FREE TRADE AREA OF THE AMERICAS

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

JULY 22, 1997

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FREE TRADE AREA OF THE AMERICAS

TUESDAY, JULY 22, 1997

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:14 a.m., in room 1100, Longworth House Office Building, Hon. Bill Thomas presiding.

[The advisories announcing the hearing follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE Contact: (202) 225–1721
April 14, 1997
No. TR–5

Crane Announces Hearing on Free Trade Area of the Americas

Congressman Philip M. Crane (R–IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the status and outlook for negotiations aimed at achieving a Free Trade Area of the Americas (FTAA). This hearing is the second in a series which began March 18, 1997, to consider major U.S. trade initiatives. The hearing will take place on Thursday, May 8, 1997, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

Oral testimony at this hearing will be from both invited and public witnesses. Invited witnesses will include Deputy U.S. Trade Representative Jeffrey Lang. Also, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

The goal of free trade in the Western Hemisphere was first put forward by President Bush in June 1990 when he proposed the Enterprise of the Americas Initiative. At the December 1994 Summit of the Americas in Miami, leaders of 34 Western Hemisphere democracies agreed to establish a FTAA in which barriers to trade and investment will be progressively eliminated. They committed to begin the process immediately, make concrete progress by the year 2000, and to conclude negotiations by no later than 2005. The Summit Declaration signed on December 11, 1994, identified 11 major areas that will be covered in the negotiations: market access, customs procedures and rules of origin, investment, sanitary and phytosanitary measures, standards and technical barriers to trade, subsidies, antidumping and countervailing duties, smaller economies, competition policy, government procurement, intellectual property rights, and services. Subsequent ministerial meetings held in 1995 and 1996 have established working groups to prepare for negotiations on these issues.

Recognizing that substantial progress towards economic integration in the hemisphere has already been made, the Declaration calls for building on "existing subregional and bilateral arrangements in order to broaden and deepen hemispheric economic integration and to bring the agreements together."

Since 1990, four sub-regional groups in particular have made considerable progress in breaking down intra-regional trade barriers. Mercado Común del Sur, the "Common Market of the South," consists of Argentina, Brazil, Paraguay, and Uruguay and is the second largest preferential trading group in the Americas, after the North American Free Trade Agreement. The Andean Pact, consisting of Bolivia, Colombia, Ecuador, Peru, and Venezuela, ranks third. The Caribbean Community and Common Market, consisting of 13 English speaking Caribbean nations, has agreed to implement a common external tariff over a period of 6 years, although members will be able to maintain their own non-tariff barriers. The Central American Common Market, originally established in 1961, was reinvigorated in 1990.

There is growing concern, however, that the exclusive nature of these trade alliances may prove disadvantageous to U.S. business opportunities and leadership in the region, and inconsistent with the goal of free trade in the hemisphere.

Western Hemisphere Trade Ministers held their first meeting under the FTAA process in June 1995 in Denver, Colorado, and the second meeting in March 1996 in Cartagena, Colombia. On May 15, 1997, in Belo Horizonte, Brazil, Ministers will consider when and how to formally begin FTAA negotiations. In March 1998, President Clinton will join Western Hemisphere leaders in Santiago, Chile, where it is expected that leaders will formally launch negotiations.

In announcing the hearing, Chairman Crane stated: "The Summit of the Americas Declaration represents a historic commitment by countries in the Western Hemisphere to promote their economic growth and that of the region through free trade, open markets, and diminished government regulation. It is important that Congress monitor the progress U.S. trade negotiators are making toward the goal of establishing the FTAA by 2005."

FOCUS OF THE HEARING:

The focus of the hearing will be to examine: (1) progress in the FTAA negotiations, and (2) whether and under what conditions these talks are in the national economic and security interest of the United States. Testimony will be received on specific objectives for the negotiations, the outlook for the Bela Horizonte Ministerial meeting, and the anticipated impact of expanding trade in the hemisphere on U.S. workers, industries, and other affected parties. Finally, witnesses may also address that status of existing sub-regional trade arrangements in the Western Hemisphere, and their impact on U.S. economic interests.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225–1721 no later than the close of business, Wednesday, April 30, 1997. The telephone request should be followed by a formal written request to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225–6649.

In view of the limited time available to hear witnesses, the Subcommittee may not be able to accommodate all requests to be heard. Those persons and organizations not scheduled for an oral appearance are encouraged to submit written statements for the record of the hearing. All persons requesting to be heard, whether they are scheduled for oral testimony or not, will be notified as soon as possible after the filing deadline.

Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record, in accordance with House Rules.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statement and a 3.5-inch diskette in WordPerfect or ASCII format, for review by Members prior to the hearing. Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than close of business, Tuesday, May 6, 1997. Failure to do so may result in the witness being denied the opportunity to testify in person.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement and a 3.5-inch diskette in WordPerfect or ASCII format, with their address and date of hearing noted, by the close of business, Thursday, May 22, 1997, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments. At the same time written statements are submitted to the Committee, witnesses are now requested to submit their statements on a 3.5-inch diskette in WordPerfect or ASCII format.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–225–1904 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

*****NOTICE—HEARING POSTPONEMENT*****

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE Contact: (202) 225–6649
May 2, 1997
No. TR–5-Revised

Postponement of Subcommittee Hearing on Free Trade Area of the Americas Thursday, May 8, 1997

Congressman Philip M. Crane (R–IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee hearing on the status and negotiations aimed at achieving a Free Trade Area of the Americas, previously scheduled for Thursday, May 8, 1997, at 10:00 a.m., in the main Committee hearing room, 1100 Longworth House Office Building, *has been postponed and will be rescheduled at a later date.* (See Subcommittee press release No. TR–5, dated April 14, 1997.)

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE Contact: (202) 225–1721
July 7, 1997
No. TR–12

Crane Announces Hearing on Free Trade Area of the Americas

Congressman Philip M. Crane (R–IL), Chairman, Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on the status and outlook for negotiations aimed at achieving a Free Trade Area of the Americas (FTAA). This hearing is the third in a series which began March 18, 1997, to consider major U.S. trade initiatives. The hearing will take place on Tuesday, July 22, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.

Oral testimony at this hearing will be from both invited and public witnesses. Invited witnesses will include Deputy U.S. Trade Representative Jeffrey Lang. Also, any individual or organization not scheduled for an oral appearance may submit a

written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

The goal of free trade in the Western Hemisphere was first put forward by President Bush in June 1990 when he proposed the Enterprise of the Americas Initiative. At the December 1994 Summit of the Americas in Miami, leaders of 34 Western Hemisphere democracies agreed to establish a FTAA in which barriers to trade and investment will be progressively eliminated. They committed to begin the process immediately, make concrete progress by the year 2000, and to conclude negotiations by no later than 2005. The Summit Declaration signed on December 11, 1994, identified 11 major areas that will be covered in the negotiations: market access, customs procedures and rules of origin, investment, sanitary and phytosanitary measures, standards and technical barriers to trade, subsidies, antidumping and countervailing duties, smaller economies, competition policy, government procurement, intellectual property rights, and services. Subsequent ministerial meetings held in 1995 and 1996 have established working groups to prepare for negotiations on these issues.

Recognizing that substantial progress towards economic integration in the hemisphere has already been made, the Declaration calls for building on "existing subregional and bilateral arrangements in order to broaden and deepen hemispheric economic integration and to bring the agreements together."

Since 1990, four sub-regional groups in particular have made considerable progress in breaking down intra-regional trade barriers. Mercado Común del Sur, the "Common Market of the South," consists of Argentina, Brazil, Paraguay, and Uruguay and is the second largest preferential trading group in the Americas, after the North American Free Trade Agreement. The Andean Pact, consisting of Bolivia, Colombia, Ecuador, Peru, and Venezuela, ranks third. The Caribbean Community and Common Market, consisting of 13 English speaking Caribbean nations, has agreed to implement a common external tariff over a period of 6 years, although members will be able to maintain their own non-tariff barriers. The Central American Common Market, originally established in 1961, was reinvigorated in 1990.

There is growing concern, however, that the exclusive nature of these trade alliances may prove disadvantageous to U.S. business opportunities and leadership in the region, and inconsistent with the goal of free trade in the hemisphere.

Western Hemisphere Trade Ministers held their first meeting under the FTAA process in June 1995 in Denver, Colorado, and the second meeting in March 1996 in Cartagena, Colombia. On May 15, 1997, in Belo Horizonte, Brazil, Ministers agreed that "FTAA negotiations should be initiated in Santiago, Chile, in March 1998" when President Clinton will join other Western Hemisphere leaders at the Second Summit of the Americas.

In announcing the hearing, Chairman Crane stated: "The Summit of the Americas Declaration represents a historic commitment by countries in the Western Hemisphere to promote their economic growth and that of the region through free trade, open markets, and diminished government regulation. It is important that Congress monitor the progress U.S. trade negotiators are making toward the goal of establishing the FTAA by 2005."

FOCUS OF THE HEARING:

The focus of the hearing will be to examine: (1) progress in the FTAA negotiations, and (2) whether and under what conditions these talks are in the national economic and security interest of the United States. Testimony will be received on specific objectives for the negotiations, the results of the Bela Horizonte Ministerial meeting, and the anticipated impact of expanding trade in the hemisphere on U.S. workers, industries, and other affected parties. Finally, witnesses may also address that status of existing sub-regional trade arrangements in the Western Hemisphere, and their impact on U.S. economic interests.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Bradley Schreiber at (202) 225–1721 no later than the close of business, Wednesday, July 16, 1997. The telephone request should be followed by a formal written request to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. The staff of the Subcommittee on Trade will notify by telephone those scheduled to appear as soon as possible after the filing deadline. Any questions concerning a scheduled appearance should be directed to the Subcommittee on Trade staff at (202) 225–6649.

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Witnesses scheduled to present oral testimony are required to summarize briefly their written statements in no more than five minutes. THE FIVE-MINUTE RULE WILL BE STRICTLY ENFORCED. The full written statement of each witness will be included in the printed record, in accordance with House Rules.

In order to assure the most productive use of the limited amount of time available to question witnesses, all witnesses scheduled to appear before the Subcommittee are required to submit 200 copies of their prepared statement and an IBM compatible 3.5-inch diskette in ASCII DOS Text format only, for review by Members prior to the hearing. Testimony should arrive at the Subcommittee on Trade office, room 1104 Longworth House Office Building, no later than close of business, Friday, July 18, 1997. Failure to do so may result in the witness being denied the opportunity to testify in person.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) single-space legal-size copies of their statement along with an IBM compatible 3.5-inch diskette in ASCII DOS Text format only, with their name, address and hearing date noted on a label, by the *close of business*, Tuesday, August 5, 1997, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

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4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

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Note: All Committee advisories and news releases are available on the World Wide Web at 'http://www.house.gov/ways__means/'.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Mr. THOMAS [presiding]. The Subcommittee will come to order. Chairman Crane has been delayed and will be here as soon as he possibly can.

In Chairman Crane's words, today's hearing of the Trade Subcommittee is to consider U.S. interests and objectives in negotiations to establish FTAA, a free trade area of the Americas. This is the third Subcommittee hearing in a series on major U.S. trade initiatives.

The Chairman wants to mention that the Subcommittee plans to reschedule the hearing on the administration's review of NAFTA, a subject obviously related to the FTAA, in September.

The exceptionally successful Summit of the Americas meeting in Miami in 1995, which the Chairman attended, highlighted the fact that remarkable achievements in both political and economic reform have occurred in our hemisphere in the last decade.

At this meeting the Chairman notes, leaders of 34 functioning democracies, representing every country in the region, with the exception of Cuba, agreed to establish a hemispheric free trade agreement by the year 2005. Such a commitment obviously would have been hard to imagine as recently as a decade ago.

The agreement to establish an FTAA is an achievement that is startling if we keep in mind Latin America's history of closed economic policies and authoritarian governments. As the Chairman says, we have the unusual opportunity before us to lock in widespread trade liberalization and economic reform in our hemisphere, but only, he says, if we can actively participate in the FTAA process.

The responsibility now facing Congress and the President is to take on the problem of fast track negotiating authority so that opportunities such as the FTAA and other trade initiatives are not lost. The Chairman sincerely hopes the President is committed to working with us to develop a strong, protrade fast track bill. Inaction or delay amounts to a decision to sacrifice fundamental national section objectives as well as the interests of U.S. workers,

consumers, and businesses who stand to gain from expanding trade.

The Chairman looks forward to the testimony of Assistant Secretary Davidow and his friend, Ambassador Lang, who will be able to discuss results of the recent Belo Horizonte meeting in Brazil, and the outlook for creating more momentum in the FTAA process.

At this time I recognize the Ranking Member, Mr. Matsui, for an opening statement.

Mr. MATSUI. Thank you, Mr. Chairman, for holding today's hearing on the status and outlook for negotiations on the free trade area of the Americas.

This is a timely hearing in light of the administration's expressed intent of submitting a proposal to Congress in early September on renewal of fast track negotiating authority.

Although fast track will be used primarily in the immediate future for such negotiations as part II of the International Technology Agreement, and other sectoral initiatives, as well as the built-in agenda for the WTO, it will also be important as negotiations on the FTAA unfold.

In this regard it should be noted that Ambassador Barshefsky and other trade ministers agreed in Brazil this past May 15 that the FTAA negotiations should be formally launched in March 1998, in Chile, when President Clinton joins the other Western Hemispheric leaders at the second Summit of the Americas.

The focus of today's hearing will be to examine the progress made to date in preparatory discussions on the FTAA, and what the United States should seek to achieve and avoid while negotiating these agreements. Although the first Summit of the Americas in Miami in 1994 established the year 2005 as a goal of reaching agreement on FTAA, much must still be done, both substantively and politically, for that to become a reality.

There will be many obstacles along the way, both domestically and internationally, and there are many divergent interests in the region that must be reconciled.

Moreover, specific concerns will be raised by the United States that must be addressed, including those that will be the subject of some of today's testimony.

Despite the challenges and potential controversies that lay ahead, it's important to acknowledge that the successful negotiation of a Free Trade Area for the Americas is an extremely important undertaking for the United States in both economic and geopolitical terms.

Economically, Latin America and the Caribbean are the fastest growing markets for United States exports. Indeed, if current trends continue, these hemispheric markets could exceed the combined markets of Europe and Japan as the largest destination for United States exports by the year 2010.

From a geopolitical standpoint, hemispheric trade agreements would strengthen the democratic forces and institutions throughout the region, and solidify recent moves toward market oriented governments.

Mr. Chairman, I would like to thank the three Members of Congress, Representatives Farr, Kolbe, and Campbell, along with Deputy U.S. Trade Representative Jeff Lang and Assistant Secretary

of State Davidow, who will help us begin to understand some of the issues involved in negotiations of the free trade agreement.

While some of the likely opponents have apparently chosen not to testify at today's hearing, I am sure they will make their views well known to us in the future on this subject.

Again, I thank you, Mr. Chairman.

Mr. THOMAS. I thank my colleague from California. This is clearly a national concern, and certainly not a regional one. Notwithstanding that, the Chairman welcomes the gentleman from Arizona, Mr. Kolbe, and our two colleagues from California, Mr. Campbell and Mr. Farr. If you have written testimony, it will, of course, without objection, be made part of the record, and you can address this in any way you see fit in the time that you have available to you.

The gentleman from Arizona, Mr. Kolbe.

STATEMENT OF HON. JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. KOLBE. Thank you, Mr. Chairman. And with your permission, when I complete my testimony, since we're in markup in appropriations, I will excuse myself. It's probably just as well, because the two gentlemen on either side of me are talking about a somewhat more narrow concern.

I would be loath to use the word parochial, since we know Members of Congress never address parochial interests, but only national interests. Nevertheless, with your permission, I will excuse myself when I finish here.

I am delighted to have this opportunity to testify today. It was just 3 years ago in Miami, Mr. Chairman, that President Clinton ushered in what was perceived to be a new era in United States-Latin American relations. Every Latin American head of state, with the exception of Cuba, the lone, remaining dictatorship of this hemisphere, stood side by side and jointly pledged to promote the growth of democracy and free market economies in Latin America.

This vision was embodied in the mutual commitment to create a free trade area of the Americas by the year 2005, or the FTAA.

At the summit, President Clinton made a clear and unequivocal commitment to begin this process by seeking early accession of Chile to the North American Free Trade Agreement. It seemed at that moment that a free trade zone from Alaska to Tierra del Fuego was within our grasp.

However, during the past 3 years, the vision of FTAA has slowly faded. Unfortunately, the administration has not come forward with a proposal to seek fast track negotiating authority with other nations in the hemisphere.

And so, other nations, most notably Brazil, are beginning to fill the leadership vacuum. Last May at a major meeting of trade ministers in Belo Horizonte, Brazil, the extent to which we have abdicated our responsibility to lead was painfully obvious.

No amount of positive spin could mask the fact that the United States failed to meet its original negotiating objectives. While we wait, Brazil dictates the timetable and structure of negotiations for the FTAA.

Our failure to lead hurts no one but ourselves. Three years ago, it seemed certain that any free trade area of the Americas would be modeled after NAFTA, an agreement the United States was instrumental in helping to draft.

However, what once appeared so certain is but a dim prospect now. As U.S. trade policy continues to drift, it has become increasingly clear that any hemispheric free trade zone will be based ultimately upon some merger of Mercosur and NAFTA.

While we deliberate about our role in the world economy, Brazil, Argentina, Uruguay, and Paraguay are consolidating the southern common market, or Mercosur. While we discuss whether we should begin talking to Chile about accession to NAFTA, Chile enters into its own bilateral trading arrangements with our NAFTA partners, Canada and Mexico.

While we analyze and reanalyze our trade relationship with Canada and Mexico, Chile and Mercosur are starting to negotiate with the European Union. And I'm sure that Europe is relishing our failure to lead.

While we waffle and fuss among ourselves, South America continues to tilt toward Europe. The traditional trade ties between North and South America which we have relied upon for decades are beginning to erode in favor of a new trading alliance between the nations of the Mercosur and the European Union.

Mr. Chairman, if this continues, we will find ourselves frozen out of our traditional export markets, and we will have no one to blame but ourselves. It will not be just economic opportunities that will be lost. Over the past several years we have seen the steady advance of democracy across Latin America. We've seen protectionist markets open, centralized governments abandoned, and dictators fall.

Think about it for a moment. If 20 years ago someone had told you every nation in this hemispheric market, with the exception of Cuba, would be under democratic rule, you would have dismissed it as a utopian dream.

If they prophesied these same nations would abandon their protectionist economic policies and embrace the principles of free trade, in some cases even more enthusiastically than we have done ourselves, you would be certain they were completely daft. But that's exactly what's happened. Latin America and the United States have become true partners in democracy and economic progress.

There is no guarantee, however, that these trends are going to continue. But I do believe, just as we have most recently seen with the elections in Mexico, that further progress toward free trade will help consolidate these democratic trends in Latin America.

We have to remember that open trade is not just about lower tariffs and better wages. It's also about intangibles. It's about economic opportunity for workers, market stability for investors. It's about locking in economic and political reform.

We all seek a stable, prosperous Latin America. Fast track renewal and progress on the FTAA are integral to that goal.

The Clinton administration must submit its proposal for fast track authority now. And Congress must grant that authority with all possible dispatch. The eyes of Latin America—indeed, of the

whole world—are going to be on the negotiations to bring Chile into NAFTA.

But first we must have fast track authority. This is the litmus test for our commitment to free trade.

If you doubt the importance of Chile in this equation, let me share this news with you. Earlier this year, Southwestern Bell, a major shareholder in Chile's telecommunications industry, signed a contract to purchase $200 million in telecommunications, not from a supplier in the United States, which still has an 11-percent tariff hurtle to leap over in Chile, but from Northern Telecom in Canada, which, as of June 1, is a tariff-free trading partner with Chile.

Chile is certainly more prepared than any other Latin American country to enter into a free trade agreement with the United States. By almost any measure, it is a shining success story of Latin America.

If we can't conclude negotiations with Chile, can we be expected to move forward with our vision of a free trade area of all of the Americas? Mr. Chairman, make no mistake. If we let the dream of hemispheric free trade evaporate, we risk losing much in Latin America.

If the United States does not recommit itself to the pursuit of hemispheric free trade now, our credibility will continue to evaporate, and our ability to structure a free trade agreement with any nation on terms favorable to all of us will be seriously curtailed.

To a great extent, our ability to influence future negotiations in the World Trade Organization will depend upon how well we negotiate our position in FTAA. If we fail in Latin America today, we jeopardize our economic opportunities tomorrow.

Mr. Chairman, our window of opportunity is closing. If the United States does not regain the leadership role in promoting free trade, Latin America will have no other choice but to abandon its historic partnership with its northern neighbor and seek economic progress through other channels with more willing partners.

How tragic for us to be left on the sidelines wondering why we failed to share in their success.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Jim Kolbe, a Representative in Congress from the State of Arizona

Mr. Chairman, members of the Committee, thank you for the opportunity to testify today. Just three years ago in Miami, President Clinton ushered in what was perceived to be a "new era" in U.S. Latin America relations. Every Latin American head of state, save Cuba—the lone remaining dictatorship—stood side by side and jointly pledged to promote the growth of democracy and free market economies in Latin America. This vision was embodied in the mutual commitment to create a Free Trade Area of the Americas by the year 2005. At the Summit, President Clinton made a clear and unequivocal commitment to begin this process by seeking early accession of Chile to the North American Free Trade Agreement. A free trade zone from Alaska to Tierra del Fuego seemed to be well within our grasp.

During the past three years, however, the vision of the FTAA has slowly faded. While the Clinton Administration dilly-dallies in seeking "fast track" negotiating authority other nations in the hemisphere, most notably Brazil, are beginning to fill the leadership vacuum. Last May, at a major meeting of trade ministers in Belo Horizonte, Brazil, the extent to which we have abdicated our responsibility to lead was painfully obvious. No amount of positive spin by the Administration could mask the fact that the United States failed to meet its original negotiating objectives.

While we wait, Brazil dictates the timetable and the structure of negotiations for the FTAA.

Our failure to lead hurts no one but ourselves. Three years ago it seemed certain that any Free Trade Area of the Americas would be modeled upon the NAFTA, an agreement the United States helped draft. However, what once appeared so certain is but a dim prospect now. As U.S. trade policy continues to drift, it has becoming increasingly clear that any hemispheric free trade zone will be based ultimately upon some merger of MERCOSUR and NAFTA.

While we deliberate about our role in the world economy, Brazil, Argentina, Uruguay and Paraguay are consolidating the Southern Common Market (MERCOSUR). While we discuss whether we should even begin talking to Chile about acceding to the NAFTA, Chile has entered into its own bi-lateral trading arrangements with our NAFTA partners, Canada and Mexico. While we analyze and re-analyze our trade relationship with Canada and Mexico, Chile and the MERCOSUR are starting to negotiate with the European Union.

And I am sure Europe is relishing our failure to lead. While we waffle and fuss among ourselves, South America continues its tilt towards Europe. The traditional trade ties between North and South America, which we have relied on for decades, are beginning to erode in favor of a new trading alliance between nations of the MERCOSUR and the European Union. Mr. Chairman, if we let this continue, we will find ourselves frozen out of our traditional export markets. And we will have no one to blame but ourselves.

