmentalists apparently do, any inherent conflict between preserving the earth's environment on the one hand and trade liberalization and economic growth on the other. As in the case of labor, empirical studies have established that there is no “race to the bottom.” Indeed, under the business community's concept of sustainable development, the technological innovations, management systems, and financial resources generated by global economic growth can be—and must be—harnessed to bring about environmental improvements. Economic growth is necessary to generate the resources needed to develop and invest in clean technologies. The WTO secretariat makes this point, adding that “trade and growth can encourage the development and dissemination of environment-friendly production techniques as the demand for cleaner products grows and trade increases the size of markets.” It also points out that international companies may also contribute . . . by using the most modern and environmentally clean technology in all their operations.

This is the concept underlying the Business Charter for Sustainable Development, an initiative of the International Chamber of Commerce, which I am proud to say was importantly backed by the USCIB. The Charter, incorporating sixteen principles of corporate environmental management, was promulgated by the ICC in 1991 and continues to provide a practical guide to corporate environmental management. For example, the ICC, working together with the United Nations Environment Programme, developed detailed training kits on environmental management based on the Charter. I mentioned earlier the USCIB initiatives taken before the NAFTA negotiations to exchange best practices with the Mexican business commu-

nity on labor matters. We did a parallel exchange on environmental management which was very successful and continues to this day under the aegis of the Commission for Environmental Cooperation.

Environmental improvements and the further development of the international trading system go hand in hand. In that regard, I would like to quote a highly influential and thoughtful study by the OECD:

"In general terms, trade liberalization will have a positive impact on the environment by improving the efficient allocation of resources, promoting economic growth and increasing general welfare, provided effective environmental policies are implemented. OECD Governments view trade liberalization as a positive agent which could provide resources for environmental improvement, particularly for developing countries and economies in transition."

However, many in the environmental community challenge that analysis and see trade as harmful to environmental protection. Only recently, a prominent environmental NGO attempted a point-by-point public refutation of the OECD's publication, *Open Markets Matter*. In the view of a number of environmental NGOs, the globalization of production and markets has had negative environmental effects. Accordingly, they favor the use of trade measures to enforce environmental standards. Some would go further in urging the use of unilateral trade sanctions to force governments to adopt stricter environmental standards. They argue this position on the grounds of the primacy of the environmental cause.

In the view of business, the issue is not which set of policies—trade or environment—should have priority. Both can be legitimate expressions of national interest. But there is a clear need to manage conflicts between trade and environmental policies in ways that protect the integrity of a rule-based, open trading system, while also permitting governments to address national and international environmental concerns. In other words, the task is to reach international agreement on the appropriate use of trade measures for the pursuit of environmental goals. Without such agreements, governments will find themselves caught between public pressure for unilateral action to achieve an environmental goal and opposition from both business and other governments because of the potentially adverse commercial impact of such actions. When governments either find it impossible or undesirable to resist the pressure for unilateral action, trade conflicts will almost inevitably arise.

In 1996, we in USCIB, working with other business organizations, developed a proposal to establish internationally agreed criteria for the use of trade measures in Multilateral Environmental Agreements (MEAs). We proposed an arrangement within the WTO whereby trade measures called for in an MEA that met certain criteria would be compatible with other international trade rules. We further refined these proposals, suggesting ways of giving guidance to WTO Dispute Panels on how to resolve disputes involving conflicts between MEAs and international trade rules. We presented these views to USTR's Trade and Environmental Policy Advisory Committee, but, unfortunately, they went no further because some environmental NGOs could not accept the notion of the WTO having jurisdiction over many environmental disputes. They even advanced the proposition that such disputes should be referred to the World Court in The Hague.

Mr. Chairman, we believe that our approach still has merit and deserves further exploration both within the USG and in the WTO. As you may know, the WTO established a Committee on Trade and the Environment (CTE) to deal with such issues, but it has made no tangible progress in meeting the objectives assigned to it by Trade Ministers in 1994. The glacial pace of these talks, largely attributable to the absence of U.S. leadership because of a policy stalemate in Washington, is especially disturbing since many NGOs have stepped up their campaign for expanded use of trade sanctions to meet their environmental goals.

We hope, therefore, that the Administration will take advantage of the upcoming WTO High Level Meeting on Trade and Environment to accelerate work on these critical issues. U.S. leadership could breathe some much needed life into these discussions and perhaps pave the way for a necessary clarification of international trade rules to reduce the risk of damaging international disputes over environmental policies.

THE NEGOTIATING CONFLICT

Finally, let me say a few cautionary words about the attitudes of our trading partners, especially in the developing world, about proposals to use trade sanctions to meet labor and environmental objectives.

I need not remind you that WTO, as GATT before it, has no provision for adopting sanctions against its members. Article XX allows a contracting party to take measures under certain conditions for specified purposes. If, by any chance, additional

provisions were added, the actions of individual contracting parties would wreak havoc with the MFN system and cause innumerable disputes. To amend the WTO to change the fundamental nature of the organization would be next to impossible.

On the trade and labor front, developing countries are highly suspicious of the attitudes of the U.S. and some other Western governments, which have continued to push without success the idea of bringing labor issues into the WTO. They believe that these governments are more concerned about protecting their markets from low-priced competition than about the observance of labor standards. And in the case of the WTO Committee on Trade and the Environment, they demonstrated a similar suspicion of Western motives. They strongly resist the notion of giving a trade body the right to judge a country's adherence to that which they consider to be matters of domestic governance.

Public statements by labor leaders and labor and environmental activists as well as by our own Administration's leaders—and, I might add, the debate about fast track—have fed this suspicion. Is it any surprise that the Latin Americans have rejected American attempts to set up working parties on labor and the environment in the context of the FTAA? The Latin Americans have relegated hemisphere labor issues to the forum of Hemisphere Labor Ministers. Despite U.S. efforts to create separate working groups on labor and environment, Latin governments agreed only to a Committee on Civil Society, which will receive the views of the trade union leaders and environmentalists in writing and incorporate them in reports to the negotiators.

The ILO's Declaration on Fundamental Principles and Rights at Work rests on a fragile consensus between developed and developing countries because of these suspicions on the part of the latter. The best way to undermine the good work undertaken in reaching agreement on the Declaration and then promoting its implementation would be a high profile effort by the U.S. and other sympathetic governments to try—once again—to introduce labor issues into the WTO.

Let us keep our eyes on the ball. If we are serious about improving the lot of workers in developing countries, we must give the ILO's Declaration a chance to work.

Similarly, we can expect strong opposition to any effort to force our trading partners to give up their WTO rights in the name of environmental protection. They argue frequently and fiercely that their stage of development does not permit an elaborate and advanced environmental regulatory regime as in developed countries. We face a strong challenge in overcoming the suspicions of developing countries simply in obtaining a clarification of GATT/WTO rules on the use of trade measures in MEAs. The notion of giving some other body such as the World Court the right to arbitrate trade and environmental disputes is fanciful. Other countries have paid for their WTO rights through trade concessions, and they will not abandon those rights simply because environmentalists oppose on principle giving the world trade body any jurisdiction over environmental matters.

There are, of course, many things the WTO can and should do to improve the transparency of Dispute Panel proceedings, which are the source of so much controversy. The U.S. Government has put forward some sensible suggestions to that effect which we in the business community fully support. That is the direction we should follow.

These thoughts about the concerns of our trading partners are important as the Congress begins to consider the negotiating objectives that you may wish to include in any new Fast Track legislation. If you set the bar too high, U.S. negotiators, no matter how skilled, or how much influence the U.S. seemingly should have in international organizations, will not be able to deliver the goods. And we in the business community would very much regret it if new trade opportunities that may arise at the conclusion of a new round of trade talks were to be held hostage to labor and environmental conditions that were unattainable from the start.

Mr. Chairman, thank you again for giving me the opportunity to share my thoughts with you on these important matters.

PREPARED STATEMENT OF J. PETER KELLY

I appreciate the opportunity to appear on behalf of the LTV Corporation before the Senate Finance Committee to discuss the current crisis plaguing the U.S. steel industry. These hearings come at a truly critical time for our businesses and our employees.

I want to focus my remarks today on four aspects of the steel import crisis: First, I want to give you a sense of the seriousness of the situation; second, I will provide a summary of actions taken by LTV and the industry to deal with the current crisis;

third, I will offer an outline of administrative action and legislative initiatives that need to be pursued; and fourth, I'd like to suggest what will happen if the crisis does not end soon.

Before discussing these important issues, however, I think it is important to give some background on the U.S. steel industry. In particular, I want to address misconceptions still held by many important government policy makers about this industry.

THE U.S. STEEL INDUSTRY

To begin with, it is important to understand that virtually every steelmaker in the United States is a publicly-traded company. That means we have a duty to earn a return from the assets purchased by our shareholders' investments. This is a serious responsibility. Furthermore, we provide competitive levels of pay and benefits to our employees, provide pensions and insurance for our retirees, and ensure a safe working environment. Pensions and health care alone total \$500 million annually for LTV. Steel companies play an important role in the economic well-being of the communities in which they operate.

Federal regulations require us to operate our facilities in compliance with some of the world's most stringent environmental laws. The communities in which we make steel demand that our companies operate with respect for the people who live near us. And, steel is an extremely capital-intensive industry—LTV, for example, must spend between \$250 and \$300 million every year to sustain its current level of steelmaking capability and to keep pace with the changing needs of our customers. \$50 million is spent annually on environmental activities.

The U.S. steel industry is an efficient, high quality, value-creating part of the nation's economy. U.S. steelworkers are the most productive in the world. Unfortunately, many policy makers may still hold on to an outdated image of the steel industry—that it lags in both efficiency and competitiveness. That is not the case. U.S. steel companies have transformed themselves. The industry went through a painful restructuring in the 1980s—losing hundreds of thousands of jobs and investing over \$50 billion into new technologies, equipment and facilities. Since 1986, LTV alone has invested \$3 billion in new capital. We also spent millions to retrain our people.

Companies like LTV Steel have dramatically improved their manufacturing processes and adopted cutting-edge technology, such as continuous casting, vacuum refining and continuous annealing. In fact, LTV is part of a consortium that received one of the prestigious 1998 Technologies of the Year awards, part of IndustryWeek's sixth annual Technology and Innovation Awards Program. The new technology—the UltraLight Steel Auto Body—will help our partners in the automotive industry meet the fuel economy, safety and environmental challenges of the 21st century. Indeed, America's steel companies, as an ongoing Carnegie-Mellon University study has found, are now among the most efficient and productive in world. By contrast, a significant amount of CIS-country steel tonnage is still produced by the grossly inefficient open-hearth method—a process no longer used by any U.S. steel producer.

The result of this transformation is a steel industry that is at the very heart of America's competitiveness—a steel industry that is the backbone of our manufacturing base, our military readiness, and our infrastructure. The steel industry is also critical to our economy, providing high-skilled jobs with family-supportive wages—and contributing directly and indirectly over \$70 billion per year to the U.S. economy.

And, the U.S. steel industry is good for the environment. A group of 20 environmental organizations, including Earth Voice, Wildlife Land Trust, and Friends of the Earth, recently wrote to President Clinton in support of our industry. They stated that U.S. steel companies are "among the very cleanest, if not the cleanest, in the world." This group concluded: "if you want to reduce global emissions from steel-making, make more steel in America."

In short, Mr. Chairman, the U.S. steel industry is world-class. We do not need or want protection from the challenges of competition based on product quality, production cost, fair pricing based on cost or customer service. Ours is not an industry that can or should be effectively ceded to other countries who are unwilling to play by the internationally-recognized fair trade rules—especially not for elusive foreign policy reasons or macroeconomic theories.

IMPORT CRISIS

Why are we here? If the steel industry is now world class, shouldn't we be profitable at a time of record demand in the United States?

The short answer is yes. We certainly should. And, given a level playing field, the American steel industry can—and will—thrive. Indeed, given both (1) the remarkable efficiency of the U.S. industry—particularly compared to some of our foreign competition—and (2) the very significant transportation costs faced by foreign producers exporting to the United States, the U.S. industry is the low cost producer for our market. When all of the established rules of law are observed, no one should be able to beat U.S. companies in this market.

Unfortunately, foreign steel industries have been more subsidized, more protected and more cartelized than any other industrial sector. While the U.S. industry restructured, many of our foreign competitors did not make the same painful decisions. Instead, many foreign steel companies have made decisions driven by national industrial and social policies, such as maintaining artificially high employment. This has led to vast foreign overcapacity and global oversupply. Of course, this glut of foreign steel must go somewhere. And to no one's surprise, it has landed in the United States—the world's only open market of any size.

As the Committee examines the data detailing the sharp increase in steel imports and its effect on the U.S. industry, it is essential to keep in mind the root of this crisis: uneconomic decisions by foreign governments and foreign producers creating excess worldwide capacity. In fact, past foreign overcapacity and the resulting unfair trade practices have harmed U.S. companies to the point where today the U.S. industry in periods of strong manufacturing activity can no longer satisfy 100 percent of U.S. demand. Sadly, our customers already depend on imports to meet some of their demand. We do not object to imports, we only oppose those which are unfairly dumped into an already competitive U.S. market. The current glut of dumped imports is further eroding U.S. companies' market share, displacing U.S. sales and U.S. jobs, and wreaking havoc on our employees and the communities in which we operate.

Mr. Chairman, this is a supply-driven crisis, in which an already enormous world steel overcapacity problem has been made much worse—triggered by major structural economic failures in Asia, Russia, and most recently Brazil. Today, over 300 million tons of foreign steel capacity, or roughly one-third of total world steel capacity, is desperate for new markets. As the Executive Director of the steel importers association admitted to the *Journal of Commerce*, "there's no place left to put the steel."

He's right: America's docks and warehouses are full. The inventories remain at record levels. Yet, unprecedented levels of unfairly-traded and disruptive steel imports continue to pour in from every corner of the globe—creating an unparalleled threat to all that our world-class U.S. steel companies and workers have achieved in recent years. This is not normal trade. This is an extraordinary event, without precedent in our history. This is also a global problem—not simply a single product issue from only a few countries.

The numbers are simply astonishing. In November 1998—the last month for which we have Government data—imports of steel mill products reached a record 37 percent of domestic consumption, up from 23 percent in November 1997. Imports from January to November 1998 were 39 million tons, an all-time record and an increase of 33 percent from the 29.4 million tons in the same 11-month period in 1997.

Despite depressed prices and a glut of foreign steel products, steel imports just keep coming. We witnessed dramatic increases in each quarter of 1998: 7.7 million tons of steel imports in the first quarter; 10.7 million tons in the second quarter; 12.4 million tons in the third. We do not yet have import data for the fourth quarter of 1998, but imports in October and November were 8.2 million tons, an increase of 63 percent over the same two months in 1997.

Japan alone accounted for 41 percent of the import surge in the first 11 months of 1998. Russia and Korea accounted for another 38 percent. By product group, hot-rolled sheet and plate-in-coil accounted for almost 50 percent of the volume surge in 1998. This surge explains why the steel companies and unions joined forces to file unfair trade cases against imports of hot-rolled carbon steel flat products last September.

Again, the numbers are incredible. In 1997, imports of hot-rolled carbon steel flat products averaged about 525,000 tons per month. In 1998, monthly imports averaged almost 1,000,000 tons per month. The surge was concentrated in the last half of the year, which led to sharply falling prices and shipments by domestic producers. Hot-rolled imports averaged 676,000 tons per month from January to June, but then exploded to an average monthly rate of 1.3 million tons from July to November. November 1998 imports reached an all time record of 1.6 million tons, capturing over 55 percent of the American market that month. For the first time, there was more foreign-made hot-rolled steel in our market than domestic-made products.

This import surge is not limited to hot-rolled carbon products or to these three countries alone. Import surges, both by country and by product, are occurring broadly. (see attachment)

No one can recall a time when U.S. steel prices have fallen this far this fast in a period of record U.S. market demand. The painful truth is that dumped and subsidized imports are deriving most of the benefits of our own successful efforts to grow the demand for steel in the United States and North America.

It is important to step back and consider where we are going. All of this is happening in a robust American economy. If the economy slows down, what will be the impact of imports at these or even higher volumes? Steel demand, like demand for most manufacturing, is cyclical. If unfairly-traded imports undermine the U.S. industry in the period of peak demand, it is frightening what the impact will be as demand inevitably recedes. Unlike previous periods of high import volume, U.S. companies no longer have any slack due to inefficiencies or overcapacity. As described above, this industry already has undergone the painful but necessary restructuring. Unfairly-traded imports in this crisis will displace efficient production and high-skilled jobs.

The impact of this accelerating national crisis cannot be overstated. There have been bankruptcies and mill closures. Both Acme Metals, Inc. and Laclede Steel Company, for example, recently filed for bankruptcy, affecting plants and workers numerous states. Another steel company in the West has stated publicly that they will miss their debt payment in the first quarter of 1999.

U.S. steel companies are also being forced to dramatically cut both production and capacity utilization. In the fourth quarter of 1998, LTV cut production 14 percent—nearly half a million tons—and utilization fell 19 percent. Sales fell because of lower shipments and selling prices. Shareholder value is being affected, and companies are facing the problem of committing future capital investment to an industry that cannot generate satisfactory return on its investments.

Of course, in talking about lower shipments and price depression—it's easy to lose sight of what that means. President Clinton said it best: "We have got to put a human face on the global economy." For U.S. steelworkers, unfairly-traded imports mean layoffs or short work weeks or lower pay. Workers who have worked their entire lives in a steel company must now find a new job—and for many, those jobs simply will not exist. I don't think this is the Committee's vision for American workers.

And this crisis is not limited to any particular geographic area—it is truly country-wide. Affected mills and workers include those in West Virginia, Pennsylvania, California, Illinois, Utah, Ohio, Alabama, Maryland, Indiana, Texas, Michigan, Iowa, and North and South Carolina—and the list continues to grow.

Mr. Chairman, employees at my own company, LTV Steel, have felt the surge of imports in a most personal way. We have been forced to eliminate jobs, reduce or eliminate overtime, and take other steps to reduce our costs in the face of the onslaught. Just weeks ago, in November and December, over 2,500 LTV employees were laid off or assigned to lower paying assignments due to import-caused production cutbacks. This is the equivalent of 215,000 hours of lost earnings. With an average hourly wage rate of \$18.25, that represents about \$4 million in lost wages—over \$1500 per family in just this relatively short period of time.

We also had to reduce production at our iron mining company in Minnesota by some 350,000 tons in December, with a similar effect on the operations' 1300 employees—and there are clearly no alternative jobs available in that area for these people.

The pain extends beyond steel company employees—LTV Steel also has reduced its use of outside contractors to reduce costs and keep more of our people on the job. Already, the contractor community has lost the work for about 150 employees as a result, and that total will rapidly climb. I know that other steelmakers are experiencing similar circumstances.

The effect is widespread. These unfair trade practices have cost over 10,000 U.S. jobs, and many thousands more are threatened. And believe me—the losses will not stop there. For every one million tons of domestic steel lost, nearly 5000 U.S. jobs are directly or indirectly affected. Suppliers and downstream users such as steel processors and fabricators are already experiencing the fallout.

CURRENT TRADE CASES

Steel companies and our unions have joined together to take all available necessary and appropriate legal actions to address the crisis. On September 30, 1998, twelve domestic producers and two unions filed trade cases against hot-rolled carbon steel products from Russia, Japan and Brazil. Steel producers in these countries

have dumped steel products and, in the case of Brazil, also sold heavily subsidized steel products into the U.S. market. These cases document dramatic unfair trade margins ranging from 27% to 199%. This unfair trade has seriously injured the U.S. industry, and it is critically important that the trade laws be fully, expeditiously, and uncompromisingly enforced.

Let me express my appreciation for the fact that Secretary Daley has seen to it that the cases we have filed are proceeding on an expedited basis. The findings thus far have confirmed the trade-distorting actions of our trading partners. On November 13, all six members of the International Trade Commission voted affirmatively in the preliminary determination on the question of injury. On November 23, the Department of Commerce announced an affirmative preliminary finding of "critical circumstances" on the Japanese and Russian cases. The Department's finding means that antidumping duties may be imposed on entries of merchandise made up to 90 days prior to the Department's preliminary determination of dumping. It is very important to note the reasons for this finding: First, imports from Russian and Japan have increased by about 100 percent during the period examined. Second, with respect to Russia, there is a history of dumping findings on Russian hot rolled steel in other foreign markets. Third, with respect to Japan, based on the size of the alleged margins and other factors, importers of Japanese steel knew or should have known that the imports were dumped and were likely to cause injury to the U.S. industry. And fourth, there was evidence that importers had knowledge that dumping cases were coming.

The Commerce Department announced it would make preliminary dumping determinations on February 12, almost three weeks ahead of the statutorily mandated time. In responding to the surge of unfairly-traded imports, it is essential that these trade cases be handled expeditiously.

It is imperative that these cases be allowed to proceed to final determinations and to the imposition of appropriate antidumping and countervailing duties.

There has been much talk lately about a possible agreement with Russia—an agreement that would guarantee inefficient Russian steel companies a percentage of the U.S. market and terminate our cases. Let me be clear on this very important point. I oppose suspension agreements. While no one would question the goal of a stable Russian economy, make no mistake about it—the push for a suspension agreement with Russia is designed to help that country at the expense of U.S. steelworkers. Indeed, such a policy is lose-lose: Russia has a reduced incentive to streamline its inefficient steel industry, and Americans lose jobs. Moreover, this is horrible environmental policy. I am surprised that this environmentally-conscious Administration would want to prop up Russian steel mills—which are so flawed environmentally.

I am calling on President Clinton, Vice President Gore, Secretary of State Albright, Secretary of Treasury Rubin, Secretary of Commerce Daley, and U.S. Trade Representative Barshefsky to stop these talks with Russia that are taking place today in Paris—before more American unemployment is caused.

LTV and other companies are carefully reviewing all available alternatives under the law, including additional antidumping and countervailing duty cases—and other measures under the trade laws, including a possible action under section 201. We will file additional cases when appropriate. U.S. steel companies are committed to enforcing our rights under U.S. trade laws. The current crisis has been caused by trade that is inconsistent with these laws.

ADMINISTRATION ENFORCEMENT

Over the last couple of months, I have joined with other senior officials from both the steel companies and the unions in meeting directly with the President and Vice President, the Secretaries of State, Treasury, Commerce, and Labor, the U.S. Trade Representative, the White House Chief of Staff and other senior Administration officials. We were pleased that the President recognized and spoke forcefully to the steel import crisis in his State of the Union Speech, but now we need actions and not more words.

It is important to understand that LTV is not seeking so-called "protectionist" measures. Indeed, the U.S. industry has consistently supported free and fair trade—both through international trade agreements and strong U.S. trade laws. The current crisis, however, requires a comprehensive Administration plan to stem the flood of all unfairly-traded imports. The Administration and Congress must work together to ensure prompt, enhanced enforcement of the trade laws. But, let me be clear: If what we are now seeking is not timely provided or fails to do the job, then we will have no choice but to pursue more drastic measures.

We have presented the Administration with a number of actions that need to be taken in order to address this import crisis, including: (1) forceful bilateral discussions with all countries that are engaging in unfair trade (this does not include an agreement doing away with the antidumping case against Russia); (2) prompt and effective enforcement of trade cases brought by the industry; (3) self-initiation by the government—in consultation with the industry as appropriate—of antidumping, countervailing duty, section 201 and other cases; (4) imposition of a tariff on Russian shipments, utilizing the 1990 USSR-US Agreement on Trade Relations and other Presidential authority; (5) swift action to deal with the global steel cartel using section 301, WTO procedures or antitrust laws; (6) utilization of CVD regulations to provide strong CVD remedies; (7) support for an effective steel import monitoring system under current law, including support for legislative changes if required; (8) support for new trade legislation that will strengthen our trade laws consistent with the WTO; (9) support for hiring and nominating the highest qualified public servants to administer our trade laws; and (10) forceful statements by the President and other Administration officials that unfair trade will not be tolerated.

As you know, Congress last year called on the President to formulate a comprehensive plan for addressing the flood of unfair steel imports. In response, on January 7, 1999, the Administration released its Plan for responding to the current crisis. While we appreciate the attention the Administration has given to this matter, the January 7 Plan was both inadequate and unreflective of the severity of the steel trade crisis. The Plan does not address many of the U.S. industry's most serious concerns and instead sets out several proposals that the industry did not request and, in some instances, views as counterproductive.

First, while we appreciate that the Administration has had some high-level discussions with a few of the exporting countries, these discussions have neither (1) included all of the offenders nor (2) resulted in enforceable commitments to slow exports or stop unfair trade. In fact, despite the Administration Plan stating that it is their understanding that Japan would reduce steel exports to "close to 1997 levels," the Government of Japan has bluntly and publicly rejected this position. Most of Japan's reduction in shipments is in fact the result of the case the industry and unions brought against Japan's dumping of hot-rolled steel. Nor has there been any detectable progress on the critical issue of "burden sharing"—that is, the refusal by major trade powers like Japan and the EU to accept their fair share of steel exports from economically troubled Asian and East European countries.

Second, we applaud the Commerce Department's accelerated consideration of the pending hot-rolled antidumping and countervailing duty cases. Commerce also has made an important finding of critical circumstances in these cases. These are important and helpful steps. Despite the industry's request, however, the Administration has not made the necessary commitments to self-initiate appropriate cases under the trade laws.

Third, the President has, but so far refuses to use, legal authority to curb steel imports from Russia through emergency tariffs imposed under section 125(c) of the Trade Act of 1974. (The U.S.-USSR Agreement on Trade Relations expressly allows such a measure.) Worse, the Administration indicates that despite industry opposition, it may negotiate a suspension agreement with Russia in the pending hot-rolled case. Such an agreement would deny the industry the full relief to which it is entitled. Again, for the record, I oppose any suspension agreement.

Fourth, the Plan proposes to accelerate the public release of steel import data. Recently, the Administration announced expedited release of data. While we appreciate this action, the Administration's January 7 Plan does not propose a comprehensive import licensing system, like Canada's. The Administration must work with Congress to establish a more effective import-licensing system in the United States.

Fifth, the Plan does not address the need for legislation to enhance the trade laws. In perhaps the most striking example, the Plan does not even endorse changes to section 201—changes which would conform the U.S. standards for safeguard relief with the rules in the WTO Agreement on Safeguards. This is the absolute minimum that must be done.

Sixth, the Administration Plan is not comprehensive. The Plan addresses only imports from Russia and Japan, ignoring not only Brazil—against which we have filed both antidumping and anti-subsidy cases—but also a host of other countries, including Korea, India, South Africa, and Taiwan, to name a few. For example, comparing the first 11 months of 1997 to the first 11 months of 1998, imports of cut-to-length plate from South Korea increased by over 1,200 percent, and from Indonesia by over 250 percent. Addressing imports from only two countries will merely result in substitution: imports from other subsidized and protected foreign companies will take the place of those from Russia and Japan. There is ample evidence that over the

years the global trading firms have become expert in matching up sources of unfairly-traded steel with our U.S. market. The U.S. industry needs a long-term and comprehensive policy, not short-term triage.

Finally, the Plan includes tax and "trade adjustment" proposals that we did not request and do not support. This tax proposal involves extending the net operating loss carry back for steel from 2 to 5 years. It assumes massive, long term, losses in the industry—something we are all working hard to ensure does not occur. Furthermore, it would create the false impression that the U.S. steel industry is being subsidized by the government. Similarly, the Plan offers enhancements to the trade adjustment assistance program that were not proposed by the industry or its unions. This trade adjustment assistance proposal is premised on workers losing more jobs. The industry is proud of its highly-skilled and very capable workers—and does not regard tinkering with the trade adjustment assistance program as an appropriate response to the import crisis. Instead of helping our industry respond to unfairly traded imports and remain competitive, the Administration has offered special tax rules for losses and retraining programs for our workers. The Administration by its proposal is asking us to accept "defeat" and to live with the gross violations of our trade laws. We at LTV will not do this.

STRENGTHENING THE TRADE LAWS

In addition to what the Administration can and must now do under existing law to address the steel trade crisis, legislation is needed to make our remedies against unfair trade more effective in these new economic conditions and to make sure those remedies continue to function effectively into the future. The steel industry is deeply appreciative of the legislative efforts by Senator Rockefeller and Senator Specter, and separately by Senator DeWine and other members of the Steel Caucus. We urge other Members to follow their lead and support efforts to improve the trade laws so that our trade remedies are effective in stopping unfair trade and to ensure that industry and workers are not irreparably harmed.

It has been a full decade since the Congress last enacted an omnibus trade law reform bill. In that decade, and especially in this most recent crisis period, we have learned that the existing laws do not provide the timely and effective remedies intended by Congress and permitted by WTO rules, and which are necessary to continue open and market-based trading.

The steel industry has supported international agreements intended to open world trade. In particular, we supported the WTO agreements, which established new international rules for the trade remedies imposed from time to time by WTO Member governments. But we did so based on an understanding that the United States, with the world's largest open market, would maintain and enforce the strongest possible remedies consistent with the new rules to act against unfair and injurious trade practices. Congress intended that these laws provide remedies, but all too often they do not work.

Simply put, existing laws are not adequate to deal with rapid import surges and the resulting plummet of prices. Improved laws on so-called safeguard measures are particularly necessary. For example, Congress should pass legislation providing that a rapid decline in prices coupled with a rapid increase in imports creates a threat of serious injury for triggering the application of safeguard measures.

But safeguard measures alone cannot be effective if up-to-date information is not available. As I suggested before, delays in providing steel import information to the industry can and should be addressed through immediate Administration action. The Department of Commerce has taken a significant step by providing data two weeks earlier than it is normally available. However, legislation such as the Rockefeller-Specter bill is vital to provide prior notice of foreign shipments, such as the Canadian permitting system does. We urge that such legislation be moved early in the new Congress and that the President support it.

The antidumping and anti-subsidy laws must also be improved. Congress intended, and WTO rules allow, that dumped and subsidized imports face offsetting duties whenever the domestic industry is injured to any measurable degree by the imports. Where there is an unfair trade practice, whether selling at less-than-fair-value or selling a subsidized product, no amount of injury should be tolerated. That is the original intent of the Congress—but it is not what happens today. An industry should not have to suffer as much injury as we are suffering now in order to obtain relief.

Similarly, Congress should close the loopholes in the current law that allow foreign exporters to avoid the law's full remedial effect. For example, foreign companies should not be allowed to circumvent U.S. antidumping laws by selling their goods through their U.S. affiliates. Congress should likewise ensure that severe foreign

currency depreciations—such as those we are seeing currently in Brazil—do not put unfair trade relief out of reach. In the case of our anti-subsidy laws, ownership changes in a subsidized foreign factory should not suddenly exempt that factory from countervailing duties (our response to foreign subsidies).

America's market opening tool—section 301—must also be strengthened. Section 301 has become ineffective. This is true both because of the WTO agreements and because of the proliferation of new and harder-to-reach types of foreign trade barriers. Closed foreign markets are an important part of the overall trade crisis in the steel industry. We urge that Congress update section 301 with expanded authority for the President to address the new generation of private and joint public/private restraints on international trade. Congress should also mandate that the FTC investigate foreign "sanctuary markets" affecting U.S. commerce. And there should be a more comprehensive examination of foreign government—and foreign company—anticompetitive conduct.

This, of course, is not an exhaustive list. Trade law reforms are just the starting point to make our traditional trade law remedies more effective. But the bottom line is this—our current trade laws are not effective in stemming an extraordinary and unprecedented crisis like the one we face today.

CONCLUSION

Mr. Chairman, 1999 will be—one way or the other—a watershed year for steel companies and steelworkers. I sincerely hope that our world-class steel industry—which we have worked so hard to modernize—will be allowed to compete on a level playing field. It is our goal and intent to remain at the heart of America's infrastructure, America's defense, and America's economic growth.

I want to stress one last time for the Committee—we are not seeking protectionist measures. Quite frankly, America's steel companies and steelworkers are the best in the world. We don't need protectionist measures. The LTV Steel company can successfully compete against foreign steel producers, but we should not have to compete with foreign governments that subsidize or insulate their domestic steel companies. The very survival of the U.S. steel industry will be jeopardized if we continue to allow subsidized steel and dumped steel to flood our markets in a way that—as I've stressed—is inconsistent with both U.S. and international trading rules.

We have a responsibility to earn a reasonable return for our shareholders—which is not easy in the best of conditions. The current flood of unfairly traded imports is making this task almost impossible. If the crisis does not stop, many companies may stop investing in the future of their steel plants, and that would be fatal.

We must vigorously enforce our trade laws to address the current crisis. And we must strengthen our trade laws to ensure against a future crisis. We must do these things or 1999 will be the year that we allowed unfairly traded foreign imports to destroy an American success story of industrial revitalization.

I appreciate the chance to be heard today—and our industry acknowledges the very significant efforts of Members of this Committee to address these issues. I am happy to answer any questions you may have.

Attachment.

**U.S. IMPORTS OF STEEL MILL PRODUCTS
BY COUNTRY OF ORIGIN**
(thousands of net tons)

	Nov 1998	Oct 1998	Nov 1997	11/98 vs 11/97 % Change	11 Mos 1998	11 Mos 1997	Ytd % Change
Japan	828	882	230	260%	6,291	2,356	167%
Russia	738	603	204	262%	5,106	3,186	60%
European Union	656	687	661	-0%	6,674	7,001	-5%
Canada	381	410	377	1%	4,573	4,396	4%
Korea	327	293	102	221%	3,191	1,502	112%
Brazil	297	189	139	114%	2,477	2,667	-7%
Mexico	207	169	241	-14%	2,917	3,179	-8%
Ukraine	68	63	30	127%	859	511	68%
China	61	83	26	135%	566	435	30%
Australia	58	135	31	87%	897	359	150%
South Africa	54	60	29	86%	607	296	105%
Turkey	53	17	51	4%	487	556	-12%
Indonesia	37	117	8	363%	501	73	586%
India	2	46	11	-82%	346	192	80%
Others	264	358	199	33%	3,167	2,338	35%
TOTAL	4,031	4,110	2,339	72%	38,659	29,047	33%

Source: AISI

RESPONSES OF PETER KELLY TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Before responding, I would like to acknowledge Senator Grassley's steadfast commitment to maintaining strong and effective trade laws and thank him for his long-standing support of the U.S. steel industry and its workers.

Question. Sections 201-204 of the 1974 Trade Act that deal with import relief provide a measured approach to the investigation of whether an item imported into the United States from abroad is being imported in such increased quantities as to be "a substantial cause of serious injury," or to be a "threat" to the domestic industry producing that item.

Would you care to comment about the use of Section 201 procedures to provide relief?

Does it work well, or should we change it?

Answer: The current steel crisis is in no way related to the efficiency or competitiveness of the U.S. steel industry. The crisis is unprecedented in terms of both the rapid increase of unfairly traded imports and the resulting precipitous decline in domestic prices, causing severe injury to the U.S. industry and its workers. Our existing trade laws are not designed to prevent this type of acute attack on our markets and industries.

In order to receive relief under Section 201, an industry must first receive an affirmative determination from the International Trade Commission (ITC) that imports are a substantial cause of serious injury. Then, the impacted industry must rely on action by the President to implement a plan to control these imports. Unfortunately, since 1986 Section 201 has provided relief in only 2 out of 11 cases brought by injured domestic industries. In some instances the ITC failed to make an affirmative determination, and in others, where the ITC did rule favorably, the President chose not to implement effective relief.

The domestic industries' inability to gain favorable Section 201 determinations from the ITC is caused by two factors. First, the standards for determining injury under U.S. law are unnecessarily higher and more restrictive than required by World Trade Organization agreements. Second, the statute is drafted to assist domestic industries facing long-term, more gradual decline, rather than to provide relief for competitive U.S. industries besieged by a sudden surge of imports creating havoc in the domestic market.

Congress can improve the laws to respond to the statute's deficiencies in both of these regards. For example, the laws should be amended so that imports need only be a "cause," rather than a "substantial cause," of serious injury. *This change would make U.S. law consistent with the WTO standard and would make Section 201 relief more accessible. Further, the law should provide that a rapid decline in prices, coupled with a rapid increase in imports, creates a presumption of critical circumstances and threat of serious injury.* This change would make Section 201 more responsive to the type of import crisis currently confronting the steel industry.

In addition to necessary improvements to the statute, a successful 201 petition must have the full support of the President. Since relief is ultimately discretionary, the case must be fully and publicly supported by the President with a commitment to implementation of effective and timely relief.

Question. In the early 1980s, when so-called voluntary restraint agreements were used to limit Japanese auto exports into the United States, some estimates later determined that the 44 voluntary restraint agreements cost United States consumers approximately \$4 billion, while saving the jobs of roughly 26,200 autoworkers. This translated into a cost for each job saved of \$160,000 a year—more than four times the compensation the autoworkers received.

In addition, other estimates showed that "voluntary" restraint agreements on specialty steel during the 1980s cost United States consumers up to \$1 million for each job saved.

Does this experience suggest a lesson that we might want to be aware of in thinking about our current options?

It seems to me that using the Section 201 process, and following the rule of law when an injury determination is made when illegal dumping occurs, and then taking the appropriate action, is the better approach.

What are your thoughts?

Answer: I agree that we should first seek relief under currently available laws by, for example, filing trade cases. But these laws must be fully and effectively enforced. Twelve steel companies and two unions have jointly filed antidumping cases relating to imports of hot rolled steel from Russia, Japan and Brazil, as well as a countervailing duty case against Brazil. It is only right that these cases be allowed to run their full course. They should not be cut short by allowing foreign governments to negotiate suspension agreements that settle these cases. Further, as discussed in response to your first question, effective relief under Section 201 is contingent upon statutory amendments to bring our laws in line with the WTO Agreements and on full support by the President. If the industry and its workers cannot obtain adequate and timely relief under current law, it is appropriate to seek Congressional support for other legislative remedies that respond to this crisis.

It is important to understand that we are not talking about only one industry, or even the thousands of workers and families that are being devastated by unfairly traded steel imports. We are also talking about the threat of permanent eradication of a cornerstone of America's manufacturing base. The steel industry supports communities and businesses that reaches far into the core strength of our country. It is estimated that steel's economic impact extends to four jobs for each job in a steel company. America was not built on, and cannot survive on, cheap foreign imports. America has prospered by creating value—by farming and by manufacturing. Now, both of these most critical sectors are under attack by unfairly traded imports.

I am not aware of the specific study used to derive the supposed cost of restraint agreements or quotas, and I am concerned that many such studies make assumptions that are simply not present in today's world. For instance, in calculating the cost to the nation of import relief against unfair trade, many of these studies assume that all markets are perfectly competitive. That, of course, is simply not true. Many foreign producers benefit from protected home markets and/or significant government subsidies. Additionally, they ignore adjustment costs to domestic firms, workers and communities. Failing to take into account these distortions lead me to question the results of such studies. However, I believe we all can agree that the long-term costs of losing our manufacturing industries would be quite severe on consumers.

The cost of allowing an industry to be lost to unfairly priced imports significantly outweighs the short-term price benefit enjoyed by consumers. The purpose of the trade laws is to ensure that products are sold at fair market based prices. For example, the average automobile contains significantly less than one ton of flat rolled steel. An increase of \$10 to \$20 per ton of steel does not carry with it the cost penalty to the consumer alleged by those who strain for arguments to support continuation of illegal trade practices. But the consequences for the survival of a steel company are substantial. Moreover, consider the long-term cost to consumers who, without a competing domestic industry, would be held hostage to the pricing strategies

of foreign manufacturers and governments. We must not forget that once the United States loses a domestic industry to unfair trade, that industry is gone forever and the national competitive forces of the market are lost.

I want to reaffirm that we have long supported free and fair trade initiatives, such as the WTO, along with effective trade laws sanctioned by these international trade agreements. The quid pro quo for free trade is the availability of all appropriate trade laws, including, the antidumping and countervailing duty laws and Section 201. Too often our Government has acted to short circuit the full use of these laws, especially by negotiating suspension agreements that undermine meritorious trade cases. In fact, it was the U.S. Government that sought and implemented the voluntary restraint arrangements in 1984, to which you refer, rather than taking action under a Section 201 case that had been successfully brought by the steel industry.

We are willing to work with the Administration and this Congress to find an immediate and effective solution to the current crisis. We are also seeking to address the problem of global overcapacity which threatens the U.S. in the long term. In the meantime we need to amend our trade laws to better deal with any future crises, even though I am concerned that such changes will not occur quickly enough to address today's crisis. Therefore, we need strong support from the Congress and we need the President today to make full use of currently available laws to respond to this crisis.

PREPARED STATEMENT OF DEAN KLECKNER

Mr. Chairman and members of the Committee, I am Dean Kleckner, President of the American Farm Bureau Federation and a hog and soybean farmer from Iowa. The American Farm Bureau represents more than 4.8 million member families in the United States and Puerto Rico. Our members produce every type of farm commodity grown in America and depend on access to customers around the world for the sale of over one-third of our production. In addition, U.S. agriculture is one of the few U.S. industries that consistently runs a trade surplus, posting a surplus every year since 1960.

American farmers truly live and function within a global economy. When our customers face economic and fiscal crisis, as is now occurring in Asia, Russia and Brazil, agriculture is the first to feel the effect as our customers lose purchasing power. Economic crises and devalued currencies result in increased consumer prices, which directly translate into weakened market demand. Lost sales mean lower incomes for our producers and economic pressures on America's rural economies.

The ability of U.S. agriculture to gain and maintain a share of global markets depends on many factors, including obtaining strong trade agreements that are properly enforced, and enhancing the administration's ability to negotiate increased market access with fast-track authority, remedy unfair trading practices, and to adequately fund export credit and market development programs.

We appreciate the opportunity to testify before the Senate Finance Committee on the importance of trade to agriculture and stress the need for Congressional action on the following trade priorities:

FAST TRACK TRADE NEGOTIATING AUTHORITY

When Congress passed the 1996 Freedom to Farm Act, it phased out farm price supports, making U.S. agriculture more dependent on the world market. American farmers and ranchers produce an abundant supply of commodities far in excess of domestic needs and their productivity continues to increase. Exports are agriculture's source of future growth in sales and income.

As you are well aware, U.S. agriculture is reeling from low commodity prices. Given an abundant domestic supply and a stable U.S. population rate, expanding existing market access and opening new export markets for agriculture is more important than ever. Agriculture's longstanding history of a balance of trade-surplus will not continue if we are relegated to the sidelines as new negotiations in agriculture commence.

Our negotiators must have fast track authority to create new export opportunities for U.S. farmers and ranchers. Inaction—or sitting on the sidelines without negotiating authority—is unacceptable. Tremendous resources and efforts have been expended to create new markets during negotiations for the Uruguay Round and the North American Free Trade Agreement (NAFTA). Moreover, total agricultural exports account for nearly a million high paying jobs for U.S. workers—the vast majority of which are off the farm in processing and transportation.

Global food demand is expanding rapidly and more than 95 percent of the world's consumers live outside U.S. borders. Despite significant progress in opening markets, agriculture remains one of the most protected and subsidized sectors of the world economy. In addition, U.S. agricultural producers are placed at a competitive disadvantage due to the growing number of regional trade agreements among our competitors.

Fast track negotiating authority is needed to comprehensively address high tariffs, trade-distorting subsidies, and other restrictive trade practices through further World Trade Organization (WTO) negotiations. Negotiating authority is also needed to pursue promising new opportunities for market opening trade agreements in Latin America, Asia and elsewhere.

U.S. leadership of the global trade liberalization agenda has paid off for American agriculture. If the United States now leaves it to others to form new trade pacts and write future rules for trade, U.S. producers, processors, and exporters will be severely disadvantaged in the competitive marketplace of the 21st century.

Congress must support fast track negotiating authority for the President to ensure a more profitable future for U.S. farmers and ranchers. However, such authority should not link environmental and labor issues to trade. Whereas President Clinton emphasized the importance of trade during his State of the Union address, he also underscored his desire to include labor and environmental issues in trade agreements. We oppose such a linkage and stand united with leaders in Asia and Mexico, and Secretary Ruggiero of the WTO against using the WTO as a forum for resolving non-trade related environmental and labor issues...

WTO MINISTERIAL

The United States will host its first ever WTO trade ministerial in December of this year. This ministerial will serve as the kickoff for the new negotiations on agriculture and other sectors in the WTO. As the host country for this ministerial, the United States and its trade policies will be in the spotlight. We must have fast track negotiating authority before the ministerial commences to demonstrate to the world that we are committed to increasing trade liberalization and opening new markets for agriculture. Given the economic turmoil being experienced in many of our important export markets, the launching of new negotiations to further open markets has never been more important.

WTO NEGOTIATIONS ON AGRICULTURE

The American Farm Bureau supports expediting action on the next round for agriculture in the WTO. Our market is the most open market in the world. We cannot sit idly by while our competitors trade openly in our market, but deny us access to their market on equal terms. We must begin the negotiations and conclude them as early as possible to put U.S. agricultural producers on a level playing field with the rest of the world.

Regarding specific objectives for the next WTO round, the negotiations must include binding agreements to resolve sanitary and phytosanitary issues based on scientific principles in accordance with the WTO Agreement on Sanitary and Phytosanitary Measures; provide tariff equalization and increased market access by requiring U.S. trading partners to eliminate tariff barriers within specified time frames; and make changes to trading practices that would facilitate and shorten dispute resolution procedures and processes.

ENFORCING TRADE AGREEMENTS

The United States has brought more dispute settlement cases before the WTO than any other nation. We must take all action necessary to ensure that our trading partners comply with WTO rulings. The obligation of compliance should not be taken lightly. Our trading partners cannot be allowed to unilaterally weaken the very principles that we negotiated in the Uruguay Round agreement.

American agriculture will not have confidence in the multilateral trading system if WTO members are permitted to disregard dispute settlement findings, as the European Union is now doing in the banana and beef hormone cases.

The United States and the European Union are now embroiled in a dispute regarding the European Union's compliance with the WTO ruling on bananas. This case is important to agriculture for many reasons. It is the first ruling to set limits on the application and administration of agricultural tariff rate quotas. It is the first action against the European Union—American agriculture's largest trading partner. Perhaps most important, it is the first case to test the effectiveness of the WTO when a losing party refuses to come into compliance with a WTO ruling. As such,

it sets a crucial precedent for the WTO beef hormone case, in which the European Union has also made known its unwillingness to come into compliance.

We encourage Congress and the Administration to take whatever actions are necessary in the banana and beef hormone cases to ensure successful, WTO-consistent outcomes that will help demonstrate the effectiveness of the system.

We have an obligation to our producers to ensure that every available domestic and international trade remedy will be used to prevent unfair trading practices. To this end, we need Congress and the Administration to give priority to monitoring and enforcing all trade agreements and to working aggressively to end unfair trading practices whenever they are found.

SANCTIONS REFORM

In the last decade, democracy has ascended amidst economic liberation in Taiwan, Korea, Poland, Hungary, Slovenia, the Czech Republic, Chile, Argentina, Bolivia, Peru, Brazil, Uruguay and Ecuador. The opportunities for peaceful American engagement and influence in the world are greater than ever before. Yet, we are closed off from certain markets due to unilateral sanctions. Our competitors relish the opportunity to access these markets without competition from the United States due to sanctions. U.S. producers, on the other hand, lose important markets and are branded as unreliable suppliers for decades to come.

For example, the Soviet grain embargo cost the United States about \$2.8 billion in lost U.S. farm exports and U.S. government compensation to American farmers. When the United States cut off sales of wheat to protest the Soviet invasion of Afghanistan, other suppliers—France, Canada, Australia and Argentina—stepped in. They expanded their sales to the Soviet Union, ensuring that U.S. sanctions had virtually no economic impact.

Sanctions and embargoes not only cost us in immediate loss of sales, but also enable our customers to find or develop other suppliers. Once this happens, it is very hard to win them back. A case in point is the growth of soybean production in South America, primarily Brazil, as a result of embargoes in the 1970s and 1980s.

The United States has an unprecedented opportunity to promote its values throughout the world by peaceful engagement. Reaching out, not withdrawing behind sanctions or embargoes, is the best way to achieve change.

The American Farm Bureau supports sanctions reform that would exempt food from sanctions, except in cases of armed conflict, and the provision of market loss assistance payments for lost agricultural export sales when sanctions are imposed. We also support the Administration's recent changes to U.S. trade policy that will permit food and agricultural input sales to Cuba. It is imperative that the licensing regulations for this policy be written in such a way as to facilitate meaningful commercial trade.

INCREASED FUNDING FOR EEP/MAP

Freedom to Farm increases the importance of maintaining and expanding access to foreign markets. However, in recent years, spending for export programs has declined, although funding for most programs was maintained at previous levels for fiscal year 1999. We must increase funding for these programs in order to remain competitive in the face of increasing international competition.

We need to adopt a strategic approach to U.S. farm exports that includes increased export promotion and market development funding. Doing so will strengthen our hand as we prepare to launch the next round of agricultural negotiations in the WTO.

We cannot place our producers at a competitive disadvantage in the world market. The United States should undertake a review of its existing agricultural export programs, improve their effectiveness and flexibility and fund these programs adequately.

American Farm Bureau supports the reallocation of unobligated funds from the Export Enhancement Program to other programs such as the P.L. 480 food assistance program, the Food for Progress program, the Market Access Program, the Foreign Market Development program, or one of the section 416 commodity donation programs.

TRANSATLANTIC ECONOMIC PARTNERSHIP (TEP)

The Transatlantic Economic Partnership (TEP) establishes a regular dialogue between the United States and the European Union to seek to reduce trade barriers and to ensure closer cooperation in preparation for the 1999 WTO Ministerial Conference. Whereas the concept of the plan is commendable, on close examination, the TEP provides little that is new or substantive for agriculture. Moreover, elements

of the plan cover areas of extreme importance to agriculture including food safety, plant and animal health, biotechnology and standardization of certain regulations that directly affect agriculture.

American Farm Bureau remains very concerned about several provisions of the plan and related dialogues that do not include U.S. agricultural representation. It is critical that Congress and the Administration closely review elements of the TEP to ensure that U.S. agricultural interests are adequately represented and that agricultural exports are not negatively impacted (please reference attached talking points and letter to Ambassador Barshefsky on this subject).

RAISING THE PROFILE OF AGRICULTURAL TRADE POLICY

U.S. agriculture is a primary contributor to the nation's gross domestic product and is highly dependent on export markets for the sale of over one-third of its production. Farmers and ranchers need a strong voice in U.S. trade policy to ensure that agriculture's interests are being vigorously pursued.

Creating a permanent position for the Special Agricultural Negotiator in the Office of the United States Trade Representative—with the rank of ambassador—will elevate the importance of agriculture in the upcoming WTO negotiations on farm products and will place agriculture at the highest possible level for resolving trade disputes.

American Farm Bureau supports S. 185, sponsored by Senators Ashcroft and Daschle, which will make the Special Agricultural Negotiator position permanent.

U.S. agricultural producers are the most productive in the world. We need Congress and the Administration to act on agriculture's trade priorities so that U.S. farmers and ranchers can reap the rewards of their productivity and provide an affordable food supply to U.S. and world consumers.

Thank you for the opportunity to speak on behalf of American agriculture.
Attachment.

AMERICAN FARM BUREAU FEDERATION,
November 25, 1998.

Hon. CHARLENE BARSHEFSKY,
U.S. Trade Representative.
Washington, DC.

Dear Madam Ambassador:

The American Farm Bureau continues to support actions to resolve trade differences that will result in expanded trade with the European Union. However, as we have discussed in the past I remain extremely concerned about actions that do not fully incorporate the concerns of agriculture producers across the nation. In our discussion earlier this year you indicated that agriculture would be fully included in all plans to open trade.

I am extremely perplexed by the Transatlantic Economic Partnership (TEP) action plan released earlier this month. It appears that once again the United States has conceded to the EU to exclude the real market access issues facing agriculture from the plan while further opening the door to incorporating environmental and labor issues into trade reform. Farm Bureau fully recognizes the importance of environmental and labor concerns but we are in full agreement with WTO Director Ruggiero that these issues do not belong in the WTO.

Farm Bureau is concerned that the action plan commits the United States government to important international policy positions relating to trade and the environment, labor, and regulatory standardization absent congressional scrutiny or debate. Also left out of discussions were the USTR and USDA Trade Advisory committees and major segments of the business community. Additionally, it is a concern that while the TEP action plan was only approved and officially released in early November implementation of plan recommendations and the establishment of various dialogues have been underway for several months.

The action plans calls for cooperation between the EU and the U.S. regulators to work toward EU-US standardization of regulations and to promote opening of the regulatory process so that the EU and U.S. will work to increase bilateral cooperation in the regulatory field. This would include allowing access to and participation in the regulatory process by private interest and government authorities on both sides of the Atlantic which seems to apply to a variety of areas including labor, the environment, consumer concerns, food safety and other components of the plan. Farm Bureau is extremely troubled by provisions relating to the standardization of regulations. We believe that our domestic regulatory process was designed to carry out the legislative intent of laws enacted by the Congress. Any recommendations for international standardization of regulations must be subject to a full congressional

debate. We also believe it to be inappropriate to establish a mechanism whereby representatives of foreign governments, their NGOs and citizens comment on or influence our domestic regulatory process.