It will not be just economic opportunities that will be lost. Over the past several years we have seen the steady advance of democracy across Latin America. We have seen protectionist markets open, centralized governments abandoned, and dictators fall. Think about it for a minute. If twenty years ago someone told you that every nation in this hemisphere, with the exception of Cuba, would be under democratic rule, you would have dismissed it as a utopian dream. If they prophesied that these same nations would abandon their protectionist economic policies and embrace the principles of free trade—in some cases even more enthusiastically than ourselves—you would be certain they were completely daft. Yet that is the Latin America we have today—true partners in democracy and economic progress.

There is no guarantee that these trends will continue. But, I do believe that, just as we have seen most recently with elections in Mexico, further progress towards free trade will help consolidate these democratic trends. We must remember that open trade is not just about lower tariffs and better wages. It's also about the intangibles—economic opportunity for workers and market stability for investors. It's about locking in economic and political reform. We all seek a stable, prosperous Latin America. Fast track renewal and progress on the FTAA are integral to that goal.

The Clinton Administration must submit its proposal for fast track authority now, and Congress must grant that authority with all possible dispatch. I assure you that the eyes of Latin America,—indeed, the world—will be on the negotiations to bring Chile into NAFTA. This is the litmus test for our commitment to free trade.

If you doubt the importance of Chile alone in this equation, let me share this news with you. Earlier this year Southwestern Bell, a major shareholder in Chile's telecommunications industry, signed a contract to purchase $200 million in telecommunications equipment, not from a supplier in the U.S.—which still has an 11-percent tariff hurdle to leap over in Chile—but from a company in Canada, which is—as of June 1—a tariff-free trading partner with Chile.

Chile is certainly more prepared than any other Latin American country to enter into a free trade agreement with the United States. By almost any measure, Chile is the shining success story of Latin America. If we cannot conclude negotiations with Chile, how can we be expected to move forward with our vision of a Free Trade Area of ALL the Americas?

Make no mistake. If we let the dream of hemispheric free trade evaporate, we risk losing much in Latin America. If the United States does not re-commit itself to the pursuit of hemispheric free trade now, our credibility will continue to evaporate and our ability to structure a free trade agreements with any nation, on terms favorable to us, will be seriously curtailed. To a great extent, our ability to influence future negotiations in the World Trade Organization will depend upon how well we negotiate our position in the FTAA. If we are successful in pursuing our agenda regionally, it will provide us with much greater leverage when we approach future multilateral negotiations in the World Trade Organization. If we fail in Latin America today, we jeopardize our economic opportunities tomorrow.

Mr. Chairman, our window of opportunity is closing. If the United States does not regain a leadership role in promoting free trade, Latin America will have no other choice but to abandon its historic partnership with its northern neighbor and seek

economic progress through other channels, with more willing partners. How tragic for us to be left on the sidelines, wondering why we failed to share in their success.

Mr. THOMAS. I thank the gentleman very much. No one has been more indefatigable than he has in pursuing free trade, and I wonder if you could just delay for one observation from the gentleman from California, Mr. Matsui.

Mr. KOLBE. Certainly.

Mr. MATSUI. Thank you. I would just like to reiterate the observation by the Chairman, Mr. Thomas, here, that Jim, you've been one of the real leaders in the area of trade for the last 10 years or so. At least, your tenure in the U.S. Congress, and we really appreciate it and the fact that you are here today.

I want to make one observation, and it does not require a response, because you did talk about fast track and why we have not had fast track yet. I think it is a bipartisan problem. It is not really a problem for the President. I notice you made reference to that on three different occasions in your opening statement.

I would like to observe that, from my perspective, I think it's the fault of a lot of different people, Democrats and Republicans. And I would not want to cast blame on the President or the executive branch, because I think we have a lot of problems ourselves in trying to come up with the proper and appropriate language, and that is what is really holding this up.

I know you share that belief, and I just would hope that we would try to, as much as possible, maintain a bipartisan approach to all of this.

Mr. KOLBE. Mr. Chairman, and Mr. Matsui, I do share that view, and I also would return the compliment, and say that there has been no person on this Subcommittee or this Committee or within the Congress who has been more of an advocate of more open markets in the world than you have been. And your leadership has been tremendous in this area, and I have certainly enjoyed working with you.

It is a bipartisan problem. There is no question of that. I guess my statement reflects a frustration because we cannot find out what the bipartisan problems are until we have a proposal on the table, and that is what we are still lacking, is getting a proposal on the table, and to really push forward.

I believe, as we saw with NAFTA, and we saw with GATT, it can happen here in Congress, but the proposal must have the administration behind it. We must have the administration actively engaged in this. Without that support, it will not happen, as you know. There are not enough votes to pass it independently here in Congress without the President's involvement in this. And we need to have him engaged, and actively engaged.

We have the assurances that they are. I guess I am just frustrated because it has been more than 2 years since fast track authority expired for the President, and we have done nothing to get that going again, and we need that very badly.

Thank you.

Mr. MATSUI. Thank you, Mr Chairman.

Mr. THOMAS. Thank you very much. And now our two colleagues from California, the gentleman from the Monterey area, and the gentleman from the peninsula. If you have written statements, they will be made a part of the record, and notwithstanding the argument that you should be leery of Members bearing bouquets, we are interested in your testimony.

STATEMENT OF HON. SAM FARR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. FARR. Thank you, Mr. Chairman. I want to point out that, first of all, I am a strong supporter of free trade. I voted for NAFTA and GATT, and I told Mr. Kolbe as he was leaving, the flowers are not parochial, but artichokes are, and I represent both.

Exports are obviously a key to economic success in my district and in each of your districts. Nonagricultural exports alone total about $200 million a year, and the Santa Cruz-Watsonville area was the 13th fastest growing exporter in the country in 1995.

The free trade area of the Americas could have tremendously positive benefits for my district and the United States. But in recognizing free trade, we have to also point out the problems with how it affects fair trade.

Tariffs should be equal for everyone—there needs to be a level playingfield. Trade agreements should recognize and address the potential impact on domestic industries. Trade agreements should address possible unintended consequences. The Andean Trade Preference Act did none of this.

The Andean Trade Preference Act, or the ATPA, was supposed to reduce drugs without hurting American industry. It gives tariff free status to a range of goods, including cut flowers imported from four countries—Colombia, Bolivia, Ecuador, and Peru.

It was created to discourage drug cultivation through crop substitution. However, it is clear today that not only are more drugs being cultivated, but American cut flower growers have been hurt by the ATPA, especially by competition from Colombia.

The Andean Trade Preference Act was a disaster for American cut flowers. The number of American flower growers has fallen 60 percent since 1989. California flower growers go out of business at a rate of 10 percent a year. We have two witnesses this afternoon, Lina Hale and Art Heyl, who are local growers, who will be testifying before you.

Let me tell you. I was a Peace Corps volunteer in Colombia when the Colombian flower market began, and it certainly has been a boon for Colombia. Cut flowers are Colombia's fifth largest export. The total value of Colombian cut flower imports has increased from $88 million in 1992 to $370 million in 1995—a fourfold increase.

The Colombian cut flower industry currently controls 65 percent of the United States market. The next largest importer of flowers, Holland, controls only 12 percent of the import market.

The Andean Trade Preference Act was useless in drug eradication efforts. The drug cultivation in Colombia has grown by 55 percent since the ATPA. The amount of coca that escapes eradication has grown by 35 percent since the ATPA became law in 1991.

Comparing the tariffs on other goods traded with Colombia highlights just how unfair the ATPA has been. All major United States goods exported to Colombia—machinery, produce, chemicals, oil—all pay tariffs of 5 to 15 percent, yet ATPA allows Colombians to export flowers to the United States for free. Only flowers from ATPA countries are allowed to come into the United States for free. Holland is the second largest importer of flowers, and they pay a tariff.

Colombians pay tariffs on other goods: oil, textiles, and leather goods that come in. But this is the one open area where they are allowed to come in totally free. And it just does not make any sense.

In short the ATPA gives a bad name to free trade. It does not work. It hurts our own citizens and is an example of what critics of free trade think free trade really means.

I urge this Subcommittee to end this unfair flower trade by passing H.R. 54, and consider the effect of ATPA when it considers future trade agreements, like the free trade area of the Americas.

I would be glad to answer any questions you might have, and I appreciate the opportunity to be here before you this morning.

[The prepared statement and attachment follow:]

Statement of Hon. Sam Farr, a Representative in Congress from the State of California

Mr. Chairman, Members of the Subcommittee, thank you for the opportunity to testify before you today regarding trade in the Americas and the Andean Trade Preference Act.

Let me first make clear that I support free trade. Free trade not only makes good economic sense, it also improves and strengthens ties between countries and encourages the flow of information, knowledge, and understanding across borders. I voted for both GATT and the expansion of NAFTA to Mexico. My district is a model for the immense positive effect of open trade, exporting hundreds of millions of dollars of goods each year around the world. The Santa Cruz/Watsonville metropolitan area alone was the 13th fastest growing exporter in the nation in 1995.

Latin America is a strong, vibrant, and diverse region, and its economic potential is only just beginning to make itself felt. I was a Peace Corps volunteer in Colombia and have long held strong personal ties to the area. A free trade agreement such as the Free Trade Area of the Americas (FTAA), properly structured, could have tremendous economic, social, and political benefits for North, Central, and South America.

While I support free trade, however, I should clarify that I also support fair trade. As the Subcommittee considers the issue of trade in the Americas, and specifically the FTAA, it should look at the impact of a trade agreement already on the books—the Andean Trade Preference Act (ATPA)—which has given one-sided trade benefits to several South American countries and has caused considerable hardship to at least one domestic American industry: cut flowers.

Since enactment in 1991, the Andean Trade Preference Act (ATPA) has provided duty-free access to the U.S. market for flower exporters in four Latin American countries: Colombia, Bolivia, Ecuador, and Peru. For six years it has allowed flower growers in these four countries to avoid tariffs normally imposed on their product, tariffs ranging from 3.6% to 7.4%.

The purpose of this preferential treatment was to encourage the growth of alternative crops to replace the cultivation of illegal narcotics. The result, however, has been a steady weakening of the American flower industry. Since the enactment of ATPA, the number of American chrysanthemum growers has fallen 25%; the number of carnation growers has fallen as much as one-third. Flowers from Colombia have had the most significant impact on American industry, to the point that the Colombian cut-flower industry now controls some 70% of the U.S. market.

At the same time, evidence shows that the problem of illegal drugs, namely those cultivated in Colombia, has gotten worse. The drug fighting effort has not come close to catching up with the dramatic increase in drug production. According to the International Trade Commission, the amount of coca eradicated in Colombia grew

by some 7,800 hectares since ATPA became law. However, the amount of hectares of coca cultivated grew nearly three times as much (21,200 hectares) over the same period. The situation in Colombia is so poor that, early this year, President Clinton for a second year in a row did not certify that Colombia was taking sufficient steps to stop drug production or drug trafficking.

This year, Congressman Tom Campbell and I introduced legislation (H.R. 54, referred to the Trade Subcommittee) to repeal the preferential tariff treatment provided by the ATPA. Although the Colombian flower industry will still have many advantages over American flower growers, favorable consideration of this legislation would end an ineffective drug control policy and restore a level playing field for the American cut-flower industry.

The problems of ATPA are an example of the kind of trade agreement that gives free trade a bad name, ultimately hurting the efforts of those who would reach broader-based agreements such as the FTAA. A free trade arrangement with the rest of Latin America has enormous positive potential for all the Americas. But we should erase the bad trade laws that already exist and be sure the FTAA does not repeat the mistakes made with the ATPA.

COLOMBIAN CUT FLOWERS: STATISTICS

From the Office of Congressman Sam Farr

• MORE GROWERS ARE OUT OF BUSINESS

Number of U.S. Producers

	1992	1993	1994	1995
Roses (other)	224	212	200	175
Roses (sweetheart)	133	126	109	94
Pompon chrysanthemums	172	148	142	131
Standard chrysanthemums	152	139	121	113
Standard carnations	139	116	92	92
Miniature carnations	123	114	93	101
Total	**943**	**855**	**757**	**706**

Source: USDA, Floricultural Crops Summary at 14, 16, 18, 20, 24, 26 (1995); Floricultural Crops Summary at 22, 24, 26, 28, 32, 34 (1994); Floricultural Crops Summary at 18, 20, 22, 24, 28, 30 (1993).

• COLOMBIAN IMPORTS ARE EXPANDING

Colombian Flower Imports (Stems)

Flower	1992	1993	1994	1995	1996*
Minicarns	98,894,508	123,307,377	280,974,566	319,231,156	335,000,000
Standard Carn	793,184,471	805,454,452	780,824,790	822,481,388	876,000,000
Standard Mum	35,077,021	39,290,570	38,447,638	46,438,453	50,000,000
Pompoms	142,010,614	153,171,547	483,689,607	534,816,277	548,000,000
Other Roses	376,434,484	451,564,065	477,706,191	513,293,690	558,000,000
Sweethearts	1,113,700	2,772,455	5,081,755	908,442	2,000,000
Total	**1,446,714,798**	**1,575,560,466**	**2,066,724,547**	**2,237,169,406**	**2,368,000,000**

*Full year estimate based upon eleven months data. Source: TIOS as compiled from Bureau of the Census tapes.

• DRUG CULTIVATION IS ON THE RISE

Colombian Coca (Hectares)

	1991	1992	1993	1994	1995
Cultivated	38,472	38,059	40,493	49,910	59,650
Eradicated	972	959	793	4,910	8,750
Net	37,500	37,100	39,700	45,000	50,900

Source:International Trade Commission

Chairman CRANE [presiding]. Thank you, Mr. Farr.
Mr. Campbell.

STATEMENT OF HON. TOM CAMPBELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. CAMPBELL. Thank you, Mr. Chairman. I am here for one purpose more than any other, and that is to address you, Mr. Chairman, on this very simple point.

I may part company with my colleague here. I would go to zero tariff on flowers. I would go to zero tariff. But since we do not have zero, it makes no sense to have zero only for a country that is exporting cocaine.

That is my point. Let us bring everybody down to zero. Fine. I am there. I believe in free trade. That is where I may part company with my colleague, but it might add some force to what I am saying.

Instead, we just make this exception, and in 1991 they were supposed to be cutting back drugs. They have increased drugs.

And last, making my testimony very short, and hopefully memorable for that reason, if that reason alone, what sort of a message do we send when we decertify Colombia and then just say, everything is the same as normal. We wag our finger, we say now 2 years in a row you are decertified, but your flowers still come in duty free. Just the same as Holland.

The tariff rates are 3.7 to 7.4 on flowers. Let's bring them down to zero. But if we do not bring them down to zero for everybody, do not do it just for the drug exporter. That is my point.

Thank you.

[The prepared statement follows:]

Statement of Hon. Tom Campbell, a Representative in Congress from the State of California

Mr. Chairman and members of the Subcommittee:

Thank you for allowing me and my colleague Congressman Sam Farr to testify before you today, and for holding this hearing on free trade in Latin America. I also want to welcome Lina Hale, a flower grower from the Bay Area who will testify on a later panel and who has been impacted by our trading policies with Latin America.

I would like to speak today about a specific area of Latin American trade that is affected by Colombia and the Andean Trade Preference Act (ATPA). As you are all aware, in 1991 the Congress passed the ATPA, which removed tariffs imposed upon fresh cut flowers, among other goods, coming from Colombia and three other Andean nations. I was in Congress and supported the ATPA when it was being debated in 1989 and when it passed in 1991. One of the main goals of this bill was to encourage Colombia to move away from drug production and toward legitimate crop substitution. Although I had several flower growers in my district that were hurt by the ATPA, I decided to support the bill and support duty free treatment for Colombian flowers because I felt that stopping the flow of drugs into our country was more important. If the drug problem could be alleviated, the price paid by our domestic flower industry would have been worth it.

Unfortunately, the substitution of flowers in the economy of Colombia for coca leaf production has not happened. I am shocked that, in fact, more hectares are being cultivated for cocaine now than before the ATPA. I feel even more betrayed by the fact that Colombia is now rivaling Asia as the leading producer of heroin coming into the United States.

Last year, for the first time, the Clinton Administration decertified Colombia as a partner in the war on drugs and revoked Colombian President Ernesto Samper's travel visa. Yet major drug cartel leaders were released from prison after serving very light sentences, and the Colombian vice-president resigned because he felt the nation was being undermined by Samper's drug ties.

I have written the US Trade Representative and Commerce Secretary, and met with the President's point man on this issue, General Barry McCaffrey, in February to try to convince the Clinton Administration to deny preferential tariff treatment for Colombian fresh cut flowers. That would be the president's prerogative since Co-

lombia has been certified as a non-cooperative country in the drug war. Instead of deciding to take the next step and impose trade sanctions on Colombia, the Administration instead merely decertified Colombia for the second year in a row. No sanctions beyond these automatically required by the law were imposed. The decertification of Colombia had no effect last year, and yet this year again the Administration again decided upon no discretionary sanctions.

Colombia now controls nearly 70% of the US cut flower market production. The Colombian flower exports increased over 300% in the first three years of the ATPA, from 1992 to 1995. Cut flowers account for nearly two thirds of the ATPA duty-free imports from Colombia. During this same period, nearly 500,000 kilograms of cocaine have been seized since the ATPA began in 1991, almost all of it coming from Colombia.

No other country exporting flowers to the US enjoys the Andean Trade Preference Act's benefits. Why should we continue to favor Colombia by giving them this special preference for a purpose they have not come close to achieving in the past five years? Eradication efforts have barely kept up with the growth. With all their advantages into our market, and their failed drug efforts at the expense of our own people, I wonder why are we still subsidizing Colombia by giving them duty free treatment flowers in our country?

The bill Congressman Farr and I have introduced, HR 54, is one that would eliminate this special privilege for Colombia. We had hoped to avoid legislation and to have President Clinton take care of this problem with the power he has to deny preferential treatment and impose trade sanctions on Colombian flowers, but, failing that, we have introduced legislation to remove fresh cut flowers from the ATPA. Currently there are 38 bipartisan co-sponsors representing the nation, from California to Ohio, Pennsylvania, New York, New Jersey, Colorado, Minnesota, South Carolina and Oregon. Additionally, this bill has the support of 17 prominent organizations within the flower industry.

Our bill should not be seen as a punitive measure. It merely reimposes tariffs on Colombian fresh cut flowers and puts Colombia on the same trade level as the rest of Latin America, the European Union and the Pacific Rim. Those duties currently range from 3.7% to 7.4%. The tariff reinstatement will simply return the Colombian flower industry to the position shared by its other foreign competitors.

Mr. Chairman, I believe in free trade. I have always supported free trade and supported NAFTA, GATT and the ATPA itself. If we had free trade in flowers, I would support it for Colombian flowers, too. But the ATPA is not free trade. It is a preference for Colombia that Colombia does not deserve. Colombia has betrayed the ATPA. In each of the five years it has been in place, drug production and drug cultivation have dramatically increased, all while the amount of Colombian flowers coming duty free into this nation has also dramatically increased. No other flower growing country in the world is allowed this privilege.

Our policy with regard to Colombia and the ATPA has not worked. We must stop continuing to subsidize Colombia's failed compliance by the message we send of continued preferential treatment!

Thank you very much, Mr. Chairman, for the opportunity to speak on this issue and I urge the Committee to consider this issue and this bill in its own separate hearing.

I would be happy to answer any questions the Committee may have.

Chairman CRANE. Thank you, Mr. Campbell.

Mr. Matsui.

Mr. MATSUI. I want to thank both Mr. Farr and Mr. Campbell for their testimony. I am a cosponsor of your legislation, and I realize that our calendar is somewhat difficult in terms of seeking further action on your legislation.

But I will continue to work with you, and certainly with Chairman Crane, to see if we can move the process along on this matter, because I do feel that some further action should be taken.

And I agree with both of you in the sense that if significant amounts of cocaine increases are occurring from these countries, we certainly ought to take some kind of further action, or perhaps pass your legislation, if we cannot get cooperation out of them.

And I feel very strongly about this. And unlike some of the other countries that we question their internal behavior, we can really do something about this one. It would be pretty easy.

They do not have many other markets to ship their flowers to, and a few provocative acts on our behalf could probably turn this around.

So, I thank both of you for your testimony.

Mr. FARR. Thank you very much. And if you could just take a look at the economics on this one particular issue, you will see how out of whack it is. Colombians paid tariffs before the Andean Trade Pact. They have 65 percent of the market share now.

I know Colombia flower growers. They have indicated to me privately that a tariff is not going to put them out of business. They will still have a lot of market share.

Mr. MATSUI. I might just mention, and I think you said this, Mr. Farr, that one of the reasons we have this Andean legislation in the first place is in order to make sure that Colombia is in a position where it can convert its resources so that it would get its growers and use its soil for the purpose of legal activities, rather than illegal activities.

And it sounds to me as though they are taking advantage of both, and very little is being done. And if there is anybody that represents the Colombian Government out there, it is my belief that they ought to take this matter more seriously than they have in the past, because this is an issue that will grow, and I am certain that we will want to take further action on this.

Mr. CAMPBELL. Mr. Matsui, would you allow me to make a quick comment?

Mr. MATSUI. Certainly.

Mr. CAMPBELL. Your point is right. But it is important not to give an argument to the other side on this. You will hear that the terrain is not comparable. You cannot substitute flowers for coca leaf. That is really not the point so much as within the economy of Colombia, we gave them this preference so they would have something else to do.

It is probably never going to be hectare per hectare because of the different topography and climate.

Mr. MATSUI. Yes, I agree with that. Thank you for that clarification.

Chairman CRANE. Ms. Dunn.

Ms. DUNN. Thank you, Mr. Chairman. I do not have any questions. I just appreciate your involvement in this hearing, and I think the more we can hear from different points of view, the better off we are. We are all interested in fair trade and free trade, but before it is free, it has got to be fair.

I think probably Mr. Kolbe's point was a terribly important one for us to keep in mind, and that is that if we lose our competitive advantage, as in the example he gave, of the telecommunications deal that was cut between Chile and Canada as a result of zero tariffs there, and 11 percent for us, and our industry as we go into Chile, that is going to be a big problem for us in the future.

And, Mr. Campbell, as you have said, I want to see them go to zero, too, and I am glad that you are supporting that.

Thank you, Mr. Chairman.

Chairman CRANE. And I want to express appreciation to the witnesses, and apologize for getting here late. I was stuck in a traffic jam on the George Washington Parkway where there was an accident. We went bumper to bumper for about 5 miles, stop and go.

But I appreciate your testimony and any written statements you have will be made part of the permanent record.

Mr. CAMPBELL. Mr. Chairman, might I prevail for 1 second further?

Chairman CRANE. Certainly.

Mr. CAMPBELL. I was in the same backup, by the way.

Chairman CRANE. How did you get here on time?

Mr. CAMPBELL. I was on time for this, but not my earlier meeting this morning, though, as a result.

I just wanted to put on the record my admiration for my colleague, Sam Farr, and just note that he is fighting for what I think is correct economics for the reason that I put to you, and that he has been vigilant in this, and deserves special recognition, at least from me his neighbor and colleague, for the hard work he has done.

Mr. MATSUI. Nobody says that when I talk about wine. [Laughter.]

Chairman CRANE. Thank you very much.

I just recognize that our distinguished former Chairman is here with us today, and we want to honor you, Sam Gibbons. Thank you.

I would now like to recognize Hon. Jeff Lang, Deputy U.S. Trade Representative, and Hon. Jeff Davidow, Assistant Secretary for the Bureau of Inter-American Affairs at the Department of State. Thank you for testifying before us today, and I look forward to hearing the administration's position on the future of Free Trade Area for the Americas.