The plan's call for the establishment of an environmental dialogue to discuss "how to incorporate the environment into the WTO work with the aim to giving full weight to environmental considerations throughout the WTO agreement" is entirely unacceptable. As we all heard during the Singapore ministerial and from Director Ruggiero, this is not an acceptable plan with our trading partners. Farm Bureau believes this is a totally inappropriate concept for the United States to be promoting. Many of the trade barriers agriculture faces around the world would be greatly exaggerated by such an action. Any country wishing to stop trade could claim environmental concerns and forever tie up its trading partners in dispute settlement actions.

It has been reported that the World Wildlife Federation will lead the U.S. environmental non-government organizations in the dialogue on the environment. The European Environmental Bureau (EEB), an organization made up of more than 100 grassroots groups will lead the EU NGOs. This group has been very vocal regarding its desire to influence American policy. I am very disappointed that production agriculture, which stands to lose the most from this debate, has not even been considered.

I am further concerned that the TEP will include a dialogue on labor issues that will apparently be led by labor unions and representatives of very large corporate entities. These organizations have historically advocated additional regulation of the relationships among employers and employees. Such regulation is often excessively costly to smaller businesses, like family farm businesses, which do not have large corporate structures to bear the cost of regulation. Such regulation also can be detrimental to both, particularly where it stifles economic growth, individual opportunity and the free exchange and movement of capital and labor. This relative freedom has been a key ingredient in U.S. economic success, and has allowed American farmers to become so productive that we feed ourselves along with much of the rest of the world. We are concerned that any nation can erect trade barriers against American products because of the freedom we allow in the United States for workers and employers to enter into mutually beneficial economic relationships, or to refrain from doing so as they wish. We object of any new international body or consultation mechanism that will involve non-U.S. third parties in our political and regulatory processes.

We recognize that the TEP is broadly committed to seeking to reduce trade barriers and resolving outstanding trade issues with the EU. Unfortunately, on close examination, the Partnership Action Plan provides little that is new or substantive for American agriculture. Further agriculture was not consulted in the development of the plan, in spite of the fact that provisions include dialogues on agricultural trade in preparation for the next round of trade talks, food safety and animal and plant biotechnology. I am extremely concerned about the provisions of the plan and related dialogues. The potential benefits may be many, but pose the possibility of great loss to American agriculture if our concerns are not taken into full account, not totally ignored.

I look forward to hearing from you on this important issue. As you know American Farm Bureau remains dedicated to free and open trade.

Sincerely,

DEAN KLECKNER, *President.*

TEP Provisions and Talking Points

Regulatory Cooperation—The TEP action plans calls for cooperation between the EU and the U.S. regulators to work toward EU-US standardization of regulations and to promote opening of the regulatory process so that the EU and U.S. will work to increase bilateral cooperation in the regulatory field.

This would allow access to and participation in the regulatory process by private interest and government authorities on both sides of the Atlantic and applies to a variety of areas including labor, the environment, consumer concerns, food safety and other components of the plan.

- We believe that our domestic regulatory process was designed to carry out the legislative intent of laws enacted by the Congress.
- Any recommendations for international standardization of regulations must be subject to a full congressional debate.
- It is inappropriate to establish a mechanism whereby representative of foreign governments, their NGOs and citizens comment on or influence our domestic regulatory process.

Environmental Provisions—The TEP plan calls for the establishment of a TEP Environmental Group to discuss and negotiate environmental work plan.

Discuss how to incorporate the environment into WTO work with the aim of giving full weight to environmental considerations throughout WTO agreements and pave the way for consensus on how to handle environmental issues at the 1999 WTO Ministerial Round and in the WTO future agenda.

Develop common objectives for trade and the environment.

Inform trade negotiators of potential impacts of other TEP negotiations on health, safety and environmental interests including regulatory and enforcement issues.

Develop common approaches to trade related issues in the development and implementation of multilateral treaties.

- This approach is entirely unacceptable, as we all heard during the Singapore ministerial and from Director Regiarro, this is not an acceptable plan with our trading partners. Farm Bureau believes this is a totally inappropriate concept for the Untied States to be promoting. Many of the trade barriers agriculture faces around the world would be greatly exaggerated by the inclusion of the environment. Any country wishing to stop trade could claim environmental concerns and forever tie up its trading partners in dispute settlement actions.

Promote greater cooperation between U.S. and EU scientists and regulators on environmental issues.

A Transatlantic Environmental Dialog made up of environmental non-governmental organizations would be established to advise governments on environmental issues including the TEP process.

- The World Wildlife Federation will lead the U.S. environmental non-government organizations in the dialog on the environment. The European Environmental Bureau (EEB), an organization made up of more than 100 grassroots groups will lead the EU NGOs. Production agriculture, which stands to lose a great deal from this debate, has not even been considered nor is their any provision for input from agriculture on environmental discussions.

Core Labour Standards—Under the heading "Core Labour Standards," the TEP document calls for signatories to "work together to promote full and timely implementation of agreed follow-up procedures of the new ILO (International Labor Organization) Declaration on core labour standards." That Declaration, adopted by ILO in June of this year, names four "fundamental rights" ILO believes should be afforded to all workers by ILO member nations (of which the U.S. is one):

"Freedom of association and effective recognition of the right to collective bargaining."

- While this basic right is already recognized under U.S. law, in practice European labor unions are much more politically powerful than U.S. unions, and this "right" is in general much broader in Europe than in the U.S.; for example U.S. law recognized a right by states to confer on workers to refrain from union membership and representation if they so choose; there is no such recognition in European law.

"The effective abolition of child labor."

- The ILO convention on child labor calls for the near-total abolition of employment by any "child," without defining that term. There is no exemption from this for children working on their family's farms, which is one of the obstacles to the U.S. ratifying the ILO convention on child labor.
- "The elimination of discrimination in respect of employment and occupation."
- Discrimination can be used very broadly; it could mean firing for cause someone with a substance abuse problem who refuses to seek treatment. Adhering to this principle as the Europeans define it could significantly narrow employers' ability to manage their workforces.

PREPARED STATEMENT OF WILLIAM H. LASH, III[1]

Good morning Mr. Chairman and members of the committee. My name is William H. Lash, III and I am Professor of Law and Director of International Business Law Programs at George Mason University School of Law and Distinguished Senior Fellow of the Center for the Study of American Business, Washington University, St. Louis, Missouri.[2]

I am delighted to join you to discuss the inter-relation of international trade with labor and the environment. For nearly a decade, these mutually compatible issues have been viewed as an either/or proposition. Some environmental and labor activists have joined in a coalition to use the carrot of trade privileges or the stick of trade sanctions as the carrier for their agenda.

Trade is the most potent force for promoting environmental quality and labor rights. But this force must be used in a spirit of cooperation, not coercion. Instead of utilizing trade as a hammer to achieve labor or environmental goals, we should strive to further liberalize trade. Trade is the engine for improving the quality of life around the globe. By allowing goods and services to flow freely across borders, we will export opportunities and hope. When firms export into developing states, they transfer technology, best practices and new higher standards. The only impetus for these voluntary transfers is the marketplace. Most U.S. multinational companies adopt worldwide environmental standards at their facilities regardless of where they are located. A U.S. Government interagency task force study released by the USTR determined that "U.S. firms, particularly the larger multinational firms most likely to undertake large process industry investments, often hold subsidiaries to a worldwide standard, usually at least as high as standards with which they must comply in the U.S." For example, Ford has long maintained a policy of applying U.S. environmental practices in its automobile manufacturing plants abroad.[3] It is simply more efficient to use the same environmental standards globally.

U.S. firms do more than export standards, they make investments in the environmental quality of the host state. For example, Texaco has constructed artificial reefs off the northern shore of Colombia. This innovation has led to more sustainable fishing techniques being adopted by Colombian fishermen. Similarly, Chevron has been funding the development of sustainable industries in Papua New Guinea.

U.S. businesses have an equally impressive record for promoting human and labor rights overseas. Companies like Exxon and Freeport-McMoran have voluntarily established, educational opportunities and economic sustainable development projects for communities in Latin America and Irian Jaya, Indonesia. These programs are designed to transfer the spirit of capitalism and needed business acumen to the host country. The transfers are done because the firm recognizes that they need to invest in human capital to get productive workers and be a responsible corporate citizen.

Improved environmental quality is a proven benefit of free markets. A wealthier country will have more resources available for environmental protection. A dedicated environmentalist, President Clinton has recognized that "only a prosperous society can have the confidence and the means to protect its environment." [4] Leading economic studies substantiate this assertion. According to a report by Gene Grossman and Alan Krueger, a nation's environmental quality improves after it reaches an annual per capita income of \$4,000 to \$5,000. This study by Princeton University and the National Bureau of Economic Research analyzed air pollution in urban areas of 42 nations. Unsurprisingly, Grossman and Krueger demonstrate that pollution is directly correlated to low per capita income. An agenda which promotes free trade will produce a world which is more prosperous and more environmentally sound.[5]

No country wants to have dirty water and polluted air. Boosted industrial revenues from free trade will increase global prosperity and the amount of funds spent to enforce environmental regulations. Without free trade, the U.S. would be unable to transfer technology and help our neighbors grow out of poverty and into an environmentally friendly world.

Assume that the U.S. were to use its trade policy to coerce other states into adopting our labor or environmental standards? The entire trading system would be jeopardized by such a radical proposition. First, the developing states astutely recognize the danger of non-tariff labor and environmental barriers serving as the Trojan horse of protectionism. By conditioning trade on non-market based issues, we would effectively close the door on the worlds' poorest nations and further burden support and consensus for the fragile WTO system. The developing states simply cannot make the leap to our labor or environmental standards and still be competitive in markets less environmentally or socially conscious.

Additionally, this strategy would injure U.S. firms. Competitors in other developed states, free to contract with lower priced labor overseas would be able to manufacture labor intensive goods at lower cost and undercut our firms in markets all over the world.

I do not suggest that we should ignore the conditions of our less developed trading partners. However we should recall that the U.S. was formerly a poor country, with a substantial work force of child labor and low-paid adult workers. U.S. progress in labor and environmental issues were not the result of pressure tactics applied by our more industrialized partners in Europe. Again, economic progress created a stable middle class. This new middle class was able to afford to keep their children in school longer, and make demands for improved environmental and labor quality.

As noted economist Murray Weidenbaum observes, "Intentionally or not, the current-day protectionists would delay the development of the poorer economies and thus deter their adoption of more enlightened labor policies." [6] The hypocrisy of conditioning trade privileges on labor rights is quite striking. In the U.S. many states still use prison labor, and defense contractors are required to make some purchases from the Federal Prison Industries.

Trade provides choices. Before rushing to condition trade on labor conditions, we must examine the alternative facing the third world worker. Poor labor conditions are often the best option when compared with unemployment or criminal activity such as child prostitution or narcotics trafficking. For many, work in a factory, albeit below U.S. standards, is a far better choice.

On a more positive note, we can consider the examples of national economies which, as they grew, adopted improved labor practices. This century has witnessed states such as Japan, South Korea, Taiwan and Singapore move from poverty to wealth. Other states in Southeast Asia are poised to make the same economic leap. Economic progress, fuelled by trade, not economic coercion paved the way for these transformations.

Some environmental and labor activists would like to see an environmental and labor agreement pursued at the WTO or have legislation adopted by the United States. This code would allow states to block imports of goods not produced according to international environmental or labor standards. Punitive tariff sanctions would be imposed to enforce global environmental or labor agreements. Additionally, countervailing duties would be imposed on goods produced in violation of an importing state's environmental standards. Again, we see that the supporters of these proposals would outstretch the capabilities and focus of the WTO and attempt to transmogrify it into a global environmental/labor watchdog.

These proposals fail to recognize the purposes and limitations of the WTO and U.S. trade policy. The WTO was formed to remove trade barriers. After the GATT spent years focusing on tariff barriers, the new WTO has expanded its scope to address issues such as investment, services, intellectual property, and government procurement. [7]

Rules on international trade are highly developed, reflecting nearly 50 years of GATT/WTO negotiations. In the multilateral trading system, the environmental/labor debate is a new factor to be assessed. There is a genuine threat that these issues may be abused and transformed into a new series of trade barriers. It is an all too addictive habit to reach for trade sanctions to impose U.S. standards upon other states. Denying access to the U.S. market because of our environmental or labor values opens the floodgates to a host of "morality driven trade restrictions," jeopardizing the multilateral trading framework and subjecting us to violations of the WTO. [8]

Imposing environmental and labor standards on other nations also poses a threat to harmonious foreign relations with our trading partners. As we have seen in the United States, no single word in the trade debate is as highly charged as the word sovereignty. By conditioning international trade on environmental and labor issues, we implicitly impinge on the sovereignty of our trading partners. The production of goods is most properly the business of the state producing those goods. By linking trade of these goods to a states' environmental/labor standards, we needlessly intrude upon their sovereign laws, with no benefit to U.S. consumers

Additionally, we must be mindful that trade is a two-way street and sanctions a two-edged sword. No country, including the United States is in complete compliance with all of its environmental or labor laws. In some cases, the environmental or labor standards of our trading partners may exceed our own. Will we be so eager to condition trade with environmental or labor standards when United States' firms are denied market access or threatened with sanctions?

For example, environmental labeling or "eco-labeling" is popular in the European Union. To qualify for newer EU eco-labels, firms will have to agree to cut chlorine and sulphur emissions and curtail energy consumption during the production process. Additionally, the paper products industry will have to demonstrate that the paper came from environmentally sound forestry practices, maintain bio diverse forests and reduce water effluent levels.

United States producers claim no United States firm can currently meet these standards. According to Jack Creighton, CEO of Weyerhaeuser, the new EU eco-labeling "In its present form, could threaten \$2 billion worth of U.S. pulp and paper exports."^[9] This potential loss of exports would result in a loss of 34,000 American jobs.

Mandatory eco-labeling could create a pernicious new trade barrier. For example, eco-labeling assumes that there is a harmonized global standard of production. Many products have a variety of production processes which vary with the state of origin. If there is no accepted global standard of production, there is a very real concern that developed states, the advocates of eco-labeling, will use this standard to exclude from the market competing products from developing states.

Additionally, conditioning trade on environmental or labor standards erodes the basic doctrine of comparative advantage. For example, assume that two states are both producing steel. The industrialized western state may utilize hydroelectricity or another "more environmentally friendly" method of producing energy. Steel producers in developing states may be using coal or another source of energy that is considered to have a "heavy environmental footprint." Conditioning trade on environmental policies would require both states to disclose methods of production, and have the developing state run the risk of having its product banned by western importing states.

Developing states, in general, have made it clear that they oppose any attempt to move towards global standards. If global environmental labeling is required, who will determine the standards? The WTO is primarily a trade forum and lacks expertise in assessing environmental or labor standards. Relying on non-governmental organizations (NGOs) such as Greenpeace to set standards would also thwart global trade. Governments and environmental NGOs that do not have trade as a primary emphasis are unlikely to take a balanced perspective when evaluating trade and the environment.

Economic development, promoted by freer trade, generates the ability and willingness of nations to devote more resources to improving both the environment and labor conditions. Therefore, the linkage of trade policy with labor and environmental issues should occur as a positive outgrowth of free trade and economic growth.

ENDNOTES

- [1] Professor of Law, George Mason University, Arlington, Va. Distinguished Senior Fellow, Center For the Study of American Business, Washington University, St. Louis, Mo.
- [2] My comments reflect my own views, and not necessarily the views of either George Mason University or Washington University.
- [3] "Review of U.S.-Mexico Environmental Issues," Office of the United States Trade Representative, October 1991, at 195
- [4] Timothy O'Leary, "Development can help Environment," Dallas Morning News, May 28, 1993.
- [5] Gene Grossman, "In Poor Regions, Environmental Law . . .," New York Times, March 1, 1992.
- [6] Murray Weidenbaum, "In Defense of Sweatshops," Investor's Business Daily, February 11, 1997.
- [7] See William H. Lash, III, "U.S. International Trade Regulation," AEI Press, 1998, pp. 20-22.
- [8] Jagdish Bhagwati, "Environmentalists Against GATT," Wall Street Journal, March 19, 1993 p. A13.
- [9] Rob Tucker, "Industry Chief Decries Eco-Label," News Tribune, June 20, 1995, p. E1.

PREPARED STATEMENT OF HON. TRENT LOTT

[JANUARY 26, 1999]

Mr. Chairman, I want to thank you for holding these hearings, and to commend you for your efforts to build consensus around a new trade agenda and a renewed commitment to open markets and expanded trade.

We all know that this is a key year for trade issues—both domestically and in the world community. In November, we will host the World Trade Organization's third ministerial conference in Seattle. This conference will in large part set the table for trade negotiations in the new millennium.

We have a simple choice before us. We can enter this crucial negotiation from a position of strength and cohesion—or from a position of disarray and weakness. The choice we make will have real consequences, both for the direction of the world trading community and the economic welfare of our country. I know the choice that I want to make, and I hope these hearings will serve as a big first step toward a unified national agenda on trade.

Providing the President with trade negotiating authority is in my view a key part of that agenda. But it is not the only part. We need to continue to work on other measures, including the Caribbean Basin Initiative and the implementing legislation for the OECD shipbuilding agreement. Hopefully, we can move quickly in these areas and lay the groundwork for more widening trade achievements this year.

We must also not lose sight of the challenges facing the world trading system. One major concern is the effectiveness of the WTO dispute resolution system—a system that was widely touted as a central achievement of the Uruguay Round negotiations. Recent experience has called into question the ability of victorious parties to gain any timely or meaningful relief from WTO decisions. This fundamental problem threatens to undermine the entire trading system and demands swift resolution.

The distinguished witnesses before us today will play a central role in addressing these challenges. I believe it is imperative that the Administration's stated commitment to expanded trade be followed by concrete and specific steps to build a greater consensus in this area. Without such an effort, I fear that we will continue down a path of indecision and inaction—a result that will cost us dearly as we move into a new millennium.

Mr. Chairman, I thank you.

PREPARED STATEMENT OF HON. DANIEL PATRICK MOYNIHAN

[JANUARY 26, 1999]

The President made the comment in his State of the Union address, one week ago, that "trade has divided us"—meaning Members of Congress—"and divided Americans . . . for too long." He is right. He urged that we "find a common ground." And so you are trying to do, Mr. Chairman, with this series of hearings. It is a monumental task. Regrettably, prospects for rebuilding a consensus in support of an open trading system are bleak.

The rejection of the fast track legislation in the House last fall—180 in support, 243 opposed—gives some indication of the magnitude of the problem. It has been nearly five years since the fast track authority lapsed—on April 15, 1994, at the conclusion of the Uruguay Round. I fear that we have made very little headway in building support for the legislation, or, more distressing, for the underlying trade policies that have guided this nation since Cordell Hull persuaded the Congress in 1934 to reverse a century of economic protectionism and embrace his Reciprocal Trade Agreements program. That legislation passed both houses by very comfortable margins: 274–111 in the House and 57–33 in the Senate. Margins that might yet be achievable today in the Senate: the vote on November 5, 1997 on the Senate floor to proceed with the fast track legislation was a comfortable 68 to 31. But a like outcome is unlikely in today's House of Representatives.

Our nation is plagued by a generalized anxiety about globalization. Organized labor, which had been a strong supporter of Hull's reciprocal trade agreements program all the way through the time of the Kennedy Round of GATT negotiations, has withdrawn its support. It is instructive to remember that there was a price for labor's support for the Kennedy Round. First was the negotiation of the Long-Term Cotton Textile Agreement, which I, as an Assistant Secretary of Labor at the time, was directed to negotiate, along with W. Michael Blumenthal, Deputy Assistant Secretary of State and Hickman Price, Jr., an Assistant Secretary of Commerce. It was intended as a five-year program, but lingers still, in the form of the WTO's Agreement on Textiles and Clothing. The second matter was the establishment of the

Trade Adjustment Assistance program to provide training and income support to workers who lost their jobs because of import competition. It was viewed as a fair price to pay for the generalized benefits to the economy of open markets.

Our challenge today is essentially the same: we must find a way to address workers' anxieties. It is in this respect that the International Labor Organization may be helpful. Last June, at the 86th International Labor Conference, the ILO adopted a new Declaration on Fundamental Principles and Rights at Work. It bundles together the core labor standards—freedom of association and collective bargaining, the elimination of forced labor, the effective abolition of child labor, and the elimination of discrimination in respect of employment—and declares that they are essential to membership in the ILO. There is “follow-up” mechanism, a sort of monitoring system, that will determine how countries are complying with these elemental workers' rights.

The President has acknowledged its potential. In his radio address on January 9, the President unveiled a proposal to earmark \$25 million for the ILO to pay for technical assistance to help developing countries adopt and enforce these core labor standards. He referred to it again in his State of the Union address last week. That it could be helpful in the fast track debate is clear: under your leadership, Mr. Chairman, this new ILO initiative was included in the fast track legislation approved by this Committee last July, by a resounding 18 to 2 vote.

On January 19th, I introduced Senate Concurrent Resolution 1, which expresses the support of the Congress for the ILO's Declaration on core labor standards. Much good could come of the Declaration, though it may take years and will take great energy. I am encouraged by the President's statement of support for the ILO, and I hope that the Administration will take this initiative seriously.

PREPARED STATEMENT OF HON. DANIEL PATRICK MOYNIHAN

[JANUARY 27, 1999]

Yesterday, Ambassador Barshefsky outlined the issues that the proposed round of WTO negotiations ought to address, including agriculture and services—where negotiations are already scheduled to begin—and such “newer” issues as anti-competitive practices by private firms (known in the jargon as “competition policy”) and investment policy. I might note that these are not, in fact, new themes for trade negotiations. The draft charter of the International Trade Organization, which was negotiated November 21, 1947 to March 24, 1948 in Havana, Cuba, had addressed these matters in some detail. The ITO Charter was opposed at the time by most of the American business community and ultimately rejected by this Committee. We find ourselves, 50 years later, struggling over the same issues.

I would also note that disputes over agricultural trade are centuries old. England began to restrict grain trade in 1361, with the enactment of the first Corn Laws barring grain exports. In 1815, England prohibited imports of grain until domestic wheat prices reached a specific level. The repeal of the Corn Laws in 1846 (thought to have been prompted by the arrival of low-priced grain from western New York through the Erie Canal to Liverpool) was a definite victory for the United States. We are not so successful today, judging by the sheer volume of agricultural trade disputes with the Europeans.

Now a word on steel. The situation in the market today is unprecedented. Steel imports captured about 37 percent of the U.S. market in November, up sharply from 23 percent one year ago. Never before has demand collapsed to the degree that it has in Asia and in Russia, putting enormous downward pressure on prices and sending millions of tons of steel in search of a market. There is strong evidence that much of that steel is being dumped in the United States. The Department of Commerce has just released data showing that the average price of hot-rolled strip from Japan in the January–November 1998 period was 76 percent lower than the 1997 average price.

Dumping is a problem that has plagued international trade for more than a century. In the early 1900s, the Japanese dumped cotton yam in the Chinese market. The Americans were then dumping steel—in Britain and Canada. The First World War brought strong evidence of widespread predatory dumping by Germany, and demands in the United States for effective protection. First came the Antidumping Act of 1916, a narrow provision that is still on the books, and then the Antidumping Act of 1921, on which our current law is based. Today, the future of our steel industry may rest on whether our antidumping law will be effective in addressing this unprecedented situation in our steel market. I look forward to hearing our witnesses' recommendations on what ought to be done.

PREPARED STATEMENT OF FRANKLIN D. RAINES

Thank you Mr. Chairman. I am pleased to have the opportunity to testify before you today. I also want to thank you for the leadership you have shown in holding these hearings.

I am the Chairman and CEO of Fannie Mae, the largest investor in residential housing in the nation. Although originally founded by the Federal Government, last year we celebrated our 30th anniversary as a company owned by private shareholders. We continue to be regulated by federal agencies and to operate under a federal charter that requires us to create and promote a secondary market in residential mortgages. That means that we don't originate mortgages, but we make sure that lenders have the money so that they can make loans. Fannie Mae is in the business of expanding homeownership and affordable rental housing in America.

The members of this Committee are well aware of the importance of homeownership to American families. Homeownership remains the American Dream. It is still the greatest generator of wealth for most families. And it is the bedrock of the middle class. Housing is an important part of the economy as well. Over 21 percent of private consumption in the United States is related to housing.

That means 21 cents of every dollar spent by American consumers goes toward housing their families. Compare that to the 15 cents spent for medical care, 14 cents for food, and 5 cents of each dollar spent on motor vehicles. Clearly, housing must be at the forefront of your thinking when you consider the interests of American consumers.

I am here today to make the case that open capital markets are important to the average American family because without access to international capital the cost of housing in the United States would go up, and the opportunity for homeownership would go down.

As I mentioned, our job at Fannie Mae is to promote the functioning of the secondary market for residential mortgages by increasing the liquidity of mortgage investments and by improving the distribution of investment capital available for residential mortgage financing. We provide stability in the secondary market and work closely with the international capital markets. Fannie Mae is the nation's largest supplier of home mortgage funds. In the 1990s we have supplied more than \$1.9 trillion in mortgage financing, helping more than 21 million American families own their own home. Today, Fannie Mae finances one out of every four homes in America. Due in part to our efforts, the homeownership rate has hit an all-time high of 66.8 percent.

We raise the money to buy these mortgages by borrowing from the domestic and global capital markets, and by issuing mortgage-backed securities in those markets. Today, Fannie Mae is one of the nation's largest issuers of debt.

Foreign investors have been important purchasers of Fannie Mae debt. Of the \$147 billion we raised from issuing long-term debt last year, 30 percent—or \$44 billion—came from overseas investors, including foreign central banks. In other words, foreign countries and other overseas financial institutions invested \$44 billion in the American housing market in one year just through us.

Last year, Fannie Mae responded to a greater demand for high quality debt by issuing our landmark Benchmark Notes—large denomination, non-callable debt issues of terms ranging from three to ten years. Over the year, we issued eight Benchmark Notes and had seven re-openings of previous issues, for a total of more than \$42 billion.

They were very popular with foreign investors, who saw their credit quality, liquidity and attractive spread and bought more than \$18 billion worth—44 percent of the total issuance. In turn, the Benchmarks Notes helped to give us uninterrupted access to global capital markets.

When foreign investors buy Fannie Mae debt, they are making an investment in new home construction and jobs. They are investing in our neighborhoods and communities.

They are helping to finance the American dream of homeownership. And they are helping Fannie Mae hold down the cost of homeownership in America, and extend it to more families.

Without open capital markets, Fannie Mae would have to rely far more on U.S. debt investors to finance homes. In response, the domestic interest rates would rise and home buyers would pay more each month and many would be prevented from buying a home at all. So it's clear to me: Anything that jeopardizes open capital markets, in effect, could impose a burden on homeownership for American families.

Let me reiterate: Fannie Mae's ability to ensure liquidity in the mortgage finance system for average Americans depends on our ability to raise overseas capital through open markets. We used to say Fannie Mae was the link between Wall

Street to Main Street. For home buyers today, however, Fannie Mae is a crucial link between Main Street and Wall Street and financial corridors from Beijing to Frankfurt.

Last fall, we saw just how crucial this link is. In fact, the financial crisis last fall is the best illustration I've ever seen of how our access to open capital markets saves home-buying consumers money.

It began with a confluence of events, including the year-long slump in Asian markets, Russia's Black Thursday and the multibillion-dollar hedge fund bailout. The resulting turmoil in world financial markets led to a sudden, dramatic and widespread shortage of credit capital. This credit crunch hit many sectors of the U.S. economy and the world as investors simply stopped buying all but the safest, highest-quality debt. In a short time, major corporations, hedge funds and even foreign governments had to scramble for capital, and then they had to pay a premium for it.

In fact, the credit crunch hit parts of mortgage finance hard. Two of the nation's most aggressive commercial mortgage originators halted lending. One lender in Dallas cancelled \$400 million in planned loans to developers. Lenders in the subprime and commercial mortgage markets—and their consumers—were squeezed out. And lenders in the jumbo market saw their spreads to Treasuries widen to recession levels.

But the largest group of home buyers was not affected by the credit crunch—those served by Fannie Mae. They never felt the credit crunch. Chances are they didn't even know it was happening, because their mortgage approvals and interest rates went virtually unaffected by the global turmoil. In fact, even in the depths of the credit shortage last fall, our home buyers could still get a 30-year, fixed-rate mortgage for less than 7 percent—the lowest mortgage interest rates since the sixties.

That is because Fannie Mae was able to continue raising capital and adding liquidity to our housing finance market. In October alone, as the credit shortage deepened, Fannie Mae was still able to issue about \$12.5 billion in long-term debt, and we committed to buy more than \$30 billion in mortgages.

We could do that because Fannie Mae debt was seen as a safe haven, particularly overseas. More than three dozen central banks were already approved to buy our securities, and they are some of the most conservative investors in the world. When foreign investors looked at Fannie Mae, they saw our Triple A credit rating and our strong reputation in the market. In addition, they had also seen us. Over the past several years, Fannie Mae executives traveled overseas to meet face to face with foreign investors, to build up personal relationships, and to build trust and confidence in our company and in our debt instruments.

So last fall when most foreign investors stopped buying corporate paper or commercial mortgages, they kept on buying Fannie Mae debt. When people looked for a safe investment, they looked to Fannie Mae. And American home-buying consumers were the beneficiaries.

Our ability to buy mortgages during the credit crunch saved consumers significant money. In fact, as the credit crunch forced up interest rates on jumbo loans, the spread between Fannie Mae and jumbo loan rates jumped from 23 to 49 basis points. That means that a Fannie Mae-backed mortgage saved our home buyers up to \$26,500 over the life of the loan.

By keeping the credit crunch from affecting average home buyers, Fannie Mae served as a force for stability in an unstable financial world. That goes precisely to our mission—to provide stability and liquidity in the secondary market for residential mortgages. But we cannot assure the flow of capital if we do not have access to capital. Our ability to attract overseas capital and pump liquidity into the home-buying market—which is especially crucial in times of global financial turmoil—depends upon open credit markets.

When foreign investors buy Fannie Mae debt, what they're actually doing is investing in the American housing industry. As I previously noted, housing represents more than 21 percent of annual consumption in the U.S.

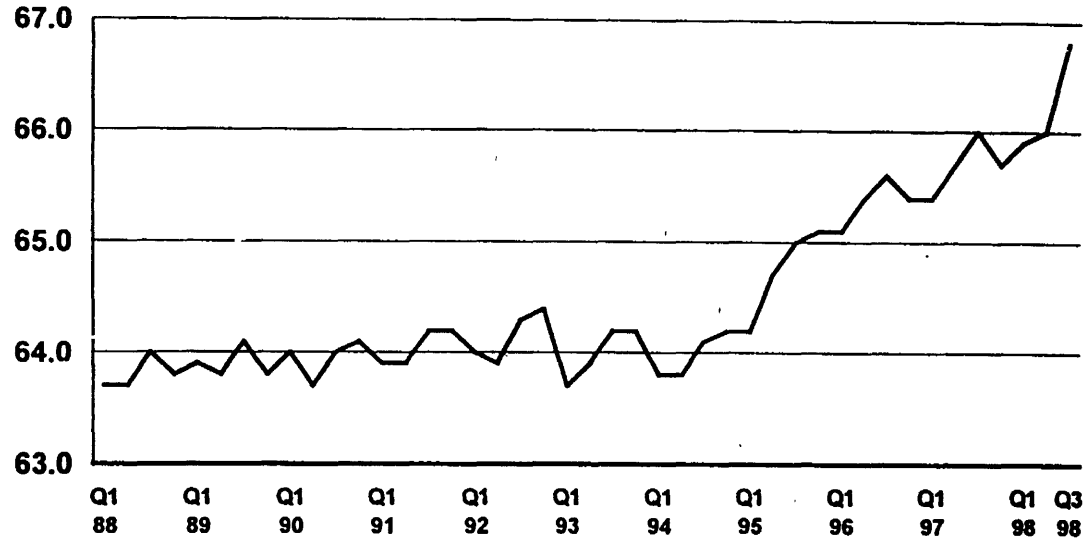
Home builders will tell you that access to the global capital markets is crucial to their bottom lines. Realtors will tell you how home sales depend on reliable sources of home loans. Bankers will tell you how important the housing asset is to family balance sheets. And mayors will tell you how important homeowners are to viable neighborhoods and communities.

Open international markets in financial services are now as important to homeownership in America as that little savings and loan was to the town of Bedford Falls in the movie, *It's a Wonderful Life*. Without access to international markets we could not do our job for American consumers.

Thank you for this opportunity to address the Committee on this important issue.

U.S. Homeownership Rate 1988-1998

Percent



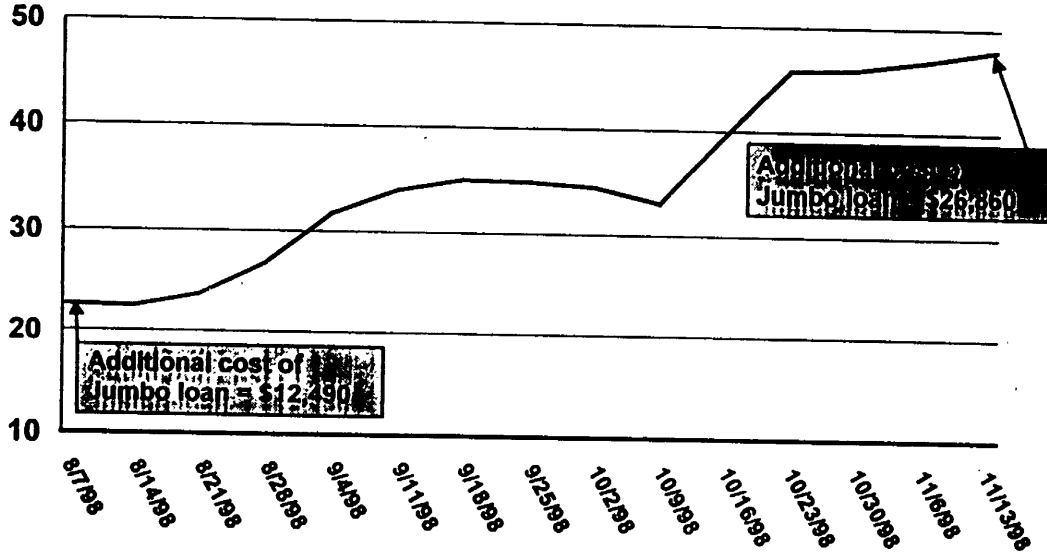
Source: U.S. Bureau of Census
Fannie Mae



Spread Between Conforming Fixed-Rate Mortgages and Jumbo Fixed-Rate Mortgages

August-November 1998

Basis Points

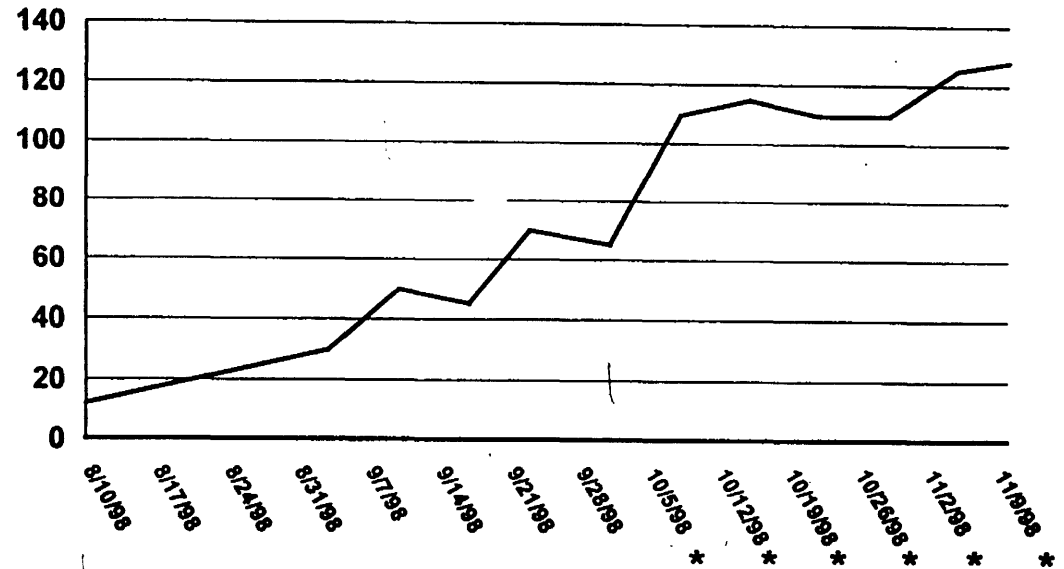


Note: Fannie Mae's loan limit is \$227,160. This chart shows the additional interest rate and dollar cost over the life of the loan a borrower in the Jumbo market would pay.



Spread Between Fannie Mae's Multifamily Loans and Conduits Posted Multifamily Note Rates August-November 1998

Basis Points



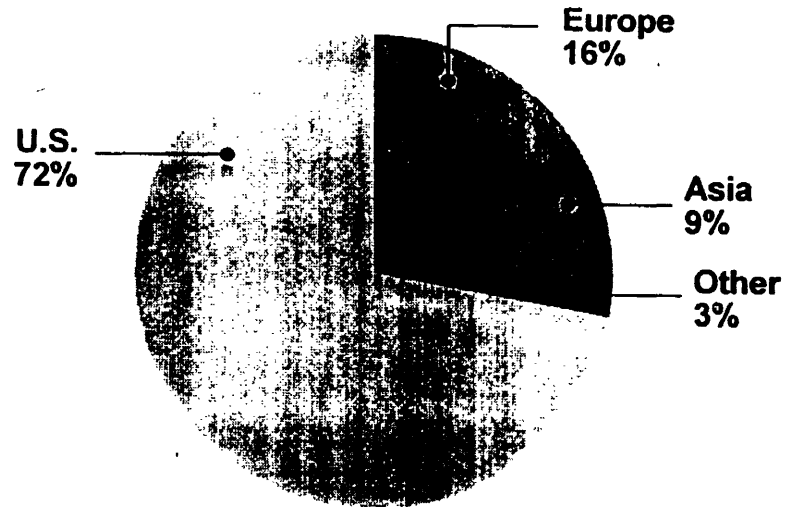
* These are posted Conduit Rates; many Conduits are not actively originating loans on those terms -- because they have ceased lending in this market.



Source of Funding for Fannie Mae's Mortgage Portfolio

January-September 1998

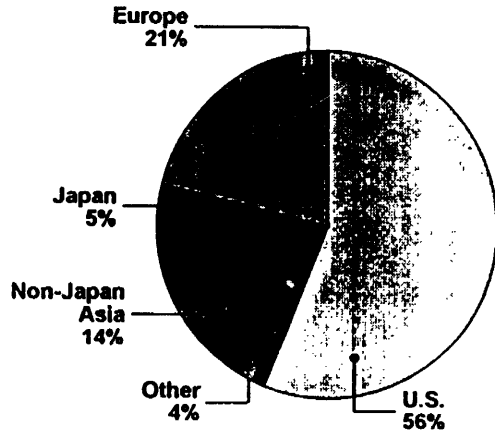
Long-Term Debt



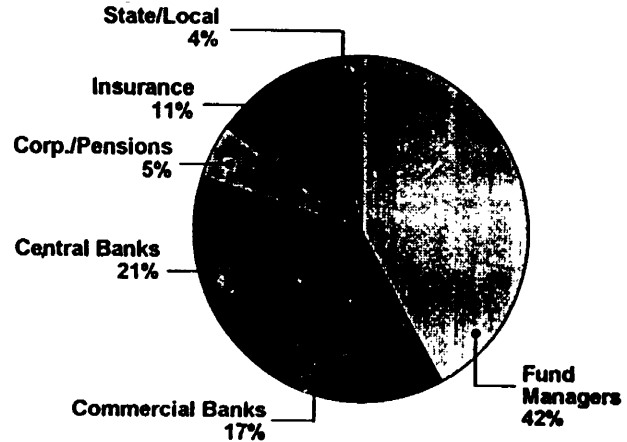
 **FannieMae.**

Aggregate Distribution of Fannie Mae's Benchmark Notes

By Region



By Investor Type



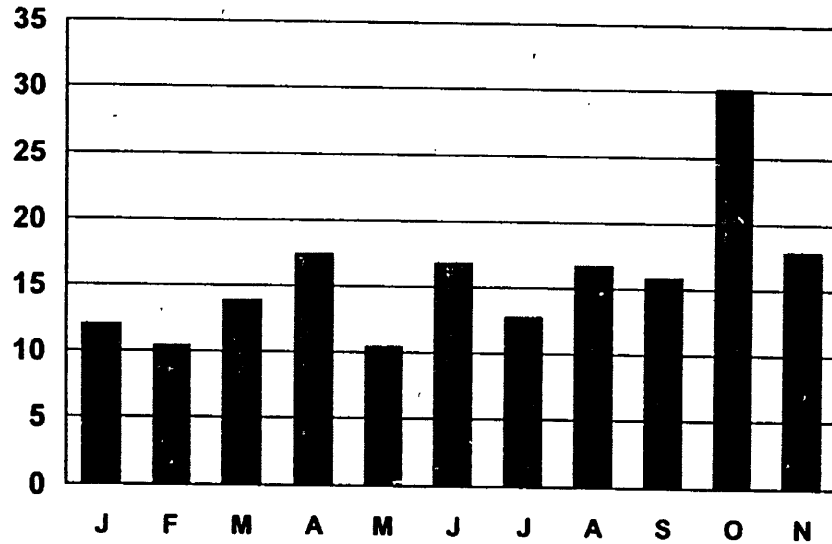
Source: Fannie Mae

Note: As of December 1, 1998, Fannie Mae had issued eight Benchmark Notes and seven reopenings for a total of \$42.25 billion.



Retained Commitments - 1998

\$Billions



Source: Fannie Mae



PREPARED STATEMENT OF RICHARD K. RIEDERER

Good morning Senator Roth and Senator Rockefeller and other distinguished members of the Finance Committee. Thank you for the opportunity to present the views of Weirton Steel Corporation and our 4,864 employees on the severity of the impact of the global economic crisis on Weirton Steel. At today's hearing, I will also outline solutions or at least an amelioration of the impact of this dramatic surge of steel imports on the U.S. industry.

The impact of this surge of enormous volumes of steel imports at prices which significantly undersell U.S. producers has had dramatic negative consequences on Weirton, our workers and the community. As a direct result of this crisis, we have laid off approximately 1,000 production and maintenance union steel workers or 20% of our work force and 37 office and clerical workers. The rest of our workforce has suffered significant cutbacks in hours which has reduced their paychecks by at least 25%. Due to an evaporation of our order book, we were forced to shut down one of our two operating blast furnaces in December 1998, cutting our effective capacity by 30% and costing us millions of dollars. Due to the lost volume and lower prices caused by imports, our company reported pretax losses of \$16.3 million dollars in the fourth quarter of 1998. I regret to say that our projections for the first quarter of 1999 are looking no better.

While Weirton has reduced its workforce from over 9,000 in 1984 to the present 4,864, these reductions were made because substantial investments in capital equipment, over \$1 billion dollars, allowed us to increase productivity and efficiency. Even during the recession of 1991 and 1992, Weirton was not forced to lay off personnel because of inadequate orders to maintain production. Senators, Weirton has become an extremely efficient steel mill. We are now close to one man hour per ton for the production of hot-rolled sheet. Thus, our labor costs for producing steel is far less than the cost of freight for our foreign competitors. The products we use to make steel, iron ore, coal, coke, ferrosilicons are all essentially commodity products selling in U.S. dollar terms for the same prices throughout the world. The only production factor which differs significantly from country to country is the cost of energy, and the U.S. generally has the lowest energy cost in the world. So how can foreign producers sell products in our market for more than \$50 a ton below our production cost? The answer is by trading unfairly.

While steel is a prime example of an industry battered by the world financial crisis, the over \$20 billion dollars per month deficit in merchandise trade shows that the entire U.S. manufacturing sector is being adversely impacted. After an article on Weirton appeared in a recent issue of Business Week, I received calls from old friends who are executives at companies that produce machine tools and cookware, respectively. They told me their companies are also suffering from import surges. If misery loves company, I at least momentarily felt better.

Steel imports, all of which significantly undersold U.S. producers, took over one-third of the U.S. market for the months of July through November. In 1998, the U.S. will import over 40 million tons of steel. That is mind boggling. Since I testified before the Senate Steel Caucus two months ago, we have learned that over 8 million tons of steel were imported in October and November. That is more finished steel than the U.S. industry will produce in January. We know the causes of the dramatic steel import surge in the United States and there is obviously some effort to address those root causes over a long period of time. However, it is clear to us that the President's plan submitted on January 7, 1999 is entirely inadequate to provide relief to the U.S. steel industry from problems the industry did not cause. I would like to highlight our company's views on the President's report.

While the introduction to the President's report recognizes that there has been "a steep drop in demand for steel in the countries affected by the economic crisis, which over the last decade experienced a sharp increase in steel production and consumption . . ." The report fundamentally fails to present a comprehensive, global response to a global problem. Instead of addressing the fact that over 50% of the world's current steel capacity is in countries which are either in recession or depression, the report's proposed solution to the steel import crisis is a proposed rollback in imports from Japan, virtually nothing with regard to Korea, and a proposal that would actually result in an increase in imports from Russia beyond levels that would occur without excessive interference by the Administration in the trade law process. While only approximately a quarter of the import surge came from countries other than Japan, Korea, and Russia, the threat of a future massive surge in imports from these countries as unfair trade duties are imposed against hot-rolled sheet from Japan and Russia is very real. While the report acknowledges the declines in U.S. steel shipments, capacity utilization, and employment, it fails to also

mention the recent bankruptcies that have occurred over the past 6 months in the steel industry.

While the program outlines bilateral efforts with three countries, Japan, Russia and Korea, each bilateral plan is problematic at best. The Administration plan focuses on a return to 1997 levels for Japanese imports in 1999. However, the plan refers to steel exports rather than exports of specific steel products by Japan. With the filing of the case on hot-rolled sheet by the industry in September, it is likely that 1999 hot-rolled sheet exports from Japan will be zero. This compares to 500,000 tons of hot-rolled sheet imports in 1997, which quadrupled to at least 2,000,000 tons in 1998. However, monitoring steel imports from Japan on a total steel product basis would allow the Japanese to increase exports of other products by 500,000 tons in 1999 and still be at 1997 levels. It is important that the Administration curb surges in other flat-rolled steel products from Japan, structurals and pipe and tube.

The Administration's recent proposal to limit steel imports from Russia through suspension agreements is not a proposal to benefit the U.S. industry, but rather a proposal to benefit the Russian industry and U.S. foreign policy. Because Russia has the least efficient steel industry in the world, regardless of exchange rate movements, Russian steel sales into the U.S. are at dumped prices. The dumping margins found in the 1997 cases on cut-to-length plate from Russia ranged from 54 to 185%. The petitioners in the hot-rolled case expect margins in the same range. Therefore, the imposition of antidumping duties would ensure that only fairly traded Russian imports could be sold in the U.S. By contrast, a quantitative restriction with a minimum price that is still a dumped price would allow the Russians to continue dumping into the U.S. market at the expense of the U.S. industry. For this reason, all twelve domestic producers and the two labor unions oppose suspension agreements with Russia.

The proposed discussions with Korea did not even include a return of Korean imports to pre-crisis levels. Imports from Korea have more than doubled during the crisis. This is in spite of the fact that a major Korean production facility, Hanbo Steel, was shut down in June 1998. However, in spite of a 12 million ton decrease in domestic steel demand in Korea, POSCO has only reportedly cut production by 1 to 2 million tons. They have significantly increased their exports to the United States, both directly and indirectly through sales to re-rollers and pipe and tube converters. The Administration's proposal does not include any actions that would inhibit the dramatic surge in imports from Korea. In fact, much of the past Korean government unfair trade practices that led to the rapid growth of the Korean industry and of their exports to the United States seem to have continued. Recently, Korean steel producer, Dongkuk purchased a 1.5 million ton plate mill from Mexico with funding assistance from the Korean Development Bank and the Korean Housing Bank, two government owned entities. Unfortunately, despite restrictions in the IMF agreement, financing of the Korean industry, other than POSCO, still is done almost exclusively by Korean government owned banks, whether or not the steel companies receiving loans are uncreditworthy.

Weirton and the U.S. steel industry are suffering extreme pain because governments and businessmen in Asia engaged in crony capitalism which caused a debt crisis that has led to deep recessions and a dramatic curtailment of steel demand in those countries. Weirton and other U.S. steel producers are suffering extreme pain because Russia, despite their intentions, was never able to make a successful transition to a market economy. Failure to do so, resulted in an 80% decline in domestic steel consumption in Russia, which created the need for Russian mills to export as much as two-thirds of their production, and a recent focus on the U.S. market after steel demand in Asia, their number one export market, virtually disappeared. Weirton and the rest of the steel industry are suffering extreme pain because the government of Brazil has not been able to curtail runaway government spending, a tremendous hike in domestic interest rates, a dramatic devaluation, a consequent dramatic decline in domestic steel demand and recessions in Brazil and its immediate neighbors in South America. In each case, the IMF, the U.S. government and American taxpayers have stepped in to give aid to these countries in the hope of restoring stability and preventing world financial collapse. The U.S. steel industry has received no such aid. U.S. farmers, who have seen farm prices plummet because of a steep drop in exports to Asia have received billions of dollars of additional government aid in the last budget and are now the beneficiaries of \$600 million dollars of government purchases of farm products for food aid to Russia. The U.S. steel industry has received no such aid.

Weirton, our Independent Steelworkers Union (ISU), eleven other producers and the United Steel Workers (USW) filed antidumping cases against hot-rolled sheet from three countries. Our counsel are working on many more cases on other products against additional countries. However, it is clear given the structural imbalance

between steel supply and demand in virtually every continent of the world except North America at the present time, currently estimated at over 100 million tons of excess capacity, that we will face surges of imports from country after country as the trading companies search out new sources of steel. We are also seeing both the Russian and Japanese shift into other flat-rolled products. Just last week, we learned that a valued tin mill customer shifted 1999 requirements for one of their plants to a Japanese supplier. We strongly believe that the only remedy to this problem will be a global solution.

We know that Section 201, the so-called "escape clause or safeguard provisions" would allow the ITC to recommend to the President higher tariffs or a global quota if the ITC found the industry was seriously injured. You are the committee that wrote these laws in the Trade Act of 1974. We can read the explicit language and the definition of serious injury as defined by the Senate Finance and Ways and Means Committees. But we don't know what the ITC considers to be serious injury. At the present time, this industry is operating at less than 75% of its capacity, compared to over 90% at this time last year. Despite a robust economy with increasing steel demand, steel production is down 17% so far this year. Domestic prices have fallen by over 25%, falling from prices that allowed decent profits, to prices that will insure significant losses. Over 10,000 workers are on layoff. The entire industry is being forced to curtail its capital expenditures and is unable to access the credit markets. Senators, to those of us in the steel industry, this crisis is well beyond serious injury. We know that the Finance Committee writes the laws, it conducts hearings and confirms the members of the International Trade Commission, and it has the power to request Section 201 investigations. Weirton would welcome the opportunity to discuss with members of the Finance Committee and your staffs a request for a 201 investigation by the Finance Committee in the major product lines produced by the U.S. steel industry. Our goal would be to obtain a recommendation to the President for global quotas to return steel imports to pre-crisis levels. The steel industry needs immediate relief from this crisis, until the broad policies being pursued by the Treasury Department and the IMF, using taxpayer dollars, returns the economies in these other steel producing countries to a level of growth that will allow steel demand in those countries to increase and remove the need for the U.S. steel market to support their industries.

I also understand that the Committee will consider changes to the trade laws that will improve enforcement and effectiveness. As someone who has recently had to focus on trade law relief for our company, I have encountered a number of frustrations. Among the areas in which I hope the Committee will focus its attention are the distribution of collected duties to the injured companies, tightening circumvention rules, changing cumulation rules, making the prohibition against reimbursement effective, and fixing again the captive consumption issue. Our trade counsel is an expert in this field and would be happy to supply technical details to the Committee's and Senator's professional staff.

In closing, the Senate Finance Committee should develop an aid program for the U.S. steel industry. At Weirton Steel, we have curtailed our 1999 capital expenditure program by 60%, in order to conserve cash. I believe the same would be true for most other companies in the U.S. steel industry. If this industry, as capital intensive as any industry in America, has to significantly curtail capital expenditures for a prolonged period, we will quickly change from being the most technologically advanced and most efficient steel industry in the world to being one of the least efficient. There is simply no capital available in terms of debt or equity offerings to the majority of the U.S. steel industry to maintain capital expenditures at a time when the industry is facing significant production curtailments, massive layoffs, and extraordinary losses. The President's tax proposal will not benefit Weirton. Like farmers borrowing to finance the next crop, we need capital to finance the next technology to stay competitive, and we cannot afford to wait until after this crisis is past. I urge you to do something for the industry now before it is too late.