STATEMENT OF JEFFREY M. LANG, DEPUTY U.S. TRADE REPRESENTATIVE; ACCOMPANIED BY PETER ALLGEIER, ASSISTANT U.S. TRADE REPRESENTATIVE FOR INTER-AMERICAN AFFAIRS

Mr. LANG. Thank you, Mr. Chairman. Good morning. I am joined on my left by Jeff Davidow, who is the Assistant Secretary of State for Inter-American Affairs, and who will have a short statement after me; and on my right by Peter Allgeier, who is the Assistant U.S. Trade Representative for Inter-American Affairs.

I will try and summarize the written statement I gave to the Subcommittee a day ago. I think it is very important the Subcommittee is holding this hearing, and we are glad to provide you with our views on the status of the free trade area of the Americas, or FTAA, as well as the general course of American trade policy with respect to the Western Hemisphere.

As Mr. Kolbe said, trade ministers met in Belo Horizonte on May 16, and agreed to a number of important ideas. They will recommend initiative of negotiations for the FTAA at the second Summit of the Americas, which will be held in Santiago, Chile, next April.

The President has heard directly from leaders of the region with whom he has met over the last several months during his visits to

Mexico, Central America, and the Caribbean about their readiness to move forward to build the FTAA.

The countries in this hemisphere have really entered a completely new era of shared commitment to democracy and to open markets. Those are very important common values, and with them we are moving to meet the challenges of increased prosperity throughout the hemisphere.

Increased prosperity will obviously have some positive economic effects, but it will also solidify democracy, bolster regional peace, and create those new markets we need. Conclusion of the negotiations of the FTAA no later than the year 2005 is a critical ingredient in achieving these goals.

I want to highlight some of the key factors affecting our involvement in the hemisphere and the prospects for conclusion of the FTAA by 2005, as committed in both Miami and Belo Horizonte.

Let me give you a little background on Latin America which I think is important to putting our conversation in perspective. Latin America is currently the most dynamic market in the world for United States exports.

In 1996 our exports to Latin America and the Caribbean grew by 14.5 percent. That means they reached $109 billion. That is twice the rate of growth of U.S. exports to the rest of the world.

And we have every reason to believe that the growth will continue, because there are sound economic policies being implemented throughout the region. Just one example: Exports to certain countries in the region; namely, Venezuela, Argentina, Brazil, Bolivia, and the Dominican Republic, were up more than 25 percent during the first 4 months of this year. In the case of Brazil, the number is 30 percent.

By the end of next year, our exports to the region should surpass our exports to the European Union. And, by the way, our exports to Mexico are already on the verge of exceeding our exports to Japan. That fact would mean that our two NAFTA partners would be our top two foreign markets in 1997.

One of the principal reasons we are experiencing this rapid expansion of trade with the Americas is that there has been a dramatic reorientation of trade policy on the part of most of the Latin American countries during the past several years.

For some countries these changes have been as revolutionary as those that occurred in Central Europe during the late eighties and early nineties.

Basically, the countries of the region are abandoning protectionism and heavy government intervention in favor of market-oriented policies that will increase their abilities to compete in the global economy.

They have been reducing their tariffs and nontariff barriers. In many cases, binding those in the WTO. And that is due to their Uruguay round obligations. There are also some unilateral reductions in there.

Across the region, you see a great many State enterprises being privatized. The laws on intellectual property are being modernized. Macroeconomic reforms are taking hold. Realistic exchange rate regimes have been induced.

These are the fundamentals for growth in an increasingly competitive world for both markets and capital.

All of this has stimulated a resurgence of activity toward economic integration. In fact, no region in the world has a more active agenda of free trade area negotiations than Latin America. Let me just name a couple of them.

There has already been a discussion of the Chile-Canada free trade area. There is a Mercosur-Chile FTA, a Mercosur-Bolivia FTA. We also have the initiation of negotiations between Mercosur and the Andean community, between Panama and Chile, between Mexico and the northern triangle of Central America—that's Guatemala, El Salvador, and Honduras, and between Central America and the islands of the Caribbean.

Now, properly done, these subregional agreements can obviously contribute to trade liberalization. However, the expansion of these preferential trade arrangements without U.S. participation has put many American suppliers of goods at a disadvantage in those markets, even when the arrangements are consistent with the WTO, because obviously U.S. exports are subject to comparatively higher rates of duty, or standards—different from those we use in the United States.

In addition, these other hemispheric arrangements are often not as comprehensive of NAFTA in covering other trade and trade-related aspects of economic exchange. There is a danger that as these subregional arrangements develop, provisions in the nontariff areas, U.S. interests will be placed at a further disadvantage, unless we are at the negotiating table to influence the outcome.

It is essential, therefore, to move rapidly to develop FTAA-wide disciplines in all of these areas. We certainly cannot stand on the sidelines as subregional arrangements are negotiated in the growing markets of Latin America. Nor should we be a bystander as standards for trade behavior in the next century are negotiated.

This is one of the reasons, obviously, that we will seek fast track authority this fall.

Now, let me just say a couple of things about FTAA. As agreed at Miami, and further refined by the three subsequent trade ministerials, each of which, I might add, has added an important increment to our understanding of how we are going to move forward in the FTAA, the FTAA is envisioned as a state-of-the-art agreement for the future.

It goes well beyond WTO obligations. Comprehensive, single undertaking—that's a very important phrase—to open markets by setting high levels of discipline in tariffs, nontariff barriers, goods and services, agriculture, subsidies, investment, intellectual property, government procurement, product standards, rules of origin, antidumping, countervailing duties, sanitary and phytosanitary, dispute settlement, competition policy, and obviously taking into account the importance of environment and workers' rights.

The trade ministers who met in Belo Horizonte agreed to recommend initiation of negotiations at the Summit of the Americas next April, so that FTAA negotiations can be completed by 2005 at the latest.

To ensure this objective is met, the ministers established a preparatory committee, now known as the PREPCOM, to set out a clear work plan to meet this deadline next April.

We know that negotiations will proceed at different paces for different subject matters. Some issues, obviously, are more complex than others, or more politically sensitive than others. But we should start on everything at the same time because that signals our seriousness to meet the deadline of 2005.

It was clear at Belo Horizonte that nearly all countries agree on this approach, rather than negotiating in stages on different subjects.

We also have to remain sensitive as we go forward in this project to the disparities in economic size among FTAA countries. And we, in the administration, propose to offer technical assistance, as appropriate, to enable the smaller economies to participate fully in these negotiations.

We already provide substantial support for expanded trade opportunities for the countries of the Caribbean and Central America through CBI, and the President is working with Congress to obtain legislation that will offer eligible CBI countries enhanced trade preferences, predicated on meaningful policy reforms that will prepare these countries for free trade in 2005.

I must emphasize the importance of the advice of the private sector. They are going to help us define the objectives and priorities, and we need to define the private sector broadly.

It is going to include not only business, but all the economic and political interests in society. Not just business, but labor, environmental groups—any other groups should have an equal right to provide input for the construction of the FTAA.

That assures that everybody has a seat on the plane at the take off, as well as when it lands.

So a couple of conclusions. We have clear, concrete instructions by the ministers. I think that should be judged a major achievement. The United States has consistently pressed for rapid movement in carrying out the Miami declaration's vision of the FTAA. We will continue to work toward that end in the coming year.

We are gratified to note that increasing numbers of our trading partners in the hemisphere share the same dedication and level of ambition. We have been working very closely with them, and I think that bodes well for a successful conclusion.

The countries have revealed their readiness to pursue greater integration with or without us, so if we are unable to shape this process, we are going to be losers. We lose our credibility, our leadership role, and our companies and workers lose their competitive advantage.

Ultimately, fast track authority is essential to ensure the continued competitiveness of U.S. exports in this most dynamic and growing market.

The nations of the hemisphere want to work with us to create the FTAA. They believe it will help them and us together, a good deal for both sides. It will make our people more prosperous, strengthen democracy, and build regional peace. So I think this is an opportunity we can and should seize.

I thank you all very much.

[The prepared statement follows:]

Statement of Jeffrey M. Lang, Deputy U.S. Trade Representative

Thank you, Mr. Chairman, for providing this opportunity for the Administration to present its views on the status of the Free Trade Area of the Americas (FTAA) and the course of U.S. trade policy toward the Western Hemisphere after the Third Western Hemisphere Trade Ministerial held on May 16 in Belo Horizonte, Brazil. This was perhaps the most important ministerial to date in the FTAA process, as the Ministers agreed to recommend the initiation of negotiations for an FTAA at the next Summit of the Americas to be held in Santiago, Chile in April 1998.

After President Clinton's visit to Mexico, Central America and the Caribbean, we expected a successful Belo Horizonte Ministerial. The President heard directly from the leaders of the region of their readiness to move forward to build the FTAA. We have entered into a new era of shared commitment to democracy and open markets. Now that we have common values, we can talk about meeting common challenges. Increased economic prosperity in the hemisphere will help solidify democracy and regional peace and will create new markets for the United States.

Before I get into the details of the Ministers' agenda and the near-term outlook for the FTAA, however, I would like to highlight some facts which demonstrate the enormous opportunities that we face in Latin America.

U.S. TRADE WITH LATIN AMERICA/CARIBBEAN

Latin America currently is the most dynamic market in the world for U.S. exports. In 1996 our exports to Latin America and the Caribbean grew by 14.5%, reaching $109 billion. That growth rate is more than twice as great as the growth of U.S. exports to the rest of the world. And that has been the pattern throughout this decade—-our exports to Latin America and the Caribbean (including Mexico) more than doubled between 1990 and 1996, whereas our exports to the rest of the world grew by 50% during the same period.

- Recently released figures for the first four months of 1997 reveal that this growth is continuing—exports in the first four months period of 1997 grew 21.6% over the levels of the same period in 1996. Exports to five countries of the region—Venezuela, Argentina, Brazil, Bolivia and the Dominican Republic—were up more than 25%, and, in the case of Brazil, more than 30%, during the first third of 1997.
- If current growth rates continue over the next year, our exports to Latin America and the Caribbean will exceed our exports to the European Union (EU) by the end of 1998.
- Mexico already is on the verge of replacing Japan as our second largest export market; in fact, in April 1997 Mexico did exceed Japan in purchases of U.S. exports.

The United States also is the most significant market for Latin America's products. Last year Latin American countries increased their exports to the U.S. by 17.2%, reaching $122 billion.

TRADE LIBERALIZATION IN LATIN AMERICA

One of the principal reasons that we are experiencing this expansion of trade with Latin America is that there has been a dramatic re-orientation in trade policy on the part of many, indeed most, Latin American countries during the past several years. The countries of the region are abandoning the protectionism and heavy government intervention of the past for market-oriented policies that will increase their ability to compete in the global economy. They have been reducing their tariffs and non-tariff barriers, due to the implementation of their Uruguay Round obligations and through unilateral reductions. State-owned enterprises are being privatized; laws on intellectual property protection are being modernized; and macroeconomic reforms and realistic exchange rate regimes have been introduced. For some countries, these changes have been as revolutionary as the changes that occurred in the economies of Eastern and Central Europe at the beginning of this decade.

The greater openness of Latin American economies has stimulated a resurgence of activity toward economic integration in the region. In fact, no region of the world has a more active agenda of free trade area negotiations than Latin America. At the sub-regional level during the past year we witnessed the conclusion of the Chile-Canada Free Trade Area (FTA), the MERCOSUR-Chile FTA, the MERCOSUR-Bolivia FTA, and the initiation of negotiations between MERCOSUR and the Andean Pact, between Panama and Chile, between Mexico and the Northern Triangle of Central America (Guatemala, El Salvador and Honduras), and between Central America and the islands of the Caribbean.

Properly done, such sub-regional agreements can contribute both to hemisphere-wide liberalization through the Free Trade Area of the Americas (FTAA) and to multilateral liberalization in the WTO. As firms and farmers face ever widening realms of direct competition through sub-regional free trade areas, they become better prepared for competing with the entire hemisphere. Sub-regional economic cooperation has also helped to foster regional and sub-regional political cooperation, transforming historical rivals into trading partners and political allies. We, therefore, welcome the trend towards sub-regional cooperation in Latin America and the Caribbean as part of the broader process of hemispheric economic and political integration that we began in Miami.

Within MERCOSUR, for example, the expansion of sub-regional trade integration has worked to the advantage of U.S. exporters and investors by bringing macroeconomic stability to a region that has historically faced recurrent high levels of inflation. MERCOSUR's emergence and its commitment to lowering tariffs over time has also worked to the advantage of many U.S. exporters by reducing overall levels of protectionism. U.S. exports to MERCOSUR have steadily climbed from $6.6 billion in 1990 to $18.6 billion in 1996—an increase of 178 percent. Like MERCOSUR, the consolidation of Central America's regional identity and the impetus to sub-regional integration contributes to our broader agenda of hemispheric integration and benefits U.S. exporters and investors, who are able to project into a single market of 30 million people.

Nonetheless, the expansion of these sub-regional preferential trade arrangements could put many American suppliers of goods at a disadvantage in such markets compared to suppliers from member countries, even when the arrangements are consistent with the WTO. In fact, any time a trade agreement is concluded that reduces barriers between the parties, and those parties do not include the United States, U.S. based producers are put at a competitive disadvantage in that market. Over 20 trade agreements have been struck in key markets around the world in just the last four years. In other words, there is a real and growing commercial cost to U.S. inaction that U.S. exporters are discovering every day. In just this hemisphere—our largest and fastest growing export market—examples are more evident as time passes:

- Canadian firms will now have access to the Chilean market (a U.S. export market in 1996 larger in value than Indonesia, Russia or India) tariff-free on a range of goods and services, as well as preferential access to invest in Chile.
- U.S. apple and pear producers, among others, are concerned about the potential loss of their Latin American markets due to Chile's preferential tariff-free, or nearly tariff-free, access to MERCOSUR, Venezuela, Colombia and other South American markets as a result of Chile's FTAs.
- For example, Chilean fresh fruit pays a 2% tariff when entering Venezuela, whereas U.S. producers pay a 15% tariff. The U.S. Embassy estimates that U.S. market share would grow from its current 39% to 67% if U.S. producers had equivalent access to the Venezuelan market.
- Brazil, Argentina, Paraguay and Uruguay—the MERCOSUR countries—comprise the largest market in South America. In the context of negotiating this partially implemented customs union, Argentina, for example, substantially raised its tariff on imported computer products to accommodate Brazil's interests. The net result was that the common external tariff affecting U.S. exports is significantly higher than the original tariff on these items in Argentina, the second largest economy in South America.
- U.S. firms not located and producing within MERCOSUR face a competitive disadvantage not only with respect to MERCOSUR producers, but Chilean and Bolivian producers as well, through MERCOSUR's association agreements with those countries. This puts all U.S. producers, including agricultural producers which compete with Chilean fruit, Argentine wheat, Brazilian soybeans, etc., at a competitive disadvantage in these markets. The scope of this disadvantage will grow as MERCOSUR expands its association agreements.
- Venezuela, Colombia, Ecuador, Peru and Bolivia—together constituting the ANDEAN PACT—comprise a market of 100 million people and a GDP greater than $260 billion. As part of its efforts to develop a common external tariff, the import tariff on textile goods, for example, was raised from 5 to 15%, thus inhibiting the export of U.S. textiles to this growing market.
- As part of its integration efforts, the ANDEAN PACT negotiated common intellectual property rights (IPR) disciplines (Decision 344) that have now been utilized to effectively block the Ecuadorian implementation of a bilateral IPR agreement with the United States, thus denying U.S. IPR owners of the best legal protection possible in the Ecuadorian market.

Of course, it is essential that all sub-regional arrangements adhere scrupulously to the disciplines in the WTO (GATT Article XXIV and GATS Article V). Basically, this means that such arrangements must cover essentially all trade between the member countries and must not raise the level of overall restrictions on countries outside the arrangement.

At present most of the FTAs in the hemisphere, other than NAFTA, are essentially tariff elimination arrangements. They are not as comprehensive as NAFTA in covering other trade and trade-related measures, such as government procurement, investment, intellectual property protection (IPR), sanitary and phytosanitary measures, product standards, and services. Thus, there is a danger that various sub-regional arrangements could develop incompatible provisions in the non-tariff areas. This would not be in anyone's interest. It would be beneficial, therefore, to move rapidly to develop FTAA-wide disciplines in these areas.

From the standpoint of U.S. interests, we certainly should not stand on the sidelines as sub-regional arrangements are negotiated. We don't want to be disadvantaged by standing outside preferential agreements in the markets of Latin America. Nor do we want to be a bystander as the standards for trade behavior in the next century are negotiated.

Moreover, our ability to engage outward-looking countries in negotiations—either in the FTAA or bilaterally—can solidify a nascent movement toward the open trade policies that we espouse and practice. Central America, for example, is demonstrating an impressive willingness to relate to the United States on the basis of reciprocal market opening rather than as a recipient of unilateral trade preferences. This was the unambiguous message of Central American presidents meeting with President Clinton last month in San Jose, Costa Rica.

It would be premature to make specific commitments beyond Chile to negotiate FTAs with individual countries in the hemisphere, but we should work with like-minded countries on the building blocks of more open trade and investment. Among these building blocks are: Bilateral Investment Treaties (BITs), government procurement agreements, bilateral IPR agreements, and closer cooperation on sanitary and phytosanitary matters.

In addition, we should promote accelerated implementation of Uruguay Round commitments by the developing countries in our region. This would be of great significance in the areas of customs valuation, trade-related intellectual property protection (TRIPs), and trade-related investment measures (TRIMS).

It is very disappointing in light of the region's generally positive record on trade liberalization, therefore, that very few countries in Latin America have yet joined the Information Technology Agreement (ITA) that was negotiated at the WTO Ministerial in Singapore (only Costa Rica, El Salvador and Panama have joined the ITA). It makes no sense for a country to stand on the sidelines of the information technology marketplace. Certainly one of the essential building blocks of any country's competitiveness is to eliminate tariffs on IT products by the year 2000.

Active participation in upcoming WTO negotiations on financial services, agriculture, and other elements of the WTO's "built-in agenda" also should be part of each country's negotiating agenda.

Finally, countries should take steps to ensure safe and healthful working conditions, as well as the wide dispersion of benefits, from expanded trade and investment.

FREE TRADE AREA OF THE AMERICAS (FTAA)—U.S. PERSPECTIVE

The Miami Summit Declaration and Plan of Action provide the overall framework for the construction of the FTAA. It set 2005 as the latest date to conclude FTAA negotiations, and it included the following commitments by all 34 Leaders:

- balanced and comprehensive agreements to maximize market openness through high levels of discipline covering tariffs; non-tariff barriers (NTBs) in goods and services; agriculture; subsidies; investment; intellectual property rights (IPR); government procurement; product standards; rules of origin; anti-dumping and countervailing duties (AD/CVD); sanitary and phytosanitary (SPS) procedures; dispute settlement; and competition policy;
- concrete progress by the year 2000;
- to further secure the observance and promotion of workers' rights; and
- to make our trade liberalization policies and our environmental policies mutually supportive.

At the Denver Trade Ministerial in June 1995, the 34 countries agreed that the FTAA will be a "single undertaking," i.e., all countries ultimately will assume all of the obligations of the FTAA—no free riders.

It also was agreed at Denver that the FTAA will be WTO-consistent. Thus, the FTAA will have the WTO obligations as its threshold. But there is no reason to negotiate an FTAA if we stop at existing WTO provisions. The FTAA needs to go beyond the WTO and be future-oriented. It must be responsive to new technologies and new ways of doing business, and it should draw from the best, most appropriate practice in the sub-regional arrangements. In other words, we aim for the FTAA to be "the state of the art" in trade and investment agreements when it is concluded.

BELO HORIZONTE TRADE MINISTERIAL

As I mentioned, the Third FTAA Trade Ministerial meeting took place last month in Belo Horizonte, Brazil, and next April a Summit of the Americas will be held in Santiago, Chile.

• We must use the period between Belo Horizonte and the next Summit to ensure that our Presidents and Prime Ministers can initiate the negotiating phase of the FTAA at the Santiago Summit. At Belo Horizonte, the countries of the hemisphere announced that they are ready to meet this objective.

• The Trade Ministers at Belo Horizonte agreed that they will recommend that the Leaders at Santiago initiate negotiations for the FTAA. We know that negotiations will proceed at different paces for different subject matters. Some issues are more complicated or politically sensitive than others, but we should start on the full range of issues included in the Miami Declaration and Plan of Action at the same time to signal our seriousness in meeting the 2005 deadline for concluding negotiations of the FTAA. It was clear at the meeting in Belo Horizonte that nearly all countries agree on this approach rather than negotiations in stages.

• The Belo Horizonte Ministerial set out a very clear work plan for the FTAA countries so that Trade Ministers can provide their Leaders with the *essential recommendations* for initiating negotiations.

—It is not necessary to complete an exhaustive analysis of every possible issue in the negotiations before we can start the negotiating process. Most issues get clarified and defined only through the process of negotiation itself. We experienced that in the Uruguay Round as well as in the NAFTA negotiations.

—The 11 Working Groups of the FTAA (market access; customs procedures and rules of origin; investment; services; government procurement; intellectual property; sanitary and phytosanitary practices; technical barriers to trade; subsidies, countervailing duties, and antidumping; competition policy; and smaller economies) already have accomplished substantial preparatory work, especially in the area of identifying current practices in the hemisphere—-both in national legislation, regulation, and procedures and in international obligations. Several of the inventories on country practices are now available to the public for the first time, and can be accessed through the official FTAA Homepage on the Internet (www.ALCA–FTAA.org). Additional output from the Working Groups will be published throughout this year.

—As was agreed at the Cartagena Ministerial last year, the Belo Horizonte Ministerial established the Working group on Dispute Settlement, to be chaired by Uruguay.

—The principal task of the 12 Working Groups over the next six months is to prepare recommendations on alternative possible issues and negotiating approaches in each substantive area.

—The Ministers also created a Preparatory Committee (PrepCom) of the 34 Vice Ministers to review the Working Group recommendations. The PrepCom has nine months to prepare its recommendations on how the negotiations should proceed—including objectives, approaches, structure and venue—for decision by the Trade Ministers at their meeting next February in San Jose, Costa Rica. The PrepCom must also offer advice on the establishment of Negotiating Groups—how many Negotiating Groups should there be, and what should each one cover.

—The Ministers meeting in San Jose will then make their decisions based on those recommendations; so it will be essential that the preparatory work has progressed sufficiently to initiate negotiations.

—Our leaders at the Santiago Summit then will outline a plan of action directing the course of negotiations in order to be able to conclude negotiations by 2005, at the latest.

—At the same time, the Tripartite Committee (the Inter-American Development Bank, the Organization of American States and the Economic Commission for Latin America and the Caribbean) will conduct a feasibility study of a temporary FTAA administrative secretariat to support the negotiations at minimal cost. Washington and Miami have been included among the alternative sites that will be studied as illustrative cities for determining relative costs.

• Throughout the construction of the FTAA, we will remain sensitive to the vast disparities in economic size among the FTAA countries. On the one hand, we have continental-size countries with populations in the hundreds of millions. On the other hand, we have countries with populations and GDPs the size of Arlington County, Virginia.

—These smaller economies face both enormous opportunities and significant challenges in the FTAA negotiations. We must ensure that they are able to participate fully in the negotiations (e.g., by providing technical assistance). And in the negotiations themselves, we must be willing to accept appropriate transition measures in those areas of greatest difficulty for the smaller economies.

—However, we must be intellectually rigorous in our approach. For example, we cannot have a situation in which 28 countries out of 34 claim that they are "smaller economies."

—Of course, the United States already provides substantial support for expanded trade opportunities for the countries of the Caribbean and Central America through the Caribbean Basin Initiative (CBI).

—In addition, the President is working with Congress to enactlegislation that will offer eligible CBI countries enhanced trade preferences predicated on meaningful policy reforms that will help prepare these countries to participate in the FTAA.

• We also must be responsive to the various economic interests in our societies who wish to express their perspectives on the issues in the FTAA.

—We have seen how the Americas Business Forum has evolved since the late Secretary Brown hosted the first Forum in Denver in June 1995.

—We need the advice of the private sector to help us define our objectives and priorities in the FTAA negotiations.

—Of course, we define the private sector broadly, to include all of the economic and political interests in society with a stake in our trade policy. Thus, in addition to the business sector, organized labor and environmental groups have an equal right to provide input for Ministers.

—The Ministers agreed in Belo Horizonte on the importance of dialogue and consultation with labor and other groups to make the FTAA negotiating process transparent. This will ensure all interested members of our societies have the opportunity to participate, thereby enhancing the political credibility and substantive quality of the process.

The clear, concrete instructions presented by the Ministers in this year's Declaration should be judged a major achievement. The United States consistently has pressed for rapid movement in carrying out the Miami Declaration's vision of the FTAA. We will continue to work toward that end in the coming year. We are gratified to note that increasing numbers of our trading partners in the hemisphere share the same dedication and level of ambition, which bodes well for successful negotiations.

CONCLUSIONS

The ability of the U.S. to influence the pace, the objectives and the content of the FTAA, however, depends on a grant of trade agreements implementing authority (the so-called fast track authority) that is comparable to the authority granted previous Presidents—both Democrat and Republican. As I noted before, if we are unable to shape this process and other countries continue to forge trade and strategic alliances without us, we lose. We lose our credibility; we lose our leadership role; and our companies and workers lose their competitive advantage. We have already begun to see the real costs to our companies and workers of trade agreements concluded without us. Fast track authority is essential to reverse that trend.

We have reached the point where the nations of the hemisphere share our commitment to democracy and fair competition in open markets. They want to work with us to create the FTAA in the shared belief that it will expand our economies, improve our trade competitiveness in the global economy, make our people more prosperous, strengthen democracy, and build regional peace. We must seize this opportunity to create a solid foundation for peace and prosperity in our hemisphere.

Chairman CRANE. Secretary Davidow.

STATEMENT OF JEFFREY DAVIDOW, ASSISTANT SECRETARY FOR INTER-AMERICAN AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. DAVIDOW. Thank you, Mr. Chairman. I am joined at the table by Bryan Samuel, who is the Deputy Assistant Secretary of State for Inter-American Affairs, with special responsibilities for trade matters.

Mr. Chairman, I will be brief. I have written testimony to submit, but with your permission I will summarize it.

I want to make the point that the FTAA, the free trade area of the Americas, is much more than a trade issue. It is a key factor in the creation of a new relationship among the countries of this hemisphere.

We are at a unique historic moment, unique in that important factors of the relationship have never come together in the same way before. Never before in history, in the 200 years or so of our relations with this hemisphere, have all the countries of this area of the world been functioning democracies as they are today, with one glaring exception, which is Cuba.

Never before in the past 200 years has there been such a broad-based consensus on economic issues, on the need for free and open trading patterns. This is something relatively new, and we only have to think back to the decades of the fifties, sixties, seventies, eighties, some lost decades in Latin America, some decades in which concepts of dependency theory held sway.

We must realize that we really are at a unique moment. The future is ours to help mold, along with our like thinking colleagues and friends in this hemisphere, if we are up to the challenge of doing so.

The free trade area of the Americas is an essential element of U.S. policy. And this U.S. policy toward the hemisphere is in itself derivative of, and in accordance with the policy goals set by President Clinton and Secretary Albright for our international posture in the world.

First, we have major goals that we pursue everywhere internationally. One is to keep the United States economically strong, internationally competitive and prosperous, and to preserve our position as the hub of an expanding global economy.

Second, we seek to preserve and advance freedom by promoting the principles and values upon which this Nation's democracy and identity are based.

Third, we seek to promote and establish a framework of cooperation that protects our citizens and friends from the new transnational threats of environmental degradation, narcotics trafficking, migrant smuggling, terrorism, and international crime.

Construction of the FTAA serves each of these objectives. First, by promoting greater efficiency in economic growth in all of the participating economies, the FTAA will strengthen our economy, providing new opportunities and a better quality of life for U.S. workers, businesses, and consumers—as Ambassador Lang has pointed out.

There is no question in my mind, Mr. Chairman, that economic growth and development, the strengthening of economies in the Western Hemisphere as to our benefit. It helps our economy.

Second, the FTAA will also strongly promote our values. The increased pace of the growth and investment in Latin America which will be provided by the FTAA will further consolidate market-based reforms underway in the region and strengthen democracy. Indeed, the commitment by the hemisphere's leaders to the principle of free trade has in itself been a catalyst accelerating reform and investment in the region.

The opening of markets and enhanced competition envisioned by the FTAA also serve as an impulse to social mobility, a key factor in long-term political stability. Closed economies allow the well-connected to grab and keep the best opportunities, and thus tend to perpetuate the positions of the privileged.

But economies based on competition reward efficiency, innovation, and enterprise, regardless of political or social connections. Indeed, the FTAA has come to symbolize Latin America's new open economic model. The FTAA's emphasis on growth, competition, efficiency, and innovation are exactly the qualities which the region's economic reforms are designed to encourage.

Our new relationship with Latin America and the Caribbean is based on the spirit of cooperation. This was the theme of the Miami summit. It was highlighted in the President's recent visits to Mexico, Central America, and the Caribbean.

As you know, Mr. Chairman, he will be traveling in the month of October to Venezuela, Brazil, and Argentina, and then early next year to Chile, to attend the second Summit of the Americas, this one hosted by the Chilean Government. And everywhere, the theme is mutual respect, partnership, and cooperation.

The FTAA will contribute strongly to the cooperative framework that we are establishing. Economic vitality is indispensable to protecting the environment for future generations, and waging an effective fight against illegal migration and some of the other ails that I have mentioned.

It is no wonder the movement to free trade has become one of the cardinal points of the United States strategy toward Latin America, for both Republican and Democratic administrations.

And in Latin America and the Caribbean, the FTAA, with its offer of economic partnership among countries, with juridically equal rights and obligations, has become the cornerstone of the new relationship that we seek to construct.

As Ambassador Lang has pointed out, there has been considerable progress toward achieving the FTAA goal through the technical working groups and ongoing meetings of the hemisphere's vice ministers and ministers of trade. We are now reaching a critical juncture in this process, moving from the preparatory phase to the actual negotiations.

We expect that at the April meeting in Santiago, the second Summit of the Americas, the assembled Presidents there will formally announce the beginning of negotiations for the FTAA.

The ability of the United States to shape the upcoming FTAA negotiations and influence the way trade will flow and economies will work in the future will depend upon our ability to lead, and to negotiate with credibility.

It is for this reason that I support the points made earlier by Representative Kolbe and Ambassador Lang about the essential

nature, the critical nature, of rapid passage of fast track negotiating authority.

I expect that that legislation will be introduced soon, and that we will see a full congressional debate on the matter in the fall.

Mr. Chairman, let me close by pointing out that political and economic leadership are inextricably tied in today's world. If we lose our ability to lead in the trade arena, we will increasingly lose our influence strategically, politically, and in other spheres of international relations.

Thank you very much for this opportunity.

[The prepared statement follows:]

Statement by Jeffrey Davidow, Assistant Secretary for Inter-American Affairs, U.S. Department of State

Thank you, Mr. Chairman, for this opportunity to join my colleague Ambassador Lang in testifying on this critical issue.

First, I want to emphasize that I agree whole-heartedly with Ambassador Lang's testimony that the Free Trade Area of the Americas is strongly in the U.S. interest, and will be good for U.S. workers, businesses and consumers. What I would like to add is that there are equally compelling arguments for the FTAA from the perspective of over-all U.S. foreign policy toward Latin America and the Caribbean.

Our policy toward Latin America is derived from three basic objectives established by the President and the Secretary of State for our overall foreign policy:

- First, to keep the United States economically strong, internationally competitive and prosperous, and to preserve its position as the hub of an expanding global economy.
- Secondly, to preserve and advance freedom by promoting the principles and values upon which this nation's democracy and identity are based.
- Third, to establish a framework of cooperation that protects our citizens and our friends from the new transnational threats of environmental degradation, narcotics trafficking, migrant smuggling, terrorism and international crime.

Construction of the FTAA serves each of these objectives. First, by promoting greater efficiency and economic growth in all the participating economies, the FTAA will *strengthen our economy*, providing new opportunities and a better quality of life for U.S. workers, businesses and consumers, as demonstrated in the previous testimony. Further, the ability of the U.S. economy to create jobs, provide opportunities and project its strength globally is admired and envied throughout the world. That gives credibility to our nation as a model of democracy and market economics, and it gives our diplomacy a special strength.

Secondly, the FTAA will also strongly *promote our values*. The increased impulse to growth and investment in Latin America which will be provided by the FTAA will further consolidate market-based reforms underway in the region and strengthen democracy. Indeed, the commitment by the hemisphere's leaders to the principle of free trade has in itself been a catalyst accelerating reform and investment in the region.

The opening of markets and enhanced competition envisioned by the FTAA also serve as an impulse to social mobility, a key factor in long-term political stability. Closed economies allow the well-connected to grab and keep the best opportunities, and thus tend to perpetuate the positions of the privileged. But economies based on competition reward efficiency, innovation and enterprise regardless of political or social connections. Indeed, the FTAA has come to symbolize Latin America's new open economic model; the FTAA's emphasis on growth, competition, efficiency and innovation are exactly the qualities which the region's economic reforms are designed to encourage.

This brings me to a criticism often leveled at FTAA and trade liberalization in general, namely that freer trade may increase growth in the economy overall but only to benefit the rich. Recent research shows exactly the opposite. For example, an IDB study of 13 countries which significantly opened their trade regimes during the period 1985–95 showed that trade liberalization was associated with an *increase* in the real incomes of the lower 60% of the population. The increase was largest for the poorest 20%, and the richest 20% of the population experienced a small drop in real income. These are important findings that need to be better understood not only by policy-makers but also by the public whose support must be maintained or won for free trade policies.

Thirdly, the FTAA will contribute strongly to the new *cooperative framework* between the United States and Latin America. Economic vitality is indispensable to protecting the environment for future generations and waging an effective fight against illegal migration, the drug trade and other forms of transnational crime. Without broadly-shared growth, citizens' trust in their governments and institutions deteriorate, state legitimacy erodes, the rule of law weakens and social ills propagate. The growth and opportunities provided by the FTAA will put a strong new weapon in the hands of those Latin American leaders who want to work cooperatively with us in addressing these problems.

It is no wonder then that the movement to free trade has become one of the cardinal points of U.S. strategy toward Latin America. From the very beginning, when President Bush first proposed the concept of hemisphic free trade in June 1990, this idea captured the imagination of people throughout Latin America and the Caribbean. The specific initiative by President Clinton and the other 33 democratic leaders of the hemisphere to negotiate the FTAA by the year 2005 was the centerpiece of the Miami Summit of the Americas in December 1994. Even though the Miami Summit endorsed an Action Plan of 23 initiatives, the FTAA was clearly one of the boldest and most dramatic initiatives and has remained so ever since. Indeed, for many in Latin America and the Caribbean, the FTAA—with its offer of an economic partnership among countries with juridically equal rights and obligations—has become the cornerstone of the new relationship between the U.S. and Latin America.

As you know, there has been considerable progress toward achieving the FTAA goal through technical working groups and ongoing meetings of the hemisphere's vice-ministers and ministers of trade. We are now reaching a critical juncture in this process—moving from the preparatory phase to the actual negotiations. As noted in Ambassador Lang's testimony, the hemisphere's trade ministers at their meeting in May in Belo Horizonte recommended to their presidents and heads of government that the FTAA negotiations be launched at the Santiago Summit in April 1998. The Ministers will meet again in February in San Jose, Costa Rica to make recommendations for the Summit on the structure, pace and venue of the negotiations.

Our efforts toward the FTAA are complemented by the joint effort of the Administration and the Congress to enhance trade opportunities for countries which are beneficiaries of the Caribbean Basin Initiative. I want especially to express my appreciation to this Subcommittee on this point. We have major strategic and economic interests in the countries of Central America and the Caribbean, which are among our closest neighbors and with whom we share many historical and social ties. Providing these countries with improved access to the U.S. market will stimulate increased trade and growth in their economies, which in turn will provide new opportunities for U.S. exports and investment, and protect our other interests in the region.

Clearly then, there is forward momentum, both in our overall trade relationship with the rest of the hemisphere, and in reaching the FTAA goal. But the ability of the U.S. to shape the upcoming FTAA negotiations and influence the way trade will flow and economies will work in the future will depend on our ability to lead, and to negotiate with credibility.

As has been pointed out by trade negotiators, academic experts, politicians and business leaders, this means that U.S. negotiators must be backed by fast-track. One of the clearest arguments made on this issue comes from one of your distinguished predecessors, Mr. Chairman. When he testified before your Subcommittee in March, former Congressman Sam Gibbons (who as Chairman of this Subcommittee was an official advisor to numerous international trade negotiations) said that, without fast-track:

"No foreign government will make a deal with us in a negotiation because they know from experience that Congress will ultimately re-write the agreement. No other country negotiates like the United States...Their Parliaments only accept or reject, so they require us to do the same before they will sit down to serious negotiations with us."

For the United States to maintain our traditional leadership role in global economic policy, it will clearly require expeditious Congressional approval of fast-track procedures. Without this, our negotiators in effect become glorified observers in the negotiating process, and we cede the initiative to other countries.

Let me emphasize also that there has been no lack of initiative among hemispheric countries. As Ambassador Lang pointed out, over the past few years, a network of free and partially free trade agreements has developed covering every country in the hemisphere. This network is now expanding beyond the hemisphere to include Europe and Asia. The rules and structures of these agreements are setting precedents which will have an increasing influence on the way trade and investment

are conducted in this hemisphere, and on the internal policies and institutions of participating countries. In effect, this ship has already left port. If we want to maintain our influence in the hemisphere and protect the interest of U.S. workers, businesses and consumers, we must have the legislative authority to allow us to act with credibility.

Let me close by pointing out that political and economic leadership are inextricable in today's world. If we lose our ability to lead in the trade arena, we will increasingly lose our influence strategically, politically and in other spheres of international relations. This is not just an issue of internal Congressional procedures, or of internal U.S. politics, this is nothing less than a question of our ability to protect our interests, our willingness to keep our commitments, and our ability to lead effectively around the world.

Particularly now, when democratic governments of the hemisphere have come to an unprecedented consensus, it would be tragic if we were to lose this historic opportunity to form a true and lasting partnership with our American neighbors.

Chairman CRANE. Thank you, Mr. Davidow.

Mr. Lang, why have so few countries in Latin America joined the Information Technology Agreement?

Mr. LANG. Well, most of them have said they are considering the matter, but are not yet ready to make the commitment. I am not sure I completely understand all of the reasons they would not want to make themselves more attractive investment venues, and gain all the other advantages of the agreement.

Some countries have said to us that they do not believe they are significant exporters of telecommunications or other information technology products, and therefore they see no reason to open their markets to these products.

I think that is inconsistent with the decisions most of them made to make commitments in the telecommunications services negotiations. The basic objective of most of those governments was to open their markets for telecommunications services so that their industries could develop more rapidly because telecommunications is essential now to the development of an internationally competitive economy.

I, in fact, raised this issue with some of our Latin American trading partners in Geneva last week, and we hope they will consider, particularly in the context of ITA–II, which we hope will begin to come together this fall.

So we are working with them, but they do not seem ready to take that step, in some cases because they don't feel they have a dog in that fight.

Chairman CRANE. The second question, why has Brazil resisted an agreement to begin negotiations on all issues simultaneously?

Mr. LANG. Well, I don't know exactly why they have, but I must say that one of the outcomes of Belo Horizonte, the ministerial meeting there in May, was that it was clear a consensus was developing to move everything forward at once.

Everybody saw that as a practical negotiating strategy. I do not know whether the government of Brazil feels it somehow would serve the interests of Mercosur or some particular Brazilian importing interest or exporting interest not to move forward at all at the same time. I did talk to my Brazilian colleagues in Geneva last week and my perception is that gradually this consensus will become generalized.

I think we have to be cautious about what we say at this point. But I think this will be gradually accepted as the appropriate way to move forward, including Brazil.

Chairman CRANE. And my final question. Does the recent trade agreement between Chile and Canada set an adverse precedent for United States objectives in the FTAA negotiations, and could you comment specifically on the antidumping and countervailing duty provisions of the Canada-Chile agreement.

Mr. LANG. Well, in some sense, I think, aside from the things I mentioned in my testimony about our standing on the sidelines, that agreement seems useful to me in that it is comprehensive. In other words, it covers a lot of the issues that have not been covered in the multilateral system, but were covered in NAFTA.

So in that sense, I think it is useful.

I am afraid I am not familiar in detail with the dumping and countervailing duty provisions. If I can either have 1 minute to consult, or get back to you in writing, I would be glad to do that.

Chairman CRANE. Certainly.

[The following was subsequently received:]

Response from Ambassador Lang to Philip M. Crane

Question: Do the anti-dumping (AD) and competition law provisions of the Chile-Canada Free Trade Agreement provide a precedent for what the U.S. may negotiate in the FTAA or with respect to a comprehensive trade agreement with Chile?

Answer: It is first important to understand what Canada and Chile agreed to in their free trade agreement: Canada and Chile agreed to a process by which the application of each other's AD law to imports from the other country would gradually be phased out and replaced, in several years' time, by the application of competition law with respect to trade between the two national markets. Due, in part, to their small domestic markets, each of these countries has for some time supported consideration of the substitution of AD law with competition law in the context of free trade agreements (FTA). Therefore, given the relatively small amount of bilateral trade between Canada and Chile, it is not surprising to find that they have agreed ultimately to eliminate AD law application so as to try to establish a precedent of sorts for further economic integration in the Americas and with the United States, in particular.

It is important to remember that in both the U.S.-Canada FTA and the NAFTA contexts, the United States has taken the position that it is, at best, premature to begin consideration of whether any such "substitution" would be appropriate. Notwithstanding the economic integration which has occurred, considerable barriers remain on North American trade which argue against the assumption that competition law could reasonably be expected to work as it does within national borders. There must be a concomitant integration of political and national interests such that the elimination of unfair trade remedies would be viewed as a natural consequence of the broader process of integration. To date, there is little evidence to suggest that a consensus exists in the United States in favor of such a step now or in the near future with respect to trade agreements we may negotiate.

In addition, on the competition side, there is a considerable need for further education, mutual understanding and consensus-building with respect to the issue (and desirability) of competition laws and policies. Many countries in the Americas do not now have a competition law and, therefore, are still assessing whether a competition law/policy is desirable for them in terms of furthering consumer welfare, economic efficiency and, indeed, social and economic development. In other instances, there may be important divergences in the purposes for which and the enthusiasm with which competition laws are enforced. It will first be necessary to sort these issues out before even the "competition law vs. antidumping law" proponents could legitimately acknowledge that the time was ripe for considering the substitution of trade remedy laws.

Chairman CRANE. And just one final question for Mr. Davidow. In the absence of fast track negotiating authority, and perish the thought, but what are the security implications to the United States?

Mr. DAVIDOW. I think if we define national security in the broadest context, in which we are talking about our own economic prosperity, we are talking about cooperative action to meet the kinds of threats that we are facing in the world today—narcotics being one, illegal alien smuggling, international terrorism.

What we need to effectively deal with those problems of security is a coordinated and coherent approach to partnership in this region. I do not think we can expect full levels of partnership and cooperation if at the same time we are not moving ahead on all fronts.

I do see a relationship between fast track negotiating authority, strengthening the economies of the United States, most importantly, and other countries of the region, which helps them develop the ability to help us confront all of the other problems.

Clearly, stronger economies in Latin America and the Caribbean will be better capable of dealing with these security issues. And that is why I do think there is a true interrelationship between this fast track authority, creation of the free trade area, and protection of our National security.

Chairman CRANE. Would you concur that the same principle applies to trade with China?

Mr. DAVIDOW. Sir, I really do not feel I can comment on that.

Thank you.

Chairman CRANE. All right.

Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman. I would like to ask Secretary Davidow a followup question. You use in your opening remarks the word, respect. You have seen a great deal of respect between the Latin American countries, the United States, Central American countries, and Canada, and probably it is a historic level of mutual respect going back and forth.

And it seems to me that since the fall of the Berlin Wall, the issue of trade has become a major tool of diplomacy, and obviously that is why the administration, and certainly the State Department, has been seeking fast track authority, but also expansion of markets and market opportunities.

Mr. Crane asked about the security issues involved. My concern, I guess, is the fact that the American public really hasn't gotten that message yet, the one you just communicated to us this morning, and I don't know if it has filtered down thoroughly to all of our colleagues.

When we think of fast track, we think of NAFTA, we think of trade, and many think of Ross Perot, but the real issue is one of finally having some 30-plus democracies in Latin America, and all of them are extremely viable now, and certainly we would like to see that for decades and decades in the future.

It is my hope that your department, and the Secretary of State in particular, will play a significant role in the entire debate on

fast track. And I certainly can't seek any assurances from you at this hearing.

But that would be a request that I, and I believe, some of my colleagues would make to you.

Mr. DAVIDOW. I will certainly take that request back to the Secretary of State, but I do not think we will have any trouble convincing Secretary Albright of this. In fact, she is thoroughly committed to involving herself and the State Department, and I believe that one of the great communications skills that Secretary Albright has, and has demonstrated, is that she can go to the American public and show that these issues which seem sort of arcane and not terribly well understood really have an impact on how we live in the United States. What it means for the average American to have strong trading relations in this hemisphere, strong security relations.

And I think she will take a very, very active role. She will be traveling with the President, of course, to Latin America. But also, interestingly, and I think this gives an indication of her commitment—in both Central America and in the Caribbean during the President's visit, she urged greater political collaboration and contact, and she will be meeting once again, probably during the U.N. General Assembly, with the foreign ministers of Central America and the foreign ministers of the Caribbean. She is very much engaged.

Mr. MATSUI. Thank you. I would like to ask Ambassador Lang a question. In 1994 when we had the summit declaration signed and agreed to, there were 12 major areas, such as countervailing duties, dumping, intellectual property protection. Market access, I believe, was another one.

These were 12 areas in which negotiations were to go on and then be completed by the year 2005 under the FTAA. If you have no fast track authority, what would be the consequences of that declaration, the discussions. Would that put the United States at a competitive disadvantage in terms of adopting standards?

For example, intellectual property protection. I would imagine there will be more software sent to Latin America as time goes on as they develop their middle class. What would that do in terms of our ability to protect our interests and protect, obviously, our opportunities for market access?

Mr. LANG. It would be a pretty serious problem, Mr. Matsui. There may be areas we could work in among those you have mentioned, and the others which are the subject of the working groups we now have going on in this area.

But my perception is that the credibility of what we do in trade depends critically on this legislation, not only because of its parliamentary significance, in terms of how legislation moves through the Congress, but maybe more importantly because it represents the decision by the Congress that we should move in the direction of trying to protect our interests in these markets abroad.