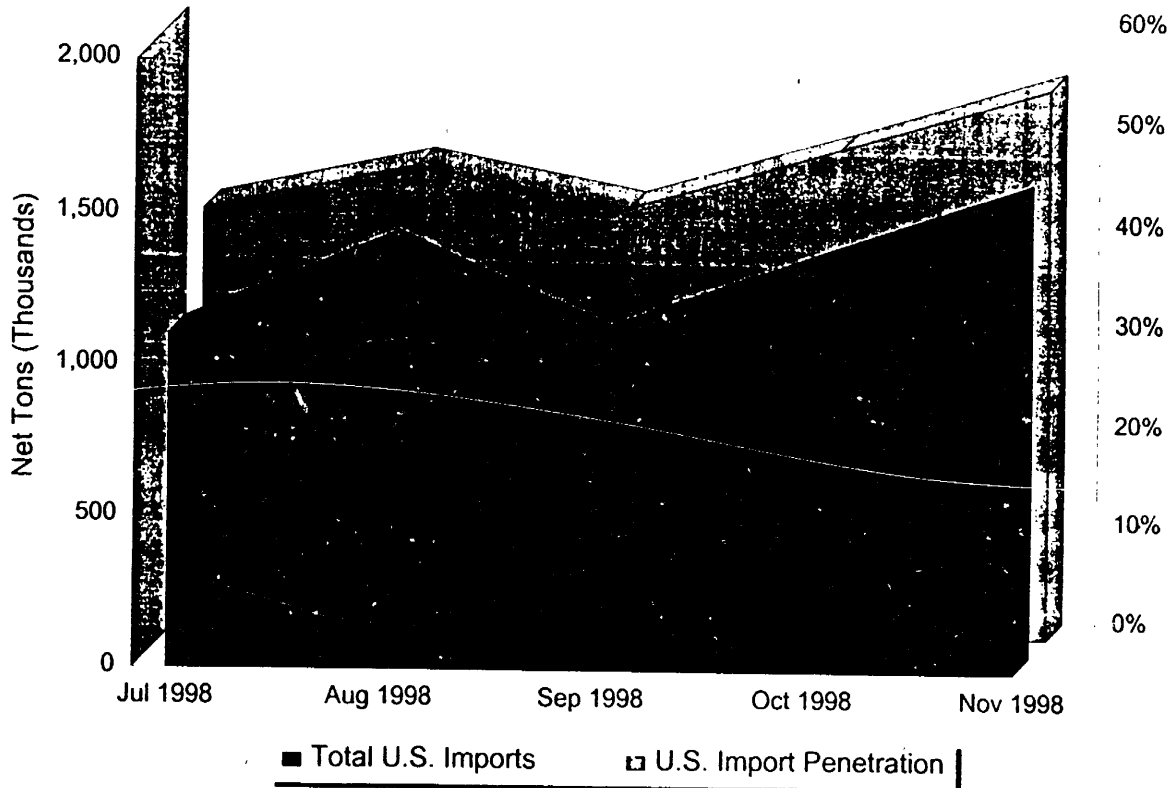
Once again, I thank you for the opportunity to appear today and to discuss with you solutions to this crisis. I would be pleased to answer any questions from the Committee.

HOT-ROLLED CARBON STEEL						
Volume of Imports						
(Net Tons)						
Country of Importation	Jul 1998	Aug 1998	Sep 1998	Oct 1998	Nov 1998	5 Month Total
Japan	288,629	250,474	285,487	354,080	440,844	1,619,513
Russia	420,336	459,368	342,040	480,189	684,430	2,386,363
Ukraine	10,111	25,830	5,955	15,267	39,934	97,087
Brazil	30,300	69,737	30,113	40,426	71,131	241,708
India	6,308	15,254	25,996	29,312	0	76,867
Taiwan	43,249	97,893	4,173	19,006	20,585	184,906
Italy	2,624	31,804	28,114	16,065	28,043	106,650
Australia	0	20,029	0	27,045	17,008	64,082
All Other Imports	307,323	430,564	374,048	365,957	279,568	1,757,460
Total Imports	1,108,878	1,400,952	1,095,928	1,347,348	1,581,543	6,534,646

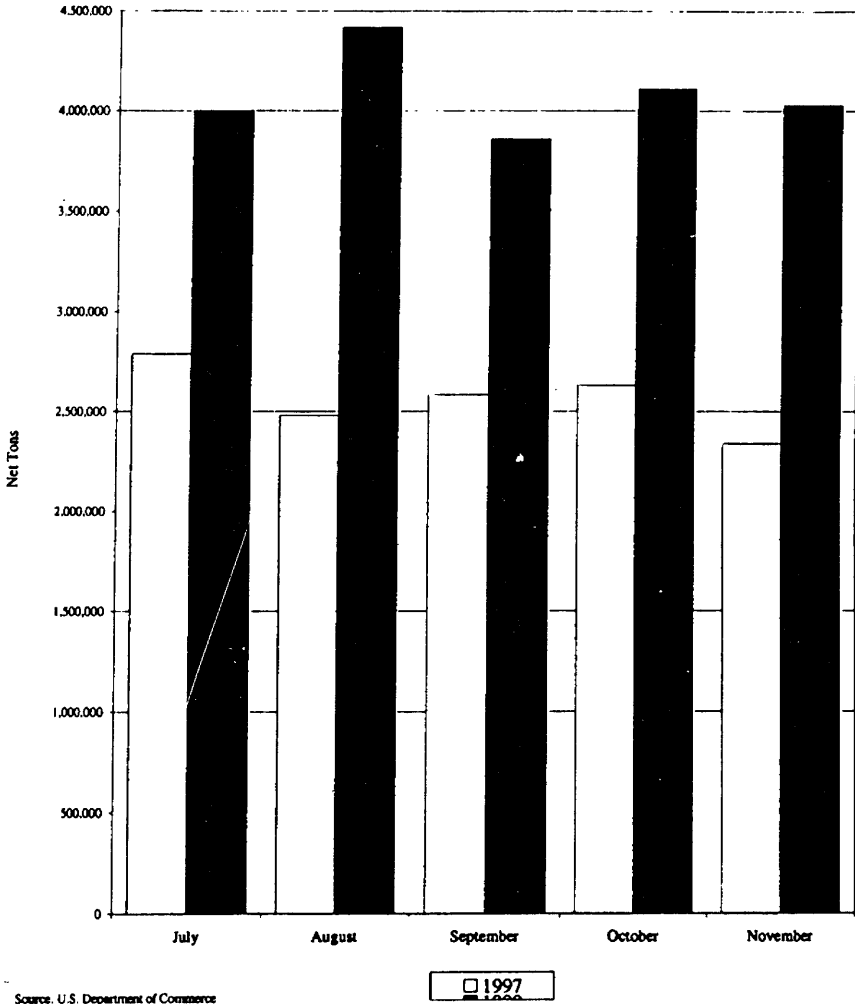
HOT-ROLLED CARBON STEEL						
Unit Values of Imports						
(\$/NT)						
Country of Importation	Jul 1998	Aug 1998	Sep 1998	Oct 1998	Nov 1998	5 Month Average
Japan	\$269	\$247	\$246	\$240	\$230	\$245
Russia	\$224	\$198	\$218	\$205	\$192	\$205
Ukraine	\$200	\$201	\$209	\$191	\$156	\$181
Brazil	\$261	\$260	\$249	\$223	\$262	\$253
India	\$244	\$235	\$240	\$231		\$236
Taiwan	\$257	\$237	\$243	\$222	\$224	\$239
Italy	\$324	\$277	\$249	\$246	\$264	\$263
Australia		\$244		\$223	\$209	\$226
All Other Imports	\$285	\$275	\$267	\$271	\$271	\$274
Total Imports	\$255	\$239	\$244	\$234	\$221	\$237

Source: U.S. Imports of Merchandise (IM145) CD-ROM, U.S. Dept. of Commerce, Bureau of the Census

HOT-ROLLED CARBON STEEL

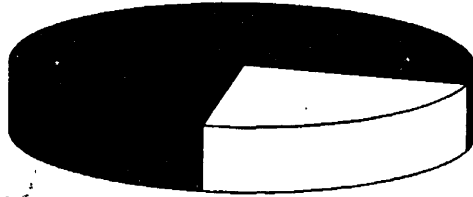


Total Steel Imports Into the U.S.
1998 vs. 1997
(Net Tons)



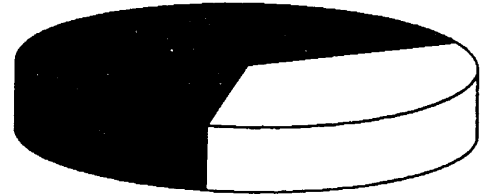
**Steel Import Market Share
as a Percent of U.S. Apparent Supply
(July - November 1998 vs. July - November 1997)**

**Apparent Supply
July - November 1997**



**Imports Market Share
24%**

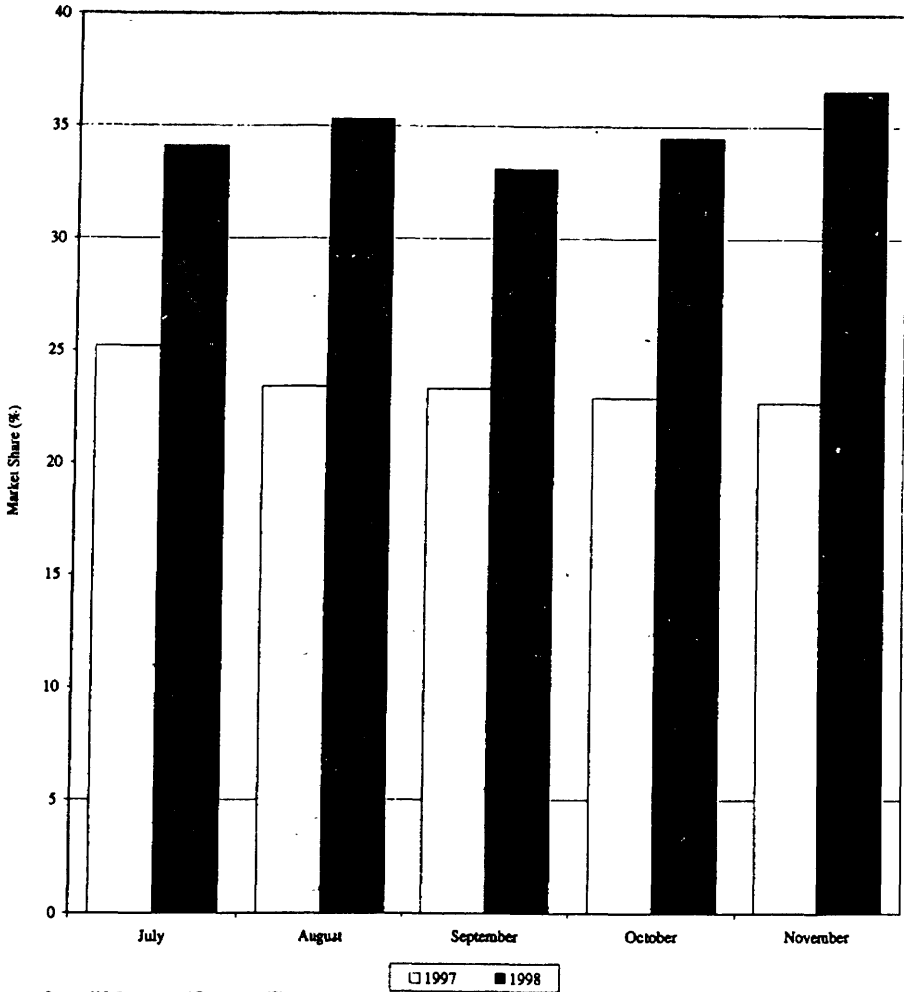
**Apparent Supply
July - November 1998**



**Import Market Share
35%**

Source: U.S. Department of Commerce, AISI

Total U.S. Steel Import Market Share
1998 vs. 1997



Source: U.S. Department of Commerce, AISI

JANUARY 24, 1999

Weirton Steel layoffs affect the entire region, and the job losses may be permanent.

A steel community faces its worst fears

By Cindi Lash
Post-Gazette Staff Writer

WEIRTON, W.V. — She's got a tidy brick ranch home to tend, a bouncy 2-year-old daughter to chase and another baby on the way, so Marie Tasey usually stays busy during the day.

It's the night that she's come to dread.

In the two months since her welder husband and nearly 900 of his colleagues were

laid off from Weirton Steel, Tasey hasn't slept through a single night. Wrecked with worry for her husband, her family and her town, she's spent hours curled into a tight ball on the living room couch while she has wept or stared into the dark.

"I'm an emotional wreck. I'm laughing one minute and bawling my eyes out the next. I sleep for an hour, maybe two, and then my head just snaps up," said Tasey, 32, as she cuddled her daughter, Megan, on

her lap at her kitchen table. Behind her, her husband, Kevin, 33, pattered with the maple cabinets he'd started to refinish just before he was laid off from his job of four years.

"This should be such a happy time, but it's just constant stress. I'm pretty good when my daughter is awake and up, but after she's in bed, I crack," Marie Tasey said. "We joke sometimes that the stress will send me into premature labor, before the benefits are gone. A change like this

knocks you back and your head just spins." She's not alone.

Situated between Route 22 and the Ohio River, in the part of Weirton once known as Holiday's Cove, Weirton Steel's sprawling, four-mile-long plant bisects and dominates this city of 22,124.

Not only is the employee-owned company the dominant employer in Weirton and

SEE WEIRTON, PAGE A-10

WEIRTON FROM PAGE A-1

surrounding Hancock and Brooke counties, but it's also the largest manufacturing employer and the second-largest employer - behind Wal-Mart - in West Virginia. By contrast, mills in nearby Follansbee, W.Va., operated by Wheeling-Pittsburgh Steel and Wheeling-Nisshin Inc., employ about 575.

Scores of other businesses and manufacturers in the region are directly tied to Weirton Steel, either because they sell their wares to the company or because they deliver or use its products.

So there wasn't a family that wasn't affected in some way when, in November, Weirton Steel laid off 425 of its 4,743 employees in response to the industrywide crisis triggered by a continuing flood of cheap imported steel.

Hundreds more got furlough slips shortly before Christmas when decreasing orders for steel prompted the company to shut down a blast furnace. Weirton Steel spokesman Gregg Warren said they wouldn't be called back until the company once again turns a profit.

"In this community, everybody has a little bit to do with steel," said Don T. Rigby, president of the Weirton Area Chamber of Commerce and the Business Development Corp. of the Northern Panhandle. "Very candidly, this is a very scary time for us here."

Up until last summer, the future looked bright for Weirton Steel's workers and neighbors. The company turned a profit in the last two quarters of 1997 and the first two quarters of 1998, and demand for its steel meant plenty of lucrative overtime for employees, Warren said.

Kevin Tassey was so busy working overtime that he had to hire someone to build the expansive deck with the intricate flooring that he and Maria designed. He embarked on an ambitious plan to renovate his house and add another bathroom before his second child ar-

On the outskirts of Weirton, the Half Moon industrial park was filled with canning factories and other "end-use" firms that relied on Weirton Steel's tin-plated steel and other products. The park was so successful that Rigby's organizations were working with city and county economic development officers to woo more businesses and manufacturers to a new park planned for a hill above downtown Weirton.

But then Russia, Japan, Korea, Brazil and other countries, in an effort to shore up foundering economies, began shipping large amounts of steel to the United States. U.S. steel makers said some of that steel was sold for less than it cost to produce.

As imports continued to arrive unchecked by tariffs or quotas, U.S. steel makers lost customers, forcing them to close mills and lay off about 10,000 steel workers across the country. During the third quarter of 1998, Weirton Steel posted a \$500,000 loss. Its fourth-quarter statement, issued Friday, showed the company lost \$13.1 million, leaving it with a total loss of \$6.1 million for 1998.

Steel makers, including Weirton Steel, have protested for months to President Clinton, legislators and U.S. trade officials, saying their livelihood and future are being sacrificed to shore up other nations.

Their latest effort to publicize their plight came Wednesday, when about 5,000 Weirton Steel employees and supporters, workers from plants around Pittsburgh and Ohio, legislators from steel-producing states and steel executives came together for the "Valley Rally" in

*"Being realistic,
I don't think
we've seen the
darkest times yet."*

**Chuck Svokas,
Hancock County
administrator**

Washington, D.C.

The president did not attend the march, from the U.S. Capitol to the White House, but an aide pledged to inform the president of the rally and to try to accelerate administration efforts to help the industry.

"We are the most efficient steel workers in the world today, and we could compete with anyone on a level playing field. But with every day that goes by without action, President Clinton is causing more and more pain in the Ohio Valley," said Mark Glyptis, president of Weirton Steel's Independent Steelworkers Union. "We elected him to look after our economy and needs first, not to be president of the world."

As he hustled around the union hall making plans for the rally last week, Glyptis raged about the president, who, as a candidate in 1992, drew cheers from blue-collar crowds in the Ohio Valley by pledging to curb foreign imports.

"Now he's more worried about the world economy than the American steel worker. He's looking after Wall Street, not Main Street," Glyptis said, banging his fist on his battered, paper-strewn desk hard enough to rattle the hand-lettered sign on the wall that says, "Buy USA or Bye USA."

A third-generation steel worker who went into the mill in 1973 after he graduated with a degree in business administration from West Virginia University, Glyptis, 48, has

worked 18-hour days since the first wave of layoffs, fielding telephone calls and visits from his increasingly worried members.

Steel workers who once earned between \$35,000 and \$50,000 a year are now drawing a maximum of \$311 a week in unemployment. Those payments, along with their benefits and medical coverage, will last a maximum of six months.

Workers also are eligible for financial assistance from the union based on the amount of time they worked at the mill.

Because checks are still coming in, most laid-off workers haven't succumbed to full-fledged panic. But some admit to pacing, brooding or snapping at their families.

Others sleep too much, unable to

drag themselves out of bed when there's no job waiting. Many threw themselves into distributing cardboard "Stand Up for Steel" signs that have sprouted in windows all over town, or writing letters or helping to plan the Washington rally.

But in calls to Glyptis and each other, they ask: What will we do when the money runs out? Will we ever be called back? Will the company go under?

At any other time, laid-off steel worker Andrew Kamarec and his wife, Cara, would have considered it to be in bad taste to tell a complete stranger about their family's problems, particularly their 4-year-old daughter Shelby's brain tumor that probably will require surgery this year. But share they did when an

aide to U.S. Sen. Jay Rockefeller, D-W.Va., telephoned them before the Valley Rally, asking for details about Shelby's condition and their soon-to-lapse medical coverage.

"It bothers me to have to speak out like that," said Cara, 40, a part-time nurse at Weirton Medical Center. "It goes against our wish for privacy. But if it helps her, and the future of this town, I'll speak out. Otherwise, we're going to be selling things to live."

Like Kevin and Maria Tassej, Rick Roach, 31, of Follansbee, and his wife, Dawn, are expecting a baby in May, after his unemployment and benefits lapse.

"For my wife's benefit, I've been trying to keep a good outlook and I've been looking for other work reli-

giously. I'd work three minimum-wage jobs at a time if I had to for my family," Roach said. "But even businesses that aren't directly related to the mill aren't hiring because they don't know what their future will be."

That's true, said John Newbrough, who employs about 60 people at seven camera and film-developing shops in and around Weirton. Steel workers who have been laid off, or fear they might be, aren't spending at restaurants, furniture stores, card shops or bars for things that aren't absolutely necessary.

"I'm not a steel worker, but I might as well be," Newbrough said. "Through December, people still had money coming in and they tried to enjoy Christmas with a smile. But now it's January, they're still laid off, and the bills are coming. So they're not buying at my store. If things don't pick back up in the spring, I'll have to start laying off."

Weirton homemaker Betty Perry doesn't come from a family of steel workers. Her husband is a machinist at Dietech Machine outside Steubenville. But because Dietech does business with Weirton Steel, it has slowed operations and slashed her husband's hours, she said.

"We never worked for the steel company, but we're still affected," said Perry, 35, as she browsed for jeans for her daughter at the Clothes Closet at Weirton's Cove United Presbyterian Church, where volunteers collect and distribute free clothing, food and toiletries.

"It's a domino effect. Right now, we're seeing people who work for minimum wage in the supermarket, the pizza places, the little shops," said Cove Presbyterian's pastor, the Rev. Leland "Terry" Stoops. "But if we don't see [government] action on foreign steel, we'll be seeing major problems when the benefits run out."

If the mill is forced to close, the effect on Weirton and surrounding counties will be devastating, said Weirton Mayor Dean Harris, who's worked in the mill for 24 years. The city derives about 60 percent of its municipal budget from real-estate taxes paid by the mill, and school districts in Hancock and Brooke County also depend heavily on income from the mill.

Harris and Rigby said they were encouraged by the turnout and the White House response to Wednesday's Valley Rally, as well as by Clinton's brief mention of the steel crisis during his State of the Union address the night before. But they and other regional leaders said they still had to work harder and faster to develop other industries and businesses in Hancock and Brooke counties.

"Being realistic, I don't think we've seen the darkest times yet," said Hancock County Administrator Chuck Svokas, who also is president of the Weirton Rotary Club.

"Some [worker:] may never be called back and will have to retrain and re-educate, just as they did in Pittsburgh. Our development community knows it must develop other [job] options for them."

Otherwise, they'll be forced to make the same choice that Kevin Tassej is considering — turning his back on his hometown and taking his family south or west to find work.

"I'm not trying to be pessimistic, but I'm a realist. I think we're getting sacrificed on this deal, and I don't think I'll ever go back," Tassej said, burying his head in his hands. "I know there are people who are worse off than us, but this is so hard. This is my home and I wanted to raise my family here. I never thought I'd have to give up that dream."

PREPARED STATEMENT OF HON. ROBERT RUBIN

Mr. Chairman, members of this Committee, I appreciate the opportunity to speak with you this morning about the Administration's trade policy and our strategy to open markets and expand trade. While Secretary Daley and Ambassador Barshefsky will speak in greater detail about our trade agenda, I want to make a few broader points about the importance of trade to our economy because the decisions we make on trade over the next few years will be some of the most important we will make as a nation with respect to our future prosperity.

We meet at a time of tremendous strength in the U.S. economy. Today, unemployment is 4.4 percent and it has been under 6 percent for the last four years. The economy has generated nearly 18 million new jobs over the last six years, and inflation has remained low. And wages are rising across all income levels.

A number of factors have contributed to this strong economy including, very centrally, the private sector regaining its competitive edge over the last decade, and the President's broad based economic strategy of fiscal discipline, investing in people, and opening markets. And that last point is expanding trade, to which this Administration has been firmly committed and for which this Committee has been the keeper of the flame. Trade has clearly played a major role.

Jobs related to exports pay on average higher wages than other jobs. Opening markets and expanding exports are therefore of great importance to our nation's prosperity and our ability to create high wage jobs. Less widely recognized is that imports, too, contribute greatly to our economic well being. Americans, as consumers, benefit from the lower prices and wider choice which imports provide; American producers similarly benefit from lower costs and wider choice for inputs, making them more competitive, which results in more jobs and higher wages; productivity is enhanced through greater competition; and for all these reasons, inflation and thus market interest rates are therefore lower.

It is interesting to compare our economic performance of the last six years with the economic performance of other industrialized nations that are less open. Study after study has shown that more open economies enjoy stronger growth, and that is certainly evident here. We have low unemployment, rising wages across the board and we have the most open markets among the major economies. Europe and Japan are far less open than the United States, and the major economies of continental Europe have had persistent unemployment of 10 to 12 percent or greater, and Japan, now in recession for over a year, has been virtually stagnant for roughly eight years.

Moreover, trade is not a zero sum game: All nations benefit from a vibrant trading system.

Mr. Chairman, as you well know, for the last year and a half the global economy has experienced a financial crisis severely affecting countries around the world. While our economy has performed very well despite the crisis, there are certain sectors that have been substantially affected. Most notably, steel, because of increased imports, and agriculture and aircraft, because of decreased world demand. The risks of that crisis continue, despite some positive developments in recent months, as do the risks to us from that crisis. To protect the economic prosperity of our country, and to restore the well being of affected sectors, we have been and continue to be enormously focused on the effort to restore stability and growth to troubled parts of the world. In this regard, we have been working bilaterally as well as with the IMF, the World Bank, the MDBs, and others to meet these important objectives.

Let me emphasize two points integrally related to all of these comments. First, trade should be not only open but fair, and this Administration is committed to fully enforcing our trade laws to deal with unlawful practices. Second, the President has worked to equip Americans with the tools they need to succeed in the global economy, with a strong emphasis on education, training, health care, and technological research and development. A strong international policy has to go hand in hand with a strong domestic policy. And we must be particularly focused on helping those who are adversely affected by the dynamic change due principally to technology but also to trade that so benefits the American people overall and is critical to American success in the global economy.

What we must not do is pull away from the global economy, which is so important to our economic well-being. The rest of the world look to the United States for leadership. For the United States to reduce access to our markets, even on what might appear to be a limited basis, could well be very damaging to us. It would hurt our economy directly through higher costs to consumers and producers and higher inflation and quite possibly higher interest rates; and under today's conditions there would in addition be two special risks to our economic well-being.

First, reduced access here could undermine the prospects of recovery and growth abroad in a world that is still working itself through the global crisis that began a year and a half ago, a recovery so important to our economic well being. Japan and Europe must also increase the world's access to their markets, for their sake, and for the sake of the rest of the world.

Second, and most troubling, if the United States, with its very healthy economy, is seen as moving toward restricting markets, that could well reinforce the newly vibrant voices of protectionism in many countries around the world whose economies are struggling or less vibrant than ours, and that is enormously against our economic interest.

Mr. Chairman, the U.S. economy is the strongest it has been in a generation. To sustain that strength we must continue to maintain open markets at home, and press for open markets abroad. This Committee has long been a major force in pursuing those objectives, and I and all of us in the Administration look forward to working with you to meet these great challenges, including, building a consensus for trade negotiating authority that also reflects appropriate provisions with respect to labor and the environment, issues to which the WTO and the ILO have a great deal to contribute. Our success in meeting these challenges is critical to the prosperity and standard of living of our nation, as well as the global economy, for the years and decades ahead. Thank you very much.

RESPONSES OF SECRETARY RUBIN TO QUESTIONS SUBMITTED BY SENATOR BAUCUS

EXCHANGE RATES

Question: Recently I traveled to Ottawa to help resolve the dispute concerning Canadian agriculture and its adverse effect on US producers. I talked with several farmers and ranchers who were worried about imports and exports. But more than that, they were concerned about exchange rates which directly affect where they will feed their cattle, buy pesticides, and plan for next year's crop.

With a strong dollar, and the weakened ability to purchase in our primary markets, it seems like we cannot ignore this fly in the ointment.

Mr. Rubin: do you have a strategy to deal with exchange rates?

Answer: Our view is that exchange rates should reflect underlying economic fundamentals and that the best thing countries can do to maintain the external value of their currencies is to pursue sound economic policies.

Globally, the extended downtrend in commodities prices has weighed on currencies of countries, like Canada, which global financial markets regard as significantly dependent on commodities exports. The commodity price declines, in turn, have been exacerbated by the recent turbulence in Asia. Last summer, the decline in the Canadian dollar was reinforced by the interest differential between the Canadian and U.S. dollars when the Canadian dollar yield curve was below the dollar yield curve. The Canadian dollar reached its lowest levels in late summer in the global aftermath of the Russian devaluation and default. The Canadian authorities raised interest rates, reversing the relationship of the yield curves, and this appears to have stabilized the C\$, although a vulnerability to possible declines in commodities prices remains.

JAPAN INSURANCE AGREEMENT

Question: Ambassador Barshefsky and Secretary Rubin, last July (more than 6 months ago) the US Trade Representative issued a public statement that the Government of Japan had failed to live up to a series of its obligations under the US-Japan Insurance Agreement (bi-lateral). Since that time, no further progress has been made. In fact, Japan's Ministry of Finance has refused to meet with the US claiming to have met all of its obligations according to its multi-lateral agreement on financial services under the WTO.

These bilateral commitments serve as the basis for Japan's new WTO insurance obligations which are scheduled to become effective as of March 1, 1999. Ambassador Barshefsky, I understand that you have raised questions about Japan's ratifications of its obligations to the WTO. But we must do more.

This behavior by Japan, in blatant disregard of our pre-existing bilateral agreement, underscores the need for both the USTR and Treasury to follow through when they negotiate a trade agreement. We can't afford to have Japan thumb its nose at us and hope that this issue is eventually resolved in the quagmire of the WTO dispute resolution process. Time is of the essence.

How does the USTR and Department of Treasury intend to address this problem [i.e., Japan's refusal to consult] prior to the time (March 1) when the agree-

ment is scheduled to go into effect? (without the specific deregulation actions called for.)

What leverage can we use to ensure that Japan fully meets its primary sector deregulation obligations?

Answer: In December 1997, Japan agreed to bind many of the key provisions of the 1996 bilateral U.S.-Japan Insurance Agreement within its WTO Financial Services schedule. U.S. industry welcomed this action by Japan.

Japan has made some progress in opening and deregulating its insurance market. For example, in September 1997 the Ministry of Finance granted the first ever license for direct marketing of risk-differentiated automobile insurance to a U.S. firm. Nevertheless, the Administration is seriously concerned about Japan's unwillingness to fully implement all of the specific deregulation actions called for under our bilateral insurance agreement.

The United States has expressed its concerns on numerous occasions directly to Japan and at the WTO. We have also approached interested third parties, such as the EU, on this issue. The U.S. will continue to use every opportunity, both bilaterally and multilaterally, to convey to Japan the depth of our concerns and the urgency that our governments expeditiously engage in a constructive process to address outstanding issues. In accordance with U.S. industry's recommendation, we joined a consensus to allow the WTO Financial Services Agreement to come into force on March 1. We delivered a strongly worded statement in Geneva on February 15, 1999, expressing our serious concern with Japan's implementation of its bilateral market-opening commitments, which are now incorporated in the WTO agreement.

A USTR-led interagency team met with Japanese government representatives on March 4 in Tokyo to discuss preparation for the next round of consultations under the bilateral U.S.-Japan insurance agreements. Both governments agreed to hold consultations in mid-April. The venue and exact dates of these working level talks will be decided through diplomatic channels. Both governments agreed to address a wide range of issues and concerns related to primary sector deregulation, as well as the activities of large Japanese insurers and their subsidiaries in the third sector. The Japanese side was represented by officials from the Ministry of Foreign Affairs, Ministry of Finance, and the Financial Supervisory Agency. We have requested that, in addition to these three agencies, the Japan Fair Trade Commission also attend the upcoming consultations. We are working closely with other agencies and with U.S. industry as we seek to resolve these important issues.

The Administration is prepared to utilize all of the tools at our disposal to ensure the full benefits to U.S. industry from our bilateral Insurance Agreement. With the entry into force of the WTO Financial Services Agreement on March 1, the United States now enjoys multilateral rights of enforcement under the WTO Dispute Settlement rules with respect to measures Japan has committed to take to deregulate and open its insurance market. Of course, we continue to retain our rights under U.S. trade law to enforce our trade agreements.

MISCLASSIFICATION OF DRILLED LUMBER

Question: I understand that Customs is now reviewing a series of rulings which wrongly classified lumber with minor processing—such as notched lumber, lumber with a scratched surface, and stained lumber—as “joinery and carpentry” and which are still permitting evasion of the Agreement. I am glad that review is underway.

Can you report on the status of that review? Given the extensive analysis of these issues that has already occurred, what is the minimum time legally possible for Customs to correct these misclassifications and implement changes?

Answer: Customs has published in the Customs Bulletin a notice of intent to reclassify notched lumber. The comment period closes on April 4. The tariff classification of the other products was not raised in the course of the review of drilled lumber; however, the classification of these products is under review by Customs and notices of modification or revocation will be published soon. When Custom proposes to modify or revoke a ruling it must allow 30 days for public comment on the proposal and a 60-day delayed effective date for any changes that are made. Allowing 30 days for Customs to review public comments and to prepare a final decision, the total time required to implement changes is about 120 days.

Question: Do you agree that Congress cannot be expected to grant expanded authority for new agreements if existing agreements are not vigorously and effectively enforced?

Answer: Congress and the American public are fully entitled to expect that trade agreements and any other laws that apply to imported goods will be vigorously and

effectively enforced at the border, without regard to whether expanded authority for new agreements is being considered.

RESPONSES OF SECRETARY RUBIN TO QUESTIONS SUBMITTED BY SENATOR BREAUX
SUPPORT FOR U.S. INDUSTRY

Question: The U.S. is playing an indispensable role in keeping the global economy afloat by ensuring that our own economy remains dynamic and able to absorb imports from Asia and other regions affected by the financial crisis. What is Treasury doing to ensure that ordinarily competitive U.S. industries such as the U.S. paper and forest products industry do not bear a disproportionate burden as the U.S. serves as the market of first and last resort? How is the objective of opening up foreign markets for competitive U.S. industries integrated into Treasury efforts to develop a new global financial architecture?

Answer: The centerpiece of our response has been to lay the groundwork for return to renewed growth and stability among crisis affected economies. Without the reforms the IMF requires and its associated financing, Asian economies would contract even further, lowering demand for our products even further. A successful stabilization effort will help increase U.S. exports. To support that objective, the Administration has given strong U.S. support to tough IMF-led reform programs in Thailand, Indonesia and Korea to restore market confidence and lay a surer foundation for growth. We have encouraged strong action by other economies in the region—especially Japan and China—to promote their collective interest in long-term financial stability and growth, and we have stepped up U.S.-led efforts to strengthen the international financial system to safeguard against these kinds of crises to respond to them effectively should they occur.

The Treasury Department's steps in suggesting reforms for the international financial architecture will help support stable, sustained growth, with resulting benefits to U.S. exports. As these reforms are, in part, aimed at improving transparency, countries will need to further commit themselves to an open, rules-based system of finance. This work helps to complement the Administration's efforts at ensuring that our trading system remains open and rules-based as well. However, explicit steps at market access have come through USTRled efforts at improving access for competitive U.S. firms.

APEC TRADE LIBERALIZATION

Question: Participation in APEC sectoral trade liberalization by countries in the Asia-Pacific region would seem to be fully consistent with your view that market opening must be part of a long-term, market-directed reform of the economies in the region. What specific steps has the Department of Treasury taken/do you plan to take, to encourage countries in the region to participate in the APEC/EVSL Initiative?

Answer: The Department of Treasury has supported the steps taken by the State Department and USTR to ensure that the APEC/EVSL Initiative is a success. During the fall of 1998, senior Treasury officials emphasized the importance the Administration attached to ensuring that the APEC/EVSL initiative was a success in bilateral meetings with Finance officials from APEC countries.

While EVSL is not explicitly part of discussions among Finance Ministers, we have highlighted the importance of the EVSL process during APEC meetings. Out of those meetings, and the APEC Leaders meetings, the APEC leaders agreed last year in Kuala Lumpur that maintaining the commitment to free trade and open markets is a component of the economic recovery strategy.

RESPONSES OF SECRETARY RUBIN TO QUESTIONS SUBMITTED BY SENATOR KERREY
INTERNATIONAL TRADE DATA SYSTEM

Question: I understand that there will be no funding in the President's budget for the ITDS except that coming from user fees. I also understand that the trade industry vigorously opposes new user fees. How do you intend to resolve the funding issue and keep progress on the System on track?

The President's budget FY 2000 requests \$5.4 million for the International Trade Data System. This request is not contingent on enactment of new user fee legislation but if new user fees are approved by Congress the receipts will offset the appropriation for the ITDS.

RESPONSES OF SECRETARY RUBIN TO QUESTIONS SUBMITTED BY SENATOR
MURKOWSKI

U.S.-CANADA SOFTWOOD LUMBER AGREEMENT

Question: The 1996 U.S.-Canada Softwood Lumber Agreement was in response to unfair Canadian lumber subsidies. The Administration has said that the Agreement is a priority and promised "vigorous enforcement."

In 1997 Congress allocated an additional \$2 million to Customs for enforcement of the Agreement, in particular, to make more prompt and accurate the reconciliation of import and export data. Yet, my understanding is that reconciliation is still extremely slow—lagging by over a year.

How, specifically, has Customs utilized this additional \$2 million? What actions is customs taking to improve reconciliation efforts?

Answer: Customs allocated the \$2 million primarily for personnel at northern border ports and at headquarters offices that monitor and co-ordinate commercial enforcement programs. Additional funding was also used to support increases in travel and contractual support costs related to the enforcement effort.

Customs and Canadian authorities have exchanged data monthly for reconciliation purposes. Discrepancies were attributable to several causes: (i) Canada does not treat certain products such as drilled lumber and railroad ties—as subject to the Agreement; the U.S. does, (ii) some Canadian exporters fail to obtain permits from the Canadian Government, as required under Canadian law; therefore, Canadian exports are understated, and (iii) clerical errors, which are the single largest cause of data incompatibility. Once these problems were accounted for, discrepancies between U.S. and Canadian data were regularly reduced to less than one percent. Through the end of FY 1998, Customs and Canadian authorities were attempting to reconcile 100 percent of all export-import transaction. Based on the results of this effort, Customs shifted in the current fiscal year to a statistically valid sampling program, which accounts for discrepancies with equal accuracy and at less cost.

Question: What is needed to ensure that enforcement of the Lumber Agreement and future reconciliation under the Agreement are prompt and fully effective? Are additional funds needed?

Answer: Customs plans to continue its monitoring of imports and reconciliation of U.S. import data with Canadian licensing data. Customs has since the inception of the Agreement intensified both documentary and physical examination of lumber imports. Violations of law, regulation, or bond conditions are subject to penalties or liquidated damages. No additional funds are needed for this effort.

Question: How does Customs plan to improve enforcement efforts? For example, I understand that Customs has been urged to designate the lumber industry as a "Priority Focus Industry" for trade enforcement. Can you tell me the status of Customs' decisionmaking on this issue?

Answer: In addition to structuring priorities by "primary focus industries," Customs also gives priority to trade agreements such as the U.S.-Canada Softwood Lumber Agreement. The level of scrutiny of both documents and goods themselves is now greater for softwood lumber than would normally be given to products of primary focus industries. As noted, violations of law, regulation, or bond conditions are subject to penalties or liquidated damages.

Question: It has come to my attention that both classification fraud and province-of-origin fraud may be undermining the effectiveness of the Lumber Agreement. What specific actions is Customs taking to address issues of classification fraud?

Answer: Customs has intensified examination of documents by import specialists and physical examination of the goods themselves by inspectors in order to detect attempts to misclassify softwood lumber products. Where goods have been misdescribed, either deliberately or through negligence, Customs pursues penalty actions under Section 1592 of Title 19 of the U.S. Code.

Question: It is my understanding that U.S. import data show imports from the Maritimes, which are exempt from the lumber Agreement, running \$100 million a year more than Canadian export data. This strongly suggests that exports are being mislabeled as being from the Maritimes. Is Customs investigating any substantial evidence of province-of-origin fraud, as suggested by the Maritimes export data?

Answer: U.S. Customs has no authority to conduct investigation in Canada. Pursuant to the Softwood Lumber Agreement, apparent cases of province-of-origin fraud are reported to the Canadian Department of Foreign Affairs and International Trade for appropriate action under Canadian law. In 1997 Customs conducted a maritime province intervention designed to detect circumvention alleged by the U.S. softwood lumber industry. This effort revealed only limited discrepancies, such as record-keeping errors rather than false documentation or transshipment.

DEVALUATION OF BRAZILIAN REAL

Question: The recent (November) \$41 billion aid package to Brazil was called a "firewall"—predicated on stable currency. Yet in the past few weeks, the real was devalued and then allowed to float. It has already lost 30 percent of its value against the dollar and there appears to be little sign that it or the Brazilian economy is stabilizing. Will the devaluation of the Brazilian currency threaten more devaluations in Latin America and possibly Asia. If not, why not?

Answer: Global financial pressures, natural disasters, and depressed commodity prices have all taken their toll on Latin American countries. These pressures have exposed some of the weaknesses in domestic policies. Most countries, including Brazil, have taken strong remedial measures but these have not always been sufficient, or in time.

Although turbulence in Brazil's markets is having some contagion effects on other emerging markets countries and will temporarily result in higher interest rates and slower growth, a commitment to prudent fiscal and monetary policies by these countries will limit the extent of this contagion.

Where appropriate, the Administration has supported engagement of the International Monetary Fund and the multilateral development banks to help countries design and monitor economic programs aimed at alleviating balance of payments problems; this is an avenue that we continue to support, especially for those countries that may be temporarily but adversely affected by Brazil's current situation.

Question: Why did the IMF package not prevent the devaluation of the Brazilian Real?

Answer: Since Brazil's large fiscal and current account deficits made it vulnerable to changes in investor sentiment, the IMF program (backed by bilateral support through the BIS) included ambitious fiscal adjustment measures to tackle this underlying problem.

Although the Brazilian government was relatively successful in passing the programmed fiscal measures or finding interim offsetting measures, delays in passing some of the fiscal measures coupled with reports that a key state-governor was unwilling to service his state's debt to the federal government eroded market confidence, resulted in a drainage of reserves, and forced the devaluation and float.

IMF AUSTERITY POLICIES

Question: What is the Administration's view of the IMF's austerity policies? Where are they working and where are they failing?

Answer: IMF programs typically involve a range of reforms to address major fiscal, monetary or external imbalances and to promote other measures to restore economic competitiveness and modernize the legal and regulatory environment—all with the objective of restoring conditions for sustained, broad-based growth. Such measures might include steps to strengthen financial systems, restructure the corporate sector, and enhance the transparency of policies and economic data. Initially, strict fiscal discipline and maintenance of high interest rates may be required to curb capital outflows and currency attacks—and thereby to restore investor confidence. Within these parameters, the IMF makes every effort to work with countries to identify reforms consistent with their circumstances, and the conditions negotiated can be altered over time if the economy does not respond as expected.

In the recent crises, those countries that adhered most faithfully to policy reforms agreed with the IMF have been most successful in calming financial markets and creating the basis for resumed growth. The experiences of Korea and Thailand provide examples; both economies appear to have bottomed out and are beginning to see increases in real exports and some tentative signs of recovery in economic activity.

At the same time, it is important to recognize that the world today is much different than the one in which the IMF has functioned in the past. Many of the recent problems have emerged from capital account rather than current account problems. And money is moving much more rapidly across borders than before. These changes require the IMF to evolve, both with respect to its surveillance and crisis prevention activities and its approaches to crisis response.

We are working within the IMF to advocate appropriate changes. Among other things, we are working to promote the reforms laid out in recent legislation providing for U.S. participation in the IMF quota increase. Specific priorities include: reducing directed lending and subsidies; supporting trade liberalization; and advocating non-discriminatory bankruptcy procedures.

ARGENTINE DOLLARIZATION

Question: The Argentine Government proposed replacing their domestic currency with the U.S. dollar. What are your thoughts on that idea?

Answer: The choice by a country to dollarize its monetary system—to adopt some other country's currency for its own use—is tremendously consequential for that country. Dollarization offers the attractive promise of enhancing stability in the dollarizing country by adding to the credibility and discipline in its economic and financial policies and advancing its integration with the world economy, thereby, promoting its growth and prosperity. However, the country also must be prepared to embrace that discipline and accept the potentially significant consequences of doing without monetary independence externally—exchange rate adjustment—and internally—the direction of interest rates. It would not be appropriate for U.S. authorities to adjust their bank supervisory responsibilities, access to the Federal Reserve discount window, or procedures or orientation of U.S. monetary policy in light of another country's decision to dollarize its monetary system. Any country contemplating dollarization will have to weigh carefully these considerations and many others, and it would be appropriate that its representatives do so in consultation with the U.S. authorities so that we can jointly think through the implications for both of our economies.

RESPONSES OF DEPUTY SECRETARY SUMMMERS TO QUESTIONS SUBMITTED BY SENATOR ROTH

STEEL IMPORTS

Question: The Administration has been criticized for not initiating a section 201 safeguard action against steel imports. Given that section 201 is designed to address import surges, even when fairly traded, why did the President choose not to take that action?

Answer: The Administration is committed to strong enforcement of our trade laws. In most cases, the steel industry will be the best judge of when, and on which products, to file antidumping, countervailing duty, or Section 201 petitions. In fact, the steel industry has made active use of our trade laws, filing antidumping and countervailing duty petitions on certain products in September, and a Section 201 petition at the end of December. The Commerce Department, which has primary enforcement responsibility, will continue to work closely with U.S. industry, unions, and Congress throughout this process.

In addition to vigorous enforcement of our trade laws, the President and other members of the Cabinet have pressed our trading partners to end unfair trading practices and to fairly share the burden of absorbing additional steel imports from countries in financial crisis. Japanese steel accounts for the largest share of the recent surge. The Administration has told the Japanese government, in the Steel Report to Congress and in bilateral consultations, that we expect Japan's exports to return to appropriate pre-crisis levels. The Administration stands ready to take appropriate WTO-consistent actions under our trade laws to ensure that imports from Japan return to pre-crisis levels, including, if necessary, self-initiated actions under our Section 201 and antidumping law.

BRAZIL

Question: The events in Brazil in the past 2 weeks are cause for great concern. Brazil is a major steel producing country, and this can only cause more pressure in this area. Last fall, an "early intervention" line of credit was established with the express purpose of avoiding a Real devaluation. Now that a devaluation has occurred, the IMF and the U.S. Treasury seem to agree with Brazil's actions, even though they are contrary to the stated purpose of the money loaned. Can you reconcile these actions for me?

Answer: Since Brazil's large fiscal and current account deficits made it vulnerable to changes in investor sentiment, the IMF program (backed by bilateral support through the BIS) included ambitious fiscal adjustment measures to tackle this underlying problem. Although the Brazilian government was relatively successful in passing the programmed fiscal measures or finding interim offsetting measures, delays in passing some of the fiscal measures coupled with reports that a key state-governor was unwilling to service his state's debt to the federal government eroded market confidence, resulted in a drainage of reserves, and ultimately forced the devaluation and float.

Although the original IMF program was designed with the assumption of a relatively small devaluation for 1999 (approximately 7.0%), maintaining the pro-

grammed exchange rate in the presence of overwhelming balance of payments pressures would have come at the cost of Brazil's existing foreign exchange reserves but would not have eliminated the need for an eventual adjustment to the exchange rate.

Recently, Brazil and the IMF have come to an agreement on the revised macro-economic framework of Brazil's program that reflects the floating exchange rate regime. The adjusted program, which continues to emphasize fiscal consolidation and prudent monetary policy as necessary for renewed stability and growth, has been relatively well-received by the markets and has contributed to an appreciation of the real.

We will continue to work closely with the IMF and the Brazilian government.

ARGENTINE DOLLARIZATION

Question: As you know, Argentina is engaged in a debate over dollarization. What is Treasury's view of the matter, and how would Treasury view other countries initiating similar moves?

Answer: The choice by a country to dollarize its monetary system—to adopt some other country's currency for its own use—is tremendously consequential for that country. Dollarization offers the attractive promise of enhancing stability in the dollarizing country by adding to the credibility and discipline in its economic and financial policies and advancing its integration with the world economy, thereby, promoting its growth and prosperity. However, the country also must be prepared to embrace that discipline and accept the potentially significant consequences of doing without monetary independence externally exchange rate adjustment—and internally—the direction of interest rates. It would not be appropriate for U.S. authorities to adjust their bank supervisory responsibilities, access to the Federal Reserve discount window, or procedures or orientation of U.S. monetary policy in light of another country's decision to dollarize its monetary system. Any country contemplating dollarization will have to weigh carefully these considerations and many others, and it would be appropriate that its representatives do so in consultation with the U.S. authorities so that we can jointly think through the implications for both of our economies.

RESPONSES OF SECRETARY RUBIN TO QUESTIONS SUBMITTED BY SENATOR BAUCUS

EXCHANGE RATES

Question: Recently I traveled to Ottawa to help resolve the dispute concerning Canadian agriculture and its adverse effect on US producers. I talked with several farmers and ranchers who were worried about imports and exports. But more than that, they were concerned about exchange rates which directly affect where they will feed their cattle, buy pesticides, and plan for next year's crop.

With a strong dollar, and the weakened ability to purchase in our primary markets, it seems like we cannot ignore this fly in the ointment.

Mr. Rubin: do you have a strategy to deal with exchange rates?

Answer: Our view is that exchange rates should reflect underlying economic fundamentals and that the best thing countries can do to maintain the external value of their currencies is to pursue sound economic policies.

Globally, the extended downtrend in commodities prices has weighed on currencies of countries, like Canada, which global financial markets regard as significantly dependent on commodities exports. The commodity price declines, in turn, have been exacerbated by the recent turbulence in Asia. Last summer, the decline in the Canadian dollar was reinforced by the interest differential between the Canadian and U.S. dollars when the Canadian dollar yield curve was below the dollar yield curve. The Canadian dollar reached its lowest levels in late summer in the global aftermath of the Russian devaluation and default. The Canadian authorities raised interest rates, reversing the relationship of the yield curves, and this appears to have stabilized the C\$, although a vulnerability to possible declines in commodities prices remains.

JAPAN INSURANCE AGREEMENT

Question: Ambassador Barshefsky and Secretary Rubin, last July (more than 6 months ago) the US Trade Representative issued a public statement that the Government of Japan had failed to live up to a series of its obligations under the US-Japan Insurance Agreement (bi-lateral). Since that time, no further progress has been made. In fact, Japan's Ministry of Finance has refused to meet with the US

claiming to have met all of its obligations according to its multi-lateral agreement on financial services under the WTO.

These bilateral commitments serve as the basis for Japan's new WTO insurance obligations which are scheduled to become effective as of March 1, 1999. Ambassador Barshefsky, I understand that you have raised questions about Japan's ratifications of its obligations to the WTO. But we must do more.

This behavior by Japan, in blatant disregard of our pre-existing bilateral agreement, underscores the need for both the USTR and Treasury to follow through when they negotiate a trade agreement. We can't afford to have Japan thumb its nose at us and hope that this issue is eventually resolved in the quagmire of the WTO dispute resolution process. Time is of the essence.

How does the USTR and Department of Treasury intend to address this problem [i.e., Japan's refusal to consult] prior to the time (March 1) when the agreement is scheduled to go into effect? (without the specific deregulation actions called for.)

What leverage can we use to ensure that Japan fully meets its primary sector deregulation obligations?

Answer: In December 1997, Japan agreed to bind many of the key provisions of the 1996 bilateral U.S.-Japan Insurance Agreement within its WTO Financial Services schedule. U.S. industry welcomed this action by Japan.

Japan has made some progress in opening and deregulating its insurance market. For example, in September 1997 the Ministry of Finance granted the first ever license for direct marketing of risk-differentiated automobile insurance to a U.S. firm. Nevertheless, the Administration is seriously concerned about Japan's unwillingness to fully implement all of the specific deregulation actions called for under our bilateral insurance agreement.

The United States has expressed its concerns on numerous occasions directly to Japan and at the WTO. We have also approached interested third parties, such as the EU, on this issue. The U.S. will continue to use every opportunity, both bilaterally and multilaterally, to convey to Japan the depth of our concerns and the urgency that our governments expeditiously engage in a constructive process to address outstanding issues. In accordance with U.S. industry's recommendation, we joined a consensus to allow the WTO Financial Services Agreement to come into force on March 1. We delivered a strongly worded statement in Geneva on February 15, 1999, expressing our serious concern with Japan's implementation of its bilateral market-opening commitments, which are now incorporated in the WTO agreement.

A USTR-led interagency team met with Japanese government representatives on March 4 in Tokyo to discuss preparation for the next round of consultations under the bilateral U.S.-Japan insurance agreements. Both governments agreed to hold consultations in mid-April. The venue and exact dates of these working level talks will be decided through diplomatic channels. Both governments agreed to address a wide range of issues and concerns related to primary sector deregulation, as well as the activities of large Japanese insurers and their subsidiaries in the third sector. The Japanese side was represented by officials from the Ministry of Foreign Affairs, Ministry of Finance, and the Financial Supervisory Agency. We have requested that, in addition to these three agencies, the Japan Fair Trade Commission also attend the upcoming consultations. We are working closely with other agencies and with U.S. industry as we seek to resolve these important issues.

The Administration is prepared to utilize all of the tools at our disposal to ensure the full benefits to U.S. industry from our bilateral Insurance Agreement. With the entry into force of the WTO Financial Services Agreement on March 1, the United States now enjoys multilateral rights of enforcement under the WTO Dispute Settlement rules with respect to measures Japan has committed to take to deregulate and open its insurance market. Of course, we continue to retain our rights under U.S. trade law to enforce our trade agreements.

MISCLASSIFICATION OF DRILLED LUMBER

Question: I understand that Customs is now reviewing a series of rulings which wrongly classified lumber with minor processing—such as notched lumber, lumber with a scratched surface, and stained lumber—as “joinery and carpentry” and which are still permitting evasion of the Agreement. I am glad that review is underway.

Can you report on the status of that review? Given the extensive analysis of these issues that has already occurred, what is the minimum time legally possible for Customs to correct these misclassifications and implement changes?

Answer: Customs has published in the Customs Bulletin a notice of intent to re-classify notched lumber. The comment period closes on April 4. The tariff classifica-

tion of the other products was not raised in the course of the review of drilled lumber; however, the classification of these products is under review by Customs and notices of modification or revocation will be published soon. When Custom proposes to modify or revoke a ruling it must allow 30 days for public comment on the proposal and a 60-day delayed effective date for any changes that are made. Allowing 30 days for Customs to review public comments and to prepare a final decision, the total time required to implement changes is about 120 days.

Question: Do you agree that Congress cannot be expected to grant expanded authority for new agreements if existing agreements are not vigorously and effectively enforced?

Answer: Congress and the American public are fully entitled to expect that trade agreements and any other laws that apply to imported goods will be vigorously and effectively enforced at the border, without regard to whether expanded authority for new agreements is being considered.

RESPONSES OF SECRETARY RUBIN TO QUESTIONS SUBMITTED BY SENATOR BREAUX

SUPPORT FOR U.S. INDUSTRY

Question: The U.S. is playing an indispensable role in keeping the global economy afloat by ensuring that our own economy remains dynamic and able to absorb imports from Asia and other regions affected by the financial crisis. What is Treasury doing to ensure that ordinarily competitive U.S. industries such as the U.S. paper and forest products industry do not bear a disproportionate burden as the U.S. serves as the market of first and last resort? How is the objective of opening up foreign markets for competitive U.S. industries integrated into Treasury efforts to develop a new global financial architecture?

Answer: The centerpiece of our response has been to lay the groundwork for return to renewed growth and stability among crisis affected economies. Without the reforms the IMF requires and its associated financing, Asian economies would contract even further, lowering demand for our products even further. A successful stabilization effort will help increase U.S. exports. To support that objective, the Administration has given strong U.S. support to tough IMF-led reform programs in Thailand, Indonesia and Korea to restore market confidence and lay a surer foundation for growth. We have encouraged strong action by other economies in the region—especially Japan and China—to promote their collective interest in long-term financial stability and growth, and we have stepped up U.S.-led efforts to strengthen the international financial system to safeguard against these kinds of crises to respond to them effectively should they occur.

The Treasury Department's steps in suggesting reforms for the international financial architecture will help support stable, sustained growth, with resulting benefits to U.S. exports. As these reforms are, in part, aimed at improving transparency, countries will need to further commit themselves to an open, rules-based system of finance. This work helps to complement the Administration's efforts at ensuring that our trading system remains open and rules-based as well. However, explicit steps at market access have come through USTR-led efforts at improving access for competitive U.S. firms.

APEC TRADE LIBERALIZATION

Question: Participation in APEC sectoral trade liberalization by countries in the Asia-Pacific region would seem to be fully consistent with your view that market opening must be part of a long-term, market-directed reform of the economies in the region. What specific steps has the Department of Treasury taken/do you plan to take, to encourage countries in the region to participate in the APEC/EVSL Initiative?

Answer: The Department of Treasury has supported the steps taken by the State Department and USTR to ensure that the APEC/EVSL Initiative is a success. During the fall of 1998, senior Treasury officials emphasized the importance the Administration attached to ensuring that the APEC/EVSL initiative was a success in bilateral meetings with Finance officials from APEC countries.

While EVSL is not explicitly part of discussions among Finance Ministers, we have highlighted the importance of the EVSL process during APEC meetings. Out of those meetings, and the APEC Leaders meetings, the APEC leaders agreed last year in Kuala Lumpur that maintaining the commitment to free trade and open markets is a component of the economic recovery strategy.

RESPONSES OF SECRETARY RUBIN TO QUESTIONS SUBMITTED BY SENATOR KERREY

INTERNATIONAL TRADE DATA SYSTEM

Question: I understand that there will be no funding in the President's budget for the ITDS except that coming from user fees. I also understand that the trade industry vigorously opposes new user fees. How do you intend to resolve the funding issue and keep progress on the System on track?

The President's budget FY 2000 requests \$5.4 million for the International Trade Data System. This request is not contingent on enactment of new user fee legislation but if new user fees are approved by Congress the receipts will offset the appropriation for the ITDS.

RESPONSES OF SECRETARY RUBIN TO QUESTIONS SUBMITTED BY SENATOR MURKOWSKI

U.S.-CANADA SOFTWOOD LUMBER AGREEMENT

Question: The 1996 U.S.-Canada Softwood Lumber Agreement was in response to unfair Canadian lumber subsidies. The Administration has said that the Agreement is a priority and promised "vigorous enforcement."

In 1997 Congress allocated an additional \$2 million to Customs for enforcement of the Agreement, in particular, to make more prompt and accurate the reconciliation of import and export data. Yet, my understanding is that reconciliation is still extremely slow—lagging by over a year.

How, specifically, has Customs utilized this additional \$2 million? What actions is customs taking to improve reconciliation efforts?

Answer: Customs allocated the \$2 million primarily for personnel at northern border ports and at headquarters offices that monitor and co-ordinate commercial enforcement programs. Additional funding was also used to support increases in travel and contractual support costs related to the enforcement effort.

Customs and Canadian authorities have exchanged data monthly for reconciliation purposes. Discrepancies were attributable to several causes: (i) Canada does not treat certain products such as drilled lumber and railroad ties—as subject to the Agreement; the U.S. does, (ii) some Canadian exporters fail to obtain permits from the Canadian Government, as required under Canadian law; therefore, Canadian exports are understated, and (iii) clerical errors, which are the single largest cause of data incompatibility. Once these problems were accounted for, discrepancies between U.S. and Canadian data were regularly reduced to less than one percent. Through the end of FY 1998, Customs and Canadian authorities were attempting to reconcile 100 percent of all export-import transaction. Based on the results of this effort, Customs shifted in the current fiscal year to a statistically valid sampling program, which accounts for discrepancies with equal accuracy and at less cost.

Question: What is needed to ensure that enforcement of the Lumber Agreement and future reconciliation under the Agreement are prompt and fully effective? Are additional funds needed?

Answer: Customs plans to continue its monitoring of imports and reconciliation of U.S. import data with Canadian licensing data. Customs has since the inception of the Agreement intensified both documentary and physical examination of lumber imports. Violations of law, regulation, or bond conditions are subject to penalties or liquidated damages. No additional funds are needed for this effort.

Question: How does Customs plan to improve enforcement efforts? For example, I understand that Customs has been urged to designate the lumber industry as a "Priority Focus Industry" for trade enforcement. Can you tell me the status of Customs' decisionmaking on this issue?

Answer: In addition to structuring priorities by "primary focus industries," Customs also gives priority to trade agreements such as the U.S.-Canada Softwood Lumber Agreement. The level of scrutiny of both documents and goods themselves is now greater for softwood lumber than would normally be given to products of primary focus industries. As noted, violations of law, regulation, or bond conditions are subject to penalties or liquidated damages.

It has come to my attention that both classification fraud and province-of-origin fraud may be undermining the effectiveness of the Lumber Agreement. What specific actions is Customs taking to address issues of classification fraud?

Answer: Customs has intensified examination of documents by import specialists and physical examination of the goods themselves by inspectors in order to detect attempts to misclassify softwood lumber products. Where goods have been misdescribed, either deliberately or through negligence, Customs pursues penalty actions under Section 1592 of Title 19 of the U.S. Code.

Question: It is my understanding that U.S. import data show imports from the Maritimes, which are exempt from the Lumber Agreement, running \$100 million a year more than Canadian export data. This strongly suggests that exports are being mislabeled as being from the Maritimes. Is Customs investigating any substantial evidence of province-of-origin fraud, as suggested by the Maritimes export data?

Answer: U.S. Customs has no authority to conduct investigation in Canada. Pursuant to the Softwood Lumber Agreement, apparent cases of province-of-origin fraud are reported to the Canadian Department of Foreign Affairs and International Trade for appropriate action under Canadian law. In 1997 Customs conducted a maritime province intervention designed to detect circumvention alleged by the U.S. softwood lumber industry. This effort revealed only limited discrepancies, such as record-keeping errors rather than false documentation or transshipment.

DEVALUATION OF BRAZILIAN REAL

Question: The recent (November) \$41 billion aid package to Brazil was called a "firewall,"—predicated on stable currency. Yet in the past few weeks, the real was devalued and then allowed to float. It has already lost 30 percent of its value against the dollar and there appears to be little sign that it or the Brazilian economy is stabilizing. Will the devaluation of the Brazilian currency threaten more devaluations in Latin America and possibly Asia. If not, why not?

Answer: Global financial pressures, natural disasters, and depressed commodity prices have all taken their toll on Latin American countries. These pressures have exposed some of the weaknesses in domestic policies. Most countries, including Brazil, have taken strong remedial measures but these have not always been sufficient, or in time.

Although turbulence in Brazil's markets is having some contagion effects on other emerging markets countries and will temporarily result in higher interest rates and slower growth, a commitment to prudent fiscal and monetary policies by these countries will limit the extent of this contagion.

Where appropriate, the Administration has supported engagement of the International Monetary Fund and the multilateral development banks to help countries design and monitor economic programs aimed at alleviating balance of payments problems; this is an avenue that we continue to support, especially for those countries that may be temporarily but adversely affected by Brazil's current situation.

Question: Why did the IMF package not prevent the devaluation of the Brazilian Real?

Answer: Since Brazil's large fiscal and current account deficits made it vulnerable to changes in investor sentiment, the IMF program (backed by bilateral support through the BIS) included ambitious fiscal adjustment measures to tackle this underlying problem.

Although the Brazilian government was relatively successful in passing the programmed fiscal measures or finding interim offsetting measures, delays in passing some of the fiscal measures coupled with reports that a key state-governor was unwilling to service his state's debt to the federal government eroded market confidence, resulted in a drainage of reserves, and forced the devaluation and float.

IMF AUSTERITY POLICIES

Question: What is the Administration's view of the IMF's austerity policies? Where are they working and where are they failing?

Answer: IMF programs typically involve a range of reforms to address major fiscal, monetary or external imbalances and to promote other measures to restore economic competitiveness and modernize the legal and regulatory environment—all with the objective of restoring conditions for sustained, broad-based growth. Such measures might include steps to strengthen financial systems, restructure the corporate sector, and enhance the transparency of policies and economic data. Initially, strict fiscal discipline and maintenance of high interest rates may be required to curb capital outflows and currency attacks—and thereby to restore investor confidence. Within these parameters, the IMF makes every effort to work with countries to identify reforms consistent with their circumstances, and the conditions negotiated can be altered over time if the economy does not respond as expected.

In the recent crises, those countries that adhered most faithfully to policy reforms agreed with the IMF have been most successful in calming financial markets and creating the basis for resumed growth. The experiences of Korea and Thailand provide examples; both economies appear to have bottomed out and are beginning to see increases in real exports and some tentative signs of recovery in economic activity.

At the same time, it is important to recognize that the world today is much different than the one in which the IMF has functioned in the past. Many of the recent problems have emerged from capital account rather than current account problems. And money is moving much more rapidly across borders than before. These changes require the IMF to evolve, both with respect to its surveillance and crisis prevention activities and its approaches to crisis response.

We are working within the IMF to advocate appropriate changes. Among other things, we are working to promote the reforms laid out in recent legislation providing for U.S. participation in the IMF quota increase. Specific priorities include: reducing directed lending and subsidies; supporting trade liberalization; and advocating non-discriminatory bankruptcy procedures.

ARGENTINE DOLLARIZATION

Question: The Argentine Government proposed replacing their domestic currency with the U.S. dollar. What are your thoughts on that idea?

Answer: The choice by a country to dollarize its monetary system—to adopt some other country's currency for its own use—is tremendously consequential for that country. Dollarization offers the attractive promise of enhancing stability in the dollarizing country by adding to the credibility and discipline in its economic and financial policies and advancing its integration with the world economy, thereby, promoting its growth and prosperity. However, the country also must be prepared to embrace that discipline and accept the potentially significant consequences of doing without monetary independence externally—exchange rate adjustment—and internally—the direction of interest rates. It would not be appropriate for U.S. authorities to adjust their bank supervisory responsibilities, access to the Federal Reserve discount window, or procedures or orientation of U.S. monetary policy in light of another country's decision to dollarize its monetary system. Any country contemplating dollarization will have to weigh carefully these considerations and many others, and it would be appropriate that its representatives do so in consultation with the U.S. authorities so that we can jointly think through the implications for both of our economies.

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Question: As you know, Argentina is engaged in a debate over dollarization. What is Treasury's view of the matter, and how would Treasury view other countries initiating similar moves?

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PREPARED STATEMENT OF JOHN J. SWEENEY

Mr. Chairman, members of the Committee, thank you for this opportunity to present the views of the AFL-CIO on this important and timely topic.

Mr. Chairman, as you begin your work in the 106th Congress, I believe that you must set the often arcane and mind-numbing details of trade policy—tariff schedules, sectoral negotiations, product classifications—in a larger context. In fact, you are writing rules that establish the terms of engagement for the global economy.

The process of global economic integration is well underway. We cannot stop it, nor should we try. Product, capital, and labor markets are increasingly transnational just as the process of production is. These integrating forces can help us meet our shared objective of seeing to it that working people everywhere enjoy a better life and that the benefits of rising output and rising profits are broadly shared. But, this does not happen automatically. The way we write our trade rules can, and must, help guide the process. Markets are powerful, and as they spread across the globe their power is intensified. But, by themselves, markets are not enough. They must be constrained by rules of the road that harness their power toward our highest aspirations.

Indeed, as we have seen in recent months, the power of the capital markets can bring productive well-run economies to their knees and leave millions of workers devastated in their wake. Global flows of goods, unleashed by devalued currencies, have wreaked havoc in our domestic steel industry—a model of an American indus-

try whose workers and firms did all of the right things to turn their industry into the world's best and most productive.

These outcomes are not inevitable we can and must moderate the tendency of markets to overshoot and over-correct, and their tendency to pit worker against worker, firm against firm, and country against country in a competitive spiral that makes all of us worse off.

We can do better. As we write the rules—in trade agreements, in investment agreements, in our leadership in the multilateral institutions, and in our development assistance programs we must seek to assure workers at home and abroad that their interests are at the top of the agenda. U.S. trade policy is one crucial element in this project, one that must be addressed sooner rather than later.

We in the American labor movement support international engagement and trade. Indeed, we are in daily communication, consultation, and dialogue with our union brothers and sisters all over the world. We see that the fate of American workers is irretrievably tied to the fate of workers abroad. The pursuit of our goals here at home—giving working families the chance to succeed at fair and dignified employment cannot be achieved if workers anywhere are disempowered and disenfranchised.

Even with a stronger economy, too many working people in the United States are working harder, longer, with little security. Families are under greater pressure, with both parents working. Child care is scarce, costly and of poor quality. More people go without health insurance—over 42 million at last count—and 70 million are unable to afford adequate coverage. And in this rich society, a staggering one in four children under the age of five is being raised in poverty.

Thus, even at the height of the business cycle and the stock market, the global marketplace does not work very well for working people.

The debate over trade policy has focused on a phony choice between free trade and protectionism. It should be clear by now that we are not debating whether the United States will continue to trade and invest with the rest of the world, or even whether trade and investment flows will continue to grow. We are instead debating whether trade, investment, and financial policies should protect only a narrow set of commercial interests—or whether we can write rules for the global economy that will lead to broadly shared prosperity.

It is heartening to see the beginning of a new consensus that we need not sacrifice our standards and our values to achieve economic growth, even in a global economy. Freedom of association and a vibrant union movement are essential building blocks in politically stable capitalist economies. Countries that allow their children to work instead of attend school squander their own economic future for dubious short-term gains.

Let us agree on the principles we value, and then let us work together to design a coherent and consistent set of international policies that will uphold and advance these principles. The world community has agreed three times now—at the United Nations Social Summit in Copenhagen in 1995, at the first World Trade Organization ministerial in Singapore in 1996, and last June when the International Labor Organization (ILO) adopted the Declaration on Fundamental Principles and Rights at Work—that all countries, rich and poor, will respect and promote core worker rights. These include the freedom of association and the right to bargain collectively, and the elimination of forced labor, child labor, and discrimination in employment.

Every worker in every country deserves these fundamental rights, and we must use all of the resources in our toolbox of policies to see that laws promote these rights and that countries effectively enforce their laws. Over time we hope this will lead to an upward harmonization of living standards, as well as rights. We must also ensure that the volatility of the global economy does not ravage the lives of innocent bystanders, whether they are American steelworkers or Indonesian garment workers.

If we agree on the principles we seek to uphold in the global economy, we must next reach agreement on the means to promote these principles. It is often argued that worker rights and environmental protections are tangential to global economic rules, that these so-called social objectives can have nothing to do with the international trading system.

Yet unions, wages, working conditions, and workers' rights, as well as the type and form of environmental protection, all represent economic decisions by employers, workers, and governments. These decisions affect the location of production, the price of traded goods, and the pattern of international trade. The distribution of the rewards from the international trading system depends upon the rules governing worker rights and the environment. Changing those rules will improve the outcomes.

Let me illustrate my point with an example. For decades, we were told that we had to look the other way as Indonesian President Suharto jailed labor leaders and quashed democratic opposition, since the Indonesian economy was growing and trade and investment flourished. But the form of capitalism practiced by the Suharto government proved unstable.

The people of Indonesia, students, workers and ordinary citizens demanded change. And finally after continued pressure by the AFL-CIO, other labor and human rights organizations, and with the support of the U.S. government, labor leader Mughtar Pakpahan is free and Indonesia is starting to ratify the ILO conventions and revise its labor laws. A fragile transition is now underway and workers will have a central role to play in overcoming the current economic and political crisis, or they will contribute to growing political instability if they feel powerless and hopeless in the face of plummeting living standards.

Twenty miles outside Jakarta, Pakpahan's union has just organized a paperclip factory employing 500 young women. They have democratically elected their officers. One of the 3 officers is a 19 year old woman, Susiana, who now makes above the minimum wage and will vote in the upcoming elections. Susiana is the best hope for the future of her country. Young, empowered, union member, employed and hopeful.

These early changes in Indonesia did not come about because we continued to open markets, sign off on loans, and look the other way. They did come because we threatened to cut off trade benefits through our Generalized System of Preferences (GSP) program and because the U.S. government raised the imprisonment of Mughtar Pakpahan in the context of the international loans and aid requested by the Indonesian government; in short, because we insisted that the abuse of workers' rights not go unnoticed and applied economic pressure to achieve that goal.

The reason to embed workers' rights and environmental standards into trade agreements is not that all governments and all companies abuse these rights, or even that most do so. The reason is that we need stronger tools to deal with the exceptions, the stubborn outliers, the bad players in the international system. Each time a worker is denied his or her basic human rights, that denial reverberates through the system, making it that much harder to uphold rights elsewhere. Markets need rules to function efficiently, and the absence of rules protecting minimum standards on labor and the environment leads to a distortion that undermines economic efficiency.

Globalization as we know it is in crisis, and so are the policy initiatives designed to stay and extend the current course. The conventional wisdom that opening markets constituted a complete solution in and of itself has been proven wrong. A policy of trade and investment liberalization without a social dimension has failed to protect and improve living standards at home for the majority of the work force. It has failed to spur equitable, stable, and sustainable development in our trading partners.

The enforcement of core labor standards is the ethically right decision. It is also the economically right decision. Such standards help promote faster more equitable growth around the world. They give workers economic voice and contribute to the development of a real middle class. This is the lesson of our own history. Higher wages contribute to workers developing a real stake in their jobs, and productivity rises. Higher, more equitably distributed incomes also foster domestic demand, thereby shifting the global economy away from its excessive and unstable reliance on export led growth.

For all these reasons, we need a dramatically different approach to U.S. trade policy, both substantively and procedurally. We have called this the new internationalism a demand for effective governance that will secure basic worker rights, environmental and consumer protections, and sensible financial regulation.

First, any new grant of trade negotiating authority must ensure that all trade agreements, including bilateral, regional, and multilateral agreements, incorporate enforceable labor and environmental standards as an integral component of the core agreement, not in weak and unenforceable side agreements.

Unilateral grants of preferential trade benefits should also meet this standard at a minimum. For example, the extension of NAFTA benefits to the Caribbean and Central American countries must not come at the expense of workers' rights. And any bill laying the groundwork for a closer economic integration with Africa must ensure that workers' rights and environmental standards are central to that process.

Second, if we are to move forward with new trade authority, it is essential that we undertake needed reforms in U.S. trade policy. The volatility of the global economy must not be allowed to destroy efficient and productive U.S. industries. While long-term solutions must be found to reduce the volatility of speculative capital

flows, we must also take immediate steps to ensure that American workers do not bear the entire brunt of global economic collapse. This will require strengthening and streamlining safeguards provisions in U.S. law—at a minimum ensuring that Section 201 can be applied more quickly and effectively when import surges cause injury to domestic industries. Other measures may also be necessary.

And, urgently, immediate steps must be taken to address the flood of under-priced imported steel coming into our market. U.S. workers must not be the latest victims of international financial collapse.

Third, because trade agreements have become so much more complex in the last decade, it is appropriate for the Congress to retain a stronger consultative role in trade negotiations. Delegation of trade authority should require Congressional approval to “enter into” a specific agreement, rather than giving Congress a role only in crafting implementing legislation. In addition, Congressional certification that objectives have been met at each stage should be required.

Fourth, we need to address the problems faced by the developing countries more directly, by offering deep debt relief and development funds as part of an overall program of engagement and aid. Trade preferences linked to improved labor rights and environmental standards change the financial incentives for countries seeking market access and increased foreign direct investment; debt relief and aid can help provide the resources necessary to implement higher standards.

Finally, we would like to see the U.S. government enforce existing trade laws and agreements more aggressively. We need to use the worker rights provisions in GSP more consistently and effectively, to send a message to our trading partners that these issues are of importance to us. China's failure to abide by the 1992 memorandum of understanding and the 1994 market-opening agreement should not go unchallenged, and China's recent jailing of trade unionists should be raised in the context of China's bid for WTO accession. The U.S. government also needs to address the problems of chronic trade imbalances and offset agreements, whereby U.S. technology and jobs are traded for market access.

We have been encouraged by the Clinton Administration's willingness to highlight the importance of labor and environmental standards in international agreements, most recently in the State of the Union address. We support the Administration's initiative to fund additional ILO programs to help developing countries implement core labor standards more effectively. We hope to see concrete progress in these areas this year.

Trade is not, by itself, the cause of today's global difficulties, and better trade policy alone can not solve them. We also have to simultaneously continue our work on the domestic front, as well as make sure that our policies toward investment, development, and the international financial institutions support rules of international competition that are socially and economically rational, humane, and politically viable. We need to start changing the rules of the globalization game—not just so we can have more trade, but so we can build a better world, for working families here and abroad.

Mr. Chairman, members of the Committee, I thank you for your time and attention, and for taking the initiative to hold these hearings. I hope the issues we are discussing here today will form the basis for a lively and constructive dialogue in the year to come.

RESPONSES OF JOHN SWEENEY TO QUESTIONS SUBMITTED BY SENATOR GRASSLEY

Question: If the AFL-CIO opposes trade negotiating authority because it does not include provisions on the environment and labor issues—and it is defeated in Congress, I think that you should be aware of the consequences to the pocketbooks of union members. The rest of the world will move on without us. Already Canada and Mexico—but not the U.S.—have signed free-trade agreements with Chile that will give Canadian and Mexican exporters an 11 percent tariff advantage over U.S. firms. Since 1994, U.S. firms have lost potential exports to Chile of nearly half a billion dollars each year. Many of these firms use union labor. Some of them may not have jobs to go back to if we don't get trade negotiating authority. And Chile is just one country. Since 1992, our competitors in Europe, Asia, and Latin America have negotiated 20 regional trade agreements without our participation. Tens of thousands of union jobs could be at stake if trade negotiating authority fails.

How will you advance the cause of labor if these jobs are lost to our global competitors?

Answer: What is important to American workers is not the number of trade agreements signed by the United States, or even the total volume of trade, but rather

whether the rules under which that trade takes place allow the benefits of freer trade to be shared broadly.

It is worth noting that the United States runs a healthy and growing trade surplus with the non-NAFTA countries of South and Central America. This is in stark contrast to our NAFTA trading partners, with whom we ran a \$34 billion trade deficit last year (compared to a \$9 billion deficit in 1993, the year before NAFTA went into effect).

Many factors determine the overall health of any bilateral trade relationship, including currency values, relative growth rates, and the composition of exports and imports. Trade agreements and the level of tariffs are only one small component of that picture. The Mexican peso crisis of 1994-95, and the Asian/Russian/Brazilian crises of 1998-99 did more to skew our trade balance and undermine our exports than any minor tariff adjustments our negotiators might have put in place in the preceding years.

In any case, the tariff advantages Canadian and Mexican exporters have over U.S. exporters in Chile are significantly less than 11%, as stipulated in the question. Chile has taken steps to unilaterally reduce its overall tariffs from 11% to 6% over the course of the next five years, with all of its trading partners, regardless of whether or not they have signed a trade agreement. And the benefits to Canada and Mexico are phased in over several years, leaving the current tariff differential quite small. These small tariff differences are unlikely to affect as much as half a billion dollars worth of exports each year, when total U.S. exports to Chile are only about \$4 billion annually.

We need to dramatically rethink our trade policies before we attempt to expand our old, failed policies, in our hemisphere or elsewhere. We hope the Senate Finance Committee will bring an open mind to this important debate.

PREPARED STATEMENT OF MARK VAN PUTTEN

I am Mark Van Putten, President and CEO of the National Wildlife Federation (NWF). NWF is the United States' largest not-for-profit conservation education and advocacy organization with over 4 million members and supporters. For nearly ten years, the National Wildlife Federation has been involved in the development of United States trade policy. Our members are America's mainstream and main street conservation activists who understand the link between sustainable economic development and environmental protection.

We appreciate this important opportunity to briefly present our views on the critical relationship between trade and the environment and its constructive role in future United States trade policy. NWF is committed to engaging the United States and its vital trading partners in the pursuit of an open and transparent trading policy that integrates markets while enhancing our capacity to protect the global environment.

Trade and the environment are inexorably linked. The challenge is no longer whether United States trade policy should recognize these linkages, but how to respond to them in a constructive manner so as to move the environment and trade agendas forward in tandem.

In the interest of building essential broad-based public support for United States trade initiatives, NWF urges Congress and the Administration to take concrete steps towards assigning meaningful value to environmental concerns by fully integrating environmental protection goals into United States trade policy.

I. THE RELATIONSHIP BETWEEN THE INTERNATIONAL TRADE REGIME AND ENVIRONMENTAL POLICY

A. Background—The Principles of the GATT/WTO Regime

While environmental issues were not integral to the thinking of its original authors, the core principles of the General Agreement on Tariffs and Trade (GATT 1947)[1] and its recent successor, the World Trade Organization (WTO),[2] have important implications for environmental protection. Generally speaking, WTO rights and obligations impose certain disciplines on its signatory parties—or member nations. The following principles represent GATT's core disciplines:

Article I of the 1947 original GATT text establishes the Most-Favored-Nation principle (MFN). MFN aims to ensure that each member nation grant any privilege or advantage it provides to a product from one member immediately and unconditionally to "like products" from, or destined for, all WTO members. MFN

effectively requires all member nations to treat products from all other WTO members in the same manner.

Article III establishes the National Treatment Principle, which requires members to treat any imported "like product" in the same manner as they would treat domestic "like products". GATT/WTO dispute settlement panels have traditionally defined the term "like product" narrowly so as to prohibit distinctions in products based on the manner in which they were produced, or process and production methods (PPM). At its core, National Treatment is designed to prevent the discrimination of imported products in favor of domestic products.

Article XI establishes a prohibition on quantitative restrictions and seeks to prohibit such trade actions as quotas, embargoes, and licensing schemes on imported or exported products. If a WTO member is challenged with violating any of the above obligations, the member has recourse to the GATT 1947.

A WTO member country challenged with violating any of the above obligations has recourse to the GATT 1947 General Exceptions. Article XX(b) and (g) are the exceptions most frequently cited in trade disputes that involve the environment and natural resources.[3] Article XX also allows exceptions from the WTO general obligations to, *inter alia*, protect public morals, distinguish products manufactured with prison labor, exclude commodity agreements that meet certain criteria, and meet emergency shortages of supplies.

Thus, if the trade provisions of a WTO member's environmental policy are challenged as a violation of its WTO obligations, the defendant country may attempt to justify the measure as "necessary to protect human, animal or plant life or health" (Article XX(b)) or, "relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption." (Article XX(g)).

In addition to Article XX, the nexus between trade and the environment is frequently addressed within the context of the WTO Agreements on Technical Barriers to Trade (TBT Agreement) and the Sanitary and Phytosanitary Agreement (SPS Agreement).

The TBT Agreement seeks to ensure that the nondiscrimination and national treatment provisions of the WTO as a whole are specifically applied to the adoption of technical regulations by members.[4] The TBT Agreement emphasizes deference to international standards in the creation of regulations governing, among others, product characteristics, process and production methods, labeling, and packaging.[5]

The WTO SPS Agreement attempts to prevent non-tariff barriers to trade in the form of environment and health measures designed "to protect animal or plant life or health within the territory of the Member" through restrictions on invasive species, additives, pesticides, and other contaminants. In similar fashion to the TBT Agreement, the SPS Agreement places additional disciplines on WTO members so as to ensure that measures are not to be "maintained without sufficient scientific evidence", nor be maintained "if there is another measure, reasonably available ... that achieves the appropriate level of protection and is significantly less restrictive to trade." [6]

If a dispute arises, a complaining party may request the appointment of a panel to settle the disagreement. The panel hearings are between governments and are generally closed to the public and non-governmental organizations (NGOs). Panel reports are adopted within sixty days of the issuance unless a member initiates an appeal or it is the consensus of the other members not to adopt the report. If a member chooses to ignore the recommendations of a panel, the complaining member may seek compensation in the area of trade directly related to the dispute or, if necessary may cross-retaliate in another trade sector. As a result, a member country whose environmental regulation is found by a WTO dispute settlement panel to be inconsistent with WTO obligations is immediately susceptible to significant pressure to either alter the environmental law in domestic administrative processes or provide compensation to the complaining WTO member.

B. Implications for National and International Environmental Policy

The GATT/WTO trade principles have direct implications for a host of environmental laws. Any national or multilateral environmental measures attempting to accomplish their environmental objective that results in the application of trade restrictions with disproportionate impacts on different WTO members runs the risk of being in violation of the MFN principle. The trade provisions of a multilateral environmental agreement (MEA), the Montreal Protocol on Substances that Deplete the Ozone Layer, that promote different trade restrictions among WTO members based on their status as parties or non-parties to the Protocol may violate the MFN principle. Similarly, an environmental measure that attempts to distinguish products based on the environmental consequences of their production (e.g. tuna caught

in a manner that harms dolphins as opposed to tuna caught without producing dolphin mortality) may violate the national treatment principle. Finally, if an environmental regulation restricts the trade in a particular product via a trade ban, the regulation in question may be declared inconsistent with Article XI's prohibition on quantitative restrictions. For example, the United States trade restrictions on shrimp products caught in a manner that harms sea turtles were recently found to be in violation of Article XI by a WTO dispute settlement panel.

In addition to the core principles, WTO members are increasingly demonstrating a propensity to utilize the TBT and SPS Agreements to impose additional disciplines on national and international environmental policies. For example, WTO members continue to explore measures designed to discipline voluntary environmental labeling and certification programs by advocating adherence to the TBT Agreement and a list of additional principles requiring ecolabeling programs to be, *inter alia*, "based on sound science" and "no more trade restrictive than necessary".^[7] Ecolabeling proponents remain concerned that the new disciplines inherent in the recent proposals and the principles of the TBT Agreement go well-beyond the requirements of MFN and national treatment obligations and may place WTO dispute settlement panels in the position of interpreting the substantive merits of individual and voluntary environmental labeling programs.

Similarly, the SPS Agreement requires national environmental measures to adhere to additional trade-based disciplines and allows significant deference to international standards. As a result, many national environmental and health authorities remain concerned that the SPS Agreement will allow WTO dispute settlement panels to sit in judgment of societal policy choices such as determinations relating to appropriate levels of risk and/or may defer to occasionally weaker international standards in the interest of promoting trade.

As noted earlier, when differences of opinion over national policy and its relationship to trade rules arise, member nations seek a resolution via the new dispute settlement system established in conjunction with the WTO. Thanks in large part to United States leadership in the post-WW II era, the use of tariffs to impede the flow of goods around the world has diminished considerably. As a by-product of this success in tariff reduction, the WTO dispute settlement system has increasingly been called upon to confront the trade-distorting effects of non-tariff barriers. Within the international trade regime, domestic and international environmental regulation is often suspected, rightly or wrongly, of rising to the level of an actionable non-tariff barrier to trade.

The WTO Dispute Settlement Understanding encourages members to enter into informal negotiations in an effort to reach a mutually agreed solution.^[8] If a resolution of the matter is not forthcoming, a challenging member invoking the dispute settlement procedures is entitled to a *prima facie* assumption that the trade provisions of the environmental measure being challenged are inconsistent with the WTO rules. The burden of proof to rebut the charge is on the defendant member seeking to implement the environmental regulation.

In response to the preceding trade and environment linkages and in the interest of forging a new consensus on United States trade policy, NWF proffers the following recommendations as potential objectives for future United States trade initiatives:

Establish Appropriate and Reasonable Limits to International Trade Agreement Influence on Legitimate National and International Environmental Measures

The potential conflict between existing WTO trade rules and the use of trade measures in MEAs has to be addressed. MEAs use trade measures to promote environmental cooperation and enforcement through the use of a variety of positive and negative incentives related directly to the environmental problem at issue.^[9] For example, MEAs utilize trade provisions to regulate the trade in a "target" product or substance primarily responsible for the environmental degradation—such as ozone depleting chemicals or trade in animal parts derived from endangered species.

Frequently, many of the trade provisions in MEAs require MEA parties to restrict trade in an environmentally damaging product with non-parties to the MEA. Under these circumstances, a non-party to the MEA that is a WTO member may allege a violation of their WTO MFN rights and obligations as a result of the differential treatment. In addition, trade restrictions in MEAs that encourage wholesale bans or embargoes of products may also be deemed inconsistent with Article XI's prohibition on quantitative restrictions.

The National Wildlife Federation strongly supports global efforts to negotiate and implement MEAs. In general, MEAs encourage transparency and nondiscrimination, and simultaneously discourage alternative unilateral measures that may lead to further trade tensions. Traditionally, well-supported MEAs provide certainty for busi-

ness and discourage "free-riders" from attaining competitive advantages over law abiding competitors. Negative economic consequences for products not related to the environmental harm at issue are rare and the GATT Secretariat has acknowledged that "none of the existing MEAs contain provisions for discriminatory trade measures to be taken against unrelated products in the case of non-participation or defection." [10]

Congress and the Administration should propose at the upcoming WTO high-level Trade and Environment meeting in March 1999 and at the WTO Ministerial in November 1999, clear guidelines to limit the international trade regime's role in the establishment or enforcement of domestic and international conservation policy. A major objective should be to establish clear policy guidelines on the relationship between MEAs and trade agreements.

The United States needs to demonstrate leadership in working with other WTO members, MEA parties, and the international environmental NGO community to establish a framework in which the laudable goals of trade liberalization and multilateral environmental protection may co-exist. We pledge to work with Congress and the Administration to:

- Build on the NAFTA model. The United States' commitment to multilateral environmental solutions to international environmental issues as reflected in Article 104 of NAFTA made important strides towards increased deference for MEAs addressing shared international environmental issues such as the trade in endangered species, transboundary hazardous waste, and ozone depleting chemicals. [11] We urge the United States to consider an expansion of the list of MEAs eligible to be "grandfathered" into existing trade agreements. [12]
- Enhance WTO Deference to Legitimate MEAs. The United States should seek clarification of WTO rules to allow explicit deference to the independent institutions of established environmental expertise on questions of appropriate environmental policy in the global commons. For example, the WTO should establish a formal link to the United Nations Environment Programme (UNEP) as an appropriate venue for providing initial arbitration and expertise services to the WTO in the face of a dispute involving an MEA and WTO rules;
- Modify the WTO SPS Agreement. While we accept the GATT/WTO principles of nondiscrimination as reflected in the MFN and national treatment obligations, it is also important to recognize that the specific quantifiable level of risk chosen by a WTO member should not be subject to review by a WTO dispute settlement panel. As an appropriate starting point in considering modifications to the SPS Agreement, the United States should seek explicit language in the text of the WTO's Sanitary and Phytosanitary Agreement similar to the language contained in the Uruguay Round Statement of Administrative Action. The United States has stated that the SPS Agreement's definition of appropriate level of protection explicitly affirms the right of each government to choose its levels of protection, including a "zero risk" level if it so chooses. A government may establish its level of protection by any means available under its law, including by referendum. In the end, the choice of the appropriate level of protection is a societal value judgment. The Agreement imposes no requirement to establish a scientific basis for the chosen level of protection because the choice is not a scientific judgment. [13]

In addition, trade rules must explicitly ensure that sovereign nations may continue to adopt and maintain legitimate, nondiscriminatory protective standards for health, safety, and the environment. [14] President Clinton has stated in an address marking the 50th Anniversary of the WTO "Enhanced trade can and should enhance—not undercut—the protection of the environment. [I]nternational trade rules must permit sovereign nations to exercise their right to set protective standards for health, safety and the environment and biodiversity. Nations have a right to pursue those protections—even when they are stronger than international norms."

II. HARNESSING COMPETITIVE ENERGY TO WORK FOR THE ENVIRONMENT

Manufacturers tend to operate using a simple but powerful logic—establish the rules, then produce the highest quality product while minimizing costs. The vast majority of businesses abide by those rules, and seek competitive environments where they know their colleagues do the same. Regrettably, some businesses try to exploit loopholes in international trade and investment rules to cut costs and create competitive advantages. Trade rules that do not acknowledge limited distinctions in products based on the manner in which they are produced (PPMs) or fail to aggressively curtail the use of environmentally damaging subsidies perpetuate an uneven competitive playing field. From the perspective of law-abiding businesses, to ask producers, operating in compliance with domestic environmental laws, to compete

against foreign-based companies that compete by polluting the environment or destroying natural resources is inadequate trade policy and is simply not fair.

Trade rules can be written in a way to encourage environmentally responsible behavior, and to prohibit businesses from exploiting the loop holes that exist in the current international trade framework.

The National Wildlife Federation recommends the following:

1. **Resolve the Process and Production Methods (PPMs) Dilemma:** To promote a competitive level playing field, Congress and the Administration should work diligently to adopt appropriate criteria to ensure that legitimate environmental policies regulating production process methods are preserved from challenge in a trade dispute. Initial criteria should allow WTO members to distinguish products based on the manner in which they are produced in limited and clearly defined environmentally-related circumstances. For example, distinctions in products made with environmentally adverse consequences for the global commons (e.g. products produced with ozone depleting substances) and in measures designed to protect threatened or endangered species should be deemed consistent with WTO rules.

2. **Eliminate Environmentally Perverse Subsidies and Promote Trade in Environmental Technologies:** Renewed attention and energy must be devoted to delivering eminently achievable "win-win" solutions in the trade and environment interface. For example, the elimination of perverse and environmentally damaging subsidies in natural resource sectors such as fisheries and forest products may result in positive gains for both the environment and trade. The United States should seek enforcement of current WTO notification requirements and rules governing the elimination of subsidies while promoting the inclusion of subsidies in the 1999 WTO ministerial negotiating agenda. In addition, improved efforts to facilitate the trade in environmental technologies, while not a panacea to the resolution of all trade and environment conflicts, would represent a positive step forward.

3. **Conduct Environmental Assessments:** A commitment to sustainability and access to information argue forcefully for the initiation of comprehensive environmental assessments of natural resource sector liberalizations in the early stages of the trade negotiating process and upon completion of trade negotiations. The United States should build on and strive to strengthen the positive experiences associated with environmental reviews prepared for NAFTA and the Uruguay Round Agreements establishing the WTO. In addition, the United States and our OECD trading partners have agreed that "governments should examine or review trade and environmental policies with potentially significant effects on the other policy area early in their development to assess the implications for the other policy area and to identify alternative policy options for addressing concerns."^[15]

NWF stands committed to working with members of the Committee and the Administration in developing specific and practical environmental assessment proposals. The goal of the assessment(s), and their open public review and comment process, should be to provide accurate information on the relative environmental impact of proposed liberalization in a variety of sectors under negotiation. In instances when a potential environmental harm is identified, the assessment should suggest mitigative measures such as staggered implementation schedules and/or technical assistance to lessen the impact on the environment.

III. SUPPORT COOPERATION ON ENVIRONMENTAL MATTERS AMONG TRADING NATIONS

As trade liberalization leads to increased market integration, the opportunities to foster a meaningful cooperative environmental agenda through parallel environmental institutions multiply. Our own experience working with government officials in Latin America and elsewhere has helped us understand that it is not improvements in environmental protection per se that governments are reluctant to pursue. On the contrary, most government officials are trying hard to develop and implement effective national environmental regimes. What concerns them are two factors:

- In the past, some governments have regarded a number of environmental laws and regulations as thinly disguised protectionism. We recognize improperly crafted environmental policies can lead to unnecessary trade tensions;
- The fear that, if they accept environmentally-based market access conditions, they lack the political will and/or technical resources to fully implement their own environmental laws and regulations.

1. **Negotiate appropriate parallel environmental agreements:** The National Wildlife Federation believes that trade and investment agreements create unique oppor-

tunities to further environmental cooperation among our trading partners that should not be ignored.

In the NAFTA context, the Commission for Environmental Cooperation (CEC) is the trinational environmental institution created by the North American Agreement on Environmental Cooperation (NAAEC) (NAFTA's "Environmental Side Agreement") to address continental environmental issues in the United States, Canada, and Mexico. The CEC attempts to facilitate cooperation and public participation among the NAFTA parties by addressing regional environmental concerns, helping to prevent potential trade and environmental conflicts, and promoting effective environmental enforcement in each of the NAFTA countries. To date, the CEC has been particularly effective in encouraging improved working relationships between the environmental ministers of the NAFTA parties, while at the same time, providing a valuable forum to address transboundary issues of shared environmental concern in North America.

The Border Environmental Cooperation Commission (BECC) is the certifying entity responsible for developing and evaluating border water, wastewater, and municipal solid waste (MSW) projects. BECC has comprehensive criteria to which projects must adhere in order to be considered for BECC certification. These include a project's economic viability and its sustainable development components. The NADBank, now fully funded with \$450 million in equal contributions from the United States and Mexico, is a binational financial institution that may use its funds to leverage additional capital but only for those projects exclusively certified by the BECC.[16]

The BECC/NADBank have been particularly effective in facilitating the development and adoption of sustainability criteria used to evaluate potential environmental infrastructure projects; transparent decision-making processes with public participation from both nations; and capacity building and technical assistance. Despite this progress, several issues which are beyond the scope of this hearing remain a concern for some border communities seeking environmental infrastructure funding, including: interest rates on loans are too high for some communities, particularly in Mexico; without a fee-based utility system, Mexican municipalities must pioneer rate structures and fee collection; border population growth rates have increased rapidly as project development has lagged behind.

IV. TRADE NEGOTIATIONS AND TRADE INSTITUTIONS MUST BECOME MORE OPEN AND TRANSPARENT

As trade negotiations and trade institutions are increasingly faced with the challenge of distinguishing national standards adopted for legitimate health and environmental purposes from those regulatory standards enacted with protectionist intent, the need for meaningful public participation opportunities intensifies. As the recent WTO dispute settlement panel opinion regarding the United States' efforts to protect endangered sea turtles and several other environmentally-related dispute settlement decisions attest, the WTO's review of the trade-related aspects of environmental policy tends to expand rapidly into a substantive review of the overall effectiveness of a chosen environmental policy from a trade perspective.[17] In addition to endangered sea turtle regulations, the WTO and GATT dispute settlement bodies have recently issued rulings on domestic laws addressing appropriate levels of protection for growth hormones in beef[18], air quality[19], and fuel efficiency standards[20]

The National Wildlife Federation recommends:

1. Hold the WTO, FTAA, and Other International Trade Fora Accountable to Democratic Principles: While the United States is to be commended for its efforts over the past two years to increase public participation and transparency in several trade negotiating fora, further progress is within reach. For example, the United States must work diligently to increase transparency in individual sectoral negotiating groups of all trade negotiations and institutions in which the United States actively participates. In the context of the FTAA, the proposed Committee of Government Representatives (CGR), ostensibly created to address civil society concerns related to the FTAA, must not simply become a "mailbox" repository of NGO issues with no significant corresponding influence, nor impact on the negotiating process. The FTAA and other trade negotiations should establish information disclosure policies, document derestriction policies and, clear mechanisms for receiving and responding to NGO participation and comments.

2. Open the Dispute Resolution Process: In all trade regime dispute settlement fora, the United States should, at minimum, fulfill President Clinton's commitment at the WTO to open dispute settlement proceedings to public observation and pursue mandatory consideration of amicus briefs from interested NGO parties.

CONCLUSION

Thank you again for the opportunity to present these views. Let me conclude by stating that the United States must ensure trade rules do not diminish the effectiveness of nondiscriminatory innovative conservation policy, nor reduce the competitiveness of businesses operating in compliance with environmental standards. United States trade policy must continue to support cooperative international trade and environment efforts through the ongoing implementation and expansion of NAFTA's environmental institutions such as the CEC and the NADBank.

As we open markets, the positive and negative environmental consequences of our initiatives must be identified in an open and transparent manner. United States trade policy must reflect decisive action to ensure international trade institutions become more open and accountable to public scrutiny.

As you so keenly recognize, the trade and environment relationship is too important to the well-being and future stability of both the global environment and the international trade regime to neglect. Properly crafted trade and investment agreements can and should promote a cleaner environment, more responsible use of our precious natural resources and healthier lives for all people. We look forward to working with members of this Committee and the Administration on these important issues.

ENDNOTES

- [1] General Agreement on Tariffs and Trade, Oct. 30 1947, 61 Stat. A3, 55 U.N.T.S. 187 [hereinafter GATT 1947].
- [2] General Agreement on Tariffs and Trade—Multilateral Trade Negotiations (The Uruguay Round): Final Act Embodying the Results of the Uruguay Round of Trade Negotiations, Dec 15, 1993, Multilateral Trade Negotiations (The Uruguay Round) Doc. MTN/FA, 33 I.L.M. 1 (1994) [hereinafter WTO Final Act].
- [3] WTO Final Act, Article XX(b), Article XX(g).
- [4] Agreement on Technical Barriers to Trade, GATT/WTO (1994) A technical regulation is defined as:
Document which lays down product characteristics or their related processes and production methods, including the applicable administrative provisions, with which compliance is not mandatory. It may also include or deal exclusively with terminology, symbols, packaging, marking or labelling requirements as they apply to a product, process or production method.
- [5] TBT Agreement, Article 2
- [6] SPS Agreement, Article 3:2 (para. 6).
- [7] See, eg., Trade and Environment Bulletin, Committee on Trade and Environment (CTE), WTO, Press/TE 023, (May 14, 1998).
- [8] Understanding on Rules and Procedures Governing the Settlement of Disputes, WTO (1994).
- [9] See generally, General Agreement on Tariffs and Trade, Trade and the Environment (Feb 12, 1992), 30.
- [10] *Id.*
- [11] North American Free Trade Agreement (NAFTA), Dec 17, 1992, Can.-Mex.-U.S., 32 I.L.M. 296 and 32 I.L.M. 605.

Article 104: Relation to Environmental and Conservation Agreements

1. In the event of any inconsistency between this Agreement and the specific trade obligations set out in:

(a) the Convention on International Trade in Endangered Species of Wild Fauna and Flora, done at Washington, March 3, 1973, as amended June 22, 1979,

(b) the Montreal Protocol on Substances that Deplete the Ozone Layer, done at Montreal, September 16, 1987, as amended June 29, 1990,

(c) the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal, done at Basel, March 22, 1989, on its entry into force for Canada, Mexico and the United States, or

(d) the agreements set out in Annex 104.1, such obligations shall prevail to the extent of the inconsistency, provided that where a Party has a choice among equally effective and reasonably available means of complying with such obligations, the Party chooses the alternative that is the least inconsistent with the other provisions of this Agreement.

2. The Parties may agree in writing to modify Annex 104.1 to include any amendment to an agreement referred to in paragraph 1, and any other environmental or conservation agreement.

- [12] Numerous potential MEA candidates worthy of recognition in trade agreements, such as the Framework Convention on Climate Change and others, deserve further consideration.
- [13] *The Uruguay Round Agreements Act, Statement of Administrative Action* at 89.
- [14] *Address By President Clinton to the World Trade Organization*, Geneva, Switzerland, May 18, 1998
- [15] *OECD Guidelines on Integrating Trade and Environment Policy*, OECD, OCDE/GD(93)99, para A, B, (June 1993).
- [16] Since its inception in 1994, the BECC has certified 26 water and wastewater projects to date, with 14 projects in US. and 12 projects in Mexico. Of those projects, the NADBank has closed financing packages on six projects and has made recommendations for financing on another 8 projects. Total NADBank financial commitment is \$408.4 million (U.S.). Although few in number, these projects represent an exponential increase in water and wastewater system construction in the border region, particularly on the Mexican side.
- [17] See *United States—Import Prohibition of Certain Shrimp and Shrimp Products*, Final Report, WTO, WT/DS58/R, (April 6, 1998) See also, *United States—Restrictions on Imports of Tuna*, GATT Doc. DS29/R (June 1994) (unadopted); *United States—Restrictions on Imports of Tuna*, GATT Doc. DS21/R (Sept. 3, 1991) (unadopted), 30 I.L.M. 1594 (1991); *Canada—Measures Affecting Exports of Unprocessed Herring and Salmon*, GATT Doc. L/6268, GATT BISD 98 (25th Supp. 1988).
- [18] *EC Measures Concerning Meat and Meat Products (Hormones)*, Final Report, WTO, WT/DS48/AB/R, (January 16, 1998).
- [19] *United States—Standards for Reformulated and Conventional Gasoline (AB-1996-1)*, (March 4, 1996).
- [20] *United States—Taxes on Automobiles*, GATT Doc. DS 31/R, at 3-4 (Sept. 29, 1994) (unadopted).
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COMMUNICATIONS

STATEMENT OF THE AIR COURIER CONFERENCE OF AMERICA

This statement is submitted by the Air Courier Conference of America ("ACCA") in response to the Senate Finance Committee's invitation to submit comments regarding U.S. objectives for the World Trade Organization's (WTO) third Ministerial Conference. The invitation was issued in connection with the Finance Committee's January 26-28 hearings on U.S. trade policy.

ACCA is the trade association representing the air express delivery industry; its members include large firms with global delivery networks, such as DHL Worldwide Express, Federal Express, TNT Skypack International Express and United Parcel Service, as well as smaller businesses with strong regional delivery networks, such as Global Mail, Midnite Express and Quick International. Together, our members employ approximately 510,000 American workers. Worldwide, ACCA members have operations in over 200 countries; move more than 25 million packages each day; employ more than 800,000 people; operate 1,200 aircraft; and earn revenues in excess of \$50 billion.

STATUS OF THE EXPRESS SECTOR

Express delivery service is a relatively new and rapidly expanding industry, having evolved during the past two decades in response to the needs of global international commerce. The express transportation industry specializes in time-definite, reliable transportation services for documents, packages and freight. Express delivery has grown increasingly important to businesses needing to use time-sensitive, "just-in-time" manufacturing techniques and supply-chain logistics in order to remain internationally competitive. The express industry has revolutionized the way companies do business worldwide, enabling businesses to rely on predictable, expeditious delivery of supplies. Producers using supplies from overseas no longer need to maintain costly inventories, nor do business persons need to wait extended periods of time for important documents. In addition, consumers now have the option of receiving international shipments on an expedited basis.

Increased reliance on express shipments has propelled the industry to average annual growth rates of 20 percent for the past two decades. The industry's explosive growth is reflected in the rapid expansion of air cargo shipments: the expedited movement of cargo by air now accounts for 37 percent of the value of world trade, a share which is expected to continue to increase.

The express transportation industry is essential to the future growth of world trade and commerce, as more and more trade is centered on the type of high-value goods that are carried by our industry, such as electronics, computers and computer parts, software, optics, precision equipment, medicine, medical supplies, pharmaceuticals, aircraft and auto parts, avionics, fashions and high-value perishables. In addition, the industry encourages small and medium-sized businesses to grow by enabling them to participate in international trade. The express transportation sector, with its integrated services that provide door-to-door delivery, frees small businesses from the burdensome and costly tasks of arranging for the transportation of their goods through a myriad of unrelated and often uncommunicating parties.

ACCA strongly supports free and open trade and investment worldwide. Our operations provide integrated, door-to-door delivery service for documents and packages, and our customers expect value-added services like time guarantees, electronic information, brokerage services and more. Our customers are not as concerned with how their documents or parcels are moved—just that they arrive on time. This could be by plane, train, truck, van, automobile, motorcycle, or even gondola. Consequently, a broad spectrum of issues affects our industry, and includes laws and regulations in the areas of intermodal transportation, air auxiliary services, dis-

tribution, warehousing, customs, postal, telecommunications, logistics, brokerage, insurance, and freight forwarding. For this reason, barriers to international trade in our industry can involve trade restrictions and trade distortive measures in any of these pertinent service sectors.

Barriers to express delivery services

Barriers in any of the numerous operational areas encompassed by express operators can hinder express delivery services. Among the most persistent problems faced by the industry are inconsistent customs clearance policies that add costs and delays to our services. These barriers include:

- restrictions on the value and weight of express shipments;
- delays, generally of at least one day and up to 96 hours, from lengthy customs clearance procedures;
- cargo handling restrictions that force express carriers to use local handling companies—rather than our own employees—to transport our express shipments from the airport point-of-arrival to warehouses where they can clear local customs;
- arbitrary revaluation of declared value of shipments by customs; and
- imposition of a variety of charges and fees for express shipments, including shipments that are transiting one country on their way to their ultimate destination.