There is a great deal of understanding about our political system in most of the countries I negotiate with. And they understand the critical role of the Congress. And I think until we have achieved the consensus that such legislation represents, our leverage and our ability to be persuasive is significantly diminished.

Now, we are a big country. We have lots of tools we can use. I do not want to predict an Armageddon here, but it would be a very serious problem, and we would be significantly sidelined in all of these areas, some of which are absolutely critical to the development of these markets.

Because these markets are not standing still. They are growing, and we have a leg up on them if we can make this FTAA process work.

Mr. MATSUI. Thank you. I thank both of you for your testimony today.

Chairman CRANE. Mr. Herger.

Mr. HERGER. No questions, Mr. Chairman.

Chairman CRANE. Mr. Nussle.

Mr. NUSSLE. No questions, Mr. Chairman.

Chairman CRANE. Well, gentlemen, I want to express appreciation to you for your testimony today, and we look forward to working closely with you as we move toward our FTAA consummation, and hopefully sooner rather than later.

Thank you so much.

Mr. LANG. Thank you, Mr. Chairman.

Mr. DAVIDOW. Thank you, Mr. Chairman.

Chairman CRANE. I would now like to introduce Vince McCord, treasurer of the Association of American Chambers of Commerce in Latin America; Hon. William Pryce, vice president of Washington operations for the Council of the Americas, and a former ambassador to Honduras; and Hon. Antonio—aka Tito—Colorado, executive director of Caribbean/Latin American Action, and a former colleague of ours from the Commonwealth of Puerto Rico; and Eric Smith, president of International Intellectual Property Alliance.

I would like to welcome you all to the Subcommittee, and would ask that you limit your oral testimony to 5 minutes, and all written testimony will be inserted in the printed public record.

We will proceed in the order that I introduced you.

STATEMENT OF VINCENT MCCORD, TREASURER, ASSOCIATION OF AMERICAN CHAMBERS OF COMMERCE IN LATIN AMERICA; AND REGIONAL PLANNING AND PUBLIC AFFAIRS MANAGER, ESSO INTER–AMERICA CORP., CORAL GABLES, FLORIDA

Mr. MCCORD. Chairman Crane, thank you very much for this opportunity to comment on the free trade area of the Americas from the perspective of over 16,000 members of the Association of American Chambers of Commerce in Latin America—AACCLA.

My name is Vincent McCord. I serve as treasurer of AACCLA, whose members manage the bulk of U.S. investment in the region, and therefore are the best resource for information on the impact that U.S. trade and investment policy initiatives have on our business in the Americas.

I am also the planning and public affairs manager for Esso Inter-America, which coordinates Exxon's downstream operations in Central America, the Caribbean, and the West Coast of South America.

In this statement I would like to discuss, from the perspective of United States business operating in the Latin American and Carib-

bean region, how important it is for the United States to return to a leadership role in building fast track throughout the Americas.

The United States has historically had one of the most open markets in the world, and has long been at the forefront of opening foreign markets. NAFTA set a new standard for trade agreements in many areas when it was signed and approved in 1993.

GATT and NAFTA have helped produce a climate for doing business in Latin America which has brought more markets within the reach of United States exporters of all sizes. These new markets, in turn, allow the U.S. economy to grow at rates that would be unattainable if our companies were limited to selling their goods and services domestically.

Since 1994, however, we have seen U.S. leadership in opening new markets in the Americas stalled. Because of the absence of fast track negotiating authority, our trade negotiators have been unable to take advantage of what may be unique opportunities to bring about the elimination of the many longstanding barriers to trade and investment in Latin America.

Many people don't realize how much our hemispheric neighbors are attracted to U.S. products and culture, and how much could be gained if these barriers were removed.

U.S. engineering firms are usually the preferred source for building the highways and railroads of the region. U.S. manufacturers' products are known for their craftsmanship and dependability. Consumers across the continent have always been eager to buy Levis, watch American movies, eat Burger King and McDonald's hamburgers, and shop at Penney's in U.S.-style malls.

In most areas, U.S. business has a leg up on competitors, unless the playingfield is tilted away from us.

Today the opportunity exists for increased market access in the Americas. The 34 market-based economies in the region have in varying degrees come to the realization that open markets are the foundation of sustainable economic growth, which in turn is the key to ending the chronic poverty which has plagued the Americas.

As economies open, we must be there to participate, or we will lose our leadership position. New competitors are emerging, thanks to lowered tariff and nontariff barriers. We cannot think that consumers will continue to prefer U.S. goods at any cost.

If our negotiators are without authority, American business will be disadvantaged precisely when these markets represent one of the fastest growing regions in the world.

In the past, waiting for U.S. leadership might have meant a standstill in trade liberalization measures in the hemisphere. Instead, we now see the European Union pressing forward in negotiations. Trade negotiators have been meeting with their counterparts in the Mercosur markets of Argentina, Brazil, Paraguay, and Uruguay, and with Chile and Mexico in order to gain preferential access.

Within the region, Argentina, Brazil, Chile, and Mexico are proposing their own trade liberalization agendas. Since we are not at the table, the rules of the game are often being discussed within the frameworks proposed by our competitors.

The American business community knows the value of building the roadmap for hemispheric free trade on terms which would be fair to our exporters, importers, and investors.

Chile's economic success, stemming from lowering tariffs and investment barriers, has opened the eyes of many in Latin America. And that country's approach has become a model to be studied and copied. Chile has signed bilateral agreements with both of our NAFTA partners. Duties on nearly 90 percent of total bilateral trade have been lowered to nearly zero, with the result being that in 1996 trade with these two nations grew by 48 percent.

Chile's free trade agreement with Canada, which went into effect July 1, eliminated all duties on 80 percent of all Canadian goods entering Chile.

In the Andean region, Chile and Colombia have agreed to lower the duties to zero on 333 products traded between these two nations. In 1996 trade between these two nations rose 23 percent.

Chile and Venezuela will have tariff-free trade by 1998. Trade between the two nations rose 70 percent in 1995 and 28 percent in 1996. Chile and Ecuador have signed an agreement which will lower the tariffs on all items traded between these countries by 1998.

Chile has also struck a deal with Mercosur. Beginning October 1 of last year, there has been a 30-percent tariff reduction on 73 percent of Chilean exports, and 81 percent of Chilean imports.

Meanwhile, we have been unable to lower the 11-percent duty rate. Standing pat clearly disadvantages U.S. exporters in this market, as others negotiate preferential access.

The United States has two choices. By enacting fast track negotiating authority this year, and negotiating a free trade agreement with Chile, the United States will be able to both restore the competitiveness of American exporters to Chile as well as lead to the creation of the free trade area of the Americas.

Our second choice is to sit on the sidelines as opportunities to negotiate with Chile disappear, and hemispheric trade liberalization proceeds without us, jeopardizing United States jobs supported by United States exporters to the region.

Chile is a comparatively small example of what will happen with the region as a whole. If the larger countries move like Chile to open their economies, the growth of trade will be phenomenal.

Our inaction also makes the broader free trade area of the Americas more difficult to achieve. For example, the Central American nations have indicated they are prepared to enter into a reciprocal, comprehensive free trade agreement with the United States.

The long-promised Caribbean Basin enhancement legislation will allow these nations to remain competitive with Mexico in exchange for further liberalization of their economies, as a step toward full free trade with the United States. If Central America is ready, we should seize the moment.

Mr. Chairman, American business in the region urges our elected officials to again take the lead in trade matters. When U.S. negotiators are not at the table, our prospects for growth decline because the rules are being shaped to help others, not us.

Members of AACCLA ask that fast track negotiating authority, limited to the resolution of commercial issues, be passed without delay.

Thank you very much.

[The prepared statement follows:]

Statement of Vincent McCord, Treasurer, Association of American Chambers of Commerce in Latin America; and Regional Planning and Public Affairs Manager, Esso Inter-America Corp., Coral Gables, Florida

Chairman Crane, thank you very much for this opportunity to comment on the United States' trade negotiating priorities from the perspective of the over 16,000 members the Association of American Chambers of Commerce in Latin America (AACCLA). My name is Vince McCord, and I serve as a treasurer of AACCLA, whose members manage the bulk of US investment in the region, and are therefore the best resource for information on the impact that US trade and investment policy initiatives have on American business in the Americas. I also serve as Regional Planning and Public Affairs Manager, Esso Inter-America at Exxon's regional office in Coral Gables, Florida.

In this statement, I would like to discuss how important it is for the United States to return to a leadership role in building free trade throughout the Americas, from the perspective of US business operating in the Latin American and Caribbean region.

ASSERTING US LEADERSHIP

The United States has long been at the forefront of opening foreign markets, and has one of the most open economies in the world. The North American Free Trade Agreement (NAFTA) set new standards for trade agreements in many areas when it was signed and approved in 1993. Its broad coverage of trade and investment issues has been seen as the model around which Hemisphere-wide free trade would be built.

The successful completion and implementation of the Uruguay Round of the General Agreement on Tariffs and Trade also demonstrated the commitment of the United States to the world-wide trading system. Throughout over 8 years of trade negotiations, the US public and private sector worked together to forge perhaps the most ambitious multilateral trade pacts in history, and the largest global tax cut ever.

In sum, US trade policy objectives created a climate for doing business overseas that helped bring new, growing markets within the reach of US exporters of all sizes. These new markets, in turn, help the US economy grow at rates that would be unattainable if our companies were limited to selling their goods and services domestically.

However, since 1994, progress on opening new markets in the Americas has been stalled in part because of the absence of fast-track negotiating authority. For the past two years, our trade negotiators have been unable to take advantage of what may be unique opportunities to bring about the elimination of the many long-standing barriers to trade and investment in Latin America. American goods, services and most of all, know how, have positioned US companies as leaders in the varied economies of the region. US engineering firms build the highways and railroads that move people across vast distanced; US manufacturers create new, cutting-edge products known for their craftsmanship and dependability; consumers across Latin America and the Caribbean have always been eager to buy blue jeans, watch American movies, eat hamburgers and shop in US style malls. In short, US business has a leg up on our competitors because we have worked so hard to have a strong market presence in virtually every sector of the Latin American economy. Over the last several years, this has helped boost bilateral trade between the US and Mexico from $100.3 billion in 1994, to $129.8 billion in 1996, a 29 percent increase since the implementation of NAFTA. Overall, US trade in the region has grown from $180.5 billion in 1994 to an astounding $231.1 billion in 1996, an increase of over 28 percent.

Yet we cannot be complacent and think that consumers and business leaders will remain inclined to buy US goods and services unless we maintain our leadership in setting the trade rules that allow them to successfully compete in these markets. New competitors emerge in the international market constantly, and if our negotiators are left without authority, we cannot take advantage of Latin American markets precisely when they constitute one of the fastest-growing regions of the world. Today, the opportunity exists for increased market access in the Americas. The 34

market based economies of the Americas are in agreement that open markets are the foundation of sustainable economic growth.

US Inaction Means Gains by Others

Yet while the United States is participating in the valuable, pre-negotiation information gathering phase of the Free Trade Area of the Americas, we are not in a position to negotiate with anyone. In the past, waiting for US leadership might have meant a standstill in trade liberalization measures in the Hemisphere. Instead, we now see the European Union pressing forward to negotiate deals with the many growing markets of our own Hemisphere. Trade negotiators have been meeting with their counterparts in the Mercosur markets of Argentina, Brazil, Paraguay and Uruguay; with Chile; and with Mexico in order to gain preferential access.

Within the region, trade negotiators from Argentina, Brazil, Chile and Mexico, for example, are proposing their own trade liberalization agenda. Since the US is not at the table, our economic interests are not represented, which means that the rules of the game are written by our competitors. The business community wants the road-map for Hemisphere-wide free trade to be built by our negotiators, under terms that are fair for our exporters and investors.

Chile, for example, has been a leader in moving toward free trade in the Hemisphere. That nation's increased trade with other countries in the region demonstrates the benefits the nation has derived from lowering tariffs and investment barriers. Chile may be considered a model for how other Latin American nations will develop beyond their borders.

Chile's bilateral and multilateral deals dot the landscape of every sub-region within the Americas. Chile signed bilateral deals with both of our NAFTA partners. The Chile-Mexico deal has lowered the duties on nearly 90 percent of total bilateral trade to nearly zero. As a result, 1996 trade jumped between the two nations by 48 percent. Chile's free trade agreement with Canada, which went into effect on July 1st, eliminated all duties on 80% off all Canadian goods entering Chile.

In the Andean region, Chile has also been actively striking deals. Chile and Colombia have agreed to lower the duties on 333 products traded between the two nations to zero. In 1996, trade between those two nations rose 23 percent. Chile and Venezuela will have tariff free trade by 1998. Trade between the two nations rose 70 percent in 1995, and 28 percent in 1996. Furthermore, Chile and Ecuador have signed a deal which will lower the tariffs on all items traded between the two nations to zero by the end of 1998.

Chile has also struck a deal with the formidable trade group of Mercosur, which includes Argentina, Brazil, Paraguay and Uruguay. While tariff-free trade will not be in effect until 2014, significant market opening steps are already being taken. Since October 1, the Mercosur-Chile deal has led to a 30% tariff reduction on 73 percent of Chilean exports, and 81 percent of Chilean imports.

Meanwhile, we have been unable to lower either the 11 percent duty rate or the numerous other non-tariff barriers that US exporters typically face when trying to sell in the Chilean market. As a result, the long-term growth of our bilateral trade relationship is limited, as are our opportunities to beat out our competitors who already have (or will soon negotiate) preferential access to the Chilean market.

Preservation of our Economic Self Interest

The United States has two choices: By enacting fast trade negotiating authority this year and negotiating a free trade agreement with Chile, the United States will be able to both restore the competitiveness of American exporters to Chile as well as lead the creation of the Free Trade Area of the Americas. Our second choice is to sit on the sidelines as opportunity to negotiate with Chile disappears and hemispheric trade liberalization proceeds with out us, jeopardizing U.S. jobs supported by U.S. exports to the region

The status quo clearly disadvantages US exporters. Therefore, we must re-insert ourselves into the Hemisphere's trade liberalization program, and bring Chile into the NAFTA. Only by acting can we stem the potential loss of US market share in Latin America.

By striking trade agreements with countries like Chile who are eager to join NAFTA, we have the opportunity to not only "lock-in" market access, but also set forth clear ground rules for doing business—not only trade, but also investment rules and institutional treatment for existing US investors. By setting forth clear, understandable rules for conducting trade, we can create a business environment in which economic growth can flourish, and companies of all sizes can grow and create jobs.

A good example of the need for clear rules was demonstrated by Mexico's reaction to the 1995 peso devaluation. During the 1995 economic downturn—which shrunk the Mexican economy by nearly 9%—the government raised duties on goods from European and Asian nations, causing Mexico's imports from these two regions to drop 20 and 30 percent, respectively. However, because of the NAFTA rules, Mexico was unable to reimpose duties on American exports, and our shipments to Mexico fell less than 9%.

Yet when the U.S. is not at the table shaping the rules of international trade, our prospects for growth decline because the rules are made to help others, not us.

SHAPING THE FTAA: CRITICAL DECISIONS TO BE MADE BEFORE THE SANTIAGO SUMMIT OF THE AMERICAS

The next nine months will be a critical period in the Free Trade Area of the Americas process. A number of pivotal decisions must be made as we lead up to the second Summit of the Americas gathering of the region's heads of states in Santiago, Chile next April 18–19, 1998 including:

Launching the formal FTAA negotiations at Santiago

Deciding the shape, timing and format these negotiations will take, including the role of existing sub-regional groups

Establishing the maximum levels of discipline to strive for in each of the areas to be negotiated.

Agreeing on concrete steps to be taken in the short-term as a down payment toward achieving the FTAA

Determining the role of the private sector in shaping and building support for this process.

If the United States arrives in Santiago without fast track trade negotiating authority, it will simply not have the credibility to successfully influence these decisions. Indeed, without U.S. engagement, as symbolized by the vote on fast track, countries whose markets most interest U.S. business will put the FTAA negotiations on the back burner and instead prioritize expanding subregional trading blocks or advancing negotiations with the European Union.

ROLE OF THE PRIVATE SECTOR IN SHAPING AND BUILDING SUPPORT FOR THE FTAA

In order to build support for the FTAA throughout the region, it is important that there be a close relationship between governments and the private sectors of participating countries. It is to the credit of the governments that they have arranged for private-sector meetings to be held in close proximity to the meetings of trade ministers. This has permitted interaction among the private sectors of various countries as well as with government representatives.

But more needs to be done. The private sector and the governments share a joint responsibility for educating the peoples of the hemisphere about the benefits of liberalized trade and investment and the proposed FTAA. Private-sector efforts in that regard are hampered when the flow of information coming out of governments is restricted.

The region's Trade Ministers should enhance the flow of information between governments and the private sector by making it a top priority to release the wealth of background information on existing trade and investment rules collected by the Working Groups and supporting agencies such as the Organization of American States and the Inter-American Development Bank. Transparency has been among the highest priorities of the private sector since the start of FTAA discussions. Release of the background information gathered by the Working Groups and supporting agencies would serve an important educational process.

The second major task is to institutionalize the role of the private sector in the FTAA process. We urge both the U.S. government and the host governments where we do business to:

Ensure frequent and substantive communication with the private sector in the context of hemispheric trade ministerials. The private sector devotes considerable resources to formulate recommendations to governments in preparation for trade ministerials and summits. At the hemispheric level, it would facilitate the private sector's continuing work if there were an established process by which the ministers reacted to private-sector recommendations emanating from the Business Forum of the Americas.

Establish a process to ensure that private-sector views are taken into account in the FTAA negotiations.

Organize industry/government sectoral roundtables.

For its part, the private sector should organize itself to provide substantive input to governments on the issues in the negotiation.

CONCLUSION

For two and a half years, in the absence of fast-track in the United States, little progress has been made toward building the FTAA. It is time to deal with the reality of that undertaking. Distracted by internal politics and economic crises since 1994, governments in the region now need to refocus on the principal task at hand and the negotiation of the FTAA. The private sector is eager to work with you to make free trade a reality in the hemisphere.

Mr. Chairman, to ensure that U.S. companies and workers maximize our opportunities in this hemisphere, the members of AACCLA ask only that our Executive and Legislative leaders pass long term fast-track negotiating authority that is limited to the resolution of commercial issues.

With the United States largely on the side-lines, our competitors from other nations have strengthened their position versus US exports and in-country investors. An international trade policy that gives our negotiators the authority to strike deals while also allowing the Congress to maintain its traditional oversight role is not only important to US business, but also essential for a prosperous United States.

Chairman CRANE. Thank you very much.

Our next witness is Mr. Pryce.

STATEMENT OF WILLIAM T. PRYCE, VICE PRESIDENT, WASHINGTON OPERATIONS, COUNCIL OF THE AMERICAS; AND FORMER AMBASSADOR TO HONDURAS

Mr. PRYCE. Good morning, Mr. Chairman, and Members of the Subcommittee. I am Bill Pryce, vice president of the Council of the Americas, in charge of our Washington operations.

I very much appreciate this opportunity to testify before you today regarding the free trade area of the Americas.

The Council of the Americas is a business organization dedicated to promoting regional economic integration, free trade, open markets and investment, and the rule of law throughout the hemisphere. The Council supports these policies in the belief that they provide the most effective means of achieving the economic growth and prosperity on which the business interests of its members depend, and on which the United States depends.

The Council has been a strong proponent of both NAFTA and the free trade area of the Americas. And in an effort to provide additional information on the results of the most recently negotiated free trade agreement, the Council commissioned reports to review the impact that NAFTA has had on the economies of 21 individual States.

The results are in. They show that NAFTA has produced benefits for every State studied. Exports to Mexico and Canada have grown significantly since the NAFTA was implemented, despite the peso devaluation in Mexico.

Let me quote just a few figures. Between 1993 and 1996, Michigan's exports to Mexico grew 146 percent. In 1996 Michigan sold 3.2 billion dollars' worth of goods. Iowa's exports to Mexico increased 78 percent, including 171 million dollars' worth of agricultural and food products.

Louisiana's exports increased 136 percent. California's exports to Mexico grew 38.9 percent, reaching $9.1 billion. Exports from New York and New Jersey to both Canada and Mexico represented almost 30 percent of their 1996 exports, while Illinois' exports to these countries accounted for 34.8 percent of its total 1996 exports.

Despite these very positive figures, we are concerned. Why? Because somehow the perception among significant elements of the American population is that NAFTA has been an economic failure, and at the end of the day, the United States and the majority of Americans have suffered economically.

Our studies show that this is a mistaken conclusion. However, perceptions are important, and misconceptions like the one cited above could impede the President's ability to negotiate additional free trade agreements to benefit the American consumer and strengthen our economy, and that is why we are worried.

If there were no NAFTA, and if there were no free trade agreement of the Americas, the United States would not stop trading. With NAFTA and with a free trade area of the Americas, we would trade with these countries on a basis that is more beneficial to the vast majority of Americans, because it is less encumbered by tariffs and other nontariff barriers.

What are some of the benefits? First and perhaps most important, the benefits enable any American to buy a multitude of goods for lower prices. Second, our producers have a larger market for their goods. The market is not limited to the 50 States. For example, because Mexico has lowered or eliminated its taxes on United States imports, our goods can more easily be made available to the very attractive market of 92 million Mexicans.

With an FTAA, the potential market is 800 million people. That's good for our producers, both the large producers, like Ford Motor Co. in Michigan, and small producers, like Milagro Trading Co. in Florida and O.G. Bell in Ohio.

Ford's sales to Mexico increased 1,600 percent in 1 year, from 1,700 automobiles to 30,000. Also after 1 year, Milagro Trading increased to the point where they were able to add two people to their three-person payroll.

Now, these are success stories which affect both large and small companies.

I would like to point out two additional aspects. First, since our tariffs are lower than most countries, our trading partners generally take much greater cuts than we do. For example, under NAFTA, United States tariffs averaged 2 percent, while Mexico's average rate was about 10 percent. With the implementation of NAFTA, Mexico reduced its tariffs 7.1 percent, while we reduced ours only 1.4 percent. That's a darn good deal.

In order for the United States to get more good deals like this in the future, the President needs to have the authority to negotiate them effectively, and that is why he and our country need fast track.

The second point is that many of the goods we sell abroad are high-tech or manufactured products. These products give workers higher paying jobs.

In May of this year, at Belo Horizonte, 34 trade ministers met for the third time following the Summit of the Americas.

In Belo Horizonte, business representatives from Latin America warned us repeatedly that they seriously doubted whether the United States was going to be able to negotiate seriously any time soon. And while their first choice for business partnerships is the United States, they are looking in other directions. We are getting

left out, and we will be more left out if the President does not have fast track authority.

Countries in the hemisphere are negotiating free trade agreements without us. Just this month Canada and Chile implemented a free trade agreement eliminating an 11-percent across-the-board tariffs. And as this Subcommittee has heard, Canada's Northern Telecom won a $200 million telecommunications equipment contract over United States companies partly as a result.

In addition, United States-based Caterpillar and other world manufacturers have been put at a competitive disadvantage to Canadian mining truck and motor grader manufacturers who can now offer these goods without the duty.

Fast track authority leading the way to FTAA negotiations will enable U.S. producers to receive the benefits accruing to other countries in the hemisphere who are moving ahead with free trade arrangements.

In conclusion, I want to emphasize that this free trade debate is about more than NAFTA, and it's about more than FTAA. It is about American leadership. Is the United States going to act with the confidence it should as the strongest, most productive economy in the world, ready to compete across the board in the global marketplace with the conviction that it will do well?