Because express operators provide an integrated, door-to-door service, barriers to any element of transportation linked to these services pose a problem for the industry. Unfortunately, in markets worldwide ACCA members encounter a variety of transportation restrictions that limit—and increase the cost of—express service. For the express sector to achieve meaningful trade liberalizations under the WTO, it must be accorded access to land, air and other transportation infrastructures in all markets. For example, arbitrary operating restrictions on carriers to limit their market, such as types of equipment and vehicles that can be used, and weight or size of packages, must be prohibited.

ACCA members also face anticompetitive practices in many markets, particularly with respect to postal operations. Because some of the industry's operations are postal-related (e.g., the delivery of documents and small packages), we are frequently affected by postal policies in foreign countries. In fact, throughout the world, countries exercise varying degrees of authority over the delivery of printed matter.

Many countries have vested the national postal service with local monopolies over the pick-up and delivery of letters and documents. This often imposes unfair or unreasonable restrictions on international service, which limits the operations of international express service companies. While ACCA is not advocating that U.S. policymakers seek the dissolution of national monopolies for domestic postal services, we do believe that the domestic monopoly claim should not be extended unfairly and unreasonably to encompass cross-border services. Unified, end-to-end administrative control makes rapid and reliable international express service possible.

U.S. negotiators should seek WTO commitments that would:

- prohibit a foreign government from determining unilaterally the basic conditions of express service to and from the United States (market entry, price regulation, operating restrictions, and extraordinary or discriminatory taxation);
- ensure that a foreign postal monopoly does not have an outright prohibition against the provision of international service by U.S. express delivery providers;
- prohibit profits derived from services provided by national postal authorities from subsidizing services that compete with foreign companies;
- prohibit taxation of private sector companies from subsidizing a national postal administration's services;
- ensure that national postal administration's parcel and non-monopoly document services that compete directly with foreign companies would be subject to effective and impartial regulatory scrutiny to protect against illegitimate cross-subsidy;
- ensure that a postal administration's competitive services be subject to the same laws and regulations imposed on private companies;
- prohibit a foreign country from unilaterally selecting the U.S. express carrier that may service an international market with restricted entry; and
- prohibit a tax on bilateral services that exceeds the net cost to a legitimate local monopoly carrier; and
- prohibit discriminatory treatment of U.S. carriers.

NEGOTIATION OBJECTIVES FOR THE EXPRESS INDUSTRY

With respect to the WTO negotiating agenda, ACCA urges that express delivery services be a focus of the GATS 2000 negotiations. Specifically, we advocate the ne-

gotiation of pro-competitive regulatory principles for the express sector. These principles should be legally binding on all WTO members, just as is the case for the telecommunications pro-competitive regulatory principles agreed to during the previous GATS negotiations.

We have detailed our proposed set of pro-competitive regulatory principles, which encompasses liberalized customs, postal, air cargo and other policies, in the attached reference list. ACCA looks forward to working with U.S. policymakers throughout the GATS 2000 process to liberalize treatment of express delivery services, thereby expediting the flow of goods globally.

Reference List of Elements of a Fully Liberalized International Express Delivery Service Sector

The following elements are recognized as a general description of a fully liberalized express delivery service environment.

1. In a fully liberalized express delivery service sector, users would have:
 - a. choice of end-to-end suppliers of services for the collection, transportation, and delivery of a range of documents, parcels, and goods; and
 - b. choice of services offering transportation at different levels of cost, priority, convenience, tracking and tracing, and related services.
2. In a fully liberalized express delivery service sector, providers of international express services would be able to collect, transport, and deliver items without:
 - a. restrictions based on the number or nationality of providers (e.g., no international postal monopoly);
 - b. restrictions on access to and treatment by any national network of delivery services, including restrictions on access to the national network of delivery services based on the nationality of the shipper or the origin of non-physical elements of shipments (other than non-discriminatory charges for services used);
 - c. restrictions on access to airport and highway facilities, other than commercially non-discriminatory restrictions based on physical limitations;
 - d. restrictions on the use of facilities and equipment;
 - e. restrictions on type of corporate structure or amount of capital investment; and
 - f. unnecessarily complex or burdensome licensing arrangements or other regulatory procedures.
3. In a fully liberalized express delivery service sector, providers of international express delivery services and users would both benefit from a full range of competitive safeguards that:
 - a. ensure equal application of all laws to all providers and users;
 - b. prevent distortions in the market by prohibiting an operator benefitting from special or exclusive rights in the national market using such rights, directly or indirectly, to gain an advantage in the provision of international express delivery services;
 - c. prevent a state from favoring domestic operators over foreign operators;
 - d. prevent a dominant provider from abusing market power;
 - e. provide clear and accessible (i.e. transparent) laws, regulations and administrative procedures, which would ensure non-discriminatory treatment of service providers and users; and
 - f. explicitly protect service marks and trademarks under intellectual property laws.
4. In a fully liberalized express delivery service sector, investors would have confidence to invest in the sector and in companies reliant on the sector on the basis of:
 - a. stable legal and administrative arrangements that remove the risk of arbitrary or unexpected changes in the commercial environment;
 - b. restrictions against investments by domestic operators where such investments are subsidized, directly or indirectly, from the benefits of special or exclusive rights in the national market; and
 - c. removal of unreasonable restrictions on the repatriation of profits.
5. In a fully liberalized express delivery service sector, governments would permit and facilitate the international exchange of items below a certain value by fundamentally changing the control paradigm to one comparable to that applied to international baggage and postal shipments. For items of higher value, governments would adopt and implement the International Chamber of Commerce guidelines establishing essential requirements for modern Customs administration. This would require Customs administrations to, inter alia:

a. ensure harmonization and simplification by adopting the Harmonized Tariff Schedule, WTO valuation agreement, Kyoto Convention and the WTO non-preferential rules of origin agreement (once the latter is completed);

b. ensure transparency and support trade compliance by publishing a strategic plan (three- to five-year outlook) and an annual business plan, and provide access for trade community input by publishing an annual review of customs performance and soliciting feedback from the trade community;

c. publish and make easily accessible customs regulations and decisions;

d. have legal authority to process essential control data in advance of the arrival of shipments and to use reasonable criteria to identify shipments subject to physical examination and to minimize the percentage of physical exams;

e. separate the physical control (admissibility and release) from the fiscal control (duty and tax payment, statistical reporting), thus permitting release of the goods prior to completion of administrative requirements;

f. apply a de minimis regime whereby goods not exceeding certain values are exempted from formal declaration and entry procedures and from duties, taxes and fees. The de minimis level should be reviewed and regularly adjusted upward;

g. accept data electronically in lieu of paper;

h. release goods at the carrier's point of arrival without requiring their interim transfer to a government-operated or designated warehouse;

i. offer a surety bonding system or other appropriate mechanism (i.e., duty and tax deferral system) to protect customs revenue and ensure compliance with customs laws and regulations without unnecessarily impeding release of cargo;

j. offer periodic account-based processing coupled with post-entry audit controls;

k. adapt their regular working hours to correspond to commercial needs;

l. have government authority to perform certain control functions, at the time of import, for other official agencies;

m. fix, in the absence of any evidence of fraud, a reasonable limit on the time during which it can demand additional duties and/or re-delivery of goods;

n. provide a mechanism for the trade community to question or appeal decisions of local officials to a higher level within customs or to a court of law;

o. consult with the trade community to obtain views on proposed new regulations or procedures, or amendments to existing requirements, and give them timely notice of any eventual changes;

p. ensure that exports are not impeded by statistical reporting or record-keeping requirements;

q. issue binding pre-entry classification and valuation rulings, on request, which would be honored by all ports throughout the customs territory;

r. ultimately operate a nationwide automated system to provide electronic filing facilities for the trade community for both exports and imports, and for the financial community for duty and tax guarantees and surety bonds. This automated system would also provide tariff and related information and eventually all regulations, rulings and other pertinent information;

s. apply the WCO "express guidelines" for consignments for which immediate or expedited release is requested, regardless of weight, value, dimensions, type of operator, or mode of transport; and

t. provide for and make available simplified data requirements and processing methods for low-value imports (informal entries) as distinguished from high-value imports (formal entries). Multiple low-value informal entries should be permitted to be consolidated under a single "consolidated entry." The threshold for low-value entries should be regularly reviewed and increased as necessary to keep pace with inflation and improved customs effectiveness.

6. In a fully liberalized express delivery service sector, governments would have clearly defined responsibility to:

a. provide transparent and non-discriminatory policies;

b. ensure that the regulatory authority responsible for international services is legally and structurally independent, with a legal responsibility to act impartially and expeditiously, and with adequate resources to fulfill its function;

c. support separation of commercial and government functions at inter-governmental organizations;

d. refrain from placing tariffs on electronic transmissions; and

e. simplify the transaction process by adopting f.o.b., rather than c.i.f., as the basis for customs valuation.

American Apparel Alliance

National Knitwear & Sportswear Association
New York City, NY
tel. 212-683-7520

American Apparel Producers Network
Atlanta, GA
tel. 404-843-3171

JANUARY, 26, 1999

For: Members of the 106th Congress of The United States of America

Dear Member:

The apparel production associations listed below, representing some 2000 domestic garment producing companies making clothes in America, have strongly opposed tariff and quota preferences for twenty six countries of the Caribbean and Central America as proposed in various versions of "CBI Parity" legislation in the last Congress. We have also opposed special legislation on apparel from Sub-Saharan Africa. We continue to oppose the application of any such special legislation to apparel.

Other groups claiming to speak for the "American" apparel industry, in fact are representing the interests of American companies which are importing apparel from the Caribbean and other sources. In many cases these companies have shut U.S. production operations in favor of opening new factories or contracting with existing ones in the Caribbean and importing the production to be sold under their brands. One major proponent of CBI parity, Fruit of the Loom, not only closed numerous U.S. factories, but even relocated its corporate persona to the Cayman Islands to avoid certain U.S. taxes. Care should be taken to avoid confusing representations made on behalf of such operations with the voice of actual U.S. garment production.

Our U.S. producing companies believe strongly that preferential trade legislation for apparel imports, whether from the CBI or Africa, would be unnecessary, untimely and unfair. In the end, it would be little different from levying a special national tax on our garment companies and workers to provide a special windfall benefit for a selected group of companies who have deliberately abandoned the U.S. for offshore production. This taxpayer financed hand out cannot be hidden under a bushel basket called foreign aid or humanitarian relief.

Unnecessary: Without special legislation, apparel imports from the Caribbean area have grown during the past decade at annual rates in excess of 17%. (Chart Attached.) That dramatic growth continued through last year, notwithstanding the defeat of Parity Legislation on Nov. 4, 1997 by a vote of 182 to 234.

Untimely: The US is presently experiencing a massive surge of imports from all countries of all products. Adding to the flow cannot be in the national interest, whatever the alleged motivation.

Unfair: Domestic garment producers, both companies and workers, should not be asked to bear the burden of hurricane relief for those few countries in Central America that were impacted last year. Nor can they be asked to pay for the modernization of Sub-Saharan Africa. Those are, if anything, national issues, not industry specific ones.

1. **“Hurricane Relief” or “foreign aid.”** Our concern for the hurricane victims of 1998 is great, but we fail to see how shifting the burden of storm damage from the Caribbean to the American apparel industry can be either sound policy or fair. It would shift damage from South to North while handing millions in duty-elimination windfall profits to US corporate owners who have closed domestic factories in favor of moving production to the Caribbean. (The same duty revenues in the hands of the Treasury at least would be available for foreign aid costs!)

Targeting the garment industry as a “foreign aid” give away harms our companies and takes the jobs of our people. In any such circumstance, it would do this as a response to a problem which is a national rather than specific to our industry. While today it may be garments from the Caribbean and steel from depressed Russia, next month will it be aircraft from financially challenged Brazil? Or will it be a chosen part of the “trade policy” solution to civil war in Africa? The possibilities are endless.

Somehow, “Free Trade” agreements always are proposed as a solution, usually with special immediate emphasis on apparel. Somehow, these proposals are always backed by importing interests who will directly profit from such initiatives, and who bear no risks in them whatsoever. Not surprisingly, we believe this misuse of the foreign-aid/foreign-trade policy process needs to be stopped before this “all purpose foreign policy solution” mentality of giving away domestic apparel production is given legislative blessing.

Insofar as these policy objectives are legitimate, they are national in scope, not industry specific. In the Caribbean case, if any particular industry should be asked to bear the burdens it is the importing segment of the garment industry that has long produced in the Caribbean and sold into the US market. They have profited hugely from the good times, and might reasonably be asked to contribute during the bad. Then, if a consensus to help on a broad scale exists, the burden should be broadly shared, across our nation as a whole. The one certainty here is that responsibility for these immense problems cannot fairly be placed on the workers and firms of a particular industry. Yet that is precisely what the pending CBI Parity legislation would do.

Furthermore, the benefits of such a hurricane relief policy, if adopted, should go to the few Caribbean countries actually damaged by the storms rather than to any and every country with a Caribbean address. Surely such benefits should not go as a windfall to US importers nor to third country exporters like China who will transship

through a maze of countries and facilities beyond the practical reach of our already stressed Customs Service.

General foreign aid and assistance legislation is the way to accomplish this; the equivalent of an "industry-specific bill of attainder" definitely is not.

2. Impact in U.S. More than 730,000 Americans still earn their living in garment production jobs in the United States. CBI preferences, even the most limited form, would force hundreds and perhaps thousands of apparel plant closings and the rapid loss of tens of thousands of these U.S. production jobs. Not all are retrainable to computer programming work. The human disruption of this would be felt wherever apparel is produced, virtually every state in the country. Many small towns and inner city residents will be harmed.

3. Congressional Promises and Administration Promises. When Congress passed the GATT/WTO bill in 1993, our industry was given to understand that as a result of the GATT negotiations, quotas would be eliminated "gradually over an extended period." (Pres. Clinton in transmittal letter on implementing legislation to the Speaker of the House.) Ten years to be exact. Tariff reductions also were negotiated on a ten year schedule. That phase out schedule was adopted, implicitly, if not explicitly, in the implementing legislation putting the Round into effect as of January 1, 1995. The Administration followed provisions of the law in announcing the ten year phase out of quotas as per that understanding, by Federal Register notice of Jan. 30, 1995. As the Ways & Means Committee Report noted, "...the implementing bill establishes the timetable and requirements...of products which the United States will integrate in conformity with ...the Agreement. The SSA details the procedures that will be used....The Committee intends that these requirements provide certainty and transparency for the industry, importers, and retailers as to the timetable for integration of specific products in order to facilitate a smooth transition."(emphasis supplied.)

The proposed CBI legislation on apparel, and similar legislation on Africa, would directly violate that Congressional intent and the clear promise it made to the industry by carving a 75 country loophole in the quota system, an exception so big as to mock the notion of gradual quota phaseout, and by suddenly zeroing out duties that were carefully and deliberately negotiated to be either left alone, or slightly reduced over ten years, in the Uruguay Round deal. Instead of the promised "certainty" and "smooth transition" we would have a dramatic and stunning shock. *Congress, which has recently spoken so forcefully about truth, trust and credibility, should keep its word to the domestic garment industry and workers.*

4. Current trade deficits make import growth legislation especially untimely. These import stimulating bills are pushed on the Congress in the midst of an import surge of historic dimensions. America's merchandise trade deficit is

expected to run upwards of \$250 billion this year; \$300 billion has been predicted by some. In 1998, the deficit in apparel alone neared \$60 billion as Asian and other garment sources took maximum advantage of depreciated currencies.

A number of economists warn that we are balanced on a knife edge with consumer driven growth on one side and the potential of a sudden recession on the other as massive imports across the whole spectrum of manufactured goods exact both a dollar and an employment cost. Foreign countries continue to seek export markets as a solution to their financial woes, and domestic consumption and household debt patterns are impacted not only by actual layoffs but by fear of the clouded economic future.

The full impact of this cannot yet be measured as there is no experience of a deficit this large, nor with restarting large portions of an industry shut down under a flood of imports. It is, therefore, too soon to calculate the long term impact of permanent plant closings. Congress should be wary indeed of the "what me worry" syndrome and of adding to the risks inherent in an unstable international economic environment by opening major new import-growth initiatives at this time.

5. Incremental Trade. Nothing in either the CBI or Africa proposals calls for any reduction of apparel imports from any other source to offset the increases that will surely come from the Caribbean. This newly duty-free trade will add to the flood, it will not displace it. China's leadership has just recently called for promoting exports "through a thousand and one ways" and we must assume they have no intention of ceding the U.S. market to Caribbean or African competitors. Indeed, Chinese companies will jump on any opportunity offered to ship goods through designated duty-free quota-free areas. In sum, these self serving proposals clothed in humanitarian garb are now pressed at an impossible time. They should not be accepted.

6. No Offset For Raw Materials. The uniquely one-sided nature of this legislation does not even have the symmetry of an offsetting grant of duty and quota free status for yarns and fabrics to be used to produce garments in the United States. While such a move would further exacerbate the funding costs associated with this bill, and would increase total imports, elimination of the 7-15 % duty rates on yarn and fabric imports from world suppliers would aid domestic garment producers struggling to remain viable. It would *partially* offset some of the damage that would otherwise be done to domestic production.

7. Finally, Congress should recognize the potential impact of this trade-enforcing legislation on the government's anti-narcotics effort. The President's December, 1998 letter on drug trafficking to the Chairmen of the Foreign Relations committees of the House and the Senate listed the following CBI countries as among the "major illicit drug-producing or drug-transit countries: The


Bahamas, Belize...Dominican Republic, Guatemala, Jamaica, Mexico and Panama."

The President noted that,

"geography makes Central America a logical conduit and transshipment area for South American drugs bound for Mexico and the United States, and that there has been evidence of increased trafficking activity in this region over the past year. Its location...combined with thousands of miles of coastline, the availability of container-handling ports in Costa Rica, Nicaragua, and Honduras, the presence of the Pan American Highway, and the limited law enforcement capability, have made the isthmus attractive to the drug trade. Hurricane Mitch has disrupted traffic flow through the region, but over the longer term resumption or even an increase in trafficking activity remains possible." (White House Release, Dec. 7, 1998) emphasis supplied

Any rapid increase in the flow of apparel containers from the Caribbean to the U.S. is virtually guaranteed to bring with it an increase in narcotics trade, not to mention in transshipped Chinese made apparel. Africa, relieved of duty and quota laws, will be no different. Drug trafficking increased under NAFTA as the surge of vehicles largely overwhelmed Customs' capability to carry out physical inspections. Repeating that mistake with more than seventy additional countries will be costly. What is the relative gain for the United States?

Thank you for your attention to this very important matter.


Seth M. Bodner
Executive Director, NKSA
tel. 212-683-7520
fax. 212-532-0766

The American Apparel Alliance consists of the National Knitwear and Sportswear Association and the American Apparel Producers Network.

Other Associations supporting this letter are:

The Apparel Contractors Alliance of California based in Los Angeles and consisting of four garment contractor associations with more than 1200 companies throughout California as members;

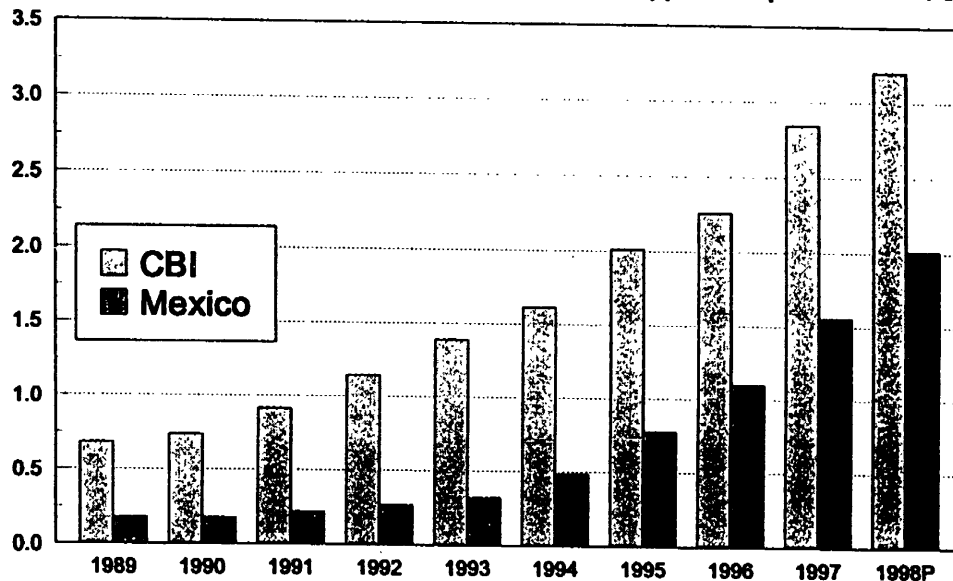
The Atlantic Apparel Contractors Association, Bethlehem, PA;

The Greater Blouse, Skirt & Undergarment Association of NYC; and the Korean Apparel Manufacturers Association of Greater New York.

CBI's Soaring Apparel Exports to the US

Continue to Far Exceed Exports From Mexico

Billions of Square Meters Equivalent: Annual Apparel Exports to the US



U.S. Department of Commerce and MBG Information Services

STATEMENT OF THE AMERICAN APPAREL MANUFACTURERS ASSOCIATION

The American Apparel Manufacturers Association (AAMA) applauds the Committee for holding these hearings. We believe they are important to highlight the importance of intentional trade to our economy, thereby laying the groundwork for a consensus approach to US trade policy.

We are pleased to have an opportunity to participate in these hearings to submit a statement on several areas of international trade on which we have a unique perspective.

AAMA is the central trade association for US companies that produce clothing, responsible for about 85 percent of the \$100 billion worth of garments sold at wholesale in this country every year. Our members manufacture every type of garment and are located in nearly every state. We employ 750,000 Americans, and also manufacture in Mexico, Central America and the Caribbean and import from other parts of the world.

We congratulate the Committee for holding these hearings. Our industry is committed to survive and prosper in a global environment. We need to manufacture and market in many areas of the world and it is in our best interest that the United States take the lead in opening the international trading system.

I. CARIBBEAN BASIN TRADE ENHANCEMENT

AAMA has supported enactment of Caribbean Basin Initiative (CBI) trade enhancement legislation since before NAFTA was enacted. We have long maintained that it is key to the economic survival of the US apparel industry because it gives us the ability to compete against low wage imports from Asian countries.

Sadly, the need for this legislation has been reinforced by two hurricanes that visited severe devastation upon areas of Central America and the Caribbean. Expanding the US/CBI trade relationship will be a vital element in helping the countries of the Caribbean and Central America recover from devastation caused Hurricanes Mitch and Georges.

A. Caribbean Trade Enhancement as an Element of Hurricane Reconstruction

From September 15-29, Hurricane Georges caused extensive damage throughout the Caribbean and parts of the United States. It exacted a particularly heavy toll on Hispaniola, where it was considered the deadliest hurricane in more than two decades.

Less than a month later—from October 22 to November 5—Hurricane Mitch tore up much of Central America before taking a swipe at Florida. For nearly a seven-day period, Mitch pelted Honduras and Nicaragua with 150-mph winds and dumped more than dozens of inches of rain on the two countries. Classified a rare Category 5 Hurricane, Mitch is considered the deadliest hurricane to hit the region in more than 200 years.

In a November 9 letter to President Clinton, the five Central American Presidents asked for Caribbean Basin trade enhancement legislation as an element of the reconstruction effort for Central America. In a November 24 guest editorial in the Washington Post, the Costa Rican President reiterated this point, stating that Caribbean trade enhancement would be a "necessary part of a program of recovery of our region."

The United States—both the government and private individuals and corporations—responded forcefully and quickly in providing cash, personnel, and in-kind contributions for the victims of these disasters. Such short-term relief has been important in helping these countries weather the immediate crisis. US support for long term reconstruction, however, will be necessary to sustain economic growth in the region. US interests in this regard are clear:

- Political and economic instability in the CBI often manifests itself in the US through increased narcotics trafficking or waves of immigrants and refugees.
- Many US residents and communities share family ties with individuals in Central America and the Caribbean.
- The Caribbean Basin is the 9th largest destination of US exports worldwide, and is one of the few regions where we maintain a consistent trade surplus.
- US commercial and security interests demand uninterrupted access to transit routes through the Caribbean Sea and the Panama Canal.

A Caribbean Basin Trade Enhancement package would build upon the successful US/Caribbean partnerships already at work in dozens of locations across the region. It would expand US market opportunities for apparel and other products assembled in Central America and the Caribbean. And because most of that apparel is manufactured using US textiles and related inputs, American workers and their firms would benefit as well.

- Before the hurricanes struck, the apparel sector was already emerging as an engine of economic growth. Now, with severe damage to many other export industries—such as tourism, bananas, and coffee the apparel sector takes on added significance as a source of much-needed foreign exchange and employment.
- The apparel sector is ready to put people to work immediately. In many parts of the region, the apparel sector has escaped severe damage. For example, by mid-November, 1999, Honduran apparel production had again reached 92 percent of pre-hurricane production. Other sources of traditional employment are not likely to recover to this level for many months or years.
- Throughout the crisis, the apparel sector has emerged as a source of stability and relief. Many factories doubled as shelters and hospitals, and served as distribution points for donations—both through official and private channels. Keeping the sector viable, through expanded access to the US market, reinforces this stabilizing role.

Over the past 15 years, the US government and private sector have invested substantial political and financial capital to secure peace and economic prosperity in this region. Passage of a Caribbean Basin Trade Enhancement package—as an element of hurricane reconstruction—keeps that investment viable.

B. Caribbean Trade Enhancement as a key to US Apparel Industry Competitiveness

While the havoc caused by the hurricanes brings urgency to the need for CBI enhancement legislation, AAMA has felt a strong need for it since the onset of negotiations over NAFTA.

AAMA supports the maintenance of a large and viable US apparel manufacturing industry. American apparel companies are not in the business to move jobs offshore. However, we must compete with low-wage imports that have taken over half of our market. In order to compete with low-wage imports, many US companies opened production in Mexico and the CBI countries. Firms often found sourcing from the CBI countries best fit their operations, even though apparel was specifically excluded from the CBI program.

This exclusion was partially offset by the 807 program, which gives us lower average costs, makes US companies more competitive and allows us to maintain significant employment in the United States. Under 807, a \$10.00 garment usually has \$6.00 in US components and about \$4.00 in value-added by offshore assembly. The duty is assessed on only the value-added. That duty is usually about 20%, which on \$4.00 is 80 cents. This is equivalent to 8% on the value of the entire garment. With wholesale and retail markups, a garment from the CBI region carries a penalty of approximately \$3.00, as compared to the same garment coming from Mexico.

In 1986, 807 was modified by the creation of the 807-A program. Under it, duty still was paid, but only on the value-added in the region. However, the creation of Guaranteed Access Levels (GALs) essentially made many products from the region quota-free. 807-A was duplicated for the Mexican industry and named the Special Regime.

It is important to realize the production moved was no longer viable in the United States. Without the incentives of 807-A, NAFTA and hopefully CBI trade enhancement, that production would go to the Far East where there would be little US involvement in the manufacturing process.

With the implementation of NAFTA, which AAMA strongly supported, apparel assembled in Mexico of US formed fabric enters our market quota and tariff-free. However, duties are still charged on the value added to imports from the CBI countries. This places the CBI countries at a great competitive disadvantage vis-a-vis Mexico, and the progress the United States fostered in the Caribbean Basin will, in large part, be reversed. Competition from Mexico will force many local and US firms out of business or to move their investments from the CBI countries to Mexico.

With the elimination of tariffs under NAFTA, this 8 percent cost no longer is added to the price of garments coming from Mexico. Couple this with slightly easier and cheaper transportation between Mexico and the United States versus that between the Caribbean and the United States and Mexico has a significant advantage. Eight percent may not appear to be a significant savings, but the average profitability of an apparel firm in the United States is much less than that.

The effects of NAFTA on the CBI region have become apparent. Since NAFTA went into effect on January 1, 1994, apparel imports from Mexico have increased 611 percent. While starting from a larger base, imports from the CBI have increased at one-third that rate.

Now, for the first time, the CBI region actually is losing share of the import market. In the 12 months ending last November—the latest data available—the CBI region accounted for 23.9 percent of the garments imported into the United States, a decline from the 25.1 percent in 1997.

807 production created thousands of good jobs in Mexico and the Caribbean Basin. We estimate 15 apparel jobs in the United States are created by every 100 jobs in 807 production in the region. This is in addition to the thousands of US jobs it maintains in the textile, transportation and other industries. These jobs in Caribbean Basin, the related US apparel jobs and the jobs in ancillary industries will not come to the United States if the Caribbean should be shut down. They will migrate to the Far East.

C. Summary

Caribbean trade enhancement makes good foreign policy. It is clearly in the best interests of the United States to have stable, democratic governments in our hemisphere, and the jobs available in the apparel industry contribute considerably to that stability. Enacting legislation affording NAFTA parity for the CBI region, the United States will continue to encourage CBI countries to assume their full obligations under a free trade agreement and to further open their markets to US products, services and investment.

The continued economic health of the CBI region is tied inextricably to the growth of the region's apparel assembly. Export revenues generated by apparel assembly encourages Caribbean Basin governments to increase and accelerate economic reform, including investment liberalization, protection of intellectual property rights and market access. Job creation in the region would have been stagnant without the demand for apparel assembly workers. Improving economic conditions contributes to political stability, deter illegal immigration, and create an alternative to the production and trafficking of illegal drugs.

In summary, there is a strong and consistent movement by countries of the CBI region towards democracy, economic reforms and trade and investment liberalization. During the past few years, countries of the Caribbean Basin initiated significant economic restructuring and trade liberalization and continue to do so as part of their move to NAFTA accession.

Programs such as CBI and 807 contributed significantly to the political stability and economic growth in the region. Progress in the region enhances each country's political security, as well as the United States'.

Passage of NAFTA adversely affected the competitiveness of the CBI region by diverting existing and potential investment from the region in favor of Mexico. Caribbean Basin trade enhancement assures a level playing field will exist between the CBI region and Mexico. Without it, US companies already in the region, competitively disadvantaged by the elimination of Mexican duty rates and quotas, will disinvest existing manufacturing facilities, destabilizing the economies of the region.

There has long been a need for CBI enhancement legislation. It should have been enacted five years ago. The damage caused by hurricanes Mitch and Georges make it even more imperative that it be enacted. It should be included in the reconstruction legislation being considered by this Congress.

II. Monitoring and Compliance Activities by the US Apparel Industry

We believe that our members are in the vanguard of those companies working against abusive practices in the workplace. The Association believes that the existence of sweatshops at home or overseas is deplorable. Not only is the practice immoral and dishonest, but it gives our industry an undeserved bad name and it constitutes unfair competition for the thousands of apparel manufacturers who obey the law and treat their workers, wherever they are located, with dignity and respect.

It is the responsibility of the industry to make certain its own house is in order. It is the responsibility of governments to find and prosecute those few who break the law.

The Association has an obligation to inform its members of their legal responsibilities and to help them make certain they are in compliance. The Association has an obligation to work with the government to improve its information and enforcement efforts.

Along those lines, the Association has:

- Published a guide to labor laws in the United States and large supplying countries, along with guidelines for assessing compliance.
- Provided AAMA members with the means of checking the wage and hour performance and OSHA compliance of contractors they may hire.
- Co-sponsored a series of compliance seminars with the Department of Labor.
- Sponsored with member companies, labor unions and others seminars for educators held at Marymount University in Arlington, Virginia.
- Made its executives available to groups who wish to discuss the subject.

AAMA is eager to work with the government to improve education and enforcement, both in the United States and in other countries where its members manufacture.

That is a bit of our history on this difficult subject. It is a great pleasure for me now to describe a new program on which we are working.

As a result of the ongoing interest the subject of sweatshops generated here in Washington and throughout the country, a number of our members asked AAMA to facilitate the creation of a meaningful and comprehensive program to address workplace conditions in the United States and around the world. These companies were dissatisfied with the scope and pace of existing initiatives and felt the time had come for apparel manufacturers to play a leadership role.

An AAMA task force was formed to address the issue. The task force retained the services of three consulting companies who are among the best in their field: The PricewaterhouseCoopers accounting firm, the Sandler, Travis and Rosenberg customs law firm and the Clark & Weinstock public policy consulting firm.

Together, we are reaching out to critical audiences, including (1) the retailers who sell our products; (2) universities and other institutions that license their marks and are vitally concerned with the protection of the integrity and reputation of their intellectual property; (3) other trade associations in the United States and abroad, (4) US government agencies; (5) international governmental organizations; and (6) public interest groups, including many of the most outspoken organizations on these issues.

In consultation with these diverse and interested parties, we have developed a set of minimum standards for apparel production that address labor practices, factory conditions, and environmental and customs compliance. We also are designing a voluntary certification program under which participating apparel manufacturers agree that their production facilities will be certified by an independent monitor as complying with the minimum standards.

The AAMA Board of Directors at its meeting on September 10 unanimously endorsed a set of "Responsible Apparel Production Principles." That document reads as follows:

- "These Responsible Apparel Production Principles are minimum standards for production facilities participating in the Responsible Apparel Production Program. The Program's objective is to demonstrate the apparel industry's commitment to socially responsible business practices and to assure that apparel is produced under lawful, humane and ethical conditions. Participating companies voluntarily agree that their production and that of their contractors will be certified by an independent monitor as complying with these standards.
- **Laws and Workplace Regulations:** Apparel manufacturers will comply with laws and regulations in all locations where they conduct business.
 - **Forced Labor:** Apparel manufacturers will not use involuntary or forced labor, indentured, bonded or otherwise.
 - **Child Labor:** Apparel manufacturers will not hire any employee under the age of 14, or under the age interfering with compulsory schooling, or under the minimum age established by law, whichever is greater.
 - **Harassment or Abuse:** Apparel manufacturers will provide a work environment free of harassment, abuse or corporal punishment in any form.
 - **Compensation and Benefits:** Apparel manufacturers will pay at least the minimum total compensation required by local law, including all mandated wages, allowances and benefits.
 - **Hours of Work:** Hours worked each day, and days worked each week shall not exceed the legal limitations of the countries in which apparel is produced. Apparel manufacturers will provide at least one day off in every seven-day period, except as required to meet urgent business needs.
 - **Discrimination:** Apparel manufacturers will employ, pay, promote and terminate workers on the basis of their ability to do the job, rather than on the basis of personal characteristics or beliefs.
 - **Health and Safety:** Apparel manufacturers will provide safe and healthy work environments. Where residential housing is provided to workers, apparel manufacturers will provide safe and healthy housing.
 - **Freedom of Association:** Apparel manufacturers will recognize and respect the right of employees to exercise their lawful rights of free association, including joining or not joining any association.
 - **Environment:** Apparel manufacturers will comply with environmental rules, regulations and standards applicable to their operations, and will observe environmentally conscious practices in all locations where they operate.

- **Customs Compliance:** Apparel manufacturers will comply with applicable customs law and, in particular, will establish and maintain programs to comply with customs laws regarding illegal transshipment of apparel products.
- **Drug Interdiction:** Apparel manufacturers will cooperate with local, national and foreign customs and drug enforcement agencies to guard against illegal shipments of drugs."

These principles address the most important problems in the workplace with which we all are familiar. But they also go further. They deal also with violations of customs law and efforts to prevent the movement of illegal drugs in shipments of apparel. These principles form the core of a comprehensive compliance program that we are currently developing. The voluntary Responsible Apparel Production Certification Program will have three critical elements.

- The first is clear and verifiable standards. These are the Principles we have endorsed.
- The second is the evaluation of apparel production facilities by independent monitors. Our task force and its consultants are working on the necessary tools to ensure effective independent monitoring by respected organizations that know our industry. These monitoring tools will enable an independent monitor to go into an apparel plant anywhere in the world and determine whether the principles are being observed. No mere checklist, the monitoring and reporting procedures will provide detailed instruction to assess compliance with each item in the Principles.
- The third element is oversight of the program by an independent entity representing diverse stakeholders. An independent Certification Agency, comprising a board and staff, will be responsible for the ongoing administration of the program.

The board will be composed of outstanding individuals from the industry, from non-government organizations, from academia and elsewhere. A Certification Agency with the participation of manufacturers but independent of the AAMA and the industry was a key recommendation to ensure the credibility of the program. The independent Certification Agency would approve independent monitors to conduct plant inspections and certify—or refuse to certify—facilities as compliant with the Principles. It also would modify, as needed, the Principles and monitoring tools. The funding for the program would be provided by charging a certification fee to the plants that are inspected.

Our conversations with interested parties are continuing, and we hope that many organizations will become formally involved by endorsing this approach and working with us to finalize and implement the Responsible Production Certification Program.

We are also working with interested parties to launch a pilot project to test the program framework and make any necessary adjustments. We anticipate inspecting about 30 apparel plants in the United States, in Asia and in Mexico, Central America and the Caribbean. We already have a number of companies who have volunteered to participate and we will get underway during February.

We are aware that there are other codes of conduct developed by other organizations. We congratulate each of them for their well meaning work and their dedication to a worthy cause. Indeed, in some cases we have drawn from their experience. But we believe the program we have outlined has two key advantages:

- It has a statement of principles that has teeth and goes beyond working conditions. And it is a statement that can be endorsed and adhered to by apparel companies operating or contracting literally thousands of plants throughout the world.
- We are ready to go. We have the principles approved, the Indicators of Compliance are undergoing final review and we will be in the field with a pilot program next month.

We anticipate that the full program will be ready for implementation in the third quarter of this year.

STATEMENT OF THE AMERICAN FOREST AND PAPER ASSOCIATION

[SUBMITTED BY W. HENSON MOORE, PRESIDENT & CEO]

On behalf of the American Forest & Paper Association (AF&PA) and our more than 130 member companies, I commend the Committee for undertaking this thorough review of U.S. trade policy. We particularly appreciate this opportunity to provide the Committee with our recommendations for specific steps which should be taken to make U.S. trade policy—and U.S. trade law—more responsive to the com-

petitive needs of America's basic manufacturing industries, including the U.S. paper and forest products industry.

MULTILATERAL NEGOTIATIONS

The experience of our industry stands as a cautionary tale of how U.S. acceptance of inequitable trade agreements on the sectoral level can undermine the competitiveness of even the strongest American industries. Going back to the Kennedy Round of multilateral trade negotiations, notwithstanding the best efforts of a generation of U.S. trade negotiators, our industry has been unable to achieve anything close to equivalent market access because our interests have repeatedly gotten lost in the larger dynamics of multilateral trade "rounds." More than two decades ago, the U.S. paper and forest products industry was denuded of tariff protection to win market concessions for other industrial sectors. In each subsequent round, while the bottom line figure for all U.S. sectors may have been in balance, Europe, our major competitor, was allowed to maintain its high tariffs on paper and wood products, and emerging competitors in Asia and Latin America escaped making any reciprocal concessions.

At the opening of the Uruguay Round (UR), our industry realized that traditional negotiating approaches would perpetuate this disparity indefinitely, so we originated the zero-for-zero concept. This was an attempt to change the traditional structure of trade negotiations in two important ways:

- it focused on reciprocal tariff elimination within specific sectors
- it moved away from a formulaic approach to an assured, level end point.

We were disappointed in the results of the UR agreement in our sector, on several points:

- the phase out of paper tariffs—ten years instead of the usual five-years—is unusually long
- the failure to achieve zero-for-zero on wood tariffs
- developing countries—some of which are major competitors in forest products—did not participate in the tariff agreement.

Despite these disappointments, we remain convinced that the achievement of reciprocal market access within specific sectors must be a priority objective in future negotiations. At the same time, we urge the Committee to ensure future negotiations work toward a greater overall balance of benefits across our economy. To achieve this objective, we support the Committee's efforts to renew the Administration's traditional negotiating authority.

The paper and forest products industry approaches the World Trade Organization (WTO) Ministerial in Seattle later this year, and the anticipated round of multilateral negotiations to follow, with a harrowing sense of *deja-vu*. The Europeans and the Japanese have made common cause in support of a "comprehensive" negotiation which, for our industry, translates into another potential set-up where our interests risk being traded away. The U.S. must not accede to European and Japanese pressure on this point. The U.S. must preserve and fortify the concept of sectoral negotiations, and the prospect of "early harvest" as an essential and non-negotiable element of any agreement on negotiating modalities. Therefore, we would encourage the Congress to provide appropriate negotiating authority to implement sectoral agreements.

Part of the effort to ensure that the standard of substantially equivalent market access is met must focus on eliminating tariff disparities, such as those which have so disadvantaged our exports. We will aggressively seek to identify the elimination of tariff disparities as a priority negotiating objective.

REGIONAL NEGOTIATIONS

Regional negotiations have an important role to play in driving the multilateral process. In the past three years, the U.S. has launched a sectoral effort in the Asia Pacific Economic Cooperation forum (APEC) which includes a proposal to eliminate all tariffs on paper and wood products between the years 2000 and 2004. Our industry vigorously supports Ambassador Charlene Barshefsky's leadership on this agreement to achieve global participation under WTO auspices.

We have made significant progress but, as in the case of the Uruguay Round, Japanese protectionism, particularly relative to wood products, threatens to derail a promising agreement. When President Clinton met with Prime Minister Obuchi last September in New York, the Prime Minister maintained that Japan could not take tariff action in the APEC context, but would do so in the WTO. Two months later, in Kuala Lumpur, the Japanese, along with trade ministers from 15 other APEC economies, agreed to refer the APEC trade liberalization package to the WTO and committed to work constructively toward concluding a package of nine sectoral

agreements in time for the upcoming WTO Ministerial in November. In an all-too-familiar pattern, the Japanese government now denies that any such commitment was made, and loudly proclaims its victory in resisting U.S. pressure to reduce its wood tariffs. This backsliding cannot be accepted. The U.S. must make clear its determination to conclude a WTO agreement covering all nine sectors in the APEC package as a prelude to the launch of any new round of negotiations on industrial tariffs.

Our industry's frustration with Japan's failure to meet its commitments is long standing. In 1992, for example, the U.S. signed a market access agreement with Japan regarding paper products. It is a matter of record that there was not one single year in the entire five-year term of this agreement in which the USTR judged Japan to be compliant with its obligations under this agreement. Nevertheless, in 1997, Japan unilaterally refused to renew the agreement or even discuss its renewal. In the meantime, with an industry that is commonly considered to be a high-cost paper manufacturer, Japan's paper imports have declined and exports have increased.

The lack of credibility which understandably surrounds Japanese trade commitments risks more generalized cynicism regarding an ability to reach negotiated solutions to our market access problems with that country, and must be addressed. The President's decision to renew Super 301 is an important step, but we encourage him to hold the Japanese leaders directly accountable for honoring the full range of commitments we now hold—beginning with their APEC commitment—by again raising this problem with Prime Minister Obuchi.

AN INTEGRATED APPROACH TO THE GLOBAL ECONOMIC CRISIS

The Asian financial crisis has had a significant, damaging economic impact on the U.S. paper and forest products industry. In 1997, the Asia-Pacific region accounted for some 40 percent of our industry's total exports of \$21 billion. In the first ten months of 1998, however, U.S. exports of wood products to the region were down a whopping 40 percent, and paper and paperboard exports were off 19 percent. In contrast, U.S. paper and paperboard imports from Asia went up 74 percent over the same period. At the same time, other major supplying countries have diverted greater amounts of wood and paper products from slumping Asian markets to the U.S.

Trade reform must be an integral part of our response to such episodes of economic turmoil. The U.S. has repeatedly assured countries in crisis that we will continue to take their exports—but fairness for our industry and our workers requires that these countries also open their markets to our products. Trade liberalization—which will introduce economies and industries to the discipline of the marketplace—cannot be a lesser priority than other structural reforms.

At the same time, the U.S. must ensure the strongest, most efficient application of U.S. trade laws consistent with our WTO obligations. In 1990, U.S. paper producers filed a dumping case against European suppliers of coated groundwood printing paper. There was no question regarding the validity of the industry's complaint since the Department of Commerce found substantial dumping margins. It is ironic that the case was lost on the question of injury, since our most dire predictions regarding the long-term negative impact of the dumped imports on our industry's ability to expand domestic production capacity have come true.

NEW GLOBAL ISSUES

Today, our industry faces new competitive realities. Even while we are nearing the end of our effort to eliminate tariff barriers, the U.S. industry finds itself at a competitive disadvantage in international markets for a number of reasons.

First and foremost, the industry's raw material costs have been climbing due to policy-imposed constraints on fiber supply. The availability of wood from our national forests has been cut dramatically, down 75 percent in the past decade. While a large portion of forest land in the U.S. is privately owned (over 60 percent), our ability to sustainably manage and harvest private timberland is being curtailed by environmental laws, regulations and legal actions.

Secondly, required investments of capital to meet domestic environmental regulations are raising production costs and reducing the amount of capital that would otherwise be available to invest in the industry's plant and equipment. AF&PA estimates that 13 percent of the capital spent by the industry over the past 10 years went into meeting environmental requirements, and that number will probably double over the next 5 years—and that does not include any spending for possible Global Climate Change regulation. At the same time, our companies are having to compete with producers in other countries that do not have high environmental standards and strong environmental compliance regimes.

Our industry is proud of the role it has played in achieving standards of environmental protection which are among the highest in the world, and we are committed to maintaining our environmental leadership in the future. By the same token, our industry offers some of the highest paying manufacturing jobs in the world, and we take equal pride in the role which industry payrolls play in sustaining the many communities in which we are located throughout the country.

For us to continue meeting our obligations to our workers and to the environment, while maintaining our ability to compete in global markets, our government must work to level the international playing field. We must ensure that our competitors follow our lead in applying responsible environmental standards and forestry practices. The U.S. must also look at options to institute disciplines to prevent a new generation of trade barriers based on subjective environmental requirements that discriminate against products produced under equally valid regulatory schemes.

CONCLUSION

The U.S. paper and forest products industry has consistently supported U.S. policies designed to open world markets. However, our industry will find it difficult in the future to continue such support in the absence of concrete market opening gains and the establishment of a more level international playing field for our products. As a first step, the U.S. must make clear its determination to conclude a WTO agreement covering all priority sectors in the APEC package, including forest products, by the WTO Ministerial this November in Seattle.

STATEMENT OF THE AMERICAN SUGAR ALLIANCE

(SUBMITTED BY JAMES W. JOHNSON, JR., CHAIRMAN)

INTRODUCTION

Thank you for the opportunity to submit testimony for this important hearing. I am James W. Johnson, Jr., president of the United States Beet Sugar Association. I also serve as chairman of the American Sugar Alliance (ASA), of which my association is a member. The ASA is the national coalition of growers, processors, and refiners of sugarbeets, sugarcane, and corn for sweetener.

The ASA has long endorsed the goal of global free trade because U.S. sugar and corn sweetener producers are efficient by world standards and would welcome the opportunity to compete on a genuine level playing field. Until that free trade goal is achieved, however, the United States must retain at least the minimal sugar policy now in place to prevent foreign subsidized, dump market sugar from unfairly displacing efficient American producers. This policy was substantially modified by Congress in the 1996 Farm Bill, but remains highly beneficial to American taxpayers and consumers.

We note there are several witnesses testifying today on behalf of the U.S. steel industry. Our concerns are the same. We are efficient producers, but risk losing American jobs to the predatory trade practices of subsidized foreign producers. Like steel, American sugar farmers can compete directly against foreign producers. We cannot compete against foreign treasuries.

While the ASA supports the goal of free trade, we have serious concerns about past agreements and about the structure of future multilateral or regional trade agreements. Listed below are our specific recommendations, followed by some background on the United States' role and standing in the world sugar economy and our evaluation of the effects of past multilateral and regional trade agreements on the world sugar market and on our industry.

U.S. agriculture is extremely vulnerable as we approach the next trade round. If we are reckless, we risk converting American agriculture into a Rust Belt. If we negotiate carefully and rationally, however, there is enormous potential for responsible American producers to compete and prosper in a genuine free trade environment, free from the need for government intervention.

RECOMMENDATIONS FOR FUTURE WTO NEGOTIATIONS

The 1999 World Trade Organization (WTO) Ministerial will play a pivotal role in establishing the scope, parameters, and goal of the next multilateral trade round. Shaped by our experience and by the specific failures of past agreements, described later in this paper, the following are the ASA's recommendations for the Ministerial.

1. Compliance with past agreements, in particular, the Uruguay Round Agreement (URA) of the WTO and the North American Free Trade Agreement (NAFTA), must be achieved before the United States forges any new agree-

ments. The United States, and any other country that has surpassed its URA commitments, should be given credit for doing so before being required to make further cuts in the next trade round.

2. The United States must not reduce its support for agricultural programs, particularly for import-sensitive crops such as sugar, any further until other countries have reduced their support to our level.

3. Elimination of export subsidies, the most trade distorting of all practices, and of state trading enterprises (STE's), which were ignored previously, must be given top priority in the next trade round.

4. The wide gap in labor and environmental standards between developed and developing countries must be taken into account in the next trade round, to provide both incentives and penalties that ensure global standards rise to developed-country levels, rather than fall to developing-country levels.

5. A flexible, request/offer type of negotiating strategy must be followed in the next trade round, rather than a rigid, across-the-board, formula approach. Only in this manner can we address the huge disparities in supports among nations and turn the United States' unilateral concessions to our advantage. We must provide foreign countries the incentive to reduce their government programs by promising to reduce ours further when, and only when, they have eliminated their export subsidies and STE's, and reduced their internal support and import tariffs to our levels.

BACKGROUND ON U.S. SUGAR INDUSTRY, POLICY

Size and Competitiveness. Sugar is grown and processed in 17 states and 420,000 American jobs, in 40 states, are dependent, directly or indirectly, on the production of sugar and corn sweeteners. The industry generates an estimated \$26.2 billion in economic activity annually. A little more than half our sugar is produced from sugarbeets, the remainder from sugarcane. More than half our caloric sweetener consumption is in the form of corn sweeteners. The United States is the world's fourth largest sugar producer, trailing only Brazil, India, and China. The European Union (EU), taken collectively, is by far the world's largest producing region. It benefits from massive production and export subsidy programs.

Sugar is an essential food ingredient and the U.S. sugar producing industry is highly efficient, highly capitalized, and technologically advanced. It provides 260 million Americans most of sugar they demand, in 45 different product specifications and with "just-in-time" delivery that saves grocers and manufacturers storage costs.

Roughly 15-20% of U.S. sugar demand is fulfilled by duty-free imports from foreign countries, making the U.S. one of the world's largest sugar importers. Many of the 41 countries supplying our sugar are developing economies with fragile democracies and they depend heavily on sales to the United States, at prevailing U.S. prices, to cover their costs of production and generate foreign exchange revenues.

Despite some of the world's highest government-imposed costs for labor and environmental protections, U.S. sugar producers are among the world's most efficient. According to a study released in 1997 by LMC International, of England, and covering the 6-year period ending in 1994/95, American sugar producers rank 19th lowest in cost among 96 producing countries, most of which are developing countries. According to LMC, fully two-thirds of the world's sugar is produced at a higher cost per pound than in the United States.

During the last three years studied, 1992/93-94/95, the United States became the lowest cost beet sugar producer in the world. American corn sweetener producers are also the lowest cost of all caloric sweeteners in the world, and always have been the lowest cost producer of corn sweetener.

Because of their efficiency, American sugar farmers would welcome the opportunity to compete against foreign farmers on a level playing field, free of government subsidies and market intervention. Unfortunately, the extreme distortion of the world sugar market makes any such free trade competition impossible today.

World Dump Market. More than 100 countries produce sugar and the governments of all these countries intervene in their sugar markets and industries in some way. The most egregious, and most trade distorting, example is the EU. The Europeans are higher cost sugar producers than the United States, but they enjoy price supports that are 40% higher than U.S. levels—high enough to generate huge surpluses that are dumped on the world sugar market, for whatever price they will bring, through an elaborate system of export subsidies.

World trade in sugar has always been riddled with unfair trading practices. These practices have led to the distortion in the so-called "world market" for sugar. These distortions have led to a disconnect between the cost of production and prices on the world sugar market, more aptly called a "dump market." Indeed, for the period

of 1984/85 through 1994/95, the most recent period for which cost of production data are available, the world average cost of producing sugar is over 18 cents, while the world dump market price averaged barely half that—just a little more than 9 cents per pound raw value. (See Attachment A.)

Furthermore, its dump nature makes sugar the world's most volatile commodity market. Just in the past two decades, world sugar prices have soared above 60 cents per pound and plummeted below 3 cents per pound. Because it is a relatively thinly traded market, small shifts in supply or demand can cause huge changes in price.

As long as foreign subsidies drive prices on the world market well below the global cost of production, the United States must retain some border control. This is a necessary and effective response to the foreign predatory pricing practices that threaten the more efficient American sugar farmers.

Uniqueness of Sugar Market. Aside from the highly residual and volatile nature of the world sugar price, there are a number of factors that set sugar apart from other program commodities. These unique characteristics should be taken into account before sugar is lumped in with other commodities for across-the-board policy reforms.

- **Grower/Processor Interdependence.** Grain, oilseed, and most other field-crop farmers harvest a product that can be sold for commercial use or stored. Sugar-beet and sugarcane farmers harvest a product that is highly perishable and of no commercial value until the sugar has been extracted. Farmers cannot, therefore, grow beets or cane unless they either own, or have contracted with, a processing plant. Likewise, processors cannot function economically unless they have an optimal supply of beets or cane. This interdependence leaves the sugar industry far less flexible in responding to changes in the price of sugar or of competing crops.
- **Multi-Year Investment.** The multimillion-dollar cost of constructing a beet or cane processing plant (approximately \$300 million), the need for planting, cultivating, and harvesting machinery that is unique to sugar, and the practice of extracting several harvests from one planting of sugarcane, make beet or cane planting an expensive, multiyear investment. These huge, long-term investments further reduce the sugar industry's ability to make short-term adjustments to sudden economic changes.
- **High-Value Product.** While the gross returns per acre of beets or cane tend to be significantly higher than for other crops, critics often ignore the high cost associated with growing these crops. Compared with growing wheat, for example, USDA statistics reveal the total economic cost of growing cane is nearly seven times higher, and beet is more than five times higher. With the additional cost for processing the beets and cane, sugar is really more of a high-value product than a field crop.
- **Inability to Hedge.** The 1996 Freedom to Farm Bill made American farmers far more dependent on the marketplace. Growers of grains, oilseeds, cotton, and rice can reduce their vulnerability to market swings by hedging or forward contracting on a variety of futures markets for their commodities. There is no futures market for beets or cane. Farmers do not market their crop and cannot take delivery of beet or cane sugar. The hedging or forward contracting opportunities exist only for the processors—the sellers of the sugar derived from the beets and cane. These marketing limitations make beet and cane farmers more vulnerable to market swings.

U.S. Sugar Policy Reforms. U.S. sugar policy was unilaterally and substantially reformed in the 1996 Farm Bill, far in excess of URA commitments. The key reforms: 1) Production controls ("marketing allotments") were eliminated. 2) Government-provided non-recourse loans, or a government-guaranteed minimum price, are conditional and no longer guaranteed—unlike all other U.S. program commodities. This ensures long-standing Congressional intent that U.S. sugar policy be run at no cost to the U.S. Treasury. 3) The minimum import level, already about four times the minimum required by the URA, was effectively raised another 20%. 4) Sugar producers' burdensome and discriminatory marketing assessment tax was raised 25%, increasing expected annual revenues to the U.S. Treasury from U.S. sugar policy to about \$40 million. 5) A 1-cent per pound penalty was established to discourage government loan forfeitures. 6) The U.S. committed to further support price reductions when other countries surpass their URA requirements, as the U.S. has done, and achieve levels equal to ours.

The reformed sugar policy of the 1996 Farm Bill does retain the Secretary of Agriculture's ability to limit imports, and also provides a price support mechanism, though only when imports exceed 1.5 million short tons. The 1998/99 sugar import quota is only some 300,000 tons above that critical trigger level.

U.S. SUGAR INDUSTRY'S FREE TRADE GOAL

Because of our competitiveness, with costs of production well below the world average, the American Sugar Alliance supports the goal of genuine, global free trade in sugar. We cannot compete with foreign governments, but we are perfectly willing to compete with foreign farmers in a truly free trade environment.

We were the first U.S. commodity group to endorse the goal of completely eliminating government barriers to trade at the outset of the Uruguay Round, in 1986. We understand we are the first group to endorse this same goal prior to the start of the 1999 multilateral trade round. We described our goals and concerns to the Administration in a letter in May 1997 to Trade Representative Barshefsky and Agriculture Secretary Glickman. A copy of that letter is attached (Attachment B).

The ASA does not endorse the notion of free trade at any cost. The movement toward free trade must be made deliberately and rationally, to ensure fairness and to ensure that those of us who have a global comparative advantage in sugar production are not disadvantaged by allowing distortions, exemptions, or delays for our foreign competitors, as we are experiencing under the current agreement.

To achieve a free trade transition process that is rational and fair, we offer the following thoughts on past agreements, and our concerns and recommendations regarding future negotiations.

SUGAR AND THE URUGUAY ROUND AGREEMENT

Little Effect on World Sugar Policies. More than 100 countries produce sugar and all have some form of government intervention. Unfortunately, these policies were not significantly changed in the Uruguay Round Agreement of the WTO.

The URA inadequately addressed, or ignored:

- **Compliance.** Many countries have evaded or not yet even complied with their URA agricultural commitments. In sugar, for example, the EU has managed to isolate most of its sugar export subsidy program from URA disciplines. The Philippines has yet to meet its requirements for increasing minimum access levels to its sugar market. It was revealed at a WTO Analysis and Information Exchange Group meeting Geneva in September 1998, nearly four years since the inception of the URA, that a mere 17 of the 132 member nations have fulfilled all their notification requirements on domestic support, export subsidies, and market access. One must wonder how we can monitor compliance with WTO-mandated reductions in agricultural policies when the vast majority of countries will not even acknowledge which policies they have in place.
- **Export Subsidies.** The most distorting practice in world agricultural trade is the export subsidy. Export subsidies provide countries the mechanism to dispose of surpluses generated by high internal production subsidies. In the absence of export subsidies as a surplus-removal vehicle, countries would have to reduce their production supports. With export subsidies in place, countries can move surpluses into markets where they do not belong and depress market prices. Other countries are forced to respond with import barriers. In the world sugar market, subsidized exports by the EU alone amount to about a fifth of all the sugar traded each year. The URA did not significantly reduce the amount of sugar sold globally with export subsidies. The agreement failed to reduce the European Union's generous price support level and requires only a tiny potential drop in its substantial export subsidies.
- **State Trading Enterprises (STE's).** STE's are quasi-governmental, or government-tolerated organizations that support domestic producers through a variety of monopolistic buyer or seller arrangements, marketing quotas, dual-pricing arrangements, and other strategies. These practices were ignored in the Uruguay Round, but are, unfortunately, common in the world sugar industry. Major producers such as Australia, Brazil, China, Cuba, and India have sugar STE's, but were not required to make any changes in the URA.
- **Developing-Country Producers.** Developing countries, which represent about 60% of world sugar production and trade, have little or no labor and environmental standards for sugar farmers, have no minimum import access requirements, and often have high import tariffs. Nonetheless, developing countries were put on a much slower track for reductions, or, in the case of the least developed countries, were exempted altogether from URA disciplines.
- **WTO Non-Members.** Important sugar-producing and importing countries such as China and the former Soviet republics are not WTO members, and need to do nothing under the URA. Yet, these countries represent some 40% of global sugar imports and 20% of production.

- **Labor and Environmental Standards.** The gap in government standards—and resulting producer costs—between developed and developing countries is well documented and immense, but was ignored in the URA. In sugar, the gap is particularly pronounced because, while the EU and the U.S. are major players, production and exports are highly dominated by developing countries, especially in the cane sector.

Social Standards Gap. The differences in labor and environmental standards between developed and developing countries are wide. American sugar producers operate with the highest possible regard for workers and the environment. But we should not be penalized in multilateral trade negotiations for providing these costly protections. Foreign countries that do not provide such protections should not be rewarded. If we are attempting to globalize our economy, we should also globalize our worker and environmental protection responsibilities. If markets are to be liberalized, standards must be harmonized.

In the next trade round, access to developed countries should be conditioned on developing countries' achievement and enforcement of higher labor and environmental standards. Such an incentive system could help ensure that the next trade round results in a race to the top, in protection of workers and the environment, rather than a race to the bottom. Attached is a press release issued by the ASA in support of President Clinton's remarks at the WTO in this regard last May (Attachment C).

Widely Varying Levels of Support. Unilateral reforms to U.S. agriculture policy in the 1996 Farm Bill far exceeded U.S. commitments made the year before in the Uruguay Round. Furthermore, developing countries, which dominate world agricultural trade and particularly sugar trade, were subject to a slower pace of reductions, if any.

As a result, the United States is way out in front of the rest of the world in removing its government from agriculture and has placed its farmers in a domestic free market situation. This gap makes American farmers uniquely vulnerable to continued subsidies by foreign competitors.

It is key that American farmers not be penalized for attempting to lead the rest of the world toward free agricultural trade. American farmers must be given credit for the reforms they have endured.

U.S. Sugar Surpasses URA Requirements. The United States is one of only about 25 countries that guarantees a portion of its sugar market to foreign producers and it has far surpassed its URA commitment on import access. The URA required a minimum access of 3-5% of domestic consumption. The United States accepted a sugar-import minimum that amounts to about 12% of consumption. In practice, U.S. imports in 1994/95 and 1995/96 averaged 24%—double the promise we made in the URA, and about six times the global URA minimum.

All this sugar imported from 41 countries under the tariff-rate quota (TRQ) enters the United States at the U.S. price, and not at the world dump price. Virtually all this sugar enters duty free. Just five countries (Argentina, Australia, Brazil, Gabon, and Taiwan) that lack Generalized System of Preferences status pay a minuscule duty of 0.625 cents per pound.

The United States calculated its above-quota tariff rate in the manner dictated by the URA. These tariff levels are totally WTO consistent, and are dropping by 15% over the 6-year transition period, as we promised they would in the Uruguay Round. This duty is frozen in the year 2000 and must not be reduced further until foreign countries have complied with their URA requirements, as the U.S. has done.

Playing Field Lower, But Not More Level. The URA's formula-based approach called for across-the-board percentage reductions, regardless of the original level of price support, import barrier, or export subsidy. Countries with the most egregious barriers can maintain their advantage throughout the transition process. For example, if one country's price support were 40% higher than another's, and both reduced by the URA-mandated 20%, the 40% advantage would remain in place—the playing field has been lowered, but not leveled.

Furthermore, the United States far surpassed its URA commitments, unilaterally dismantling its already minimal commodity program in the 1996 Farm Bill, while many other nations with higher levels of government intervention have yet to even minimally comply. This has tilted the playing field even further to the disadvantage of efficient American farmers.

Formula Driven Trade Strategy. For the many reasons outlined above, the rigid, formula-driven, or "one-size-fits-all," approach for trade concessions does not work for agriculture in general, or for sugar in particular. Pursuing this approach would: 1) Fail to reduce the gap in supports between countries—lowering the playing field, but not leveling it; 2) Again give developing countries virtually a free ride; 3) Fur-

ther diminish U.S. negotiating leverage, which was severely reduced through our unilateral concessions in the 1996 Farm Bill.

To date, U.S. agriculture has led the world in trade barrier reductions and we are disadvantaged as long as the rest of the world fails to follow our example.

SUGAR AND THE NAFTA

The ASA is concerned that before the United States embarks on another multilateral trade round we must be cognizant of serious problems that remain with our primary regional trade agreement, the North American Free Trade Agreement (NAFTA). Evasion of NAFTA rules and violation of international trade rules by our North American trading partners have left many American sugar producers with a distrust of trade agreements and a serious reticence about entering into new ones.

Canada. Sugar trade between the United States and Canada, which imports about 90% of its sugar needs, was essentially excluded from the NAFTA. U.S.-Canadian sugar trade is governed mainly by the U.S.-Canada Free Trade Agreement and by the WTO.

Currently, Canada is threatening the integrity of U.S. sugar policy by circumventing the tariff-rate quota with a new product referred to in the trade as "stuffed molasses"—a high-sugar product not currently included in U.S. sugar TRQ classifications. USDA has estimated imports of this product could add about 100,000 tons of non-quota sugar to the U.S. market per year. That amount could grow if this loophole is not closed, further harming U.S. sellers of refined sugar and possibly threatening the no-cost operation of U.S. policy.

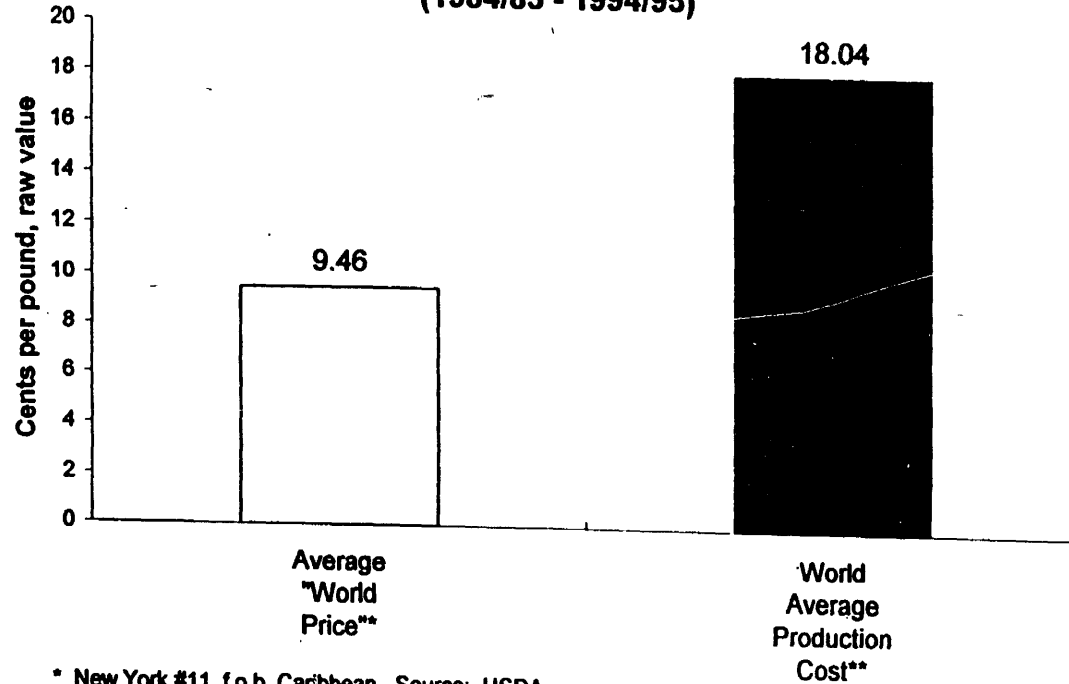
Mexico. Mexico had been a net importer of sugar for a number of years prior to the inception of the NAFTA. Nonetheless, the NAFTA provided Mexico with more than three times its traditional access to the U.S. sugar market during the first six years, 35 times its traditional access in years 7-14, and virtually unlimited access thereafter. The NAFTA sugar provisions are summarized on the attached table (Attachment D).

These provisions were negotiated by the U.S. and Mexican governments and contained in President Clinton's NAFTA submission to the U.S. Congress, which Congress approved in November 1993. The sugar provisions, as altered from the original NAFTA text, were critical to the narrow Congressional passage of the NAFTA.

Nonetheless, Mexico is now undermining the integrity of the NAFTA by claiming the sugar provisions are somehow invalid. This questioning by Mexico has bred deep feelings of distrust in trade agreements among many American sugar producers.

In addition, Mexico has not complied with a NAFTA requirement to phase out its tariffs on U.S. high-fructose corn syrup (HFCS). Instead, Mexico raised its tariffs on HFCS imports to levels approaching 100%. Mexico may also be violating international trade rules by sanctioning a restraint of trade agreement among Mexican sugar producers and soft drink bottlers to slow the pace of substitution of HFCS for sugar in Mexican soft drinks. (The ASA has filed a paper with USTR on this subject, "Initiation of Section 302 Investigation on Mexican Practices Affecting High Fructose Corn Syrup," June 19, 1998.)

"World Price" for Sugar: Only Half World Average Cost of Producing Sugar (1984/85 - 1994/95)



* New York #11, f.o.b. Caribbean. Source: USDA

** "A World Survey of Sugar and HFCS Field, Factory and Freight Production Costs: 1997 Report"
LMC International Ltd., Oxford, England

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ATTACHMENT B

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BACKING AMERICA'S BEET, CANE AND CORN FARMERS

May 21, 1997

The Honorable Charlene Barshefsky
U.S. Trade Representative
Office of United States Trade Representative
Winder Building, 600 17th Street N.W.
Washington, D.C. 20506

The Honorable Dan Glickman
Secretary of Agriculture
U.S. Department of Agriculture
Whitten Building, Room 200-A
Washington, D.C. 20250

Dear Ambassador, Dear Mr. Secretary:

With the start of the new round of multilateral agricultural negotiations growing closer, and with the beginning of the Geneva process of analysis and exchange of information, we thought this would be an appropriate time to share with you our views on U.S. objectives for this next round of negotiations.

The American Sugar Alliance is a coalition of U.S. growers and processors of sugarbeets, sugarcane, and corn for sweeteners. We are efficient, with costs of production below the world average. We have long supported the goal of genuine, multilateral elimination of all barriers to agricultural trade.

The world sugar market is one of the most highly distorted and most volatile markets in agricultural trade. All of the more than 100 countries that produce sugar exhibit some form of government intervention, including internal supports; import barriers; massive export subsidies, such as those by the European Union; state trading enterprises; and two-price systems.

These practices literally make the world sugar market a dumping ground, to the extent that the so-called "world price" has averaged only about half the world average cost of producing sugar over the past 15 years. It is only the continuation of tariff protection in the United States that prevents these enormous distortions from undermining the efforts of our efficient and non-subsidized producers.

We are fully committed to working toward an open trading system, but not at any price. As the Administration has said on many occasions regarding China's bid to accede to the World Trade Organization, trade must take place on a commercially viable basis. That is clearly not the case now in world sugar trade.

With this background in mind, we offer the following suggestions on objectives for the next round of negotiations:

- † The United States should continue to insist on the elimination of all export subsidies. This objective should encompass appropriate disciplines on policies which essentially circumvent export subsidy commitments, such as pooling arrangements and dual pricing systems.
- State trading enterprises, which allow countries to control all facets of trade and extend monopolistic pricing practices to world markets, need strongly enhanced disciplines to provide price transparency and prevent predatory and discriminatory pricing.
- The passage of the FAIR Act has reduced U.S. agricultural support by far more than the Uruguay Round required. Other countries should match this reduction in terms of an aggregate measure of support before any additional reduction would be required in the United States.
- Countries which have not fulfilled their Uruguay Round commitments, or which have used various means to avoid or diminish these commitments, must be brought into full compliance with their obligations. This effort should also include arbitrary and capricious sanitary and phytosanitary restrictions which are not based on sound scientific principles. We urge that you aggressively pursue countries that have not complied and that no further concessions be negotiated with these countries until full and complete compliance is achieved.

We point out in this regard that sugar imports into the United States have far exceeded – in fact, nearly doubled – our Uruguay Round commitment. Very few, if any, other commodities in the world can make this statement, a fact that needs to be taken into account in the negotiations.

- On market access, the United States should pursue a request/offer strategy to maximize our negotiating leverage to achieve these objectives. Developing countries do not have to make any further concessions until after the year 2004. Therefore, a formula-driven approach, such as was followed in the Uruguay Round, would give developing countries a free ride and would minimize our negotiating strength.

We hope you will seriously consider these suggestions, as you begin your preparations for the next round of trade negotiations. We would be happy to meet with you, at your convenience, to discuss these objectives in more detail.

Sincerely,


Carolyn Cheney, Chairman

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BACKING AMERICA'S BEET, CANE AND CORN FARMERS

FOR IMMEDIATE RELEASE
May 19, 1998

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AMERICAN SUGAR PRODUCERS ENDORSE
PRESIDENT CLINTON'S CALL FOR FREE TRADE

GENEVA, Switzerland -- Representatives of American sugar producers, in Geneva this week for the ministerial meeting of the World Trade Organization (WTO), today endorsed President Clinton's call for "tearing down barriers to global trade" in agriculture. Clinton made the remarks in Geneva at last evening's commemoration of the 50th anniversary of the WTO.

Carolyn Cheney, chairman of the American Sugar Alliance (ASA), said, "Because we are efficient by world standards, with costs of production well below the world average, American sugar farmers have long supported the goal of global free trade in sugar. We can compete on a level playing field with foreign farmers. We cannot compete with foreign government treasuries."

The ASA is a national coalition of the growers, processors, and refiners of sugarbeets, sugarcane, and corn for sweeteners.

"For these reasons," Cheney said, "we are pleased with the President's free trade message, and with his thoughts on how to achieve that goal. In particular, we applaud the President's emphasis on raising foreign labor and environmental standards."

In his statement, Clinton said, "We must do more to ensure that spirited economic competition among nations never becomes a race to the bottom -- in environmental protections, consumer protections, or labor standards. We should be leveling up, not leveling down."

Cheney said, "This is particularly important in sugar. Two-thirds of the world's sugar is produced in developing countries with little or no protections for the environment, consumers, and workers, while American sugar farmers uphold the

(more)

American Sugar Alliance
Page 2

highest, and most costly, standards in the world. Future trade negotiations must be aimed at raising foreign standards, not reducing ours."

Cheney added, "We also strongly endorse the President's call for a more open process, as he did when he stated 'we must modernize the WTO by opening its Coors to scrutiny and participation by the public.'"

She said, "We commend Trade Representative Barshefsky and Agriculture Secretary Glickman and their staffs who are making every effort to consult with and inform the many agricultural representatives who are present in Geneva this week for these important talks."

"Furthermore," Cheney said, "we applaud the effort made by the United States Congress to be involved with this process. We are grateful to the large delegation of House and Senate Agriculture Committee staff, led by Congressman Tom Ewing (R-IL) for attending the meeting this week."

Cheney said, "American sugar farmers, like all American farmers, went far beyond their commitments in the last trade round when the Congress adopted the Freedom to Farm Bill. These trade negotiations are crucial. They present the only way we can force foreign countries, which have retained far more elaborate commodity programs, to reduce those programs to U.S. levels. When they do, American sugar farmers will reduce their program further, so that genuine free trade can be achieved in a rational and fair manner."

ACCESS	ORIGINAL NAFTA	SIDE LETTER
Years 1 - 6 (1994-99)		
Mexico <i>not</i> surplus producer	Greater of 7,258 mt or "other country" share of TRQ	Same
Mexico surplus producer	25,000 mt	Same
Years 7 - 14 (2000-07)		
Mexico <i>not</i> surplus producer	Greater of 7,258 mt or "other country" share of TRQ	Same
Mexico surplus producer <i>one</i> year	Year 7: 150,000 mt; Years 8-14: 110% of prev. year	Mexican surplus production, <i>up to 250,000 mt, each year</i>
Mexico surplus producer <i>two consecutive</i> years	<i>All</i> Mexican surplus production	This provision deleted
Year 15 (2008)		
	U.S. - Mexican common market; same internal supports, external tariffs; rules of origin remain	Same
Surplus Producer Definition		
	Sugar production minus sugar consumption	Sugar production minus the sum of sugar consumption <i>and</i> HFCS consumption

STATEMENT OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE (ATMI)

This statement is submitted to the Senate Finance Committee by the American Textile Manufacturers Institute (ATMI), the national association of the U.S. textile industry. ATMI's member companies collectively account for approximately three quarters of domestic textile mill activity and make and market nearly every kind of the hundreds of different textile products produced in the United States.

Among the myriad of issues and concerns which confront the U.S. textile industry, perhaps none has been as profound in its impact as international trade. Recognizing the growing importance of international trade to its well-being, the American textile industry has taken those steps which are deemed essential in order to not only survive but grow in an increasingly competitive global environment. The industry has committed over \$2 billion per year over the last decade in capital expenditures to build the most modern, efficient and productive textile industry in the world. It has worked closely with the executive and legislative branches of government to negotiate and secure enactment of fair, reciprocal and balanced trade agreements such as the Caribbean / Central American Special Access Program and NAFTA. It has aggressively sought new markets in other countries in order to offset the ravages of import competition, which have sharply reduced U.S. apparel production, thereby sharply reducing the industry's customer base.

In the Uruguay Round of multilateral trade negotiations, the United States agreed to the abolition of the International Agreement Regarding Trade in Textiles (a.k.a. "The Multifiber Agreement" or "MFA") and agreed to reductions in U.S. textile and apparel tariffs. The economic impact of these concessions is difficult to overstate. Suffice it to say that in order for the U.S. to secure a Uruguay Round Agreement no domestic industry surrendered more, paid as high a price, as the American fiber/textile/apparel complex.

But there were supposed to be balanced concessions in the Uruguay Round final deal, reciprocal measures undertaken by the many participants. Other countries, in particular those large exporters of textiles and apparel who have kept their domestic markets tightly closed to imports, were supposed to provide (at long last) meaningful market access. In far too many cases this has not been done. India and Pakistan still enforce outright bans on most textile and apparel imports, reinforced (as if it were necessary) by enormous tariffs. Brazil and Argentina have completely abrogated their Uruguay Round commitments. Most members of the ASEAN bloc maintain prohibitive tariffs. Nearly all African nations have prohibitive tariffs and/or ban textile imports. The list goes on.

In the field of textiles, the United States (and its domestic industry) gave and gave generously in the Uruguay Round and has received precious little in return.

Now, members of the World Trade Organization (WTO) are preparing for the second post-Uruguay Round ministerial gathering, this is to be convened with the United States as the host country. Certain members of the WTO—and they can be identified beforehand: India, Pakistan, and Hong Kong—will use this occasion to again call for an acceleration of the trade liberalizing elements contained in the Uruguay Round Agreement on Textiles and Clothing. They did it at the Singapore Ministerial in 1996 and they will do it again. They want (indeed, they demand) the United States and the other importing countries to give more than was agreed to in the Uruguay Round. And those donor countries should do this unilaterally, not seeking anything in return.

Additionally, the upcoming ministerial will serve to lay the foundation for the ninth GATT-WTO round of multilateral talks (this before the effects of the Uruguay Round Agreements have even been assessed). As usual, the "developing" countries will indicate that they may be willing to discuss intellectual property protection and trade in services and financial disciplines, but first the United States has to make a good faith down payment: further reductions in textile tariffs.

These two approaches that will be taken by certain developing countries—to accelerate the Uruguay Round textile transition period and to further reduce textile and apparel tariffs—must be rebuffed by the United States. The U.S. must be unambiguous that no further concessions in the field of textiles and apparel will be forthcoming until all (emphasis added) WTO members provide market access for U.S. exports equivalent to that which the United States offers their exports.

With the clock ticking inexorably toward January 1, 2005, the day when all U.S. restraints on imports of textiles and clothing will be forever abolished in favor of Uruguay Round signatories, the domestic textile industry continues to position itself to compete in this new environment of unfettered trade. The industry is committed to seeking enactment of CBI parity legislation and to obtaining effective access to foreign markets. In order to survive and prosper in the years ahead, the industry must find new customers overseas. It cannot do this if foreign governments are al-

lowed to continue to shut out textile and apparel imports by maintaining exorbitant tariffs, other imposts and fees and a bewildering array of non-tariff measures.

Just as its agreed to abolish the MFA and to reduce tariffs in the Uruguay Round, the United States must demand equal treatment for its exports from recalcitrant nations. This should be the focus of United States trade policy going forward and Congress should lead the way in this effort. ATMI and its member companies look forward to working with the Committee on Finance and other relevant congressional committees to secure these objectives. The American textile industry is willing and ready to compete worldwide. It must be given the chance to do so.

STATEMENT OF THE ASSOCIATION OF INTERNATIONAL AUTOMOBILE MANUFACTURERS, INC. (AIAM)

The Association of International Automobile Manufacturers, Inc., (AIAM) is the trade association representing U.S. subsidiaries of international automobile companies doing business in the United States. Member companies distribute passenger cars, light trucks, and multipurpose passenger vehicles in this country. Nearly two-thirds of these vehicles are manufactured in the ten New American Plants established by AIAM companies in the past decade. International automakers support American jobs in manufacturing, supplier industries, ports, distribution centers, headquarters, research and development centers and automobile dealerships. AIAM also represents manufacturers of tires and other original equipment with production facilities in the U.S. and abroad.

We appreciate this opportunity to comment on "United States trade policy in the era of globalization" and we commend the Committee for holding this series of hearings on a topic of such importance. Globalization has been underway in the motor vehicle manufacturing industry for decades, initially led by General Motors and Ford in the 1920's. More than a generation later in most cases, AIAM members and their parent companies joined in the globalization of automobile production and distribution. In the 1970's, imports of vehicles into the United States by our members grew significantly. In the 1980's, investment by our members in manufacturing plants within the United States grew even more dramatically. As recently as 1980, nearly all the vehicles sold in this country by our members were imported. By 1990, one-third of their vehicles sold here were produced in this country. In 1994, the number of U.S.-produced vehicles sold by our members surpassed the number of imported vehicles they sold for the first time. By 1996, nearly 60 percent of these vehicles were made in the United States, and today the figure approaches 70 percent of vehicles sold. Our industry is an example of the benefits of globalization to American workers and consumers.

TRANSPARENCY AND FULL CONSULTATION

The chairman of this committee has rightly cited the need to reconnect U.S. trade policy with "Main Street" America. One way to do that is to conduct hearings of this kind, where the Senate can hear the views of many sources, including companies like ours which employ thousands of American workers and which provide high quality products to millions of American consumers. A similar way to help make this connection is through the receipt by the U. S. Trade Representative (USTR), the Department of Commerce (DOC), and other agencies of public comment concerning negotiating priorities and other trade policy activity.

A way in which we believe the Administration does not make this connection as successfully as it could is the operation of the Industry Consultations Program for Trade Policy Matters sponsored by DOC and USTR. This is the program which includes the industry sector advisory committees (ISACs). Current practice is to deny membership on ISACs to industry experts if they are employed by companies or associations with foreign ownership. This rule, not found in the statute, is applied even toward those companies employing large numbers of American workers and those who export a large share of total U.S. exports in their industry.

We hope the Administration will modernize its policy in this area, recognizing the benefits of open investment in the U.S. economy. AIAM urges USTR to consult with all U.S. manufacturers, not just those traditionally thought to be "domestic." This is particularly appropriate in the motor vehicle manufacturing sector, which is now a global industry. AIAM member companies export more automobiles manufactured in the United States than do the companies traditionally viewed as domestic. In addition, those companies import more vehicles into the United States than do automobile companies traditionally viewed as importers. A March, 1998, study by the University of Michigan Transportation Research Institute's Office for the Study of Automotive Transportation estimates that the economic contribution associated with

the presence of our members' activity in the United States is about 1.3 million jobs and about \$50 billion in compensation, when spin-off activity is accounted for. According to the Michigan study, this represents one percent of total private jobs and 1.3 percent of private sector compensation in the U.S. economy.

FUNDAMENTAL OBJECTIVES FOR THE UNITED STATES

We believe that certain fundamental objectives should be part of the "comprehensive trade agenda for the United States" which these committee hearings are designed to explore. Further liberalization through the World Trade Organization (WTO) should be the broad goal of U.S. trade policy. The effort to achieve this goal should include the following, among other objectives:

1. To enact normal trade negotiating authority, in order to enable the President credibly to pursue such negotiations and their subsequent approval by Congress;
2. To avoid, to the greatest extent possible, the existence of overlapping and potentially conflicting trade regimes at the national, bilateral, subregional and regional level which impose unnecessary inefficiencies on global industries like automobile manufacturing;
3. To provide for harmonization of product standards for automotive products;
4. To improve market access through further reductions in tariffs and rapid phaseouts of nontariff barriers applicable to automotive products;
5. In arrangements such as the potential Free Trade Area of the Americas and the Asia-Pacific Economic Cooperation forum, to exclude anti-platforming provisions applicable to automotive products in order to avoid disadvantaging U.S. exports and to adopt a rule of origin for tariff preference purposes that is clear, predictable, and free of undue compliance burdens;
6. To pursue effective implementation of the Agreement on Trade-Related Investment Measures, in order to ensure that no new investment measures that distort trade may be established, whether by developing or developed countries;
7. Eliminate or reduce the duty on sulphur-free gasoline, a fuel which allows today's clean automotive technologies to work more effectively;

HARMONIZATION OF STANDARDS

AIAM recommends that the United States attach high importance to the reduction and elimination of technical barriers that needlessly impede trade in motor vehicles and motor vehicle parts. Although one of the significant WTO agreements is the Agreement on Technical Barriers to Trade, there is still much to do in order to achieve the elimination of such barriers. We believe that the most basic requirement for success in this area is a commitment by governments at the highest level to the goal of harmonization. Without that, regulatory organizations in most countries will not on their own make harmonization an important priority. As a leading exporter, the United States has good reason to stress harmonization.

TARIFF ON SULFUR-FREE GASOLINE

The Administration is reportedly proposing to spend more than \$4 billion in fiscal year 2000 primarily to promote the use of clean technologies and energy efficiency measures. Consistent with this effort is a petition that U.S. automobile manufacturers have filed with the Environmental Protection Agency to require the removal of sulfur from gasoline. The presence of sulfur in gasoline provides no benefit and dramatically decreases the efficiency and effective life-span of automobile catalytic converters, which remove harmful vehicle emissions.

In order to increase the availability of sulfur-free gasoline and to stimulate U.S. refineries to produce more sulfur-free gasoline, AIAM urges the Committee to eliminate or reduce the duty on sulfur-free gasoline. Item 2710.00.15 of the Harmonized Tariff Schedule (HTS) at present imposes a general duty of 52.50 cents per barrel of gasoline.

LIGHT TRUCK TARIFF

A particularly severe and unjustifiable barrier to trade is the 25% ad valorem duty that the United States imposes upon light trucks. This duty is an obsolete remnant of the so-called Chicken War between the United States and then-European Economic Community almost 40 years ago. It has no economic justification and restricts trade unnecessarily.

This duty has been the subject of long-standing controversy and political debate. It has generated strong feelings within the United States and intense discussions with our trading partners. Abolishing the 25 percent duty should be the long-term

goal. In the short term, action by the United States to reduce it to a level such as 4 percent, which is now the duty on trucks between five and twenty metric tons in gross vehicle weight, would be a very positive step that would serve U.S. interests. It would lower consumer costs and stimulate competition. Light trucks have become extremely popular in the United States. For many families, they fill the role of a second car. American consumers would benefit significantly from the increased competition and lower prices that should result from eliminating the Chicken War tariff. Some reasonable tariff concession offered in return by the European Union would render the resolution of this long-standing issue genuinely bilateral.

CAFE PENALTIES

Another subject which deserves serious attention from a trade perspective is automobile fuel economy regulation. At present, the U.S. corporate average fuel economy (CAFE) program requires that manufacturers achieve a minimum level of average fuel economy for all types of vehicle that they sell—a fleet-wide average approach. Companies can offset large cars with small cars and thereby achieve the required average of 27.5 miles per gallon for passenger cars. Those manufacturers whose average is above the required level pay very substantial fines to the U.S. Department of Transportation—more than \$400 million between 1985 and 1997.

The CAFE program works for the traditional Detroit-based companies who make vehicles of all sizes and who were involved in the process when Congress designed the CAFE program. It does not work, however, for the increasing number of Americans who drive cars built by international companies if they happen to be single or narrow line manufacturers. The American who buys a Cadillac will not pay a higher price that reflects CAFE penalties because the manufacturer is able to average that vehicle's relatively low fuel economy with high-mileage models that the same company also makes. At the same time, the American who buys a Porsche which has the same fuel economy as the Cadillac, will pay a price that includes the cost of large CAFE penalties.

The structure of the CAFE program has the effect of discriminating against European automobile manufacturers who export to the United States. Indeed, according to the Department of Transportation, all of the \$404,545,510 it collected between December, 1985, and August, 1997, was collected from European companies. The basis for this distortion of the marketplace is not some special effort to conserve energy or to protect the environment. The basis for it is an unnecessary distinction between the way the U.S. government regulates the products of companies which are structured in one fashion and the way it regulates the products of companies structured in another fashion. Action by Congress and the Administration to address the CAFE problem would be a positive opportunity for the United States to eliminate this discriminatory effect that ultimately hurts American consumers.

CONCLUSION

The Finance Committee has taken a constructive step by beginning the new Congress with three days of hearings on U.S. trade policy. Building a basis for public support of an open trade policy is important to the economic future of our country. AIAM would be pleased to provide the Committee whatever further information on trade in the automotive sector the committee would find useful.

STATEMENT OF BETHLEHEM STEEL CORPORATION

(SUBMITTED BY CURTIS H. BARNETTE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER)

I appreciate the opportunity to submit this statement for the record of the Finance Committee's trade policy hearings and commend the Committee for including a panel on the steel import crisis.

Last Fall, despite the immense pressures of completing the legislative business for the year, Congress demonstrated its concern and support for the U.S. steel industry and its workers and stressed the need for strong and effective government action to stem the surge of heavily dumped and subsidized foreign steel imports. The enacted budget reconciliation bill included a Congressional Resolution urging the Administration to take the necessary and appropriate actions to combat the unfairly traded imports flooding our markets. Congress has sent a clear and important message that the U.S. government should not allow dumped and subsidized foreign steel to undermine the U.S. industry and American jobs.

This statement will consist of four parts: an update on the steel import crisis, a summary of actions taken by the industry, a reaction to the Administration's Janu-

ary 1999 Report to the Congress, and an outline of legislative initiatives that need to be pursued.

STEEL IMPORT CRISIS UPDATE

The U.S. steel industry went through a painful restructuring in the 1980s—we lost hundreds of thousands of jobs and made massive capital investments. We emerged as the world class steel industry. Our foreign competitors, however, did not make the painful decisions made by the U.S. industry. There continues to be significant foreign overcapacity which has to land somewhere, and it has landed in the United States—the world's most open market. As we examine the data detailing the sharp increase in steel imports and its effect on the U.S. industry, it is essential to keep in mind this root of the problem—uneconomic decisions by foreign producers leading to excess worldwide capacity that ultimately is unfairly traded in the United States and thereby undermines the U.S. industry and its workers.

Record levels of unfairly traded imports in 1998 pose an unprecedented threat to all that our world-class U.S. steel companies and employees have achieved in recent years. The impact of the steel import crisis in the United States has become even more severe in the first quarter of 1999.

Import volumes in 1998 reached unprecedented levels (see Attachment 1). The United States imported a record 18 million tons in the first half of 1998. Nevertheless, import levels in the second half were even higher. During this third quarter, a record 12.4 million tons of imports surged into the U.S. market, an increase of 56 percent over the same period last year. The July through November imports were the five highest monthly totals for imports in U.S. history (see Attachment 2). This five month import level, if annualized, would approach one half of expected total shipments this year by the entire domestic industry. U. S. imports of steel mill products through November have already set an all-time record for a single year, with 38,659,000 net tons—a 33 percent increase from the 29,047,000 net tons imported in the first 11 months of 1997, which itself was a record year.

The United States has become the World's Steel Dumping Ground. While average U.S. import values have declined by almost \$100 per ton in the past year, total import volume has increased by over 70 percent (see Attachment 3). On October 28, 1998, the Executive Director of the steel importers association admitted to the Journal of Commerce that "there's no place left to put the steel." The docks and warehouses are full. The inventories remain at record levels. Yet, unprecedented levels of unfair and disruptive steel imports continue to stream in from every corner of the globe.

Comparing eleven months of 1998 with last year's record import levels, finished steel imports are up 147 percent from key Asian producers (see Attachment 4), and up 75 percent from Russia and two other nations of the Commonwealth of Independent States (CIS), not including cut-to-length plate, which is subject to a suspension agreement (see Attachment 5). Other examples of 1998 import surges include Australia (up 150 percent) and South Africa (up 105 percent).

More than half of the total import surge in 1998 has been concentrated in hot-rolled carbon steel flat-rolled products (see Attachment 6), which explains why this is the product area covered by the initial trade cases filed earlier this year by U.S. steel companies and the USWA. A closer look at the data shows that flat-rolled imports have surged sharply since the first quarter of 1998 (see Attachment 7), and significantly higher import volumes and substantially lower average unit values are especially pronounced for imports of hot-rolled carbon steel flat products from Japan, Russia and Brazil (see Attachments 8-10).

It is important to emphasize, however, that this import surge is not limited to hot-rolled carbon products or to these three countries alone. With U.S. imports from nearly 40 countries having long ago exceeded their full-year 1997 totals (see Attachment 11), steel import market share is rising in several key product lines (see Attachment 12), and import surges, both by country and by product, are occurring across-the-board.

In one dramatic example, U.S. imports of cut-to-length carbon steel plate from South Korea have skyrocketed since June (see Attachment 13), and more cut-to-length plate from Korea entered the United States in a 4-month period, from August through November 1998, than in the previous 7 years combined (see Attachment 14). And these are not the only examples. More plate in coil entered the U.S. from Japan in the last 3 months than in the previous 10 years combined (Attachment 15), and more cold rolled sheet entered the U.S. from Korea in the last 4 months than in the previous 5 years combined (Attachment 16).

This is a supply-driven crisis, in which an already enormous world steel overcapacity problem has been made much worse by major structural economic failures

in Asia and the CIS. Today, we have over 300 million tons, or roughly one-third of total world steel capacity, desperate for new markets. This current crisis is deeply troubling, causing serious injury to U.S. steel companies and employees, and unique in three respects:

- First, worldwide overcapacity and the failure of foreign producers to execute the difficult restructuring decisions made by the U.S. producers continues to undermine our industry and workers. The problems caused by this overcapacity have been exacerbated by the recent global macroeconomic developments, from extreme currency shifts to severe economic downturns abroad, which clearly are beyond the ability of U.S. producers and workers to control.
- Second, no one can recall a time when U.S. steel prices have fallen this far this fast in a period of still relatively strong U.S. market demand. The painful truth is that dumped and subsidized imports are deriving most of the benefits of our own successful efforts to grow the demand for steel in the United States and North America.
- Third, and perhaps most troubling of all, the serious import injury this time is threatening to destroy an American success story of industrial revitalization, an industry that is once again the world leader in labor productivity and the application of state-of-the-art steelmaking technology. This time, unlike in the early-mid 1980s, major structural economic failures abroad are threatening the viability of a world-class, highly competitive U.S. steel industry—and with it, thousands of high skilled U.S. jobs.

Recent press reports and public news releases detail the effects of this accelerating national crisis. Unprecedented levels of unfairly traded and disruptive steel imports have caused a large and growing number of U.S. steelworkers to experience layoffs, short work weeks or reduced pay incentives. And for U.S. steel companies, these surging levels of imports, at prices far below the cost of production, have resulted in lower shipments, large production cuts, significant declines in capacity utilization, lost orders, severe price depression, and significant financial losses.

In addition, the adverse effects of this steel trade crisis are now spreading with equal intensity to key suppliers and to immediate downstream users, such as steel processors and fabricators. Steel companies and employees are taking private legal actions to address the crisis. However, public actions, including prompt, enhanced enforcement of trade laws and other effective actions by the Administration and the Congress, are needed now to keep this crisis from getting even worse.

STEEL INDUSTRY ACTION PLAN

In September, a three-part program was reviewed with the Senate and House Steel Caucuses that required both public and private sector responses.

1. *Trade Cases*—On September 30, 1998, twelve domestic producers and two unions filed trade cases against hot-rolled carbon steel products from Russia, Japan and Brazil. These cases demonstrate that steel producers in these countries have dumped steel products and, in the case of Brazil, sold heavily subsidized steel products into the U.S. market. The petitions show dramatic unfair trade margins ranging from 27% to 199%. This unfair trade has injured the U.S. industry and it is critically important that the laws be fully enforced in these cases. It is essential that these cases be allowed to proceed to final determinations and to the imposition of appropriate antidumping and countervailing duties. We do not believe that agreements settling these cases could or would provide adequate relief, and will oppose suspension agreements with any and all of the respondents.

a) On November 13th, we were pleased that all six members of the International Trade Commission voted affirmatively in the preliminary determination on the question of injury.

b) On November 23rd, the Department of Commerce announced an affirmative preliminary finding of "critical circumstances" on the Japanese and Russian cases. The Department's finding means that antidumping duties may attach to entries of merchandise made up to 90 days prior to the Department's preliminary determination of dumping. It is very important to note the reasons for this finding:

1) Imports from Russian and Japan have increased by about 100 percent during the period examined.

2) With respect to Russia, there is a history of dumping findings on Russian hot rolled steel in third countries.

3) With respect to Japan, based on the size of the alleged margins and other factors, importers of Japanese steel knew or should have known that the imports were dumped and were likely to cause injury to the U.S. industry.

4) Finally, there was evidence that importers had knowledge that dumping cases were coming.

c) The Commerce Department announced it would make preliminary dumping determinations on February 12, almost three weeks ahead of the statutorily mandated time schedule. This determination means that entries as early as mid-November could be subject to antidumping liability duties, based on the margins of dumping ultimately determined for the countries and producers involved. In responding to the surge of unfairly traded imports, it is essential that these trade cases be handled expeditiously. We are pleased by the Department of Commerce's manifest commitment to enforcing the trade laws in these cases in a prompt, efficient and fair manner.

We and others are carefully reviewing all of our alternatives available under the law, including additional antidumping and countervailing duty cases, Section 201 "escape clause" actions, and other actions. Additional cases will be filed when appropriate.

2. *Public Awareness Campaign*—An informed public is essential as we press our government to take immediate and forceful action against these unfairly traded steel imports, and we believe we have made important progress in a joint industry-labor public awareness program. The USWA and America's leading steel companies have established a "Stand Up For Steel—Stand Up For America" Campaign that reaches out to America and is designed to involve all interested parties. Numerous rallies and other public events, have taken place with significant community participation. Countless messages and letters have been sent to leading newspapers and other media, and a vigorous print, radio and television campaign to tell the public about the steel crisis is being conducted. And we don't intend to let up on these efforts—this multi-steel company and USWA Campaign will continue as a means to educate the public until the crisis is resolved.

3. *Governmental*—Throughout the Fall we had a number of meetings with Cabinet level officers. These visits culminated in a meeting with the President and Vice President. We believe there are actions the Administration should take and they include:

1) Forceful and publicly known bilateral discussions with all countries who are engaging in unfair trade to direct them to stop.

2) Prompt and effective enforcement of trade cases brought by the industry.

3) Willingness to self-initiate, or consider self-initiating in consultation with the industry, as appropriate: AD, CVD, 201 and other cases.

4) Willingness to deal with Russia by imposing a tariff on Russian shipments, utilizing the 1990 USSR-US agreement on Trade Relations and other Presidential authority.

5) Willingness to deal with the Japanese Cartel under 301, by a WTO case or through antitrust laws.

6) Utilize CVD regulations to provide strong CVD remedies.

7) Support for an effective steel import monitoring system.

8) Support for trade legislation that will strengthen our trade laws in a manner consistent with the WTO.

9) Have the highest qualified public servants in position or nominated to administer our trade laws.

10) Have forceful statements about the crisis in the American steel industry made by the President, Cabinet Members and others to the effect that rules will be enforced when trade is unfair and injurious.

THE ADMINISTRATION STEEL PLAN

On January 7th, the Administration released its congressionally mandated report to the Congress on a comprehensive plan for responding to the increase in steel imports. The plan is neither comprehensive nor responsive. The reaction from all quarters of industry and labor is that the plan falls short of what is required, and that reaction has been forcefully communicated to the Administration. The plan is primarily a recitation of actions previously taken by the Administration. It contains four "new" items: a vague and unenforceable demand for Japanese export restraints; a "300 million dollar" NOL carry back extension which was not requested and is of no use to Bethlehem or any other company we have talked to; accelerated release of steel import data which is helpful but falls far short of "real time" data provided by an import permit system; and trade adjustment assistance enhancements that are bitterly opposed by the USWA.

Attachment 17 is a side-by-side analysis of the Administration's report as measured against the industry's requests enumerated in the previous section of this statement. The most serious deficiency, from the industry's perspective is the Ad-

ministration's announced intention to seek a suspension agreement with Russia in the pending hot rolled sheet antidumping investigation. Such an agreement would seriously undermine the relief provided by law by permitting large quantities of unfairly-traded steel to be imported into the United States. We have advised the Administration that in the current circumstances such an agreement is inappropriate and unacceptable, and we will oppose it with every available resource.

We continue to work with the Administration to encourage more meaningful action, and we believe that the January 7 report should be viewed as a starting point rather than the final response to the steel import crisis.

TRADE LAW REFORM

In addition to what the Administration can and must do now under existing law to address the steel trade crisis, legislation is needed to cause our remedies against unfair trade to be more effective in these new economic conditions and to make sure those remedies continue to function effectively into the future.

Bethlehem and the steel industry have long supported open, fair, rule-based and market-based trade, coupled with efficient trade laws to handle unfair trade. These trade laws need to be firmly enforced to prevent unfairly traded imports from injuring U.S. industries. The trade laws, however, also must be improved and enhanced to the fullest extent possible consistent with WTO.

It has been a full decade since the Congress last enacted an omnibus trade law reform bill, that was not related to the implementation of a trade agreement. In that decade, and especially in this most recent crisis period, we have learned—with deep regret, and having suffered material and serious injury, that the existing laws do not provide the timely and effective remedies intended by Congress and permitted by WTO rules, and required to continue open and market-based trading.

The steel industry has supported international agreements intended to open world trade. In particular, we supported the WTO agreements, which established new international rules for the trade remedies imposed from time to time by WTO Member governments. But we did so based on an understanding that the United States, with the world's largest open market, would have and enforce the strongest possible remedies consistent with the new rules. Congress intended that these laws provide remedies, and all too often they simply have not, and do not work.

We therefore intend to propose appropriate and necessary fair trade law reforms in the 106th Congress. Our preliminary recommendations include the following seven areas, and additional technical amendments are needed in each one of these areas.

1. Section 201: Section 201 should be amended to reflect the standards in the WTO Safeguards Agreement, rather than the more restrictive standards currently in our law. There is no justification for the additional burden now imposed on U.S. industries seeking safeguard relief. In addition, in any case involving an "upstream" product that is both sold on the merchant market and "captively consumed" by domestic manufacturers who use it as feedstock, the statute should direct the ITC to measure the domestic industry's market share in a manner consistent with common commercial practices in the industry concerned.

2. ITC injury analysis in AD/CVD cases: This is an area of particular and unnecessary difficulty for industries seeking relief against dumped and subsidized imports. Congress intended, and WTO rules allow, that such imports face offsetting duties whenever the domestic industry is injured to any measurable degree by the imports. Where there is an unfair trade practice, whether selling at less-than-fair-value or a subsidized product, no amount of injury should be tolerated. Any detectable injury should be remedied. That is the original intent of the Congress—but it is not what happens today.

An industry should not have to suffer as much injury as we are suffering now in order to get relief. Likewise, it should not be necessary to wait until there is current injury in order to find threat of injury. To list just three of the many needed amendments, Congress should act this year to clarify that: (1) there is no need to show actual losses or layoffs in order to find present injury; (2) in cases where injury is developing rapidly, the ITC must focus primarily on the most recent information; and (3) any causal link between imports and injury is sufficient for an affirmative determination—whether or not there is evidence of one or more individual factors such as underselling.

3. Antidumping calculations: Significant and unnecessary loopholes in the current law allow foreign exporters to avoid the law's full remedial effect by, for example, selling their goods through related parties in the United States. Amendments are needed to ensure that dumping margins are appropriately ad-

justed to prevent such manipulations. Congress should likewise amend the law to ensure that severe foreign currency depreciations do not put antidumping relief out of reach. We also believe that certain aspects of the current U.S. methodology for non-market economies need to be tightened and codified in the statute—especially as some of the larger non-market economies move toward membership in the WTO.

4. **Countervailing duty calculations:** The Commerce Department recently issued final countervailing duty regulations, and in doing so codified a number of balanced rules that can bolster the CVD remedy's effectiveness. Nevertheless, the Department failed to promulgate one very important rule that had been expressly sought by the Congress: a rule that changes in the ownership of subsidized factories, including privatizations, shall be treated as having no effect on the countervailability of previously received subsidies. This rule, along with a few other clarifications, should now be added to the statute.

5. **Section 301:** The effectiveness of section 301 as a market-opening tool has waned significantly, both because of the WTO agreements and because of the proliferation of new and harder-to-reach types of foreign trade barriers. Closed foreign markets are an important part of the overall trade crisis in the steel industry. We urge that Congress update section 301 with expanded authority for the President to address the new generation of private and joint public/private restraints on international trade. The USTR should have authority to act directly against foreign firms that participate in, or are the principal beneficiaries of, such restraints.

6. **Import Monitoring:** The current delays in providing steel import information to the industry have been partially addressed through the Administration's plan, but legislation is necessary to implement a steel import licensing system that will provide "real time" data.

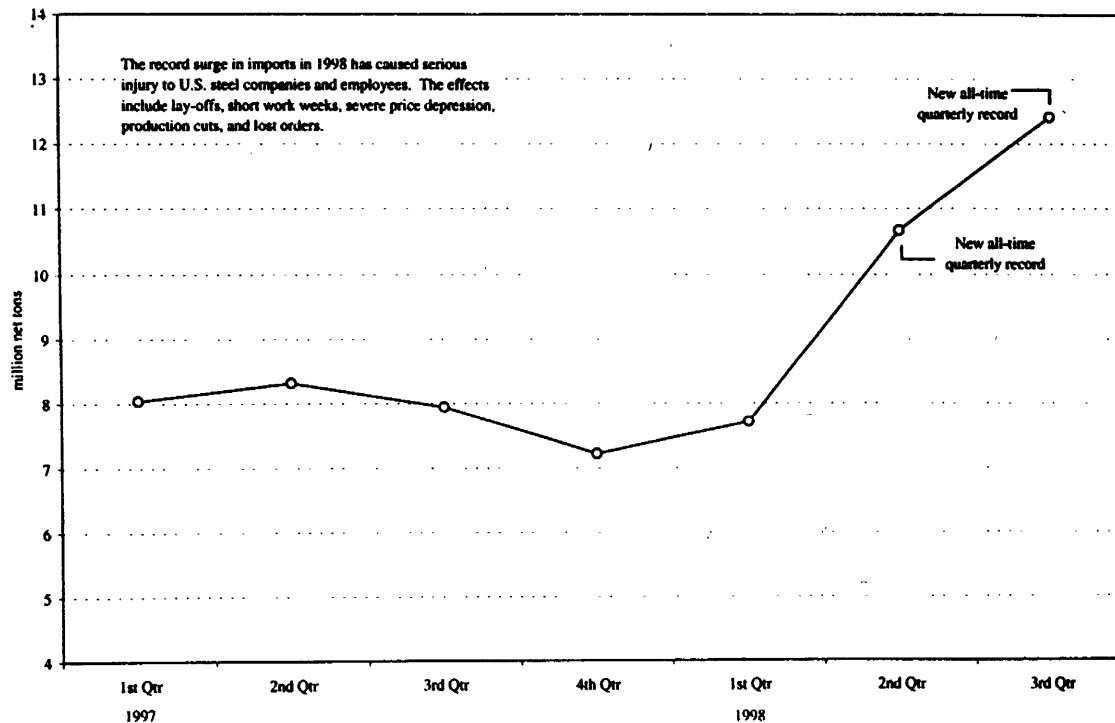
7. **WTO Dispute Settlement Review Commission:** Unwarranted fear of future litigation in Geneva is emerging as a major problem in the administration of the U.S. trade laws. In large part, what is needed is simply a more resolute approach by the Federal agencies involved. However, Congress can help by establishing a blue-ribbon commission, comprised of federal judges, to review adverse WTO dispute settlement panel decisions. This proposal has been previously introduced by Senators Moynihan and Dole and publicly endorsed by the Clinton Administration. We believe its enactment would help to prevent U.S. officials from being intimidated, in carrying out the dictates of U.S. law, by the prospect of WTO litigation. We fully accept the new WTO rules and the jurisdiction of WTO panels to enforce those rules, but where panels stray outside those rules and invent new limitations on the use of U.S. trade remedies, some procedure must be in place to facilitate an appropriate Congressional response.