Are we going to keep our mantle as the world leader in promoting open, healthy competition which benefits our consumers and consumers worldwide? Or is the United States going to shrink from its leadership role, turn timid and inward in the belief that its economic growth can be fostered without the global economy.

We at the Council of the Americas hope the answer is that the United States will continue to be at the forefront of trade liberalization for the benefit of American consumers and American producers, and we hope that this Subcommittee will recommend that the President be given the authority to make that happen, that he will be given fast track authority, and soon.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of William T. Pryce, Vice President, Washington Operations, Council of the Americas; and Former Ambassador to Honduras

Good morning, Mr. Chairman and Members of the Committee. I am Bill Pryce, Vice President of the Council of the Americas in charge of our Washington operations. I appreciate the opportunity to testify before you today regarding a Free Trade Area of the Americas.

The Council of the Americas is a business organization dedicated to promoting regional economic integration, free trade, open markets and investment, and the rule of law throughout the Western Hemisphere.

The Council of the Americas supports these policies in the belief that they provide the most effective means of achieving the economic growth and prosperity on which the business interests of its members depend—and on which the United States depends.

The Council of the Americas has been and is a strong proponent of both NAFTA and a Free Trade Area of the Americas. In an effort to provide additional useful information on the results of the most recently negotiated free trade agreement, the Council commissioned reports to review the impact that NAFTA has had on the economies of 21 individual states.

The results are in. They show that NAFTA has produced benefits for every state studied. Exports to Mexico and Canada have grown significantly since NAFTA was implemented—despite the peso devaluation in Mexico.

Let me just quote a few figures. Between 1993 and 1996, Michigan's exports to Mexico grew 146 percent. In 1996, Michigan sold $3.2 billion worth of goods, includ-

ing transportation equipment, industrial machinery, fabricated metal products and electronic equipment to Mexico. Iowa's exports to Mexico increased 78.3 percent, including $171 million worth of agricultural and food products; and, Louisiana's exports to Mexico increased 136.8 percent. California's exports to Mexico grew 38.9 percent, reaching $9.1 billion in 1996. Exports from New York and New Jersey to both Canada and Mexico represented 1996 exports.

Despite these very positive figures, we are concerned. Why? Because somehow the perception among significant segments of the American population is that NAFTA has been an economic failure and that, at the end of the day, the United States and the majority of Americans have suffered economically. Our studies show that this is a mistaken conclusion.

However, perceptions are important, and misconceptions like the one cited above could impede the President's ability to negotiate additional free trade agreements to benefit the American consumer and strengthen our economy. That is why we are worried.

If there were no NAFTA and if there is no Free Trade Area of the Americas, would the United States stop trading? No!

But, with NAFTA and a Free Trade Area of the Americas, we would trade with countries in the Hemisphere on a basis that is more beneficial for the vast majority of Americans because it is less encumbered by tariffs and other non-tariff barriers. As a result, we—the American people—would reap the benefits of free trade.

What are those benefits? First and perhaps most important, the benefits enable any American to buy a multitude of goods for lower prices.

Second, our producers have a larger market for their goods. The market is not limited to the 50 states. For example, because Mexico has lowered or eliminated its taxes on U.S. imports, our goods can more easily be made available to the very attractive market of 92 million Mexicans.

With a FTAA, the potential market is 800 million people. That is good for our producers—both the large producers like Ford Motor Co. in Michigan and the small producers like Milagro Trading Co. in Florida and O.G. Bell Company in Ohio.

Ford's sales to Mexico increased 1,600 percent in one year—from the export of only 1,762 automobiles in 1993 to the export of 30,138 automobiles in 1994. And, after just one year, Milagro Trading now has a $1.2 million relationship with a shoe-part manufacturer in Mexico, which has enabled that firm to add two new people to its three-person payroll. O.G. Bell manufactures machine tools, which it started to export to Mexico in December 1995. Now, Mexico makes up one quarter of its total sales, and the company's workforce was increased 25 percent in 1996, when the company hired three new people. These are success stories, which affect both large and small companies.

And, I would like to point out two related aspects involved in this lowering of tariffs and increased markets.

First, since our tariffs are lower than most countries, our trading partners generally make much larger cuts than we do. For example, prior to implementation of NAFTA, U.S. tariffs averaged 2.07 percent, while Mexico's average tariff rate was 10 percent. With NAFTA's implementation, Mexico reduced its tariffs 7.1 percent to 2.9 percent, while we reduced our tariffs only 1.4 percent to 0.65 percent. That's a darned good deal!

U.S. tariffs were not affected as dramatically because they were not as high to begin with. However, on the day NAFTA went into effect, Mexico eliminated tariffs on 70 percent of U.S. exports of computer equipment and software, on 55 percent of U.S. exports of pharmaceuticals, on 58 percent of U.S. exports of chemical products and on 80 percent of U.S. exports of telecommunication equipment. These reductions especially benefited states like Florida, Massachusetts and New Jersey.

In order for the United States to be able to get more good deals like this in the future, the President needs to have the authority to negotiate them effectively and that is why he and our country need Fast Track.

A second point is that many of the goods we sell abroad are high technology or manufactured products. Broadening the markets for these goods translates into the need for more workers in these industries. And, according to the U.S. Department of Commerce, wages for U.S. workers in the export sector are 12–15 percent higher than overall wages. Therefore, growing export markets for a country like the United States mean more jobs in the higher paid industries.

In May of this year in Belo Horizonte, Brazil, the 34 trade ministers from the Western Hemisphere met for the third time since the 1994 Summit of the Americas in Miami to prepare the way for the beginning of negotiations for a FTAA in Santiago next April.

At the Americas Business Forum held concurrently in Belo Horizonte, Brazil, our members had a unified and clear message for the U.S. Government and the 33 other

trade ministers meeting in Brazil. They are excited about the prospect of FTAA and would like the negotiations to begin as soon as possible. Frankly, our members are eagerly looking to the Administration and the other democracies in the Hemisphere to make a commitment to FTAA by initiating the negotiations and making some limited commitments now—such as promising not to raise any new barriers to trade.

But, in Brazil, business representatives from Latin America warned us repeatedly that they seriously doubted whether the United States was going to be able to negotiate seriously any time soon. And, while their first choice for business partnerships is the United States, they are looking in other directions.

We are getting left out, and we will be even more left out if the President does not have fast track authority. The countries of the Hemisphere are negotiating free trade agreements without us. Just this month, Canada and Chile implemented a free trade agreement that eliminates Chile's 11 percent across-the-board tariff on imports from Canada. As this subcommittee learned in March, Canada's Northern Telecom won a $200 million telecommunications equipment contract over U.S. companies partly as a result. In addition, U.S.-based Caterpillar and other world manufacturers have been put at a competitive disadvantage to Canadian mining truck and motor grader manufacturers who now can offer goods to Chile at prices, which do not include the 11 percent duty.

Similarly, Brazil has waived some of its non-tariff barriers for its MERCOSUR partners—Argentina, Paraguay and Uruguay—and associate members—Chile and Bolivia. But, in the meantime, American producers function without these same privileges.

Fast track authority leading the way to FTAA negotiations will enable U.S. producers to receive the benefits accruing to other countries in the Hemisphere who are moving ahead with free trade arrangements.

In conclusion, I want to emphasize that this free trade debate is about more than NAFTA and more than FTAA. It is about American leadership. Is the United States going to act with the confidence it should as the strongest, most productive economy in the world, ready to compete across the board in the global marketplace and with the conviction that it will do well? Are we going to keep our mantle as the world leader in promoting open healthy competition, which benefits our consumers and consumers worldwide? Or, is the United States going to shrink from this leadership role and turn timid and inward in the belief that its economic growth can be fostered without the global economy?

The Council of the Americas hopes that the answer is that the United States will continue to be at the forefront of trade liberalization—for the benefit of American consumers and American producers. And, the Council of the Americas hopes that this committee will recommend that the President be given the authority to make it happen—that he will be given fast track authority—and soon. Thank you.

Chairman CRANE. Thank you.

And now we go to our distinguished former colleague from Puerto Rico, Tito Colorado.

STATEMENT OF HON. ANTONIO J. COLORADO, EXECUTIVE DIRECTOR, CARIBBEAN/LATIN AMERICAN ACTION; FORMER MEMBER OF CONGRESS; AND FORMER RESIDENT COMMISSIONER FOR THE COMMONWEALTH OF PUERTO RICO

Mr. COLORADO. Thank you, Mr. Chairman. Thank you for the opportunity to participate in this important hearing.

I am Antonio Colorado, executive director of C/LAA, Caribbean/Latin American Action, a private, nonprofit organization promoting private sector-led development in the Caribbean and Latin America.

C/LAA is governed by an international board of trustees made up of primarily private sector leaders from the United States, the Caribbean, and Latin America. C/LAA has been at the forefront of each stage of the FTAA process since the Summit of the Americas in 1994.

Throughout the business fora in Denver, Cartagena, and Belo Horizonte, we organized private sector companies to provide recommendations on the most important aspects of hemispheric integration. This includes private sector consultation involving some 200 companies, resulting in major policy recommendations to trade ministers.

C/LAA divides its program of work by sector, each one represented by a business team that addresses common issues affecting business in the region and generates the substance of our recommendations.

I am here today to urge you to move ahead on two priority tasks: approving fast track authority and passing CBI enhancement legislation.

First, we must go forward with fast track authority as a signal of our sincerity about the reform process. Fast track authority is extremely important, not only for Chile, but also for the Caribbean Basin countries.

Trade with the large United States market provides a strong incentive for reform in all of the developing countries of the hemisphere, particularly our neighboring countries in the Caribbean Basin.

Second, we must not hesitate another moment with CBI enhancement. Ever since NAFTA came into being, these countries have been operating at a disadvantage that discourages investment.

Happily, the long needed legislative remedy is now within reach. Making this happen now will not only restore trade and investment, but it will in turn greatly support the economic reform efforts of the Caribbean Basin countries.

Mr. Chairman, while we are in a unique position to point out the importance of progress in the FTAA to the Caribbean and Central American countries, the fact is that the United States itself has the most to gain from recapturing the leadership in the process, and the most to lose by abdicating it to others.

Many other countries are aggressively advancing on free trade agendas. The South American countries are already advancing under Mercosur, and they are willing and able to take the leadership of the FTAA process if the United States fails to do so.

Similar advances are made by the Central American countries, as well as by the Andean group. Moreover, the CARICOM countries, with Haiti as a new member, have embarked on a process of trade negotiations which incorporate negotiations with the Dominican Republic and the Andean countries just this week, and with Central America in August.

These countries are doing everything possible to ensure they achieve effective market access and provide the foundation for greater trade and investment. Canada and Mexico are also aggressively taking this route, as is Chile. The sole absent player in this new game of free trade advancement, Mr. Chairman, is the United States, thus seriously jeopardizing its role as the hemispheric leader.

Moreover, recent overtures toward the Caribbean and Latin America from the European Union and Asia lead us to believe that unless the administration is able to advance aggressively with the

free trade agenda to which it committed itself at the Summit of the Americas in 1994 in Miami, United States business and the United States economy will face greater challenges both from this hemisphere and worldwide.

Trade negotiations require strong public sector leadership. Chile, Argentina, Brazil, and the Central American countries are providing that leadership. The hemisphere looks to the United States as the key player in the process.

Not having a singular trade position emanate from the United States is putting businesses in this country at a severe disadvantage. Who stands to suffer the most? We believe the U.S. consumers and the U.S. workers do.

The U.S. Government needs to retake the hemispheric leadership position on the FTAA, and reconfirm the level of hemispheric confidence in the U.S.-led process. To the degree that the U.S. leadership on this issue is firm and forward looking, then to that degree, the business alliance which exists between the United States and the countries of the hemisphere will strengthen and will result in economic prosperity for all.

Mr. Chairman, the region has made it clear to President Clinton that they are committed to free trade and to hemispheric integration. Our business communities have also made that commitment. At this moment the United States needs to take the leadership initiative once again, and move forward to pursue and secure economic development and growth in the region.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Hon. Antonio J. Colorado, Executive Director, Caribbean/Latin American Action; Former Member of Congress; and Former Resident Commissioner for the Commonwealth of Puerto Rico

Mr Chairman, Members of the Committee:

Thank you for the opportunity to participate in this hearing on the Free Trade Area of the Americas (FTAA). My name is Antonio J. Colorado, Executive Director of Caribbean/Latin American Action (C/LAA), a private, non-profit organization dedicated to promoting private sector-led development in the Caribbean and Latin America. C/LAA is governed by an international Board of Trustees made up of primarily private sector leaders from the U.S., the Caribbean, and Latin America and is financed 100% by the hemisphere's private sector. We are also honored to have on our Board former members of government from the hemisphere, as well as active public sector officials such as yourself Mr Chairman and your colleagues Congressman Gilman, and Senators Graham and Torricelli.

C/LAA's tripartite mission for more than twenty (20) years has been to (1) serve as a catalyst to stimulate and facilitate external trade and investment; (2) strengthen and assist local private sector institutions in the Caribbean and Latin America; and, (3) to advocate and promote sound public economic policies, on the part of the United States and regional governments that serve to advance development. I come to you today as a representative of the an organization supported by the private sector which has a vested interest in seeing this hemisphere grow and develop.

C/LAA has been at the forefront of each stage of the Free Trade Area of the Americas (FTAA) process since the Summit of the Americas in 1994. We produced a White Paper on Telecommunications Policy for the Summit of the Americas as well as for the first Business Forum Meeting held in conjunction with the Trade Ministerial Meeting in Denver in 1995. For the following two Business Fora; in Cartagena, Colombia in 1996, and Belo Horizonte, Brazil in 1997, we organized private sector companies in key sectors to provide recommendations on what they see as the most important aspects of an hemispheric free trade agreement. This exercise consisted of a hemispheric private sector consultation involving some 200 companies, and resulted in major trade policy recommendations from the private sector to the Trade Ministerial, and their subsequent incorporation into the Declarations of the Belo Horizonte Trade Ministerial and Business Forum.

C/LAA has grown from its early focus on the island Caribbean to an organization today that retains a significant Caribbean Basin focus, but embraces a mandate throughout the hemisphere. C/LAA divides its program of work by sectors. Currently, C/LAA has seven formal sectoral groups including: Agribusiness, Apparel & Textiles, Energy, Financial Services, Telecommunications, Tourism, Transportation, and a separate task force on Haiti. Each sector is represented by a C/LAA Business Team that meets periodically to address common issues and barriers affecting business in the region. These Business Teams generate the substance of the policy recommendations C/LAA has put forth at each stage of the FTAA process, and it is the concerns raised by these teams that I would like to address to this Subcommittee.

I am here today to urge we make sure that the FTAA process works for the smaller countries of this hemisphere. How do we do this? We move ahead swiftly by supporting the Administration's future request for fast-track authority and we provide a more level playing field for the Caribbean Basin countries as they compete in the global economy.

Fast-track authority, which could be used first for Chile's accession to the NAFTA, is extremely important for the Caribbean Basin countries. The offer of free trade with the large U.S. market provides a strong incentive for reform in all developing countries of the hemisphere and particularly with our neighboring countries in the Caribbean Basin.

Enhanced trade for the Caribbean Basin countries will provide added incentive to the region as it prepares for the full FTAA. Countries of the Caribbean Basin need expanded trade opportunities. Help exists in the possibility of providing, on a temporary basis, some of the benefits Mexico negotiated. Making this happen now will also greatly support the economic reform efforts of the Caribbean Basin countries.

Furthermore, these incentives for reform fall far beyond the sectors given enhanced preferences to trade. For example, increased US trade with Mexico and its accession to NAFTA served as the catalyst for telecom liberalization. NAFTA addressed value added services and equipment, and the Mexican government advanced its own strong program to privatize and modernize its telephone system to support a more open trading economy. Providing enhanced trade for the Caribbean Basin and the prospect of future negotiated arrangements, would encourage movement towards efficiency and competition across all business sectors. This alone serves as a tremendous impetus for telecom liberalization and opportunities for companies like Global One.

I cannot stress enough the importance of our encouragement as the region under goes the process of reform. For countries facing difficulty in political and economic reform, such as Haiti and Nicaragua, agencies such as the Overseas Private Investment Corporation (OPIC) can facilitate much needed private sector investment. We cannot underestimate the importance of private sector investment at this stage of the game—without it there is little or no incentive for reform. Unfortunately many services such as private financing and political risk insurance are not fully available in the region's emerging markets, thus an institution such as OPIC can create a safer business climate for the private sector to invest. This is an important support link to reform in light of the political and economic problems that exist in parts of the region.

Hence, we recognize two priorities that we urge the members of this committee to work on diligently with their colleagues. First, we must go forward with fast track authority and use this authority to bring Chile into the NAFTA as a signal of our sincerity about the reform process in the region. Second, we must not hesitate another moment with CBI enhancement—without it we are paralyzing the subregion's capacity to negotiate adherence to any hemispheric agreement. With it, we help to insure that everyone is in a position to move forward when the time comes.

C/LAA's work with regards to advancing the private sector component of work for the FTAA has been extremely successful and has resulted in specific private sector input into the trade policy debate. This is resulting in a synergy of business initiatives between the U.S. private sector and counterparts in the Caribbean, and Central and South America. Such initiatives are providing U.S. companies with the chance to maximize business opportunities in other countries of the hemisphere, as their markets are opening up to external trade and investment. This is a critical change from the past in the Caribbean and Latin America, and the FTAA initiative to-date is setting the foundation upon which such market access opportunities develop and under which restrictive sub-regional trade regimes become more open for participation from U.S. companies. To the degree that the U.S. Administration is given the opportunity in this term to consummate the goals and objectives of the FTAA, then to that degree U.S. businesses, as well as their counterparts in the rest

of the hemisphere, will be able to maximize business opportunities throughout the Caribbean and Latin America.

These business opportunities are manifesting themselves everyday, Mr Chairman, as already many countries of the Caribbean and Latin America are aggressively advancing on free trade agendas, thus providing the proper business-enhancing environment in which their private sectors can compete and prosper. The South American countries are already advancing under the aegis of the MERCOSUR (South American Common Market) and it is "vox populi" that they are willing and able to take the leadership of the FTAA process if the U.S. fails to do so. Similar advances are made by the Central American countries, as well as the Andean Group countries. Moreover, the CARICOM countries, now having accepted Haiti as a member, have already embarked on a process of trade negotiations strategy which incorporates trade negotiations with the Dominican Republic and Andean countries just this week, and then with Central America in early August.

In addition, all of these countries are embarking on a series of key bi- and multilateral free trade agreements (FTA's) amongst themselves in order to ensure that they achieve effective market access and provide the foundation for greater trade and investment, leading to greater economic growth. Our NAFTA partners, Canada and Mexico, are aggressively taking this route, as is our potential NAFTA partner Chile. The sole absent player in this new game of free trade advancement, Mr Chairman, is the United States, thus seriously affecting the performance of its business in the rest of the hemisphere, and seriously jeopardizing its role as the hemispheric leader. Moreover, recent overtures towards the Caribbean and Latin America from the European Union and individual European states (France, Spain, United Kingdom), as well as from Asia, lead many of us to believe that unless the Administration is able to advance aggressively with the free trade agenda and leadership it committed itself to at the Summit of the Americas of 1994 in Miami, U.S. business and the U.S. economy will face greater challenges from abroad in this hemisphere.

The FTAA provides for the opportunity to advance a "seamless" economy throughout the hemisphere in which trade and investment flows are rationalized and become more efficient and effective, and under which trade and investment in the provision of goods and services also grow. This will lead to better and higher paying jobs in the United States. Markets which have hitherto been closed or highly restricted will now open up and the trade and investment synergies between the U.S. economy and the rest of the hemisphere's economies will be stimulated into greater growth and productivity. The fast track and CBI enhancement initiatives are the policy stepping stones for the advancement of the FTAA, with the real foundation being the Administration's willingness and ability to fulfill its leadership role at the forthcoming IVth Trade Ministerial and Business Forum of the Americas in San Jose;, Costa Rica in February 1998. This event will provide substantial recommendations for the IInd Summit of the Americas in Santiago, Chile on April 18–19, 1998, after which it is expected that a full-fledged FTAA negotiation and implementation schedule will be set in place between then and the 2005 goal of an FTAA.

While we have been at the forefront of providing U.S. business leadership in this process, thus identifying business opportunities from free trade and from greater hemispheric market access, trade negotiations are a governmental matter and require strong public sector leadership. Chile, Argentina, Brazil, and even the small Central American countries are providing that leadership as they strengthen their regional trade alliances while also expanding their extra-regional trade linkages. All of these, as with the rest of the hemisphere, look to the U.S. market and government as the key player in this process and are developing their trade strategies with this as the final goal and objective: greater access to an already open U.S. economy. Not having a similar trade position emanate from the U.S. is putting businesses in this country at a severe disadvantage vis-a-vis their competitors from the hemisphere.

It is because of this that the U.S. government needs to re-take the hemispheric leadership position on the FTAA and reconfirm the level of hemispheric confidence in a U.S.-led FTAA process. We are confident that with such a policy mandate we in the private sector can work with our counterparts in the Administration (White House, USTR, State, and Commerce Departments), as we do with our government counterparts in the rest of the hemisphere, to set the foundations for a strong FTAA process which will result in more open markets, greater flows of trade and investment, and stronger growth for all countries of the hemisphere. The lack of such policy authority could lead, as has happened already, to a decline in the hemispheric legitimacy of the U.S. as a trade partner and to the strengthening of sub-regional restrictive trade agreements unwilling to advance on greater trade liberalization without a guarantee of participation and leadership from the U.S. This in turn can

lead to a strengthening of the potential leadership role of other hemispheric actors such as Brazil, Argentina and the MERCOSUR. Already Chile has, partly as a response to the lack of U.S. fast track and promotion of NAFTA accession, advanced on its trade agreement and membership with MERCOSUR and is strengthening its bilateral trade ties through similar agreements with Canada and Mexico, as well as the European Union and the Asian-Pacific Economic Cooperation (APEC) group. U.S. leadership in the FTAA is critical to ensure that these initiatives are fully incorporated into the FTAA process and do not result in trade and investment deviation.

In sum, I would like to reassert to the Chairman and the Subcommittee how important it is for U.S. businesses to be able to have the U.S. government as a strong presence in hemispheric trade negotiations leading to an FTAA in 2005. To the degree that U.S. leadership on this issue is firm and forward-looking, then to that degree the business alliance which exists between the U.S. and the countries of the Caribbean Basin will be strengthened and will result in economic prosperity for all.

The countries of the region have made it clear to President Clinton during his visits in May past that they are committed to free trade and to the hemispheric integration movement. Our business communities have made the commitment. At this opportune moment the U.S. needs to take the leadership initiative once again and move forward to pursue and secure economic development and growth in the region.

We at C/LAA will continue our work with the hemispheric business communities and will continue to support and advance our assistance to the initiatives of this Congress and this Administration.

Thank you Mr Chairman.

Chairman CRANE. Thank you.

And now Mr. Smith.

STATEMENT OF ERIC H. SMITH, PRESIDENT, INTERNATIONAL INTELLECTUAL PROPERTY ALLIANCE

Mr. SMITH. Thank you, Mr. Chairman. My name is Eric Smith. I am president of the International Intellectual Property Alliance, a coalition of seven trade associations representing approximately 1,350 companies in the business software, entertainment software, motion picture, music and recording and book publishing industries.