These seven fair trade law reforms are a starting point to make more effective our existing trade law remedies. We will have additional suggestions as we move forward.

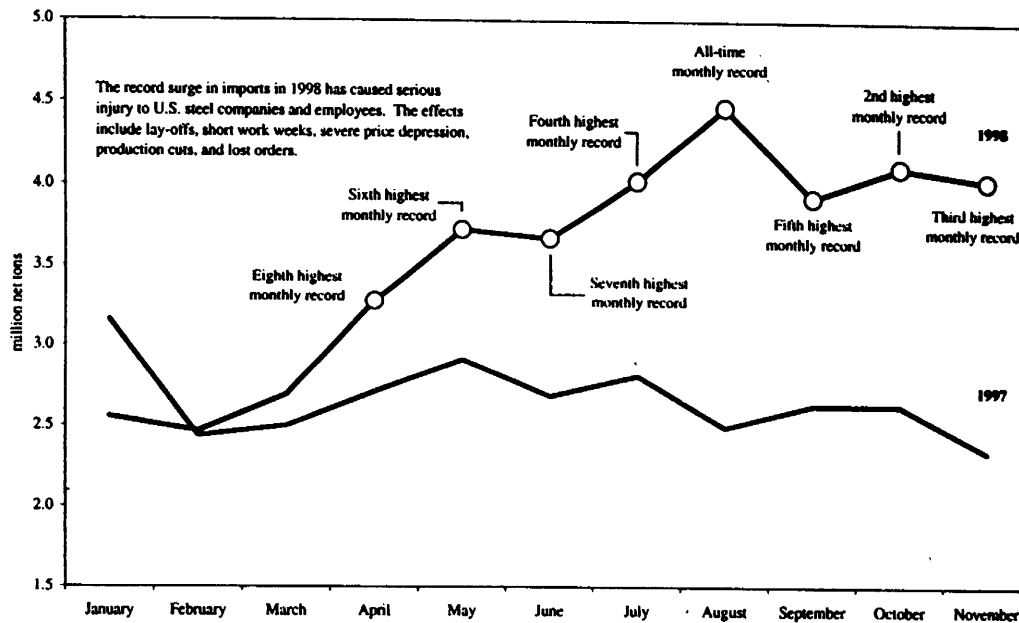
In closing, the situation described in this statement places our industry, and perhaps our nation, at a trade policy crossroads. We believe that a comprehensive and effective response can be based on WTO-consistent principles, but that course requires an Administration willing to fully utilize the remedies available to it under current law, and a Congress willing to make WTO-consistent changes in our laws where they have been proven to be deficient. If we fail to respond effectively within WTO rules, however, public pressure for an effective solution will surely mount and may require a different course of action. The challenge is clear and real. Prompt, comprehensive and effective action to address the steel import crisis is absolutely essential if we are to continue our present course of trade policy.

Attachment.

Record Levels of Unfairly Traded Imports From Russia, Asia and Other Countries in 1998 Pose an Unprecedented Threat to the Competitiveness Gains Achieved by U.S. Steel Companies and Their Employees



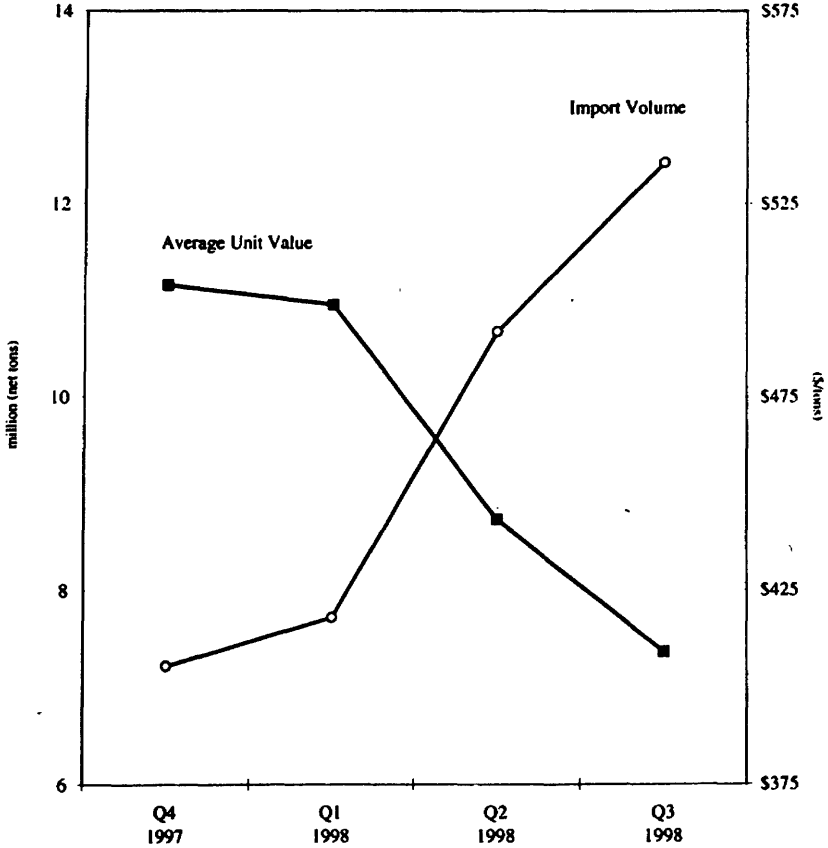
Record Levels of Unfairly Traded Imports From Russia, Asia and Other Countries in 1998 Pose an Unprecedented Threat to the Competitiveness Gains Achieved by U.S. Steel Companies and Their Employees



Source: Department of Commerce

Attachment 3

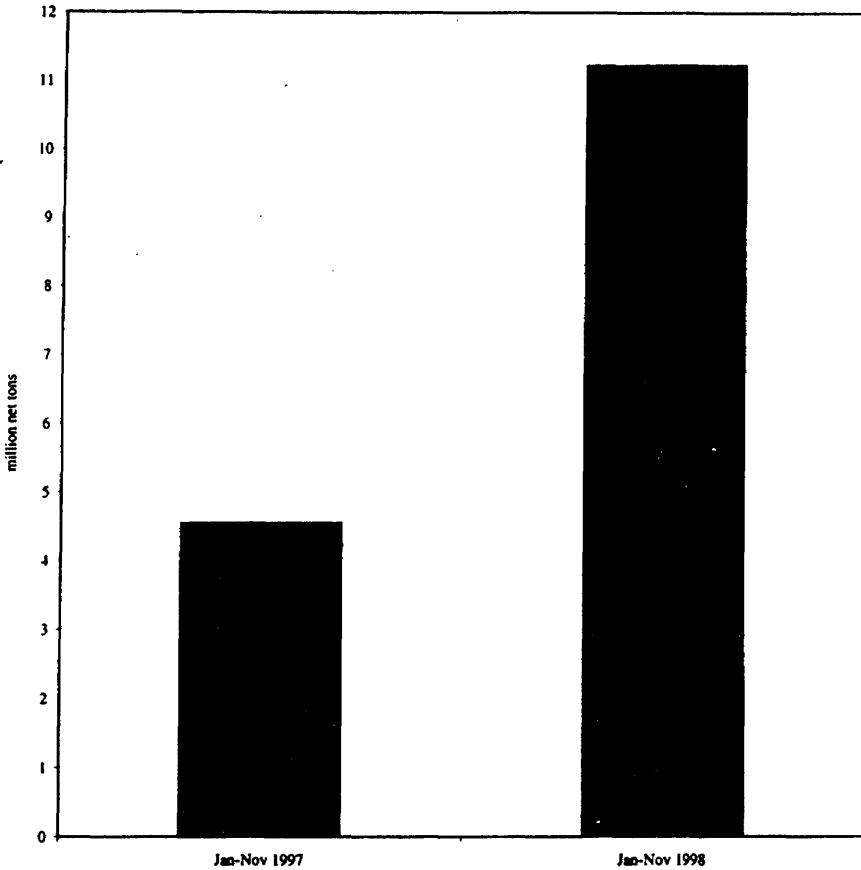
Over the Past Year Average Import Values Have Declined
 Almost \$100 Per Ton For Total Steel Imports While Import
 Volume Has Increased
 Over 70 Percent



Source: U.S. Department of Commerce

Attachment 4

**U.S. Imports of Finished Steel Mill Products
From Asian Steel Producing Countries,
Already at Very High Levels in 1997,
Have Increased an Additional 147 Percent in 1998**

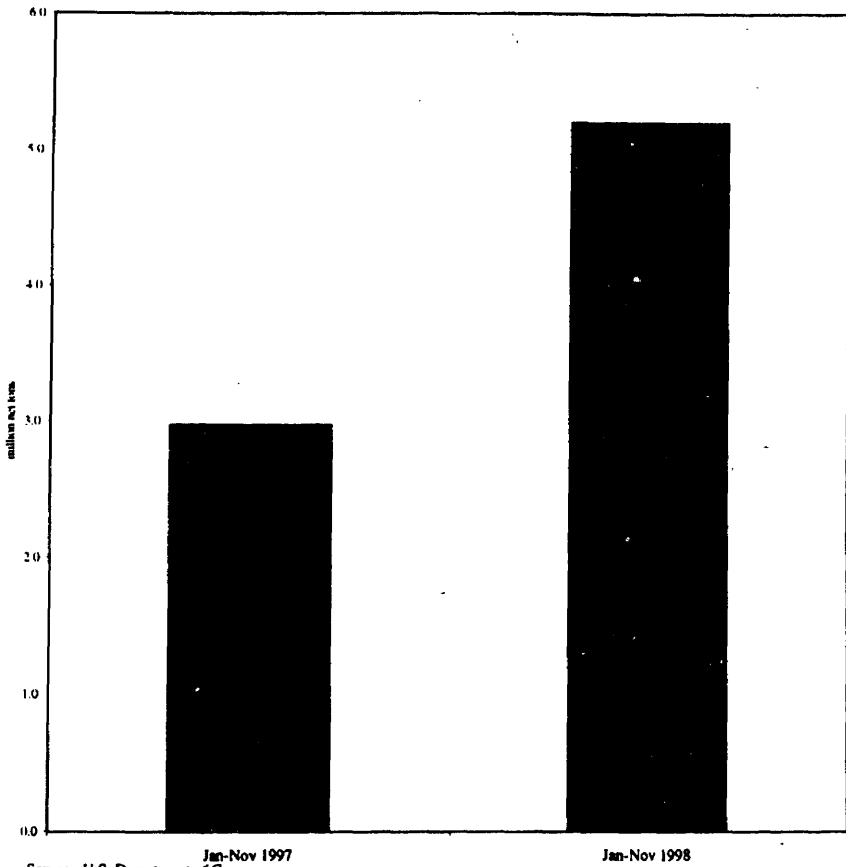


Source: U.S. Department of Commerce

Note: Asian steel producing countries include China, Japan, Korea, Taiwan, India, Indonesia, Malaysia and Thailand.

Attachment 5

**U.S. Imports of Finished Steel Mill Products From CIS Countries Not
Subject to Suspension Agreements,
Already at Record Levels in 1997,
Have Increased an Additional 75% in 1998**

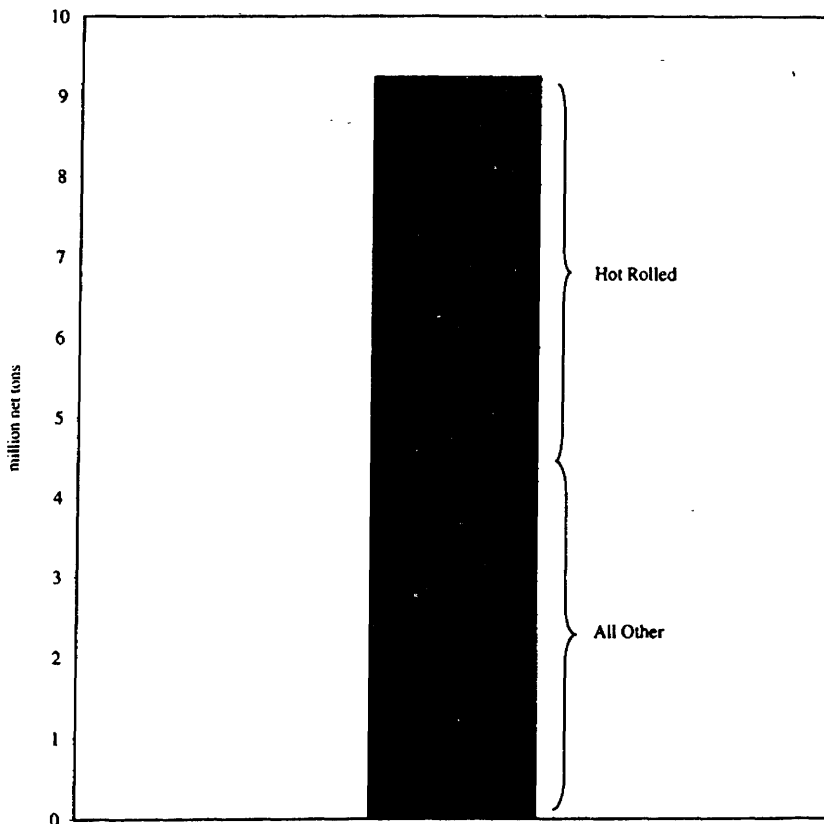


Source: U.S. Department of Commerce

Note: Data on CIS excludes carbon cut-to-length steel plate which became subject to a suspension agreement in 1997. CIS countries include Russia, Ukraine and Kazakhstan.

Attachment 6

**More Than Half of the Finished Steel Import Surge in 1998
Has Been Concentrated in Hot-Rolled
Carbon Steel Flat-Products**
(million net tons)



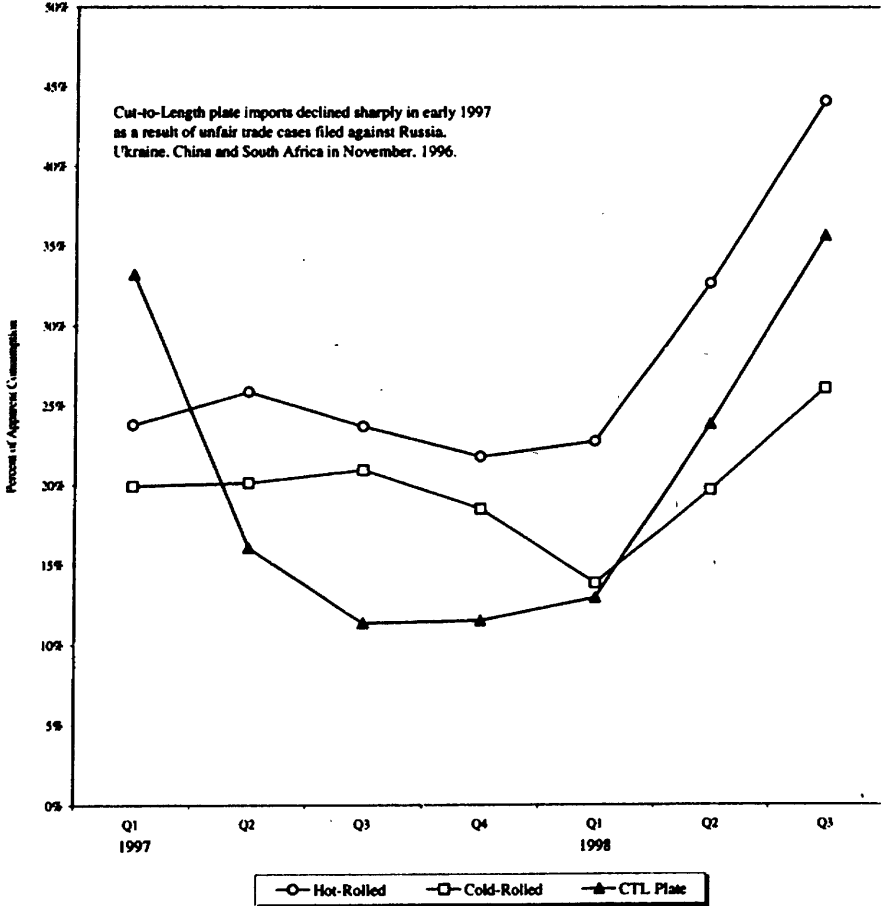
Finished Steel Import Volume Increase
Jan-Nov 1998 vs. Jan-Nov 1997

Source: U.S. Department of Commerce

Note: Hot-rolled carbon steel flat products includes hot-rolled sheet and plate in coil.

**Flat-Rolled Imports Have Surged Sharply
Since the First Quarter of 1998**

Import Market Share 1997: Q1 to 1998: Q3

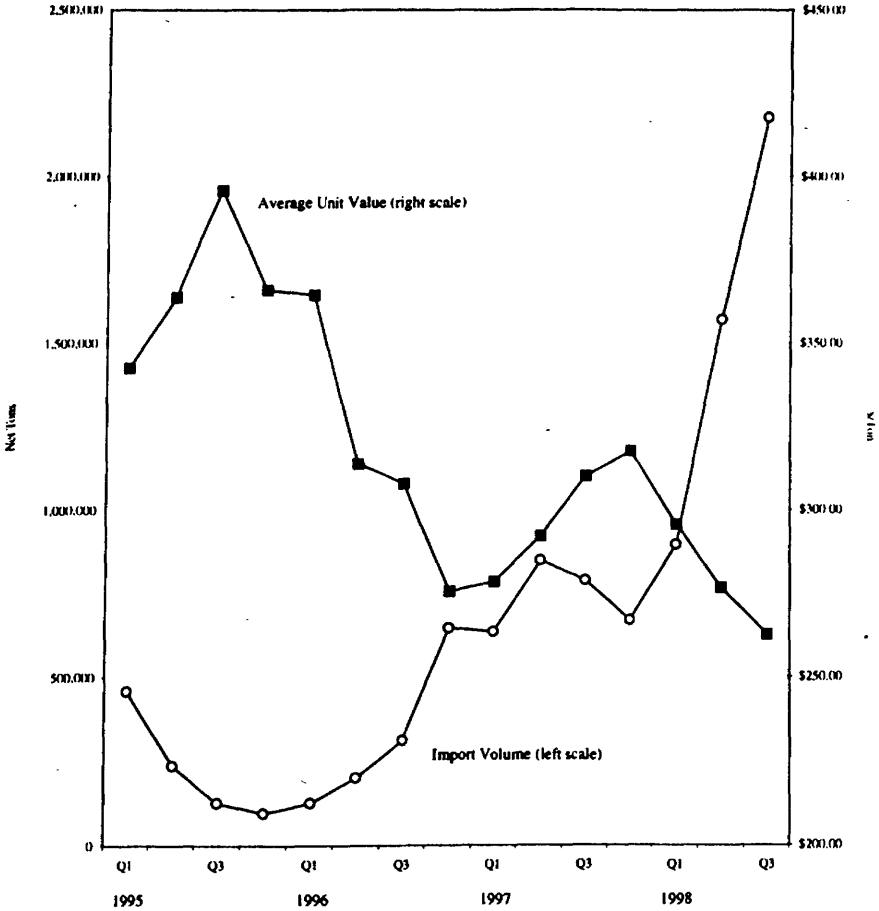


Source: U.S. Department of Commerce and AISI.
Note: Hot-Rolled includes plate-in-coil.

Attachment 8

Hot-Rolled Carbon Flat Steel Product
Imports From Japan, Russia and Brazil

1995:Q1 to 1998:Q3

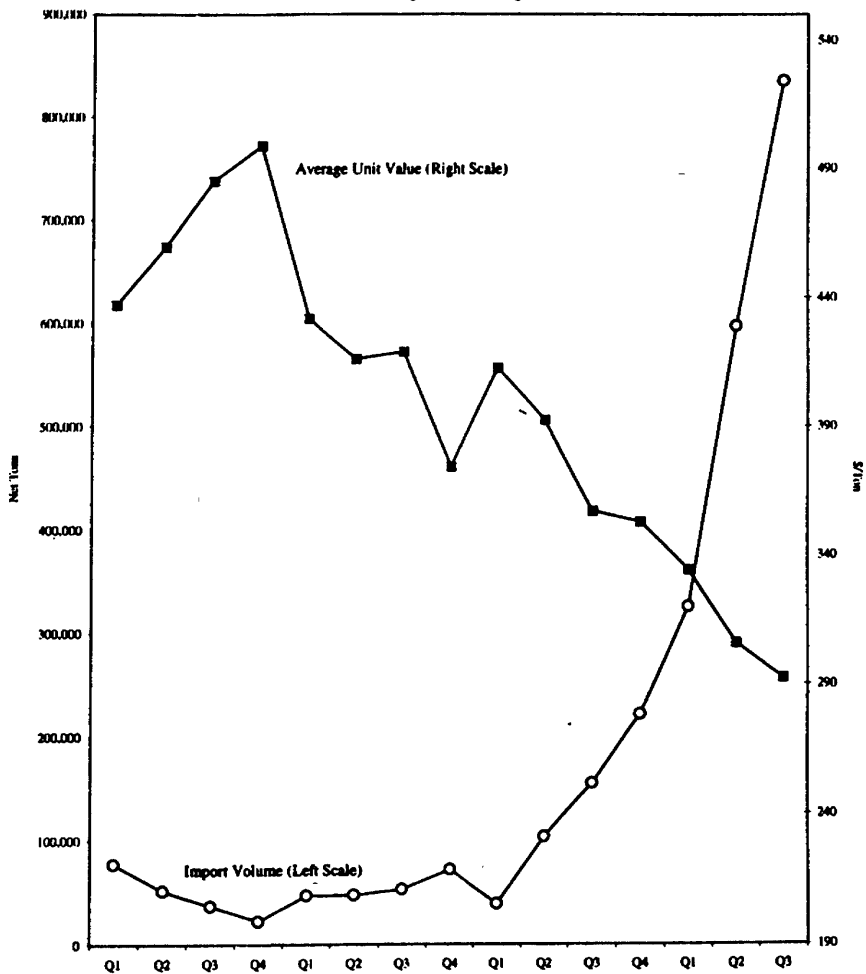


Source: U.S. Department of Commerce.

Note: Hot-rolled carbon flat steel products exclude hot-rolled sheet and plate-in-coil.

Hot-Rolled Carbon Steel Flat Product
Imports from Japan

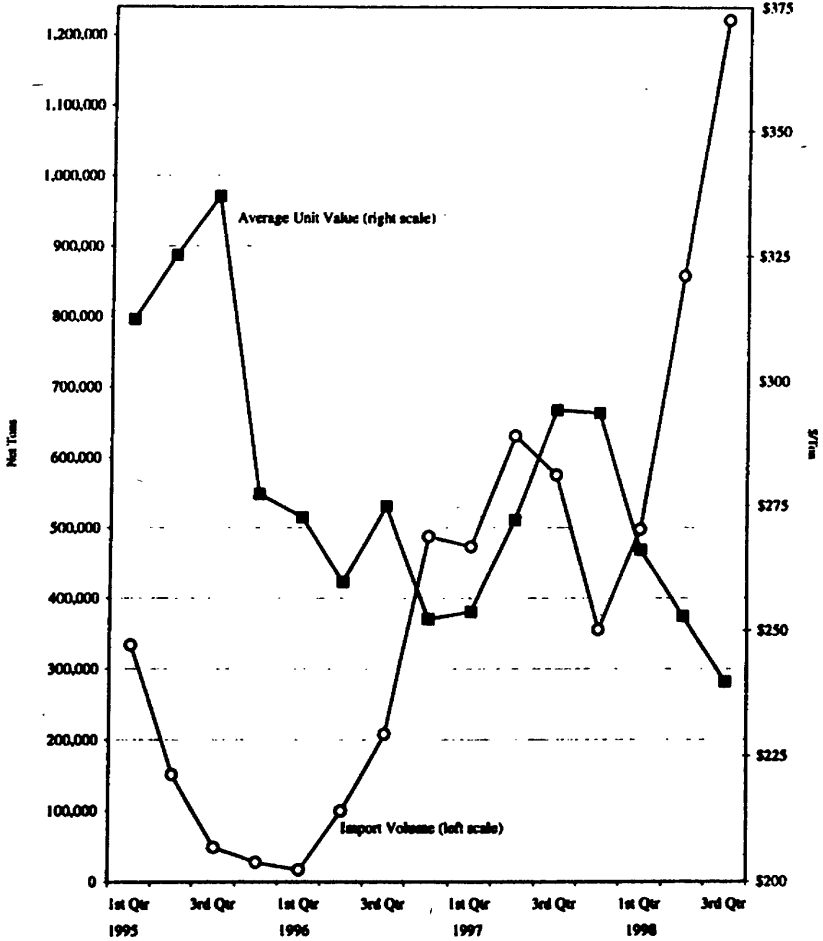
1995:Q1 to 1998:Q3



Source: U.S. Department of Commerce.

Note: Hot-rolled carbon steel flat products includes hot-rolled sheet and plate in coil.

**Hot-Rolled Carbon Steel Flat Product
Imports from Russia
1995:Q1 to 1998 Q3**



Source: U.S. Department of Commerce

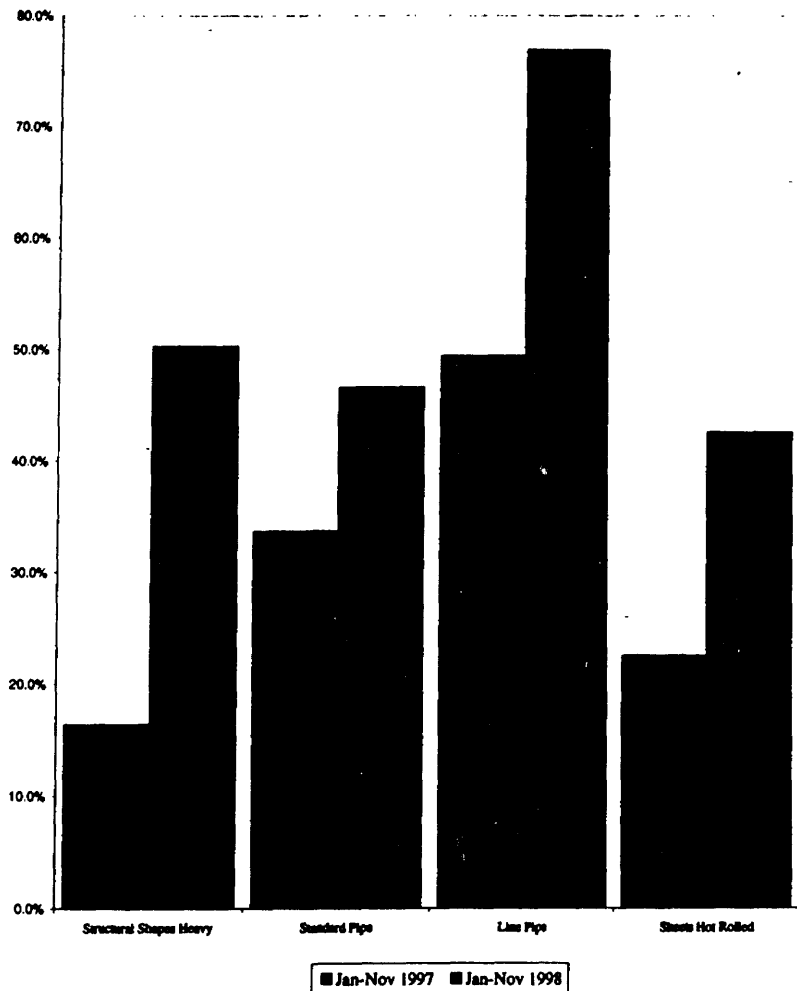
Note: Hot-rolled carbon flat steel products include hot-rolled sheet and plate in coil.

Attachment 11

**Foreign Suppliers That Have
Surpassed 1997 Totals in
November of 1998 Year-to-date**

COUNTRY	11 MOS 98	YEAR END 97	Difference
Japan	6,291,399	2,554,473	3,736,926
Russia	5,106,339	3,319,000	1,787,339
Korea	3,191,240	1,638,373	1,552,867
Australia	897,225	439,399	457,826
Indonesia	500,551	91,484	409,067
South Africa	606,563	314,577	291,986
Ukraine	858,756	580,501	278,255
Taiwan	437,456	188,956	248,500
UK	901,184	663,605	237,579
Moldova	272,980	117,070	155,910
India	346,124	194,472	151,652
Luxembourg	290,679	174,357	116,322
Kazakhstan	119,009	22,588	96,421
China	566,322	476,916	89,406
Romania	221,014	157,694	63,320
Latvia	171,829	112,326	59,503
Thailand	118,783	64,678	54,105
Lithuania	47,033	1,560	45,473
Portugal	37,322	12,602	24,720
Finland	195,241	174,151	21,090
Belarus	19,256	927	18,329
Switzerland	46,516	28,535	17,981
Macedonia	60,977	43,386	17,591
Malaysia	45,294	29,053	16,241
Egypt	67,090	50,904	16,186
Hungary	33,548	17,650	15,898
Chile	35,658	21,094	14,564
Austria	130,711	121,347	9,364
Cyprus	9,269		9,269
Venezuela	449,598	441,681	7,917
UAE	10,659	2,812	7,847
Croatia	11,242	3,536	7,706
Norway	26,324	21,105	5,219
Ireland	3,623	375	3,248
Colombia	17,528	14,749	2,779
Cayman Islands	2,218		2,218
Pakistan	2,271	174	2,097
Algeria	1,697		1,697
Guatemala	6,303	5,183	1,120
Poland	151,478	150,385	1,093
Philippines	10,524	9,766	758
Dominican Rep	2,382	1,812	570
Peru	524	27	497
Hong Kong	368	111	257
Costa Rica	190	164	26
Gabon	10		10
Antigua	7		7
Falkland Islands	5		5
Montserrat	4		4
Haiti	2		2

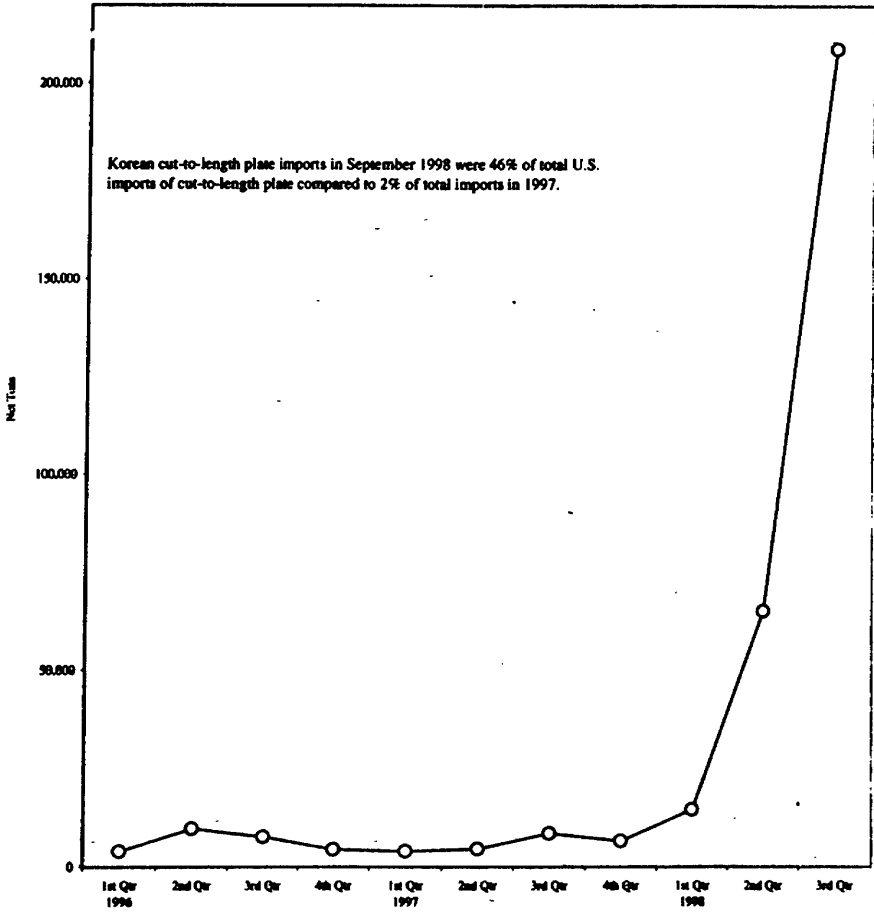
Attachment 12

Steel Import Market Share is Rising in Several Key Product Lines

Source: U.S. Department of Commerce, AISI.

Attachment 13

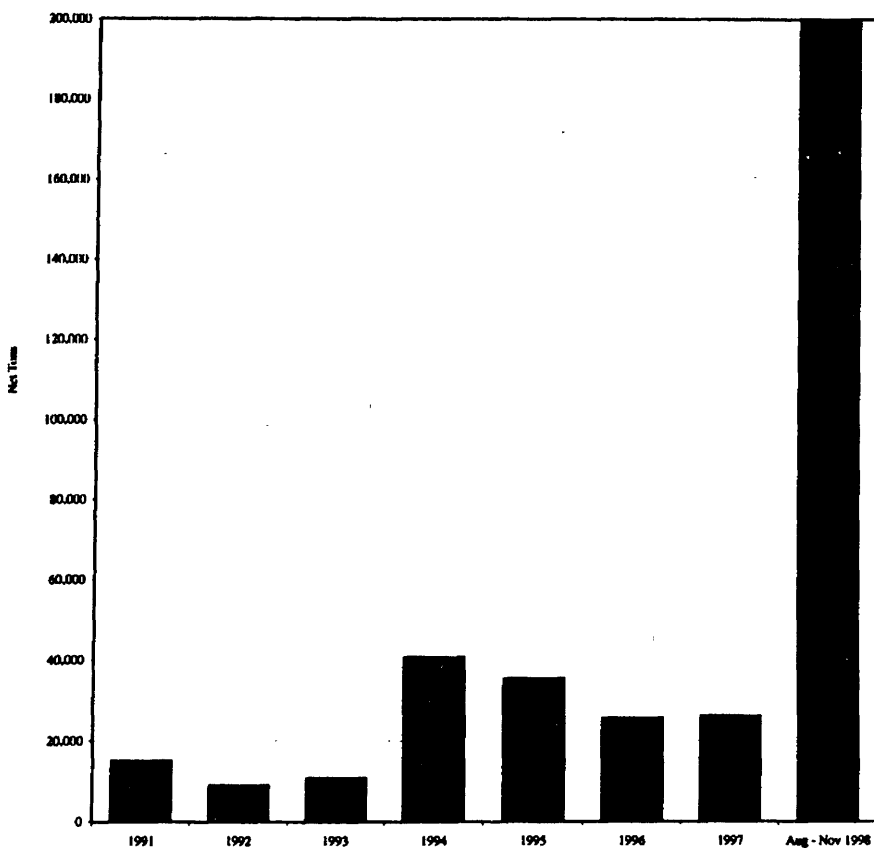
**U.S. Imports of Cut-To-Length Carbon Plate
from Korea Have Surged Sharply
Beginning in the Second Quarter of 1998**



Source: U.S. Department of Commerce

Attachment 14

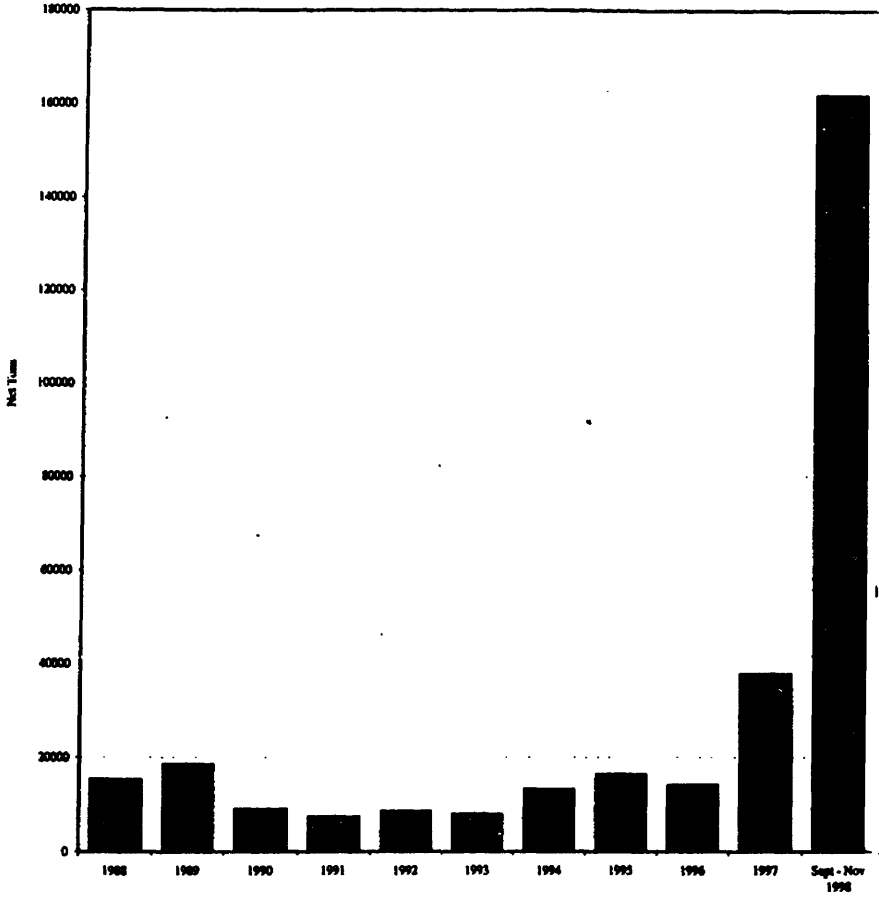
**More Cut-To-Length Plate Has Entered the United States
from Korea in the Last Four Months
(August through November 1998)
Than in the Previous Seven Years Combined
(1991 to 1997)**



Source: U.S. Department of Commerce

Attachment 15

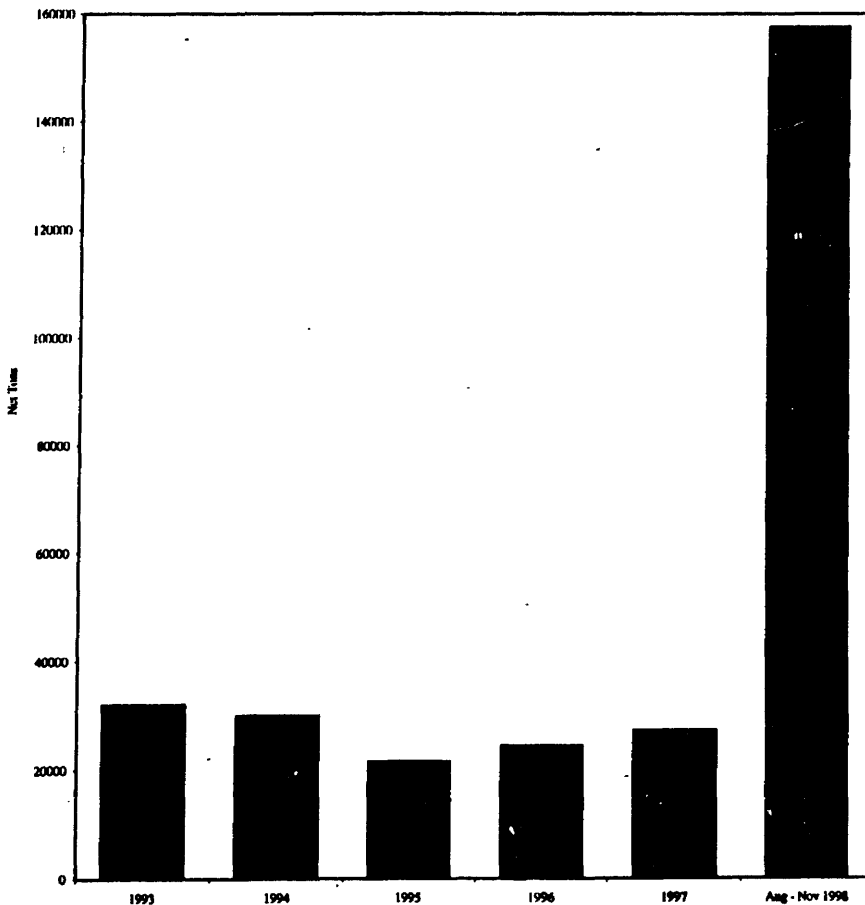
**More Plate in Coil Has Entered the United States
from Japan in the Last Three Months
(September, October and November 1998)
Than in the Previous Ten Years Combined
(1988 to 1997)**



Source: U.S. Department of Commerce

Attachment 16

**More Cold Rolled Sheet Has Entered the United States
from Korea in the Last Four Months (August - November 1998)
Than in the Previous Five Years Combined
(1993 to 1997)**



Source: U.S. Department of Commerce

Comparison of Administration Steel Plan and Industry Requests

Industry Requests	January 7, 1999 Administration Plan
<p>Bilateral Discussions: Forceful and publicly known bilateral discussion with all offending countries.</p>	<p>Bilateral discussions with some countries engaging in unfair trade have occurred. However, these discussions have not resulted in clear and enforceable commitments to stop unfair trade. Further, such bilateral discussions have not occurred with all countries engaging in unfair trade. The Administration states that it has "told the Japanese government that we expect Japan's exports to return to appropriate pre-crisis levels." This U.S. government request has been rejected by the Government of Japan.</p>
<p>Prompt and effective enforcement of trade cases: (1) critical circumstances; (2) no suspension agreement.</p>	<p>The Administration has expedited current cases. It also has made a critical circumstances finding. However, the Administration suggests that it will seek a suspension agreement in the Russia case, which is directly contrary to the industry's stated position.</p>
<p>Willingness to self-initiate AD, CVD, 201, and other cases.</p>	<p>The Administration makes no specific commitments regarding self-initiation of cases, under the antidumping, countervailing duty, Section 201 or other trade laws except with respect to Japan, where the Administration will consider self-initiation if Japan does not reduce exports. To be successful in current circumstances, full Administration support will be necessary along with a commitment to specific relief.</p>
<p>Willingness to deal with injurious Russian trade by imposing a tariff on Russian shipments: (1) 1990-USSR-US Agreement on Trade Relations because of market disruption - 1990 Agreement; and (2) 19USC 2135 - authority for President to impose a duty of up to 40-45% of value.</p>	<p>The Administration ignores the industry requests to address the Russia steel crisis through existing authority under the existing bilateral agreement and under Section 125(c). The Administration indicates, however, that despite industry opposition, it may seek a suspension agreement with Russia in the pending hot-rolled case.</p>
<p>Japan's Cartel: Willingness to deal with Japan's cartel activities.</p>	<p>While the Administration "remains concerned about allegations by U.S. producers," it ignores completely the industry's requests to act against Japan's cartel through §301, WTO or antitrust laws.</p>

<p>CVD Regulations: Utilize CVD regulations to provide strong CVD remedies.</p>	<p>The Administration issued CVD regulations in November consistent with The Commerce Department draft regulations which did not add any further weakening provisions</p>
<p>Import Monitoring System: Establishment of an effective import monitoring system.</p>	<p>The Administration proposes to accelerate the issuance of import data, however, only when the Administration deems that there are extraordinary circumstances. The Administration does not establish a system like Canada's, nor does it state that it will seek any legislative changes necessary to establish such a system</p>
<p>Trade Legislation: Support for trade legislation to strengthen trade laws.</p>	<p>The Administration ignores completely the industry's request for support for legislation to enhance the trade laws and even fails to state its support for WTO-consistent 201</p>
<p>Effective Enforcement of Trade Laws: Have the highest qualified public servants in position or nominated to administer our trade laws.</p>	<p>The Administration does not address this request.</p>
<p>Presidential Statements: Forceful statements from the President regarding the steel crisis.</p>	<p>There have been statements of concern, but the plan does not recognize that the crisis is caused by more than a few major exporters.</p>
<p>Tax Policy: No request.</p>	<p>The Administration proposes, without having consulted the industry, extending the tax law net operating loss carry back for steel from 2 to 5 years. This proposal will not benefit any U.S. steel company which is currently being injured by the unfairly traded imports. Further, it creates the false impression that the industry is being subsidized by the government.</p>
<p>Trade Adjustment Assistance Program: No request.</p>	<p>The Administration plans to appoint a White House official to coordinate adjustment assistance for workers who lost their jobs due to unfairly traded imports. This proposal is premised on the industry losing jobs. The industry, however, is proud of its highly-skilled, capable workers and adjustment assistance is not an appropriate response to the import crisis</p>
<p>World Economic Reform: Global economic reform, while critically important, is not a steel-specific issue.</p>	<p>The Administration is working toward restoring global economic growth and ensuring market-based reform. The industry supports such efforts, however they do not address the immediate steel import crisis.</p>

STATEMENT OF THE CHEMICAL MANUFACTURERS ASSOCIATION

The Chemical Manufacturers Association (CMA) is pleased to submit this statement for the record to the Senate Committee on Finance regarding a U. S. agenda for the World Trade Organization's Ministerial Meeting and future WTO negotiations.

CMA is a non-profit trade association whose almost 200 member companies comprise over 90 percent of the productive capacity for industrial chemicals in the United States. The chemical industry is America's largest exporting industry with the value of exports in 1997 exceeding \$69 billion and a positive trade balance exceeding \$19 billion.

REAUTHORIZATION OF TRADE NEGOTIATING AUTHORITY

Now that the 106th Congress is underway, CMA recommends that when appropriate, the Administration and Congress develop a reasonable approach to reauthorizing the President's trade negotiating authority and not become bogged down in a divisive debate. We recognize that the President already possesses the authority to conduct trade negotiations on behalf of the United States; However, Congress retains authority to regulate foreign commerce, and thus has the ultimate authority to implement trade agreements. We believe that the majority of our trading partners fail to fully comprehend this technical nuance and are therefore reluctant to enter into trade negotiations with the United States—either at the regional or multilateral level. That is particularly damaging to U.S. credibility as the host of the next WTO Ministerial. Therefore we urge that trade negotiating authority be viewed as an important signal to our trading partners.

If the U.S. wants its global trading partners to engage seriously in the substantive give-and-take that is the hallmark of trade negotiations, we must be able to assure them that the United States can implement any deal struck without fear of further amendments to negotiated outcomes, as happened at the end of the Kennedy Round. Trade negotiating authority enables the United States to negotiate with certainty and conviction.

OVERALL PRIORITIES FOR THE WTO

CMA's main priorities for the WTO are as follows:

- full implementation of all Uruguay Round Agreements by all members of the WTO including maintaining the single undertaking;
- bringing the APEC EVSL agreement on chemicals into the WTO and achieving a critical mass of countries participating in the CTHA within the WTO.
- adhering to the schedule of further negotiations mandated by the built-in agenda already called for in the Uruguay Round Agreements;
- assuring that the new issue areas identified by the 1996 Singapore Ministerial Meeting are properly addressed as noted later in these comments; and,
- establishing a firm timetable for the beginning and conclusion of the next round of multilateral trade negotiations and assuring that any new Round is comprehensive in scope.

To fully capture the economic and legal advantages of the WTO, CMA suggests that a compliance audit mechanism should be adopted to verify the status of WTO member states' implementation of the Uruguay Round Agreements. This could be conducted independently or as part of the existing Trade Policy Review Mechanism.

Full implementation of the Uruguay Round commitments is particularly important in the areas of intellectual property rights, tariffs, non-tariff measures and subsidies. CMA would welcome a WTO report to assess progress in these areas, particularly with respect to WTO members' agreed reductions and binding commitments on tariffs.

INTELLECTUAL PROPERTY

The protection of intellectual property rights is a key issue for the chemical industry. CMA is in favor of strong protection, particularly through patents. The TRIPs Agreement is a major step forward in strengthening intellectual property rights globally that will ultimately benefit all WTO members.

CMA is concerned about the reluctance of some WTO members to fully implement the TRIPs Agreement in a timely manner and urges the WTO to use its full influence—including the dispute settlement process if necessary—to assure full compliance by all members with the TRIPs Agreement in accordance with the Uruguay Round timetable. We note, for example, that a review of the implementation of TRIPs is scheduled as part of the "built-in agenda" in 1999. We urge USTR to undertake a vigorous and thorough review at that time.

MARKET ACCESS AND CHEMICAL TARIFFS

CMA is committed to freer trade and greater market access to expand economic growth. In addition, as demonstrated in the Uruguay Round by the Chemical Tariff Harmonization Agreement (CTHA), we remain committed to lowering tariffs across the board. We continue to be concerned about the limited participation of countries in the CTHA and continued problems caused by the existence of non-tariff measures in the chemicals sector and the creation of new non-tariff measures. CMA places primary emphasis on increasing country participation in the CTHA. However, the chemical industry is willing to enable greater participation in the CTHA by affording countries flexible time frames for implementing the tariff reductions required under the CTHA.

In a cooperative effort between CMA and the Office of the U.S. Trade Representative, major strides toward increased participation in the CTHA were achieved in the APEC region in 1998, as a result of the Early Voluntary Sector Liberalization (EVSL) exercise. CMA will continue this effort as the WTO considers ways to acquire a critical mass of countries agreeing to provide greater market access by adopting the eight APEC EVSL proposals. We believe WTO members that are not currently participating in the CTHA can demonstrate their good-faith intentions to significantly improve market access in a new Round by agreeing to participate in the CTHA prior to the beginning of talks which would include new goods negotiations on goods and services. But we believe that it is essential that CTHA participation is imperative before we move toward the further tariff reductions described below. Obtaining a "critical mass" of CTHA participants in the WTO achieves this objective.

Accordingly, CMA is firm in our belief that the worldwide chemical industry will benefit from increased participation in the CTHA providing for staging to lower tariffs. We oppose additional tariff reductions by current CTHA participants until all major chemical producing countries are fully committed to the CTHA and substantial progress towards market access is made in other areas, including the elimination of existing non-tariff measures and prevention of any new non-tariff measures.

CMA has set a goal of totally eliminating chemical tariffs multilaterally worldwide by the year 2010 together with non-tariff barriers to promote greater market access and economic growth. But this must include all chemicals and all WTO members.

And in order to lessen the impact of the outcome of eliminating duties on chemical and related products on those nations who still apply higher than CTHA tariffs, it is essential that these countries agree to phase existing tariff rates down to the CTHA levels. CMA is amenable to extending individual countries' staging schedules to allow for and accommodate any national level adjustments necessitated by these tariff reductions.

ACCESSION OF NEW COUNTRIES

Countries acceding to the WTO should commit to adopting the CTHA as part of their accession obligations. There should be no compromising of WTO rules, and transition periods should be kept as short as possible. The negotiations on accession should remain transparent and industry should have the opportunity to raise concerns over acceding members' trade practices and policies. The "single undertaking" concept for WTO commitments should be preserved, avoiding any re-emergence of a two-tiered system of obligations.

We applaud the diligence that USTR has exhibited since the conclusion of the Uruguay Round in requiring all new WTO members to adopt the CTHA as a condition of their accession. We pledge to continue working through private sector chemical coalitions and with USTR to seek broader participation in the CTHA by existing WTO members as an early identifiable element in the next WTO negotiations on industrial goods, regardless of the structure and schedule for those negotiations.

BILATERAL AND REGIONAL TRADE AGREEMENTS

Since the conclusion of the Uruguay Round of multilateral trade negotiations, there has been a significant move towards regional and bilateral free trade agreements. Such agreements, if they are in conformance with WTO requirements, can point the way towards more open and liberal trade globally. CMA wishes to reaffirm its commitment to the multilateral trading system. Our support of regional agreement remains based on the premise that such agreements are fully compatible with the WTO and can eventually be used to further strengthen the multilateral trading system.

All progress toward trade liberalization achieved in regional agreements should be carried into any new round of multilateral trade negotiations.

NEW TRADE ISSUES

Trade and Environment: CMA is concerned about the Committee on Trade and Environment's lack of substantive progress, exceeds defining the relationship between trade and environment, and addressing trade and environment issues. CMA urges the U.S. to adopt the position that enforcement of environmental agreements should be dealt with in the context of multilateral environmental agreements and not through the use of trade sanctions.

TRIPs and the Environment: Protection of intellectual property rights is a cornerstone for international trade and investment. Any efforts to erode the intellectual property rights protection established during the Uruguay Round on environmental protection grounds concern must be firmly resisted. The WTO should assure that progress made during the TRIPs negotiations not be undermined by issues not related to intellectual property concerns.

Trade and Investment: CMA regrets the failure of the Organization for Economic Cooperation and Development's (OECD) efforts to complete a high-standards agreement on investment. We encourage renewed efforts in all appropriate venues including but not limited to the OECD, regional trade negotiations or the WTO to complete a multilateral agreement on investment which, at a minimum, defines investment broadly so as to cover the various means of establishing a commercial presence in third countries and types of assets that are transferred to the host countries. A multilateral investment agreement should also include provisions on national treatment and most-favored-nation respectively, establish minimum standards for protection of investments and provide for dispute settlement.

Trade and Competition: The focus of these discussions should be on practices that restrict access to third country markets. CMA recommends that the U.S. seek to complement existing laws with rules that impose minimal discipline on private enterprises. Such rules should be binding minimum standards be transparent, provide for national treatment and be sanctioned by a dispute settlement procedure.

Trade Facilitation: International trade has fundamentally changed since the trading system for managing the movement of goods was established. Both the volume and character of transactions have changed fundamentally. The procedure adopted for managing the international flow of goods should take account of this change. Crossing national borders remains the biggest non-tariff barrier to trade. A harmonization of customs procedures is needed to ensure and enforce a modern, uniform approach to border control and that which would enable more cost effective revenue collection and interception of the transactions of risk. Progress in this one area could produce a huge benefit for both governments and industry.

STATEMENT OF GENERAL MOTORS CORPORATION

General Motors Corporation has long supported the position that trade liberalization promotes economic growth, innovation, enhanced living standards and consumer choice. Trade allows producers to specialize and increase world production of goods, which in turn drives down prices and increases availability and affordability of products for consumers. Enhanced trade also supports non-trade objectives by promoting greater cooperation among nations and a willingness to work together on common objectives.

By way of background, General Motors (GM) is the world's largest industrial company and the largest motor vehicle manufacturer, offering a full line of cars, trucks, automotive systems, heavy-duty automatic transmissions, and locomotives worldwide. Other substantial business interests include Hughes Electronics and General Motors Acceptance Corporation. GM has motor vehicle manufacturing, assembly, and/or component operations in over 50 countries. GM sold 8.1 million cars and trucks in approximately 170 countries in 1998, of which the U.S. accounted for 4.6 million, over half of the total.

Recent advances in communication and technology have created new opportunities that make trade even more important. In GM's case, the growing interrelationship of our U.S. and overseas operations has allowed us to leverage our worldwide resources more effectively and, as a result, improve our competitiveness and the value we provide our customers. For example, in 1998, we combined our domestic and international automotive units into a single, global unit. This allows us to produce more efficiently, acquire the best-value goods and services most cost-effectively, and use the skills and ingenuity of our employees and other stakeholders wherever they may be located.

As countries have grown to recognize the benefits of trade, there has been a worldwide trend toward the reduction of trade barriers and the integration of markets. This trend has created important new opportunities for growth, but it can also create a risk. Specifically, firms and countries that do not participate in the international marketplace are at jeopardy of falling behind competitively and losing out on market opportunities to the detriment of their stakeholders and citizens.

In our view, the long-term benefits of international cooperation far outweigh short-term concerns about market fluctuations. The economic problems and uncertainty in Asia and Latin America will be a continuing challenge in 1999. However, they should not turn the United States away from a strategy supportive of open markets or be a cause of abdication of U.S. leadership in the global arena. Accordingly, GM supports a trade agenda for the United States that promotes U.S. competitiveness and reinforces a leadership role on trade and economic development issues, specifically:

- Continue to push to open overseas markets for trade and investment;
- Preserve the openness of U.S. markets;
- Support international trade institutions and initiatives to promote international trade disciplines; and
- Provide the Administration with appropriate trade negotiating authority.

CONTINUE TO PUSH FOR OPEN MARKETS

(1) Asia Pacific

From a U.S. automaker's perspective, access to the markets of the Asia-Pacific area is a high priority. While many companies are pulling back from Asia as a result of the economic downturn in the region, GM sees an opportunity to establish roots. Until recently, many Asian countries had closed their domestic auto markets to both imports and foreign investors. Consequently, our share of the total vehicle market in the Asia/Pacific region is less than five percent, half of our share in Western Europe and less than a quarter of our share in Latin America.

The economic crisis appears to have persuaded many of these nations to open their markets to foreign investors and to imports. Given the financial problems of our Japanese and Korean competitors, we view this as a unique opportunity to expand in the region. We also view it as an opportunity for the United States to pursue market liberalization.

The U.S. government has played a critical role in pressing countries like Japan, South Korea, and Indonesia to open their markets to U.S. products and U.S. investment. The governments in the region were not persuaded that market openings were in their best interest. Indeed, the reverse was true in such countries, where individual governments studied the "success" of Japan's protectionist policies and attempted to copy those policies. Now that the flaws in the Japanese model are apparent to all, governments appear to be more open to market-based models. Unfortunately, because of the deep economic crises afflicting many of Asian nations, support for market opening is difficult to garner. Nonetheless, a number of countries, especially South Korea and Thailand, are pushing ahead with market-opening measures.

We believe that this is an excellent time for the U.S. government to support efforts to establish a market-based economic system in the region. Communication and continuing dialogue are key to continued progress in liberalizing markets in Asia. Accordingly, GM encourages the U.S. government to place special emphasis on APEC (Asia-Pacific Economic Cooperation) as a forum for advancing sound economic policies. Initially established to promote dialogue among its members, APEC has become the primary forum for promoting open trade and economic cooperation and development in this region.

Because of the importance of the auto industry within the APEC economies, motor vehicles were selected as one of 15 key industrial and service sectors that are part of an APEC early voluntary sectoral liberalization initiative. At the APEC Summit in Malaysia last November, the APEC leaders and trade ministers approved the formation of an industry/government "dialogue" to address trade and investment liberalization issues. General Motors sees the Automotive Dialogue as a potentially powerful tool that can be used to persuade Asian nations to adopt more market-oriented policies—including more open trade and investment regimes.

An initial focus of the Automotive Dialogue will be to help the motor vehicle industries in the Association of Southeast Asian Nations (ASEAN), especially the hard-hit second and third tier suppliers, recover from the economic crisis and develop a strategy to build a commercially viable industry. A second focus will be on assisting these countries to make the transition to more liberal trading environments and implement current commitments for trade liberalization. A long-term ob-

jective of the Dialogue is to promote the use of constructive engagement of the parties, rather than more adversarial forms of interaction, to resolve trade conflicts.

In addition to the Automotive Dialogue, the APEC automotive sector initiative will include an aggressive trade facilitation agenda. The work already underway within APEC and other forums to harmonize technical standards relating to vehicle safety and emissions will be accelerated, as will efforts to streamline customs procedures. These initiatives will be bolstered by education and training programs that are intended to promote the sustainable economic development of the auto industry in the APEC region.

Beyond APEC, General Motors urges the U.S. government to push for the speedy conclusion of negotiations to bring China into the World Trade Organization (WTO) under commercially viable terms. In GM's view, a WTO without one of the world's largest and most rapidly growing economies cannot remain effective or relevant. China's entry into the WTO and adherence to global trading rules and norms will enhance opportunities for U.S. firms' participation in China's rapidly emerging consumer-oriented market. We believe the proposed visit of Premier Zhu Rongji to the United States this spring may be an opportunity to revitalize efforts to negotiate WTO accession.

WTO membership, together with renewal of Normal Trade Relations (NTR) status for China, is critical to improving U.S.-China commercial relations. GM further supports granting permanent and unconditional NTR.

(2) FTAA (Free Trade of the Americas Area)

Within the Western Hemisphere, the United States is losing ground as other nations hurry to conclude economically advantageous trade agreements. The Southern Cone market of Mercosur (a customs union of Brazil, Argentina, Paraguay and Uruguay) is expanding its outreach to pursue trade pacts throughout the Southern Hemisphere as well as with Mexico and the European Union. In the absence of U.S. leadership, our NAFTA partners, Mexico and Canada, are seeking agreements with other nations, which while expanding markets for their products, undercut some of the hard-won trade preferences obtained by the United States through NAFTA.

GM urges the U.S. government to recognize that U.S. inertia is causing lost trade opportunities that could benefit U.S. production and U.S. workers. For example, GM is shipping Cavaliers produced in Mexico to Chile rather than U.S.-produced Cavaliers because the Mexican vehicles can enter Chile duty-free. We support the renewal of negotiations to create a U.S.-Chile agreement, as well as the establishment of a Free Trade of the Americas Area (FTAA) that would encompass the entire hemisphere.

(3) Other

While General Motors believes priority should be given to the Asia Pacific and FTAA initiatives that would have a very significant effect on US trade and investment opportunities, we also support the African Free Trade and Caribbean Basin initiatives because of the benefits they would provide to these developing areas.

PRESERVE THE OPENNESS OF U.S. MARKETS

If the United States is to maintain a credible profile in the international trade arena, it is essential that we maintain the openness of our own markets and not react precipitously to short-term problems. U.S. trade laws provide remedies for dumping and import surges that threaten U.S. production. It is important that these processes are allowed to work and that in every case the time is taken to review all the facts before proceeding on a course that would benefit one U.S. sector at the possible expense of others.

Import surges are often temporary and self-adjusting. Thus, we believe it is inappropriate to take extraordinary actions, such as making changes in U.S. trade laws that would send negative messages to our trading partners and hurt the interests of U.S. consumers. It is critical that U.S. policy makers understand that if protectionist actions cause prices of a commodity to move out of line with those in the world market, then American-made products using that commodity become less competitive. In making trade policy decisions, it is critical that the U.S. government consider the implications for the overall U.S. economy.

General Motors is also concerned about the growing trend of using unilateral economic sanctions as a tool of foreign policy without careful consideration of the many costs and unintended consequences resulting from their use. When the United States restricts trade with specified countries through economic sanctions, U.S. companies lose business and U.S. workers lose job opportunities. In a world where there is always another supplier waiting in the wings, foreign competitors are willing to take advantage of U.S. restrictions as a competitive lever to advance their own in-

terests. GM recognizes that there are certain instances when levying sanctions is indeed appropriate. Accordingly, GM supports legislation that would reform U.S. sanctions laws to instill more rationality in the process without preventing either the Congress or the Executive Branch from using sanctions justified on the basis of broad U.S. interests.

SUPPORT INTERNATIONAL TRADE INSTITUTIONS AND INITIATIVES

The international economic problems of the past year demonstrate that global integration will not always proceed smoothly. This makes it essential that stable institutions and procedures are in place to help faltering economies recover quickly.

(1) IMF and the World Bank

The financial crises in many emerging markets have direct impacts on the U.S. The countries in Asia and Latin America and other emerging markets are important customers for U.S. products. Because exports represent a growing share of the U.S. economy, instability in the markets for our products can hurt U.S. economic interests and the well being of American workers. And, because of the close linkages among the world's financial markets, problems in one region can quickly spread to others.

Institutions such as the International Monetary Fund (IMF) and the World Bank play a critical role in promoting stability in international financial markets. The IMF has been an important supporter of open capital markets, which we believe are essential for rescuing distressed economies and restoring economic growth. In addition to working with distressed countries to encourage the adoption of necessary trade and investment reforms, the IMF provides credit guarantees and loans to keep markets open and allow financial systems to restructure. In approaching these issues, the IMF has also insisted on structural reforms in the target regions that benefit U.S. interests. The World Bank provides equally important services to promote economic and social stability in emerging markets. Accordingly, GM and others in the business community believe that continued U.S. funding to support the work of these institutions must be a top priority.

(2) The WTO

Since its inception, the WTO has provided an effective recourse for countries to address their trade disputes. Although we may not always agree with any particular decision, the process in itself has proved to be a powerful tool to convince countries to resolve contentious issues that would otherwise have continued to fester and to threaten the entire trading system.

As preparations begin for a new round of international talks, we hope a focus will be to continue the work begun during the Uruguay Round and the good faith implementation of the agreements made during that round. In doing so, however, we encourage negotiators to instill some flexibility in the process when changed economic circumstances create problems in meeting specified transition commitments. Going forward, we believe attention to technical issues, such as customs and regulatory harmonization initiatives, will be increasingly important to ensure that global trade proceeds more smoothly and cost-effectively. Although we support the concept of an investment agreement, we recognize that the issue is controversial and would not want to see it bog down progress on other areas.

PROVIDE THE ADMINISTRATION WITH TRADE NEGOTIATING AUTHORITY

If the United States is to have a leadership role in the international trade and economic arena, it is essential that Congress approve the renewal of fast track negotiating authority—the power traditionally given by Congress to the President to negotiate trade agreements. Fast track is a prerequisite to expand discussions with many potential trading partners, such as Argentina and Chile. Without fast track, U.S. leverage in other important forums, such as APEC and the FTAA negotiations, has been seriously undermined.

It is clear that new trade and investment agreements are needed to promote continued growth for the United States and to ensure that the U.S. is not put at a competitive disadvantage relative to our more aggressive global trading partners. Globalization should be viewed as an opportunity that can create important economic and non-economic benefits for Americans. Consequently, General Motors calls on the U.S. Congress to support this activist trade agenda in the coming year.

STATEMENT OF THE HUMANE SOCIETY OF THE UNITED STATES

I. INTRODUCTION

The Humane Society of the United States (HSUS) submits this testimony on behalf of its 6.7 million members and constituents, and on behalf of Humane Society International which has offices in the European Union, South America and the South Pacific. HSUS's involvement in trade issues dates to 1991 when the first GATT Tuna Dolphin decision was issued. Since that time, several animal protection initiatives to which HSUS and its members are dedicated have been adversely affected by trade rules and by the Clinton Administration's trade policy.

HSUS has advocated the reconciliation of trade and animal protection issues at several international fora including the Organization for Economic Cooperation and Development (OECD), the World Trade Organization (WTO) Singapore Ministerial (as a member of TEPAC), the United Nations Conference on Environment and Development (UNCED), The UN Conference on Sustainable Development (CSD), and the Food and Agriculture Organization (FAO). In addition, HSUS has been a successful plaintiff in three domestic lawsuits involving trade and environment: those involving dolphins, driftnets, and sea turtles.

Some may consider the protection and welfare of animals to be of little consequence compared to the larger priority of international trade. Yet it is social issues—animal welfare, human rights, consumer health and safety—which ignite and hold the public's interest in trade, not international commerce per se. NAFTA, the negotiations regarding the Multilateral Agreement on Investment (MAI), and the recent global financial crises have catapulted trade and globalization into the homes and minds of the average American. Animals are an integral and extensive part of international trade and globalization: animals are found in agriculture, fishing, scientific and medical research, consumer product-testing, clothing, traditional medicines, and fashion accessories. To date, the most highly publicized, and most highly criticized, GATT and WTO cases have been those involving harm to animals: "Tuna Dolphin," "Shrimp Turtle," and "Beef Hormone." Cases like these hasten and harden public criticism of current U.S. trade policy.

II. AMERICAN TRADE POLICY THROUGH THE EYES OF ANIMAL WELFARE

The Clinton Administration's trade policy is at odds with animal welfare. Several initiatives that HSUS and its members and constituents strongly support have been phased out, revised, or otherwise distorted as a result of US international trade policy. Chronologically, these include:

- A 1993 initiative by Canada to ban trade in puppy mill dogs, which was rescinded after the United States Trade Representative's (USTR) office aggressively targeted the initiative as part of the NAFTA negotiations. (See, 1993 National Trade Estimate Report on Foreign Trade Barriers issued annually by USTR.)
- Attempts by the European Union (EU) to implement a ban on the sale and importation of fur products caught with steel jaw leg hold traps, which was to take effect in 1996, but which was revised, due to vigorous pressure by USTR, so that it no longer protects animals.
- An EU Regulation banning the use and sale of beef hormones—hormones that scientific studies have proven can negatively impact humans, and which are known to cause various maladies in cows. Despite the fact that the EU paid trade penalties for over a decade to maintain its law, in 1997, the US filed a claim at the WTO and won. Now, according to a recent U.S. News and World Report, USTR is willing to launch a trade war over beef hormones. USTR's actions are opposed by HSUS, its 6.7 million members and constituents, and countless other Americans who champion animal protection and oppose the use of hormones in food. USTR is vigorously pursuing this case on behalf of the U.S. multinational corporations that produce the hormone.
- In 1997, the Clinton Administration won a three year legislative battle to bring the tuna dolphin provisions of the Marine Mammal Protection Act into compliance with earlier GATT rulings and its international trade objectives—particularly those regarding Mexico. The most egregious provisions of the new law are those labeling provisions that may allow tuna which is now considered "dolphin deadly" by the American public to be labeled "dolphin safe" if the National Marine Fisheries Service (NMFS) cannot preliminarily determine by March 1999 that "encirclement" fishing techniques have an adverse impact on dolphins. While the HSUS believes that there is already ample evidence of adverse impacts on dolphins from encirclement, NMFS is expected to rule that such im-

pacts have not been found by March 1999. Clearly in the case of tuna labeling, the Administration is willing to defraud the public for the sake of trade.

III. USTR PUNTS SEA TURTLE PROTECTION: A CASE STUDY OF HOW US ANIMAL PROTECTION IS UNDERMINED BY CURRENT US TRADE POLICY

On May 15, 1998, a WTO dispute panel issued a report in a case brought by Malaysia, Thailand, India and Pakistan against a US law restricting imports of shrimp caught in a way that harms endangered species of sea turtles. The panel found that the US statute ("Section 609") was outside the scope of Article XX, which provides an exception for laws "relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption." (Article XX(g)). The United States appealed the ruling. An Appellate decision was issued on October 8, 1998. While the Appellate Body ruled that Section 609 fell within the scope of Article XX(g), it nonetheless found that the law as applied amounted to arbitrary or unjustifiable discrimination between countries where the same conditions prevail, in violation of the Article XX chapeau.

Specifically, the Appellate Body found: (1) the United States was inflexible in determining whether exporting countries have sea turtle conservation programs that are comparable to the US program; (2) US prohibition of imports of shrimp caught with TEDs, unless the country as a whole is certified under the US law, was "difficult to reconcile" with the US stated goal of turtle conservation; (3) the United States had failed to negotiate a multilateral turtle conservation agreement with the affected countries; (4) the phase-in period granted to plaintiffs was shorter than the phase-in period granted to the Caribbean nations; and (5) the United States made a greater effort to transfer TEDs technology to Caribbean nations than to plaintiffs. This ruling highlights the institutional bias contained in WTO Panel reports. All five findings demonstrate a clear tendency of WTO panels to substitute their judgment, replacing Congress' delicately weighed balance of competing priorities. Findings (4) and (5) are particularly ironic because the US initially gave more favorable treatment to the plaintiffs than to the Caribbean nations. It was only as a result of a lawsuit by the HSUS that the US brought the Asian nations under the mantle of Section 609.

On November 25, 1998, USTR notified the WTO that the United States intends to bring Section 609 into conformity with the Appellate ruling. USTR exceeded its authority in so notifying the WTO, because the United States cannot come into compliance without an explicit revision of Section 609 by Congress. The Trade Agreements Act of 1979, codified at 19 U.S.C. 2504(a) provides:

No provision of any trade agreement approved by the Congress under section 2503(a) of this title, nor the application of any such provision to any person or circumstance, which is in conflict with any statute of the United States shall be given effect under the laws of the United States.

U.S. courts have construed this provision literally. (See, *Public Citizen v. Office of the U.S. Trade Representative*, 804 F. Supp. 385, 388 (D.D.C. 1992); *Suramerica de Iacaciounes Laminadas, C.A. v. United States*, 966 F.2d 660, 667 (Fed. Cir. 1992) ("The GATT is not controlling . . . The GATT does not trump domestic legislation; if the statutory provisions at issue here are inconsistent with the GATT, it is a matter for Congress and not this Court to decide and remedy.").

USTR has indicated that it intends to bring Section 609 into conformity with the Appellate ruling by addressing the issue administratively; i.e., on August 28, 1998, the State Department issued revised regulations which permit the importation of shrimp on a shipment-by-shipment basis. USTR's claim that this rectifies the "WTO problem" is disingenuous, at best. A federal court has already ruled against the government on this issue.

A. A Federal Court Has Already Ruled that Individual Shipment Certification Violates the Terms of the Statute

Despite passage of Section 609 in 1989, the law was not implemented until 1996, and then only after several plaintiffs, including HSUS, won a lawsuit against the government for non-enforcement. (See *Earth Island v. Christopher*, 913 F. Supp. 559 (Ct. Int'l Trade 1995).) The government asked the court for a one year extension to implement the law, but its request was denied and the government was ordered to embargo shrimp from non-complying nations as of May 1, 1996. On April 19, 1996, nine days after the court's ruling, the State Department published a *Revised Notice of Guidelines for Determining Comparability of Foreign Programs for the Protection of Turtles in Shrimp Trawl Fishing Operations* ("Revised Guidelines") (61 Fed. Reg. 17342) authorizing a "shipment-by-shipment exemption to allow importation of shrimp from countries which had not been certified and continued to drown sea tur-

ties in nets that did not utilize "turtle excluder devices" ("TEDs"), so long as the particular vessels from which the shrimp was imported did use TEDs.

On June 21, 1996, plaintiffs filed with the court a "motion to enforce the court's judgement," alleging that the shipment-by-shipment approach was inconsistent with the statute, violated the court's December 1995 ruling, and vitiated the economic incentive created by Congress to protect sea turtles worldwide. After oral argument on the motion, the court invited the parties to supplement the record with further evidence about the effect of the "Revised Guidelines." On September 20, 1996, plaintiffs filed a letter with the court withdrawing their motion. Plaintiffs stated that they believed their motion to enforce was an issue of "statutory construction only" and that no other evidence was needed for the court to rule on the motion. Nonetheless, the plaintiffs indicated that they would continue to gather the evidence the court requested and reserved the right to challenge the government's revised interpretation at a later date.

Despite the letter of withdrawal, the court ruled in plaintiffs' favor, holding that the shipment-by-shipment approach was contrary to the specific terms of the statute. The government appealed on procedural grounds, claiming the court had no jurisdiction to rule on the motion because plaintiffs had withdrawn their motion, via the letter. On June 4, 1998, the Federal Circuit Court agreed with the government and reversed the lower court's ruling on procedural grounds only. 147 F.3rd 1352 (Fed. Cir. 1998).

The State Department reissued "Revised Guidelines" on August 28, 1998 (the "August Guidelines") that, except for minor modifications,¹ are the same as the June 1996 "Revised Guidelines" authoring shipment-by-shipment certification of shrimp, a procedure which the Court of International Trade expressly held violated the terms of the statute.

On September 15, 1998, HSUS and other plaintiffs filed a complaint in the Court of International Trade requesting that the court find the August Guidelines arbitrary and capricious and otherwise contrary to law. The judge before whom the case is filed is the same one who ruled for plaintiffs in the 1996 action. The plaintiffs are confident that they will win this case as well, and the August Guidelines will be struck down as a matter of law. Both the August Revised Guidelines and USTR's November 25th WTO notification are unsupported and unjustified. Only Congress can amend the law to bring it into conformity with the WTO decision. By staging this elaborate sequence of events, USTR is gambling that Congress will vitiate strong US protections for endangered and threatened sea turtles. The gambit is political. USTR has consistently maintained that "The WTO will [not] diminish U.S. sovereignty by expanding the power and reach of GATT dispute resolution" (See USTR's presentation to Congress, *The GATT Uruguay Round Agreements: Report on Environmental Issues ES-4*, 59, 98 (1994).) If Congress amends the law, USTR can maintain this assertion with no international trade repercussions. But Congress will bear the political brunt of public ire. If Congress amends this law to conform to the WTO, trade activists, HSUS among them, will ensure that the public views this as "business as usual": corporate interest put before public interest—international trade trumping environmental and animal protection.

B. Not Happy After NAFTA

In "Not Happy After NAFTA," a January 11, 1999 article in *U.S. News & World Report*, a recent NBC/Wall Street Journal poll is cited in which 58 percent of those surveyed said foreign trade has been bad for America. A second article in the same magazine, entitled "Banana-trade split," quotes Peter Scher, chief American negotiator on agricultural trade as saying, "You can't have selective compliance with WTO rules because that would mean the end of the WTO system." USTR intends trade to trump domestic environmental and social legislation by forcing Congress, through the mechanism of the WTO, to change its legislation and then take the blame.

IV RECOMMENDATIONS

Congress is responsible for balancing national priorities and weighing the relative weight of constituent needs. This is a sensitive task and it is central to America's representative form of government. In the last decade, WTO rules, panel disputes, and US international trade policy have pushed this delicate balance out of kilter. USTR has aggressively pushed to have social priorities subsumed or eliminated for

¹The new regulations state that the government will regularly examine "the procedures that governments of uncertified nations have put in place for verifying the accurate completion of the [certification] form," review the effects of the regulation, and "reassess" it if the evidence indicates sea turtles have been adversely affected.

the sake of US trade policy. But the American public, if polls are any indication, no longer supports this unequal balancing of national priorities. The HSUS, on behalf of its 6.7 million members and constituents, urges Congress to consider the following recommendations:

- A new political initiative is needed to establish a complementary relationship between trade liberalization objectives and national and international measures to protect people, animals and the environment. Any Fast Track authorization should be limited to this objective. Attempts to negotiate new or expand existing trade agreements, without first establishing an appropriate framework for balancing national priorities, will increase public ire and may result in further destabilization of the global economic system.
- Congress should amend the Trade Agreements Act of 1979 by adding the following at the end of Section 2504(a): "No provision of any trade agreement approved by Congress under this title or elsewhere shall be construed as authorizing the United States Trade Representative to notify the World Trade Organization that the United States will bring legislation into conformity with a dispute panel or Appellate panel ruling, unless Congress has expressly authorized such conformity by means of the passage of appropriate legislative amendments."
- USTR should be explicitly instructed to negotiate (as vigorously as it is pursuing the WTO banana case for the US multinational, Chiquita) a multilateral agreement (either within the WTO or separate thereto) whereby countries agree that in the context of a WTO dispute involving environmental or animal protection, as a threshold matter, the complaining party will bear the burden of proving that the contested law was enacted for purposes other than the protection of the environment or animals.
- Congress should hold further oversight hearings specifically on the topic of the effect of international trade agreements on national and international public interest initiatives, including environmental and animal protection, human rights, and public health and safety. The current emphasis in US trade policy on corporate interests does not adequately reflect competing national priorities.

V. CONCLUSION

In the past decade, animal protection legislation has been a victim of a myopic effort to globalize the world economy with corporate interests alone in mind. An appropriate balance between competing national and international priorities has been lost, to a large extent, because of USTR's aggressive efforts to secure open markets. While trade and economic globalization have a place in the scales of US national priorities, so too do social issues such as environmental and animal protection. The American public is awakening to the growing imbalance in competing national priorities. It is estimated that 59% of American households have pets and care about the welfare of animals. Environmental and animal protection organizations receive contributions in the hundreds of millions of dollars annually to support their efforts. Americans care about animals and the environment. In many ways, animals and the environment are more relevant to the everyday lives of Americans; international trade and economic globalization offer distant corporate benefits from which few see tangible trickle-down effects. A politically viable US trade policy must provide more than lip service to the balancing of competing national priorities. It must balance them in a way that respects and protects animals, the environment and people.

STATEMENT OF THE INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

This statement is submitted on behalf of the the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). The UAW represents 1.3 million active and retired members in the automobile, aerospace, agricultural implement and other industries.

The UAW appreciates this opportunity to present its views on the critically important issue of U.S. trade policy in the era of globalization. The UAW welcomes the Committee's continuing interest in developing a new U.S. trade agenda that addresses the concerns of UAW members and all American workers.

The UAW has consistently taken the position that international trade and investment can contribute to improving living standards for workers in the U.S. and abroad. We have, in the past, endorsed U.S. government participation in international negotiations in order to create a fair, equitable, rules-based system, as long as workers' interests were given appropriate consideration.

In testimony before this Committee and elsewhere, we have strongly objected to basing U.S. trade policy on simplistic notions of free trade and free markets. It has

been our contention that these are meaningless concepts in a complicated world of huge, market-controlling multinational corporations, vastly different national and regional economic and political systems and widely varying commitments to sustainable, equitable development. We have argued for a results-oriented U.S. trade policy that balances international fairness with fairness to American workers. By our measure, recent international trade agreements have failed to satisfy this standard.

It has been clearly demonstrated in the recent economic and financial crises that the system of rules for the international economy has been ineffective in promoting the economic well-being of workers. Massive trade imbalances exist and international pressure has depressed compensation for millions of workers and their families. There are no simple solutions to the existing deficiencies of the multilateral system, but there are important initiatives that can move us in the direction of resolving these problems rather than contributing to them.

The UAW has played a leading role in identifying the flaws in NAFTA and insisting on the need to renegotiate it. To improve living standards and working conditions, economic and social development in the region must be based on the adoption of the highest level of worker rights and standards and environmental standards in all three countries. These rights and standards must be included in the agreement itself, not relegated to "side agreements." A broad range of other issues, ignored in NAFTA, must also be incorporated into the agreement, including controls on capital to limit financial speculation, exchange rates and debt relief. Measures to control surges of imports that can cause job losses for workers and economic devastation for communities must also be included.

The UAW is particularly concerned about the potential for dislocation of workers in the U.S. auto industry due to a surge of imports. Our experience with NAFTA has been disturbing for our members in this critical U.S. industry. The U.S. trade deficit in automotive products with Canada has increased and with Mexico has skyrocketed since 1993. New investments in our neighboring countries, particularly in Mexico, have added capacity there to assemble vehicles and produce parts. We expect the auto deficits to continue to grow, putting ever greater pressure on the jobs of UAW members in the U.S.

The current auto provisions in NAFTA offer no effective remedy should exports from Mexico to the U.S. surge. In addition, in the case of a recession and a cutback in production, companies could disproportionately reduce U.S. output and keep their Mexican plants producing for the U.S. market. Given the pre-NAFTA existence of production-expanding automotive policies in both Mexico and Canada, and their continuation during the current phase-out period, the UAW believes that the U.S. must insist on an equitable sharing of automotive production among the three countries that allows all to benefit from growth in the North American market and all to share in downturns as well. Establishing a baseline of production shares, based on the experience of recent years, would protect workers in all three countries from manipulation by the multinational auto companies that seek to pit workers in the region against each other in order to pad their profits. Allowing the corporations to use such strategies undermines the improvement of workers' living standards that must be the fundamental objective of regional integration.

The flaws of NAFTA reveal the deficiencies of the overall U.S. trade policy agenda. A thorough re-thinking of the U.S. approach to trade policy must be undertaken immediately. The UAW strongly opposed legislation in the last Congress that would have extended fast-track trade negotiating authority because it represented the deeply flawed agenda that produced NAFTA. We will continue to oppose any and all fast-track proposals because that approach would build upon the decayed foundation of current U.S. trade policy.

Just as the renegotiation of NAFTA must include new issues that were ignored or rejected in the existing agreement, all U.S. trade and investment agreements (bilateral, regional, plurilateral and multilateral) must have effective provisions in many areas of concern to American workers. These issues include: dramatically improving the transparency (i.e., openness to input from Congress, unions, non-governmental organizations) of the U.S. negotiating process and of the international institutions in which negotiations and U.S. activity occur (FTAA, APEC, WTO, OECD, IMF, World Bank, etc.); limiting the volatility and damaging effects of exchange rates on living standards and trade; controlling the de-stabilizing effect of the international flow of investment capital into and out of countries through regulation, taxation and other necessary measures; focusing on the need to stimulate international economic growth through debt relief for countries that are poor and have been saddled with debt obligations that cannot be paid without imposing terrible economic burdens on their citizens; restricting the use of technology transfer and production-sharing arrangements (offsets) that sacrifice domestic production and employment for the benefit of corporate market access; and, improving the ability of the U.S.

government to protect against surges of imports that cause serious and, often, permanent dislocation for American workers in high-productivity industries that pay family-supporting wages.

The importance of several of these issues has been reinforced by the collapse of the currencies of major export-oriented economies in Asia. In much the same way that the Mexican peso devaluation in 1994-95 led to a higher U.S. trade deficit and intense economic hardship for Mexican workers, the costs of the Asian financial crisis are being unfairly placed on the backs of workers in Korea, Indonesia, Thailand and elsewhere in the region and on U.S. workers through the rapidly deteriorating trade balance. The economic conditions imposed on the governments of these countries by the International Monetary Fund, with the support of the U.S. government, were designed to bail out international banks and investors whose pursuit of excessive profits led them to make questionable, high-risk loans that fueled the crisis in the first place.

The spreading impact of the Asian crisis to Russia, Latin America (especially Brazil), the U.S. and Europe shows that it is the very structure of the free-market, free-trade global economy that is flawed, not the policies of a few developing country governments. The excessive borrowing and speculation that undermined growth in Asia was fed by developed country banks and pressure to liberalize international financial markets. The assumption that "the market" provided adequate safeguards against threats to U.S. growth from these forces has been exploded by these events. Discussions about the need for a new "architecture" for the international financial system indicate that the neo-liberal model does not work. Dramatic changes in the policies of the International Monetary Fund and other international financial institutions to promote domestic-led growth and higher living standards for workers are an important part of the shift in U.S. trade policy that we seek.

In light of the serious excess capacity worldwide in the auto industry, the relative openness of the U.S. market compared with other major auto-producing countries and the impact of the Asian financial crisis in exacerbating these problems, we believe the potential for disruption of U.S. auto production and employment due to a surge in imports from outside North America must also be addressed. The U.S. government must be able to act quickly and effectively to limit imports of vehicles or parts from countries to prevent cutbacks in employment and production in the United States. American workers cannot rely on current U.S. trade laws to provide that relief.

The U.S. has negotiated several bilateral agreements on auto trade in recent years. We have been disappointed by the lack of results-oriented targets in these agreements and their lack of effectiveness to date. However, one important aspect of U.S. trade policy must be the vigorous enforcement of all trade agreements and the willingness to take action when they are violated. The UAW expects that auto trade agreements with Japan, Korea and Brazil will be closely monitored. At the first sign of violations of these agreements, we expect the self-initiation of an expedited Section 301 case.

The long-running U.S. negotiations with the People's Republic of China over its accession to the World Trade Organization have overshadowed the continuation of China's auto industrial policy. As has been acknowledged in the National Trade Estimates report for several years, this policy violates the 1992 U.S.-China Memorandum of Understanding. A quick response to this violation through the self-initiation of a Section 301 case is warranted.

Other U.S. trade laws are equally in need of vigorous enforcement to defend the jobs of American workers against unfairly traded imports and injurious levels of imports. The anti-dumping and subsidies/countervailing duties statutes must be utilized and their remedies implemented in time to prevent job losses for workers due to the closing of efficient, highly productive U.S. production facilities. When U.S. laws are in need of revision to ensure that they accomplish their stated objective, they must be revised and strengthened. This is the case with the safeguard provisions of Section 201.

An additional element of U.S. trade policy that is of the utmost concern to UAW members and all workers, in the U.S. and abroad, is the inclusion of core worker rights and environmental standards in the body of all agreements, subject to the same dispute resolution process as other provisions. Relegating these issues to "side agreements" is simply unacceptable. The NAFTA side agreement on labor has not changed the variety or the severity of the problems facing workers who try to organize independent unions. Employers continue to use intimidation, illegal firings and other illegal tactics to prevent workers from exercising basic labor rights. Because there is no effective dispute resolution process, petitions filed against employer abuses and government inaction have not led to reinstatement of workers or sanctions on employers.

The absence of WTO rules covering worker rights and standards is a critical stumbling block to ensuring that increased international trade and investment contribute to improved living standards and working conditions. We believe that the expansion of international commerce has made a significant contribution to widening income inequality in developed and developing nations alike by depressing compensation for a large share of workers. Higher productivity and new investments have raised workers' skills and their contribution to output, but the share of the increasingly international value of output received by workers has, at best, stagnated.

The resistance to taking action to incorporate worker rights into all trade agreements is driven, principally, by the threats of multinational corporations and the actions of non-democratic governments. Instead of listening to their self-interested opposition, we believe all countries should be held to their claim that the intention of the trade rules is to generate higher living standards, not greater economic leverage for the largest global corporations and repressive, authoritarian governments.

In conclusion, the UAW appreciates this opportunity to present our views to the Committee. This testimony has covered many issues of deep concern to UAW members regarding the need for changes in U.S. trade policy. The international economy has a profound impact on the living standards and working conditions of American workers. The changes we propose here must be adopted in order for trade to be a positive force rather than the source of downward pressure on their well-being. We hope that the Committee will agree that these fundamental changes are necessary and will undertake the serious review required to arrive at a new U.S. trade policy that takes account of the globalization process that is underway and the interests of American workers, their families and communities.

STATEMENT OF THE MARITIME EXCHANGE FOR THE DELAWARE RIVER AND BAY

(SUBMITTED BY DENNIS ROCHFORD, PRESIDENT)

The Maritime Exchange for the Delaware River and Bay is a non-profit trade association and represents the interests of approximately 300 businesses which depend upon the economic health of the Delaware River port complex. Established in 1872, the sole mission of the Maritime Exchange is to promote and protect Delaware River port commerce.

In terms of commercial maritime traffic, the Delaware River port complex is among the busiest of all U.S. waterways, handling a diverse array of commodities from countries throughout the globe. In addition to being the largest U.S. port for imported crude oil and many fresh fruit products, nearly 12% of the ships calling Delaware River port facilities carry steel products. The current restrictions against certain imported steel products from various nations will have a significant adverse economic impact upon both the Delaware River ports and its adjacent communities.

The Maritime Exchange does not condone unfair trading. The Exchange supports the use of regulations and laws, such as section 201 and anti-dumping laws, in order to address unfair trade practices when necessary. However, the Exchange supports only the judicious use of these laws to combat unfair trade. If these laws are utilized without an investigation into their total economic impact, they cannot be effective. Before the federal government takes prohibitive and retaliatory actions, such as section 201 or anti-dumping investigations, the ramifications to the entire international trade community must be examined.

We believe consequences for the Delaware River port will be numerous and severe. First, punitive anti-dumping petitions may provide a long-range financial benefit for petitioners, but there will be an adverse economic disadvantage to a significant segment of U.S. industry. At Delaware River ports alone, federal trade policies have the potential to affect the livelihoods of over 60,000 people whose jobs depend on healthy port commerce, not to mention the associated federal and local taxes. It can be estimated, for example, that average direct revenues for a single Delaware River steel ship transit may top \$300,000; last year the port handled 121 steel ships from the 10 countries currently targeted by legal action. Labor wages associated with steel imports at just one of the several marine terminals handling this commodity in 1998 neared \$7,150,000. At another facility, approximately 1,260 direct jobs are attributable to imported steel handling. These direct jobs support over 500 induced and 185 indirect jobs.

In addition, much of the steel handled by the Delaware River port operators in 1998 was of a type and quality not readily available from the domestic market and was destined for U.S. manufacturing plants, especially the automotive industry. In fact, a significant amount of semi-finished steel handled was consigned to domestic

steel producers and utilized for further processing. Simply stated, it is not always possible for domestic companies in one segment of industry to fulfill demands required by another.

Further, the ports on the Delaware River and Bay have gone to great lengths to become competitive and make themselves accessible to the world's shippers. It also holds true for oil, fruit, and automobile cargoes, to list a few of the ports' top commodities. As a matter of fact, many of the improvements to the port have come through federal and state funding. For example, there is a project underway to deepen the Delaware River main channel by five feet; this project includes federal funding authorized in the amount of \$199 million, as well as matching funds authorized by the states of Delaware, Pennsylvania and New Jersey. These financial commitments by federal and local governments represent an investment in both America's infrastructure and trade interests. If trade in certain commodities, such as steel, is allowed to wither, investors may not be as willing to continue supporting America's port and waterway systems. This would lead to a loss of the competitive edge American ports have enjoyed, resulting in a drop in trade overall.

The federal government has made balancing the budget a top priority and the economic well being of the United States is a central part of that issue. However, international trade is equally integral, and current anti-dumping movements appear as opposing actions to federal budgetary policies. The adverse consequences which will flow from anti-dumping actions must be measured against the positive effects the domestic steel industry claims will flow from the government intervention. It is essential that the public policy makers consider the legitimate interests of this port, and others like it, as well as those of the domestic steel industry.

Thank you for the opportunity to express our views.

STATEMENT OF THE MAGAZINE PUBLISHERS OF AMERICA, INC. (MPA)

[SUBMITTED BY JAMES R. CREGAN, EXECUTIVE VICE PRESIDENT]

We write to express our full support for the testimony of the Honorable Charlene Barshefsky, United States Trade Representative (USTR), as it pertains to the ongoing dispute over the Canadian Government's continuing efforts to maintain market access barriers against U.S. magazine publishers.

MPA is the principal association representing the U.S. consumer magazine publishing industry. Our members include such major publishers as Time Warner, Hearst Magazines, The Condé Nast Publications Inc., the Meredith Corporation, and the National Geographic Society.

In 1997, the United States successfully challenged Canada's protectionist magazine regime in the World Trade Organization (WTO). In 1998, Canada repealed its effective ban on "split-run" editions of U.S. magazines and took other steps identified by the WTO as necessary to end its discriminatory policies and practices. MPA supported the USTR in these efforts and welcomed the action taken by the Canadian Government as progressive.

Now, unfortunately, it seems that 1999 will bring not further progress, but regression. The Canadian Government apparently is prepared to push to enactment new protectionist legislation, designated as Bill C-55, which would prohibit magazines published by U.S. and other non-Canadian companies from carrying advertising aimed at Canadian readers. The USTR has correctly characterized Bill C-55 as an attempt to substitute one form of protectionism for another. By enacting this measure, the Canadian Government would restore the effective ban on U.S. split-run magazines that WTO found inconsistent with Canada's international trade obligations.

MPA welcomes the strong and unequivocal response of Ambassador Barshefsky to the prospective enactment of Bill C-55. As you know, this is not a new issue. Indeed, its history spans most of this century. We respectfully urge you and your Senate colleagues to join the Ambassador in seeking a fair and final resolution of this longstanding and difficult problem in U.S.-Canadian trade relations.

Thank you for your consideration of our views.

STATEMENT OF THE STEAMSHIP ASSOCIATION OF LOUISIANA

[SUBMITTED BY CHANNING F. HAYDEN, JR., PRESIDENT]

My name is Channing F. Hayden, Jr., and I am President of the Steamship Association of Louisiana. Our Association represents some 43 ship owners, operators, agents, and stevedores who, in turn, represent the majority of the 6,000+ deep-draft

vessels in foreign commerce that call Louisiana's Mississippi River ports each year. We are dedicated to the safe and efficient movement of maritime commerce through the state's river ports from the Gulf of Mexico to Baton Rouge. I would like to submit our comments for the record of the Senate Finance Committee hearings on Anti-Dumping Petitions Against Steel Products.

We, on the lower Mississippi River, have just become aware of the intensity of activity involving anti-dumping petitions against steel products. We recognize that the United States must be vigilant of unfair trading that will undermine the country's domestic industry. We do not support trade that can destroy the United States' domestic market. However, we urge the Administration and Congress to very carefully weigh both sides of the issue and consider the harm that can occur to the stability of U. S. Ports, local economies, and the longshore work force if restrictions are implemented simply because it looks and sounds good.

Most of Louisiana's deep-water ports are located on the Mississippi River from Baton Rouge to the Gulf of Mexico. Some ports are heavily involved in steel trade through both port-operated terminals and private facilities. Because of the lack of time, we were not able to break out the area's figures by the types of steel and countries of origin. Yet, we feel the following data should give you an idea of the enormous impact that imprudent tariff laws on import steel could have on the economy of Louisiana and surrounding areas. The Port of New Orleans reports that steel imports, as classed by them, was 8.169 million short tons in calendar year 1998. The Port of South Louisiana, marketed as "America's Largest Tonnage Port," is a high volume area for import, export, and, domestic bulk cargoes of all types, handling over 97 million tons in 1997. They record 1.541 million short tons for the category of steel in the first half of 1998. Even the Port of Baton Rouge will be affected, as they handled about 5,000 short tons last year and have averaged that amount for the past several years.

The economic impact of foreign trade on Louisiana is effectively set out in, "Waterborne Louisiana's Ports & Waterways," a publication of the Louisiana Sea Grant College Program, which is a part of the National Sea Grant Program that is maintained by the National Oceanic and Atmospheric Administration, U. S. Department of Commerce. "More than most states, Louisiana depends on transportation via inland waterways and deep-water ports. Louisiana is also more deeply committed to foreign trade than most other states . . ." Based on information from the Port of New Orleans, the 1998 statewide benefits derived from steel is \$8.038 billion and some 89,859 jobs. There is no denying that the elimination of steel through our Louisiana ports will have a very real, negative impact on our area's economy.

The ports and industry (terminal operators, stevedores, and ship agents) have placed much time and money in promoting the movement of cargoes through their ports. Such marketing is based on the capabilities of areas to handle certain commodities, and steel is a commodity that fits well with operations on the Mississippi River where cargo from ship to barge can be handled efficiently and economically. Less than careful review of this from both sides will disrupt contracts and affect jobs from the cargo handler to every aspect of the U.S. work force. Since imprudent action by Washington will change cargo tonnage through ports, the impact will also affect the maintenance of port channels since such deep-water projects are funded based on a benefit/cost ratio.

Thank you for allowing the Association to submit our comments.

STATEMENT OF THE TILE COUNCIL OF AMERICA, INC.

(SUBMITTED BY ROBERT E. DANIELS, EXECUTIVE DIRECTOR)

Tile Council of America, Inc., the trade association of the United States ceramic tile manufacturing industry, hereby submits its views and concerns regarding "Trade Policy in the Era of Globalization," pursuant to the Hearing before the Senate Finance Committee on January 26-28, 1999.

For over 50 years, Tile Council has served as the trade association for the domestic ceramic tile manufacturing industry. It is recognized as such worldwide and, in that capacity, participates as the primary industry member and sponsor of the American National Standards Institute (ANSI) and as Secretariat and sponsor to the ISO Standards Committee. Tile Council has been relied upon during each of the GATT negotiations since the Herter Round, throughout the NAFTA negotiations, and in regard to various bilateral and regional trade issues to provide advice to the U.S. government on behalf of the domestic ceramic tile industry. Tile Council members and various non-member U.S. producers rely on Tile Council, and on the USTR

and other responsible Government agencies, to ensure compliance with those various agreements.

Tile Council's regular and associate craft tile members currently manufacture well over fifty percent of the ceramic tile produced in the United States. These products are classified under Harmonized Tariff Schedule Heading 6907 and 6908. In addition, Tile Council has associate members representing the nine major suppliers of equipment and ingredients to the domestic ceramic tile manufacturing industry and eleven tile installation materials (grout and mortar) manufacturers. Tile Council respectfully submits these comments on the matter presently before this Committee on behalf of the interests of the entire U.S. ceramic tile industry.

A. EXCESSIVE IMPORT PENETRATION OF LOW-PRICED IMPORTS

On an overall basis, imports have dominated the U.S. ceramic tile market for at least the past ten years and dramatically so in the last few years. Import share of the U.S. market for all ceramic tile is 67.4 percent and 70.3 percent for the most important glazed tile category, based on third quarter 1998 figures. This is a historic high and it is getting worse. Imports of ceramic tile into the U.S. market in 1997 totaled some \$939,518,084 million, and imports of just regular sized (non-mosaic) glazed ceramic tile totaled some \$836,799,093 million. To make matters worse, the average unit value of imports has declined consistently. We ask that the Government act whenever possible to ensure that this trend is halted and, specifically, that no additional preferential trade treatment or tariff reductions be granted to ceramic tile imports.

B. UNFAIR TRADE PRACTICES

With this background of high import penetration, the domestic ceramic tile industry historically also has been impacted and continues to suffer as the result of various documented unfair trade practices, including counteravailable subsidies, dumping, and virtual import bans by various foreign countries on U.S. and third country ceramic tile imports. With the Asian economic crises in full-swing and foreign companies desperate for sales and hard currency, the U.S. has become the target of significant low-priced imports from Indonesia, Thailand, China and Turkey, as well as from Mexico, and Central and South America. In addition, unit values have declined from Spain and Italy, where traditional sales to the Pacific Rim have been greatly reduced. As a result of these low-priced and we believe often subsidized imports, the domestic industry is suffering serious injury—companies are going out of business, companies are going bankrupt, and many companies are just hanging on but have been forced to cut prices dramatically yet are still losing sales. We ask that the Government continue to uphold the high standards of fair trade encompassed in our existing trade laws and vigorously pursue instances of foreign unfair trade practices.

C. CUSTOMS FRAUD

Customs fraud has been a persistent problem confronting the U.S. ceramic tile industry, especially with respect to operation of the Generalized System of Preferences (GSP) program, which includes one ceramic tile HTS tariff category. Over the years, Tile Council has detected repeated instances where non-GSP eligible ceramic tile has been designated as a GSP-eligible tile product. Thankfully, the Customs Service and especially its Office of Strategic Trade has been working in recent years to eliminate such fraudulent activities, which not only injure the U.S. ceramic tile industry but also withhold duty revenues from the U.S. Government.

TCA believes that customs misdesignation and avoidance practices continue to occur, especially with respect to the transshipment of products from one Asian nation to another, depending on the GSP eligibility status of the nations involved regarding these products.

Possible misclassification of ceramic tile exports to the U.S. market also has become an apparent problem with respect to Mexico. In recent years, this has been the subject of Customs Service Office of Strategic Trade inquiry and, currently, the Department of Justice and Customs Service are involved in a Court of International Trade case involving the alleged misclassification of ceramic tile from Mexico.

D. LACK OF STATUTORY RECOGNITION OF IMPORT-SENSITIVE INDUSTRIES SUCH AS THE U.S. CERAMIC TILE INDUSTRY

While the U.S. ceramic tile industry historically has been recognized repeatedly by the Congress and the Administration as import-sensitive within the context of various trade negotiations, explicit statutory recognition of this fact is long overdue and much needed. Such statutory recognition for GSP purposes would eliminate the

costly need for Tile Council constantly to defend the domestic industry from various annual GSP petitions. TCA has been forced to defend against dozens of such petitions in the past and, while it has been successful, an industry with 70 percent import penetration should not have to face these proceedings on an almost annual basis.

In 1995, during congressional consideration of the renewal of the GSP program, Tile Council, with the assistance of Rep. Houghton and a number of other representatives from tile-producing states, made an effort to have the GSP statute amended to add ceramic tile to the existing short list of exempted import sensitive articles. This measure was defeated by a vote of 8-5 in the Trade Subcommittee of the House Ways and Means Committee. Since then, as predicted, the situation has continued to get dramatically worse—import volume is up, import unit values are down, and the share of the domestic market held by U.S. companies has decreased. It is time, at least, to give the domestic ceramic tile industry relief from the preferential import GSP program. Low priced and high volume ceramic tile imports from state-of-the-art producers in foreign countries that often subsidize and otherwise protect their domestic producers do not need further help from the U.S. government.

E. CONTINUE ADHERENCE TO THE "ALL OR SUBSTANTIALLY ALL" STANDARD FOR "MADE IN USA" CLAIMS

TCA fully supported retention of the Federal Trade Commission's "all or substantially all" standard for "Made in USA" claims. We ask that this important provision not be diluted in any way in the future.

F. MAINTAIN CURRENT TARIFF LEVELS ON CERAMIC TILE

Because the ceramic tile industry continues to face dramatically increasing imports, there is absolutely no need and, in fact, it would be wrong to further reduce tariffs on products classified under HTS Heading 6907 and 6908. Tariffs have been cut on these HTS Headings in every GATT round, and dramatically so in the Uruguay Round, and are being staged down to zero under NAFTA. In addition, duty-free ceramic tile imports already exist under free trade agreements with Canada, Israel, Gaza and the West Bank, and with Colombia, Ecuador and Bolivia under the Andean Free Trade Preference Act. No further cuts are warranted. Mexico in particular should not receive any accelerated tariff cuts under an amendment to the negotiated NAFTA schedule as they have sought to implement on several occasions. Mexico already is a dominant factor in the U.S. market, second only to Italy as a source of ceramic tile imports, and also controls major U.S. distribution chains and is selling ceramic tile priced at an average of 49 percent below U.S. products (based on third quarter 1998 figures). Should further tariff cuts be proposed as to ceramic tile in the WTO Millennium Round or under the FTAA, we respectfully ask on behalf of U.S. ceramic tile producers that the U.S. Government "Just Say No." Our producers and the jobs they create depend on it.

CONCLUSION

The U.S. ceramic tile industry, although an efficient, modern, competitive and hard-working sector, is struggling to remain viable against the influx of low-priced foreign-sourced ceramic tile. We first ask that, in the era of globalization, the U.S. Government do nothing to further aid ceramic tile imports and, thereby, allow this industry to remain viable. Second, we respectfully request that the U.S. Government ensure that the hardworking people of the American ceramic tile industry be vigorously defended against unfair trade practices, fraudulent imports, and trade barriers imposed by our foreign competitors.