Mr. Chairman, Latin America is one of the fastest growing regions in the world. It is also a fast growing region for the copyright-based industries. Trade liberalization in this region has changed the entire climate in the hemisphere. Lowering of tariff and nontariff barriers to trade and products, like computers and consumer electronic equipment, have established an infrastructure in the region that significantly enhances the ability of our members to serve the vastly growing demand in the region.

The potential for copyright-based companies to enjoy the revenue and job gains here in the United States from trade growth in the FTAA region is enormous. Yet, while sales and licensing of copyrighted products in the region is indeed growing—for example, the business software industry estimates an annual rate of growth in software sales of 35 percent in 1997 and 34 percent in 1998—this potential will not be realized until the biggest barrier to trade in the region, piracy, is very significantly reduced.

Piracy rates in Latin America—that is, the percentage of illegal product in the marketplace—are higher in Latin America than in any other region except Eastern Europe, Russia, and the CIS states. Our industries lose an estimated $2.3 billion in just 19 of these 34 countries in the region, and this reflects only a fraction

of the damage inflicted on both United States and domestic right holders in the region.

IIPA strongly supports the FTAA process. Yet while our industries are focused on the FTAA, that deadline is a distant 2005. We look to an even earlier deadline, that of full implementation of the TRIPs agreement in the year 2000 for the most significant benefits to our industries to kick in.

This is when most of our important trading partners will become fully obligated under that agreement, and particularly its enforcement provisions.

Already the FTAA process has borne fruit in the FTAA IPR Working Group, working right now on interim measures to fight piracy and counterfeiting in the region.

Improved enforcement is our top priority. The TRIPs agreement contains specific enforcement obligations, which are not currently being met in the region, and will not be met unless countries start immediately to improve their enforcement and judicial machinery.

These improvements will benefit not just our industries—judicial reform throughout the region is a critical element to improving the economic climate in the region as a whole. The "carrot" of the FTAA has assisted in this important process already, as has, of course, the "stick" of continuing pressure from the U.S. Government through the special 301 process.

Lowering piracy levels in the region through improved enforcement is critical to U.S. trade in creative products. The Business Software Alliance, an IIPA member, representing the major PC software producers in the United States, recently released a study which demonstrates graphically the interrelationship between piracy and revenue and job growth.

The study covered 15 Latin and Caribbean countries, and found that if the level of software piracy in the region, which averaged 68 percent in 1996, were reduced by 15 percent only, an additional, approximately 30,000 jobs, and additional $300 million in tax revenue would have been generated in that year in those local economies alone.

By 2000, if illegal copying were 15 percent lower than in 1996, the software industry could account for a total of 275,000 more jobs and close to $5 billion in tax revenue.

These gains to these local economies are more than matched by gains to the U.S. economy. It is a win/win situation. And while these figures are impressive, they represent only one part of our collective industries. By including all of them, the figures would be much higher.

IIPA goals for FTAA and TRIPs are straightforward: Effective enforcement; adopting and implementing the two new WIPO copyright treaties negotiated in December covering digital uses of works; improvements in market access; adoption by the FTAA countries of the ITA, the Information Technology Agreement; ensuring open markets for new services, like direct to home and direct broadcast satellite services; and harmonizing customs valuation practices.

To achieve these objectives, Congress can help in the following ways: Clearly adopting fast track legislation as soon as possible—and before the Santiago summit in April 1998—is critical. The

United States has lost the initiative in the region. No country will negotiate lowering barriers with the United States without fast track in place.

Also improving trade programs in the region that leverage better IP protection, programs like the GSP, the Caribbean Basin Initiative, and the Andean Trade Preference Agreement are also critical. These programs offer significant leverage for improving IP protection.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

Statement of Eric H. Smith, President, International Intellectual Property Alliance

Mr. Chairman and distinguished Members of the Subcommittee: I am Eric Smith, President of the International Intellectual Property Alliance (IIPA). We greatly appreciate the opportunity to present the views of the copyright-based industries on progress in the negotiations for the Free Trade Area of the Americas (FTAA) and on the economic interests of our industries in the FTAA process.

The International Intellectual Property Alliance (IIPA) is a coalition of seven associations representing U.S. copyright-based industries in bilateral and multilateral efforts to open up foreign markets closed by piracy and market access barriers. Our member associations represent more than 1,350 U.S. companies which produce and distribute materials protected by copyright laws throughout the world, including all types of computer software including business software and entertainment software (such as videogame CDs and cartridges, personal computer CDs and multimedia products); motion pictures, television programs and home videocassettes; music, records, CDs and audiocassettes; and textbooks, tradebooks, reference and professional publications and journals (in both electronic and print media). In short, these industries represent the leading edge of the world's high technology, entertainment and publishing industries and are among the fastest growing and largest segments of the U.S. economy.[1]

The goal of the FTAA negotiations is to eliminate trade barriers in the Hemisphere by 2005. The U.S. copyright-based industries are also focused on an earlier date: 2000. That is when the WTO TRIPS (Trade Related Aspects of Intellectual Property Rights) Agreement is scheduled to fully enter into effect, in the area of copyright protection, for the "developing" countries in the Hemisphere. While the FTAA promises ever greater benefits in the future, the first order of business is for all countries to meet all their TRIPS obligation no later than 2000 and, to the extent possible, before that date. This Committee was instrumental in including as a further U.S. negotiating objective in the Uruguay Round Agreements Act (URAA) the "acceleration" of TRIPS objectives throughout the world.

Enforcement is a top priority. Nations in the Hemisphere must take immediate action to improve enforcement against copyright piracy—now, not years from now. While the economic harm caused by copyright piracy in this region is daunting, the possibility for growth both in terms of foreign investment and local economic development is high.

Let me turn to the economic impact of copyright piracy in this Hemisphere. I will then briefly outline IIPA's major objectives to accomplish improved copyright protection and enforcement in the FTAA.

THE ECONOMIC IMPACT OF COPYRIGHT PIRACY IN THE AMERICAS

Latin America represents the second largest trading region for the United States. In testimony to Congress last month, Ambassador Jeffrey Lang stated that U.S. exports to Latin America and the Caribbean grew by 14.5%, reaching $109 billion in

[1] In a report released in March 1997 entitled Copyright Industries in the U.S. Economy: The 1996 Report which was prepared for IIPA by Economists Incorporated, we outlined the importance of these industries to the U.S. economy. For example: the core copyright industries accounted for 3.78% of U.S. Gross Domestic Product (GDP) or $254.6 billion in value added in 1994 (the year for which the more recent data was available) between 1987 and 1994 the core copyright industries grew twice as fast as the rest of the U.S. economy—4.6% vs. 2.3%; and created new jobs in the U.S. more than twice as fast as the economy as a whole between 1987 and 1994—2.85% vs. 1.25%. In 1995, the U.S. core copyright industries achieved foreign sales and exports of $53.25 billlion, surpassing every other export sector except automotive and agriculture.

1996. We believe that high levels of copyright protection and enforcement are critical to the growth of the cultural, entertainment and high technology industries in each country in the Hemisphere—regardless of its level of development. Here in the U.S., the copyright-based industry is this nation's third largest industry in foreign sales and exports. Every nation in this Hemisphere has an interest in nurturing the economic development of its local copyright industries. Not only will this provide local income and jobs, it will encourage foreign and domestic investment in this fast-growing sector.

Copyright piracy casts a pall over all these bright prospects. Let me spend a moment or two providing the Subcommittee with some key statistics which demonstrate this fact.

• Copyright piracy is the number one trade barrier affecting the health and growth of local and U.S. copyright industries in the Hemisphere. The IIPA estimates that the U.S. creative industries lost $2.3 billion last year due to copyright piracy of U.S. copyrighted materials in just 19 of the 34 FTAA member countries (not including the U.S.). These losses represent only a fraction of the total damage inflicted upon both foreign and domestic copyright owners by copyright piracy throughout the region.

• Lowering these losses due to piracy will not only mean increased private sector employment and sales revenue in this fast growing sector. It will also bring much needed new tax revenue to governments in the region. Modes and methods of piracy vary, but one feature never changes: pirates do not pay taxes.

The Business Software Alliance (BSA), an IIPA member, recently released a study on Latin America which was produced by Price Waterhouse. This study on the packaged software industry, covering 15 Latin American and Caribbean countries, found:

—If the level of software piracy in the region (which averaged 68% in 1996) were 15% lower, an additional 29,557 jobs and an additional $300 million in tax revenue for the local countries could have been generated last year alone.

—By 2000, if illegal copying were 15% lower than in 1996, the software industry could account for a total of 275,181 more jobs and over $4.86 billion in tax revenue.

If these figures, which cover only part on one copyright-based industry software—were expanded to cover the entire copyright-based sector, the costs of piracy in lost revenue and foregone jobs would be substantially larger.

IIPA Goals for Copyright Protection in the FTAA

IIPA has focused much of its attention on the efforts of the FTAA Intellectual Property Rights (IPR) Working Group, one of the dozen working group set up by the Ministers. The IPR Working Group is not waiting until 2005; it is now beginning to develop an action plan which will address piracy and counterfeiting problems in the near term. We hope that the Working Group will recommend to the Trade Ministers specific measures for government-led actions supporting effective enforcement efforts on-the-ground, and that the Ministers will urge the region's leaders to support such plans at the Santiago Summit in April 1998.

IIPA has several goals for progress in copyright protection and enforcement within the FTAA.

• Effective Enforcement: Governments in this Hemisphere should take immediate action to enforce their current copyright laws (including criminal laws) to reduce high levels of piracy and encourage the development of legitimate cultural, entertainment and high technology industries which depend on copyright protection. These efforts will involve working with police, prosecutors, judges, customs, tax, administrative and other authorities to ensure that every country's enforcement system complies with TRIPS; in other words, that it (1) permits effective action against infringements; (2) provides expeditious remedies which constitute a deterrent; (3) is fair and equitable; (4) is not unnecessarily complicated or costly; and (5) does not entail any unreasonable time-limits or unwarranted delays.

As I mentioned, the FTAA IPR Working Group has accepted the importance of creating a hemispheric action plan to combat IPR infringements. We understand that this proposal will be discussed in more detail at the next IPR Working Group meeting in October 1997. While it is important that this work continue at a swift pace within the Working Group, it is essential that countries begin (or in some cases, continue) efforts to stop the theft of intellectual property, both domestically and at its borders.

There are already some promising developments. For example, since the recording industry launched a Latin regional anti-piracy campaign last year, over 1,100 raids have taken place against audio pirates in selected countries in Latin America, according to FLAPF (the Latin American Federation of Producers of Phonograms and Videograms). The value of the resulting seizures of pirated cassettes and equipment

was over $21 million. The equipment seized and destroyed had the capacity to produce 67 million cassettes per year.

• Improve Copyright Laws to Address Digital Issues: Governments should ensure high levels of copyright protection for valuable works and recordings traveling in digital format on the "Information Superhighway" throughout the Hemisphere and the world. This means going beyond the minimum obligations set out in the TRIPS Agreement, and in some cases, even beyond the higher levels of copyright protection found in the North American Free Trade Agreement (NAFTA).

Fortunately, FTAA countries have already voted to adopt two new "digital" copyright treaties. These countries should now take action to ratify immediately the World Intellectual Property Organization (WIPO) Copyright Treaty and the WIPO Performances and Phonograms Treaty. These new pacts contain rights and obligations which will allow authors, performers, and producers the ability to better protect the products of their creativity in the information age. In addition, the Treaties contain provisions safeguarding technological measures of protection and protecting electronic rights management information from alteration or removal. These new provisions are essential for the efficient exercise of rights in the digital age. IIPA was pleased that President Clinton set the goal of achieving ratification of these treaties by as many nations as possible by next July.

• Market Access: Governments also should provide non-discriminatory access for information and entertainment services to all markets through the reduction of tariff and non-tariff barriers, and other measures which affect the free circulation of information, education and entertainment-based goods and services.

• The Information Technology Agreement: FTAA countries are conspicuously absent from the long list of countries which have subscribed to the Information Technology Agreement (ITA), which eliminates tariffs on key information technology products, including many protected by copyright.

• New Services: In addition, countries should have open regulatory regimes for Direct-To-Home/Direct Broadcasting Satellite services that allow programming to freely circulate within the Hemisphere. By taking advantage of this new technology, diverse programming reflecting the cultural wealth of the region can be disseminated through this multi-channel environment.

• Customs Valuation: It is important for Governments to ensure that customs valuation is based on the physical medium embodying the copyrighted work, and not the value of the copyrighted work itself. The overwhelming international trend, including in the U.S., is toward assessing duties only over the value of the physical media.

WHAT THE U.S. CAN DO

We see several ways for Congress and the Administration to continue to support progress on the FTAA negotiations.

First, we believe it is critically important that the Administration receive Fast Track authority as soon as possible, and definitely before the Santiago Summit in April 1998. This authority is an essential tool for the negotiations of agreements—like the FTAA that will open foreign markets for U.S. copyrighted materials. We urge Congress to grant the President broad Fast Track authority promptly, so that these new opportunities to dismantle export barriers can be seized. Mr. Chairman, the U.S. is losing the initiative in this important region of the world.

Second, the U.S. must continue to closely monitor developments in the four other sub-regional groups—Mercosur, the Andean Pact, the Caribbean Community and Common Market (CARICOM) and the Central American Common Market (CACM). Tension between the U.S. and the Mercosur bloc on FTAA issues is not a secret. We hope, however, that progress on the negotiations will occur at a swifter pace. As we have shown already, the looming deadline for copyright issues is 2000 or earlier, not 2005.

Third, we urge continued Congressional support for the current trade programs which contain intellectual property criteria. These programs are the Generalized System of Preferences (GSP), the Caribbean Basin Economic Recovery Act (CBERA, or CBI) and the Andean Trade Preferences Act (ATPA). The Administration has made effective use of the tool Congress has provided. Currently, the U.S. Trade Representative is reviewing IPR practices in both Panama and Paraguay under the GSP program. Facing a loss of $5 million in GSP and CBI benefits this fall unless television piracy is halted, Honduras has announced its first set of measures that promise to control television piracy. Although the final proof will not be available until the end of this summer, we believe that this cases demonstrates how effective GSP and CBI leverage can be to motivate countries to comply with their IPR obligations.

Earlier this year the Administration withdrew 50% of GSP benefits against Argentina for inadequate patent protection.

CONCLUSION

In brief, IIPA will actively participate in the FTAA process. The future of our industry in this region is at stake. While IIPA will continue to work in various bilateral and multilateral fora to strengthen copyright protection and enforcement, we believe that the FTAA process does have great potential. It offers the prospect of a regional partnership, and a forum through which member nations can be persuaded that strong copyright protection combined with effective enforcement supports both local economic development and fosters foreign investment. In other words, it's a "win-win" situation for every nation.

We look forward to working with both the Administration and the Congress to achieve a strong FTAA.

Thank you, Mr. Chairman, for your invitation today.

Chairman CRANE. Thank you, Mr. Smith, and thanks to all of you.

I would like to direct a generic question to any or all of you, and it deals with the fundamental issue between Brazil and the United States over how to proceed on FTAA talks. Brazil, I believe, wants to focus first on business facilitation issues, such as customs and transport issues, and leave market opening concerns like tariffs and other barriers for much later in the process.

Was there any progress made at Belo Horizonte with regard to the differing positions?

Mr. Pryce.

Mr. PRYCE. Mr. Chairman, I think what impressed me so much in Brazil, at least on the part of private Brazilian businessmen, was the temerity, the surprising temerity they all seemed to exhibit regarding free trade. They really were afraid to move ahead, very cautious, sort of hoping it wouldn't happen for quite a while.

I think their government's position reflects this attitude. Most of the private enterprise representatives of other countries were much more willing to move ahead, but they felt that since we do not have fast track, we cannot really play, so they have to look to, as we have said earlier, other countries.

But there was some progress. You could sense that other countries were much more willing to move ahead. I think Mr. Lang was alluding to the fact that the majority want to move ahead. Brazil, for whatever reasons, seems to want to go slow.

Chairman CRANE. Anyone else have any input?

[No response.]

Chairman CRANE. What is the role of the private sector in building support for the FTAA?

Mr. MCCORD. Mr. Chairman, I would say the private sector is waiting for legislation to be introduced into Congress to marshal its forces and begin to work. As you well know from your visits to Chile, the American Chamber of Commerce has a number of mechanisms and processes in place which are ready to move.

It is a little bit of a chicken and an egg. We are waiting for the right moment to be able to get head offices working with affiliates in the Latin American countries to come to Washington and explain what this means to all of us. Many industries, large and small, will participate.

Chairman CRANE. Yes, Tito.

Mr. COLORADO. Well, I believe the stronger the perception is by Congress and by the rest of the different sectors in the United States of the importance of this process for the private sector, the more successful we will be.

So I do believe that the private sector represented herein, and you have heard what we have had to say, should be much stronger. I think we need more participation from the private sector. I think more communication from the private sector to the Congress and to the administration so that they realize how important it is.

Many of the things that are happening right now have been mentioned here. The private sector itself, most of the companies can produce those products here, in Canada, or in Mexico. So I think those that really stand to lose are the consumers and the workers which otherwise would have a job, and if this work is done somewhere else, they will not.

So I think the consumers should be involved. The workers should be involved in a positive way, and the private sector should do much more in leading that message, get to the Congress, the administration, and to the other sectors of the economy.

Chairman CRANE. Mr. Smith.

Mr. SMITH. Mr. Chairman, I think you will find at least the U.S. private sector getting much more active with respect to the FTAA when the Congress deals effectively with fast track. I think that is the key to everything.

Obviously, our industries have been working very consistently throughout the region to organize our copyright colleagues in the region to push for improved protection, which will open markets for us. And we will continue to do that.

But to move this to a new level is going to require all of the region south of us believing that the United States is truly committed to negotiating a free trade area, and without fast track I am not sure they will be convinced that we will be there.

So I think you will find in our group—in the intellectual property industries—considerable effort and support for moving fast track forward.

Chairman CRANE. Well, I agree wholeheartedly with your concerns about fast track and we did report fast track out favorably in September 1995, as perhaps you are aware, but on a straight party line vote. And that was the first time we had a straight party line vote in this Committee on a trade issue.

And sad to say, we need bipartisan support to get any trade legislation forward. And we have been trying to work with the administration, so I would hope you would communicate to them, too.

We had hoped, and in fact thought, there was a realistic possibility of getting fast track in April. But we were not getting participation at the other end of Pennsylvania Avenue, and then Charlene reported with a certain sense of despair to us in May that the secretaries and the President had met and they felt their table was too full, and they wanted to put this off until sometime between October and Thanksgiving.

At any rate, we thank you for all of your participation thus far, and please continue to provide input, and communicate not just with the administration, but with all of our colleagues here in Con-

gress. Because I think it is something that is vitally important, and it is important not just to us but I think for our entire hemisphere, with all kinds of mutually beneficial consequences.

And thank you, and with that I will recess you and bring our next panel together. I would like to invite Jeffrey Schott, senior fellow at the Institute for International Economics; JayEtta Hecker, Associate Director for International Relations and Trade Issues at the U.S. General Accounting Office; John Sweeney, policy analyst for international trade and Latin American issues at the Heritage Foundation; and Stephen Lande, senior adjunct research associate for the North-South Center at the University of Miami.

And we will proceed in the order in which I introduced you.

Mr. Schott, you go first.

STATEMENT OF JEFFREY J. SCHOTT, SENIOR FELLOW, INSTITUTE FOR INTERNATIONAL ECONOMICS

Mr. SCHOTT. Thank you, Mr. Chairman. I greatly appreciate the opportunity to come before the Subcommittee today, and hope the Subcommittee will find the written statement which I have prepared and submitted for the record to be useful for your very important efforts in this area.

By way of introduction, I would like to emphasize two critical prerequisites for the successful development of a free trade area of the Americas. The first is fast track. U.S. participation in FTAA negotiations depends on the restoration of fast track authority and on congressional approval for the use of such authority for the hemispheric talks.

If fast track fails or is limited to talks with specific countries, such as a "Chile-only" fast track authority, the FTAA process and the negotiations will quickly collapse.

I am honored that Chairman Gibbons is here today. I know that he devoted extensive energies to developing a bipartisan approach to fast track during his last term in office, and I hope that the Subcommittee will devote similar energies and spirit to achieving that goal.

The second prerequisite is the successful implementation and continued strengthening of domestic economic reforms throughout Latin American. I cannot overemphasize this point too much.

Most countries in Latin America are not yet ready to undertake and sustain the obligations of a reciprocal free trade agreement, but they are making tremendous progress. The FTAA negotiations and the support we have been giving to our neighbors in Latin America will help them grow and develop the capabilities needed to make these substantial commitments.

The testimony you have heard so far this morning has made many of the arguments that are included in my testimony. In the interest of time, I would like to highlight just a few points with regard to U.S. interests in an FTAA and the costs of continued inaction.

The United States has an important stake in the economic health and political reform of our southern neighbors. First, the United States has substantial and growing trade and investment interests in the region. This has been documented by a number of witnesses this morning.

The Latin American and Caribbean region is becoming an increasingly important market as a result of a decade of economic reform that has produced regionwide GDP growth of 3.5 percent in 1996, and lowered inflation to 22 percent, down from the triple-digit levels of just a few years ago.

And if one looks at the forecasts for this year, things look even better, with GDP growth expected to expand by 4.4 percent and inflation to fall to 12 percent. The region has made tremendous progress in just a few years; if this growth rate can be sustained, Latin America will comprise a market of about $2.4 trillion by the time the FTAA is due to be completed in the year 2005.

These figures underscore the importance to the business community, and to U.S. firms and workers, of continuing to expand our already good trade relations with our hemispheric partners.

Second, the negotiation of an FTAA would not require substantial changes in U.S. law or trade practices. Indeed, like NAFTA, a prospective FTAA would require much more of our trading partners—in terms of trade liberalization and regulatory reform—than of the United States.

Now, why would they agree to such asymmetric liberalization? The short answer is that they have very little choice if they want to compete in global and regional markets. The FTAA would provide an insurance policy against new protectionist impulses, as well as locking in their domestic reforms through international obligations, thereby substantially raising the cost of policy reversals. In so doing, the FTAA would provide strong incentives for both domestic and foreign investment in the region.

Third, and most important, the United States benefits when its neighbors prosper and democratic processes take root. I think Assistant Secretary Davidow made this point very clearly.

The cost of inaction has been spelled out by other witnesses today. First, without fast track, our trading partners will understandably question U.S. commitment to the FTAA talks and our willingness to deepen regional trade relations.

Second, the United States loses when negotiations take place without us. Congressman Kolbe and others have noted the trade discrimination that affects U.S. companies doing business in the region when we do not benefit from trade preferences included in other trade agreements.

Third, there is the problem that you noted in your question to Ambassador Lang concerning special arrangements, such as the antidumping provisions of the Chile-Canada free trade agreement that are included in other countries' trade pacts, and that might be put forward by these countries as precedents for FTAA negotiations. I would be happy to go into this issue in more detail later on, if you would like.

In sum, regional trade pacts affect U.S. trading interests. When we are not engaged in the talks, we cannot influence the outcome and lose an opportunity to build a consensus for U.S. objectives for the FTAA. And, of course, restoration of fast track authority is crucial to the achievement of these important goals.

I have concluded my testimony with lessons from the U.S. experience with NAFTA. I would be happy to discuss these lessons later with the Subcommittee, but I think the key point to make is that

the United States has important political and foreign policy interests in the region, and both sets of objectives can be advanced through the conduct of FTAA negotiations.

Thank you very much.

[The prepared statement follows:]

Statement of Jeffrey J. Schott, Senior Fellow, Institute for International Economics

At the Summit of the Americas in Miami in December 1994, the United States and 33 other democratic countries in the Western Hemisphere committed to complete negotiations on a Free Trade Area of the Americas (FTAA) by the year 2005, and to make substantial progress toward that goal by 2000. Hemispheric leaders are expected to officially launch the trade talks when they reconvene for a second Summit of the Americas in Santiago, Chile, in April 1998.

To be sure, actual US participation in FTAA negotiations depends on the restoration of fast track authority to implement trade agreements in US law and Congressional approval for the use of such authority for the hemispheric talks. If fast track fails, or is limited to talks with specific countries (e.g., Chile only), the FTAA negotiations will quickly collapse.

In related testimony before this committee and subsequently before the Senate Finance Committee, my colleague C. Fred Bergsten has argued why expeditious passage of fast track authority is critical to the achievement of US policy goals.[1] My statement today fully supports those views and recommends that the FTAA talks should be among the important US initiatives covered by that authority.

By way of introduction, I will first discuss the possible scope and coverage of an FTAA, given developments to date since the Miami Summit. I then turn to US interests in an FTAA and the cost of inaction or delay in pursuing those talks. I conclude with a few lessons regarding hemispheric integration based on the experience of NAFTA and other subregional economic initiatives.

FTAA: Coverage and Process

Free trade agreements (FTAs) come in all shapes and sizes. The NAFTA represents one of the most comprehensive pacts in terms of coverage of trade and investment in goods and services sectors, and incorporates extensive disciplines on domestic policies that can distort trade and investment flows. Other FTAs are more limited and some simply involve the removal of tariffs on merchandise trade (often with some sectoral exceptions such as agriculture).

The Plan of Action issued at the Miami Summit endorses an FTAA that is "balanced and comprehensive" and proposes an agenda for the FTAA talks that includes virtually all of the subjects covered by the NAFTA.[2] While the proposed FTAA agenda is comparable to the broad scope of the NAFTA, it does not follow that the NAFTA will necessarily be the model for hemispheric trade obligations, nor will the FTAA involve accession to NAFTA (although NAFTA expansion to some countries in the hemisphere may be part of the integration process leading up to the FTAA). Rather the process of building the FTAA will likely be an eclectic one, involving concurrent negotiations among bilateral and subregional partners as well as hemisphere-wide talks. However, the experience of NAFTA and the MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay) undoubtedly will help inform the FTAA talks and provide useful precedents for the eventual agreement.[3] Trade negotiators "learn by doing."

To date, trade ministers from the 34 countries have met three times to discuss areas of existing and potential cooperation, and have established 12 working groups to prepare for the FTAA negotiations in three broad areas: market access reforms (including liberalization of trade barriers and the removal of discrimination against foreign suppliers in the application of domestic regulations); rules covering trade

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[1] See C. Fred Bergsten, "The Case for Fast Track," Statement before the Senate Finance Committee, 3 June 1997, and "The Imperative and Urgency of New Fast Track Legislation," Statement before the Subcommittee on Trade, House Committee on Ways and Means, 18 March 1997.

[2] Labor issues are not included among the topics for negotiation, but governments committed to "further secure the observance and promotion of worker rights, as defined by appropriate international conventions" (Summit of the Americas Plan of Action, Section II:9(2)).

[3] Since the NAFTA region represents more than 85 percent of hemispheric GDP, it is likely that NAFTA provisions will carry great weight in the FTAA talks because companies that want to do business in the predominant market in the hemisphere will tailor their policies and standards to NAFTA norms.

and investment in goods and services sectors; and trade facilitation measures (e.g., customs reform; business visas etc.).

All of the issues included in the FTAA negotiations will be considered as a package. Some agreements may be reached early in the process, and could be implemented by 2000 to satisfy the "early harvest" commitment of the Miami Summit declaration. Customs reforms and other trade facilitation measures endorsed by the Americas Business Forum may be achievable in this timeframe; an investment accord comparable to the Multilateral Agreement on Investment being developed in the OECD is also possible.

Interestingly, such an approach would be consistent with Brazil's proposal to emphasize trade facilitation measures at the outset of the FTAA talks. Brazil's argument that market access reforms should be deferred for several years, however, does not make sense and, indeed, is inconsistent with Brazil's own economic policy. Brazilian officials seem to be pushing a "go slow" approach to FTAA trade liberalization to avoid additional adjustment pressures that could upset the noteworthy but fragile progress to date of their Real Plan—even though continuing trade reform is a critical component of their macroeconomic stabilization policy. I regard the Brazilian proposal as a tactical ploy to assuage their domestic constituencies and not as a roadblock to the launch of substantive FTAA negotiations.

One additional and important point deserves mention. During the past 30 months, the viability of the FTAA commitments has been tested by the Mexican peso crisis, which erupted just 10 days after the Miami Summit and generated a "tequila effect" in a few other Latin American economies, and by a number of political concerns involving inter alia drug trafficking and large income disparities both between and within countries in the region. These problems are difficult and immune to quick fixes via trade or other policy initiatives. Rather they require a long-term commitment to improve education and create viable alternatives to illegal commerce. In that regard, the Miami Summit process, which comprises not only trade but important cooperative efforts in areas such as strengthening democracy, combatting drug trafficking, and promoting sustainable development, should be a constructive part of national responses to these problems.[4]

US Interests in an FTAA

When prospective US-Mexico free trade talks were first broached, few people realized how closely integrated our two economies already were or how closely our interests coincided with the promotion of economic growth and political stability in the region. To a somewhat lesser extent, the same situation holds today with respect to US interests in Latin America and the Caribbean. The United States has an important stake in the economic health and political reform of our southern neighbors.

First, the United States has substantial and growing trade and investment interests in the region. The Latin America and the Caribbean region is becoming an increasingly important market as a result of a decade of economic reform that has produced region-wide GDP growth of 3.5 percent in 1996 and lowered inflation to 22 percent, down from the triple digit levels of just a few years earlier. Forecasts for 1997 look even better, with GDP growth expected to expand the 4.4 percent and inflation to fall to 12 percent.[5] This growth does not rival that of the Asian "tigers," but it is vastly superior to the performance in the region in the debt-laden 1980s. Moreover, if this growth rate can be sustained, the region would comprise a market of about $2.4 *trillion* (or one-third the size of the current US economy) by the time the FTAA is due to be completed in 2005.

Latin America already is an important market for US companies and has become increasingly attractive for direct investment as their economic reforms have taken root. The region (including Mexico) now accounts for about 18 percent of total US merchandise exports and 16 percent of US imports; and regional sales to the US market represent about half of all merchandise exports by Latin American and Caribbean countries. US-Mexico trade accounts for more than half of those totals, even though Mexico produces only about a quarter of regional output. US exporters have a growing and underdeveloped market for their goods in South America, and have been rapidly expanding their presence in those markets over the past five years. US exports to and imports from the region, *excluding* Mexico, have increased by about 50 percent since 1993, with the United States running a small trade surplus with

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[4] For a discussion of the evolution of the Summit of the Americas and its immediate aftermath based on analysis by one of the senior US participants, see Richard Feinberg, *Summitry in the Americas*, Washington: Institute for International Economics, 1997.

[5] Data from Shahid Javed Burki and Guillermo E. Perry, The Long March: A Reform Agenda for Latin America and the Caribbean in the Next Decade, Washington: The World Bank, 1997.

the region each year (about $5 billion at an annual rate so far in 1997). During that period, US direct investment in the region increased by 30 percent on a historical-cost basis to a cumulative $92.5 billion in 1995, representing 13 percent of total US foreign direct investment.

Second, the negotiation of an FTAA would not require substantial changes in existing US law or trade practices; indeed, like NAFTA, a prospective FTAA would require much more of US trading partners in terms of trade liberalization and regulatory reform than of the United States. Latin American economies have significantly reduced their trade barriers in recent years down to an average range of 10 to 20 percent through unilateral liberalization and reforms negotiated in their subregional pacts and in the GATT/WTO. These efforts have removed much of the "water" in their protection, but the "muscle" remains intact and will require a broader negotiation to get it removed.

Overall, an FTAA bargain will likely entail substantial new liberalization by Latin American countries in return for guarantees of continued good access to the US market and the removal over a long transition period of a few notable US barriers in textiles and agriculture (comparable to what was done in the NAFTA). Whether some specific barriers will be exempted from the FTAA liberalization commitments and the length of the phaseout periods for remaining trade barriers will undoubtedly be left hanging until the end of the talks.

Why would Latin American countries agree to such asymmetric liberalization? The short answer is that they really have little choice if they want to compete in global and regional markets. The FTAA would provide an insurance policy against new protectionist impulses in the US and other regional markets, as well as "locking in" their domestic reforms through international obligations and thus substantially raising the cost of policy reversals. In so doing, the FTAA would provide strong incentives for both domestic and foreign investors to develop their markets and bring in new technology and management skills.

What was remarkable about the Miami Summit commitments was that the developing countries were in the forefront pressing for trade reforms, even though they maintain much higher trade barriers than the United States and face the daunting challenge of competing openly against the advanced industrial economies of North America. The reason is clear: they regard their FTAA commitments as a complement and integral component of domestic economic policies designed to spur competition in their markets, dampen inflation, promote investment (from both domestic and foreign sources), and generate robust and durable growth. Their focus was not on the prospective change in their bilateral trade balance but rather on the impact free trade could have on promoting economic growth in conjunction with the broad array of domestic economic reforms that they had been implementing for several years

Third, as evidenced at the Miami Summit, the prospect of improved trade relations can act as a magnet for attracting support among our hemispheric neighbors for other important US political and foreign policy goals, including cooperation on drug interdiction, improving environmental and labor conditions, and reinforcing democratic reforms. An FTAA will thus have important spillover effects on overall US relations with the region. This point is well illustrated by the recent Mexican election, which demonstrates the salutary effect of economic integration on political reform.

Fourth, and perhaps most important, the United States benefits when its neighbors prosper and democratic processes take root. The FTAA process would support the important economic and political reforms that have been achieved throughout Latin America over the past decade. To be sure, the process of economic integration in the hemisphere was already engaged well before the Miami meeting as a result of ongoing domestic economic reforms and the negotiation of subregional trade pacts such as NAFTA and the MERCOSUR. Ongoing and deepening implementation of these policies is a prerequisite for the developing countries in the Western Hemisphere to be able to undertake and sustain the reciprocal obligations of a free trade pact with industrial countries.

THE COST OF US INACTION

Since the Miami Summit, US trade initiatives in the region have been significantly hampered by the absence of fast-track authority to implement trade agreements in US law. Free trade talks with Chile, advocated by Presidents Bush and Clinton, seized up; negotiations to remedy the potential adverse impact of certain NAFTA provisions on trade and investment in the Caribbean Basin were placed on a back-burner; and US participation in the preparatory meetings for the launch of the FTAA negotiations has been seriously constrained.

To date, the cost of US inaction has been modest. If US negotiators stay on the sidelines much longer without fast track authority, however, the adverse impact on US trading interests in the region could grow significantly. Three related problems bear mention.

First, without fast track authority, our trading partners will understandably question the US commitment to the FTAA talks and our willingness to deepen regional trade relations. The United States accounts for about 75 percent of total economic output in the hemisphere. If the United States backed away from its Miami Summit commitments, or even rode the fence for another year or more pending fast track approval, we would both undermine the credibility of the hemispheric negotiations and encourage a protectionist backlash against the reform policies introduced in Latin America during the past decade—thus making it more difficult for Latin American countries to maintain and extend the liberalization already implemented. The Venezuelan experience of the early 1990s is instructive in how costly a political backlash against economic reforms can be.

Second, most countries in the hemisphere continue to pursue bilateral and regional free trade pacts without us. In most instances, the new agreements are designed as way stations to an eventual FTAA, but the tariff preferences are accorded only to member countries and thus discriminate against US-based exporters. Both Mexico and Canada have concluded free trade pacts with Chile; Mexico also has agreements with Costa Rica, Colombia, and Venezuela, and is talking with other Central and South American countries about similar deals. In addition, the MERCOSUR is solidifying its customs union and has entered into or is negotiating free trade "association" arrangements with Chile, Bolivia, and countries in the Andean Community.

What this means for US firms is that they often are handicapped in competing for sales in South American markets because they have to pay sizable tariffs and their regional competitors do not. Sometimes US firms can source from foreign plants in countries that receive tariff preferences, but this is costly both for the company and their US workers.[6] Besides tariff preferences, these bilateral and subregional trade pacts contain trade rules (e.g., rules of origin; special safeguards) that can impose significant transaction costs for US companies. The proliferation of different customs procedures and content requirements in these arrangements can create a paperwork nightmare for businessmen.

Third, recently concluded regional agreements create precedents involving practices significantly different from those inscribed in US law that member countries may want to extend to the broader FTAA. For example, the Chile-Canada FTA prohibits the use of antidumping laws with respect to bilateral trade as soon as tariffs are removed (i.e., within six years); and several pacts include relatively simple value-based origin rules that do not afford the protection of industry or sector-specific rules such as the triple transformation test for apparel in the NAFTA.

Furthermore, US firms compete in regional markets not only with other hemispheric producers but also with European and other overseas companies. While we have been digesting the NAFTA and Uruguay Round results, many of our southern neighbors have entered into trade talks with the European Union. The European Union has actively pursued discussions with the MERCOSUR countries, Mexico, the Andean Community, and others because of both strong trade and investment linkages with the region and longstanding political and cultural ties with the MERCOSUR in particular. The European Union is the leading trading partner and investor in the MERCOSUR and wants to maintain its lead in that fast-growing market.

To date, EU initiatives in the region have resulted in agreements similar to the "framework" or consultative arrangements that the United States negotiated with virtually all the countries in the region in the 1980s and early 1990s; the promise of future free trade pacts is somewhat suspect, however, since the Europeans refuse to consider farm trade reforms in their negotiations with Latin American countries and thus exclude a large share of MERCOSUR exports to Europe. In the first half of the 1990s, EU exports to the MERCOSUR grew by an annual average of more than 20 percent, while EU imports from that region increased by less than 1 percent annually. EU agricultural restrictions blunted MERCOSUR exports, almost half of which were raw and processed foodstuffs. Nonetheless, bilateral EU–MERCOSUR talks have proceeded apace, despite the substantive trade problems, in hopes of attracting additional EU direct investment in the MERCOSUR region and strengthening political relations.

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[6] Paul Magnusson reports anecdotal evidence of such trade diversion in "Beyond NAFTA: Why Washington Mustn't Stop Now," Business Week, 21 April 1997, p. 46.

In sum, regional trade pacts affect US trading interests. When we are not engaged in the talks, we can't influence the outcome and lose an opportunity to build a consensus for US objectives for the FTAA.[7] And, of course, restoration of fast track authority is crucial to the achievement of these goals.

LESSONS FROM THE NAFTA EXPERIENCE

As the first comprehensive and reciprocal free trade pact between developed and developing countries, the NAFTA has illustrated several important aspects of free trade pacts that should help inform the FTAA process. I conclude with five critical trade policy lessons derived from the NAFTA experience that are relevant for an understanding of the prospective FTAA:

1. *Macro matters most.* Trade agreements create opportunities; they do not guarantee sales. To promote sustained growth and take full advantage of those opportunities, macroeconomic policy must be prudent—at home and in the partner countries.

2. *Trade pacts provide an insurance policy against new protectionism at home and abroad.* They deter abrupt policy reversals and help governments withstand the protectionist demands of their domestic lobbies. Mexico's response to the peso crisis is evidence of this salutary effect.

3. *Free trade pacts involve asymmetric obligations which fall heavier on developing than developed country partners.* The benefit for developing countries is that the pact locks in the domestic reforms needed to reinforce growth and represents a "good housekeeping" seal of approval for those policies—thus making them more attractive to foreign investors and promoting the transfer of technology and management skills.

4. *Trade pacts are not engines of job creation, but they do support jobs that provide a substantial wage premium over earnings in the non-exporting sector.*

5. *Integration is an iterative process.* Not all issues of importance in bilateral or regional relations are covered ab initio in trade pacts; but as countries become more integrated, new issues which span domestic and international concerns often are added to the common agenda. Indeed, as the Summit of the Americas process has demonstrated, trade talks can serve as a magnet for attracting support on a wide array of initiatives including strengthening democracy, combating drug trade, and promoting better environmental conditions and labor rights.

Chairman CRANE. Thank you.

Ms. Hecker.

STATEMENT OF JAYETTA Z. HECKER, ASSOCIATE DIRECTOR, INTERNATIONAL RELATIONS AND TRADE ISSUES, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Ms. HECKER. Thank you, Mr. Chairman. It is a pleasure to be here before you this morning. As you know, GAO is releasing a report that we have prepared for you on Western Hemisphere trade issues, cataloging the many agreements that have been concluded in the past few years.

I think you will find this report codifies a lot of what you have heard today.

In the interests of time, since so much of my statement really underscores and reiterates points we have heard today, I will just highlight a couple of areas—some important recent developments, including the significance of regional trade arrangements in the hemisphere, and the status and significance of progress toward the FTAA.

[7] These lessons are drawn from my analysis, "NAFTA: An Interim Report," paper prepared for the World Bank Conference in Montevideo, Uruguay, 29 June–1 July 1997.

I think the main news about the recent developments is that nearly all the countries in the hemisphere have either concluded or deepened trade arrangements in the last few years, since fast track expired. The result is an increasingly complex web of subregional and bilateral trade groupings.

As you have heard, some of this is good news. The good news is that countries are liberalizing, increasing their commitment to opening their markets, and market-oriented reforms.

However, the bad news is that the United States has been excluded, disadvantaging U.S. business. Moreover, the resulting spaghetti patchwork of different rules and procedures and tariffs for every country, depending on where you are importing from or exporting to, is really a nightmare for business.

That aggregate of dozens of free trade agreements really is not free trade at all. The first point is that the increase in regional trade agreements is good news in some sense, but the overall impact is that the United States has been left out of it. U.S. businesses are disadvantaged by many of these agreements, and in the long run, it could have serious consequences for the United States.

Now, the status of the FTAA negotiations is an interesting story, because in some sense the progress parallels the first 2 years of negotiations under the Uruguay round. The working groups that have been held, the conferences of ministers and vice ministers, the dozens of meetings over the last few years, means a substantial amount of the preparatory work to kick off meaningful negotiations has already been done.

There are, however, different levels of readiness or quality in the work of the different groups. Some working groups of interest to the United States are ranked low by many in their level of preparation for full negotiations, most notably the market access group and the subsidies group.

Now, the next major step, as you know, is the meeting of the heads of state in Santiago, the first one since the Miami summit. That is when the FTAA negotiations are expected to be launched.

However, the reality is, and I think people are uncomfortable emphasizing it, but already the United States has lost leverage and leadership without fast track. I think as we have tracked this issue for you, expectations for both the discussions of vice ministers meetings in February in Recife, and in April in Belo Horizonte had been that major progress would be made in concluding what the charge and the objectives of FTAA negotiations could be in each of the working groups.

But from the discussions we have had, due to the lack of fast track, no closure has been reached. So these critical decisions of what the negotiations will be, how they will be organized, what the substantive goals will be, are now put off until the very last minute before the Santiago conference.

In sum, basically, from the discussions we have had, observers believe that the FTAA will not move forward and will likely collapse if the United States does not have fast track in time for the Santiago summit.

However, the momentum and the commitment of the countries of the hemisphere to forge forward with their own trade agreements will not subside. In fact, in the absence of active FTAA negotia-

tions, the plethora of regional trade agreements is likely to increase.

That concludes my summary, and I will be happy to take any questions.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of JayEtta Z. Hecker, Associate Director, International Relations and Trade Issues, National Security and International Affairs Division, U.S. General Accounting Office

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to talk about various issues regarding Western Hemisphere trade liberalization. As you know, the United States is proceeding with discussions leading to a Free Trade Area of the Americas (FTAA) by the year 2005, a goal established at the Miami Summit of the Americas in December 1994. My statement will focus on (1) the principal existing subregional trade arrangements in the Western Hemisphere, (2) the current status of FTAA discussions, and (3) recent developments in regional trade liberalization outside the FTAA process and their possible implications for the United States.

My testimony summarizes our observations in a report to you on these issues being released today.[1] This work was based on (1) our past and ongoing work on Western Hemisphere trade issues; (2) a review of documents on subregional multilateral and bilateral trade arrangements; (3) reports from the FTAA working groups; (4) analyses of regional trade developments from academic and technical publications; and (5) interviews with officials from the Office of the U.S. Trade Representative (USTR), the Organization of American States (OAS), the U.S. International Trade Commission, and representatives from five other Western Hemisphere nations at the forefront of regional trade negotiations.

Before I discuss the specifics of my presentation, let me give you a brief overview.

SUMMARY

While trade agreements in the Western Hemisphere are not new, they have recently been revitalized as more countries in the region have committed to liberalizing their trade regimes. Almost all countries in the region participate in at least one subregional trade grouping, and many have concluded numerous bilateral agreements. There are now six major subregional multilateral trade groupings in the Western Hemisphere. Among these trade blocs, the two most significant are the North American Free Trade Agreement (NAFTA) and the Common Market of the South, known as Mercosur. In addition to these multilateral trade groupings, there are more than 20 bilateral trade agreements involving countries in the hemisphere.

The FTAA, which was called for at the 1994 Miami Summit of the Americas, represents the most ambitious effort in regional trade liberalization to date. At the Miami Summit regional leaders agreed to establish a free trade agreement encompassing the entire Western Hemisphere by the year 2005.[2] In the last 2–1/2 years, countries have taken numerous steps to prepare for formal negotiations. Trade ministers from participating countries have met three times and have established a number of working groups to address substantive issues, such as market access, services, and investment. The United States has been active in all FTAA meetings and working groups, and chairs the Working Group on Government Procurement.

Substantial agreement has been reached on several key issues in preparation for formal FTAA negotiations. For example, countries have agreed that formal negotiations should be launched by the Western Hemisphere leaders at their next summit scheduled to take place in Santiago, Chile, in April 1998, and that an agreement encompassing the entire hemisphere should be concluded by 2005. Consensus has also been reached on the right of countries to negotiate independently or, if members of subregional trade groupings, as a unit. Moreover, countries agreed to establish a Preparatory Committee at the vice-ministerial level to complete recommendations on the FTAA negotiations early next year. Disagreement remains, however, regarding the pace and direction of negotiations. The United States and most other countries favor immediate negotiations on all issues beginning in 1998. In contrast,

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[1] *Trade Liberalization: Western Hemisphere Trade Issues Confronting the United States* (GAO/NSIAD–97–119, July 22, 1997).

[2] All 34 democratically elected governments in the Western Hemisphere were represented at the Miami Summit and are involved in the FTAA. Cuba is the only major country in the region that has not participated in the FTAA process.

Mercosur countries would delay negotiations on certain issues, such as market access, until 2003.

Since the Mexican financial crisis, which surfaced only days after the Miami Summit, the United States has not actively pursued further trade liberalization efforts in the hemisphere. At the same time, other countries have moved forward with a wide range of new free trade inititiatives. For example, Canada and Chile recently concluded a free trade agreement. Mexico has also negotiated an extensive network of free trade agreements with countries in the region, including Columbia, Chile, Costa Rica and Venezuela. Similarly, the Mercosur countries have concluded free trade arrangements with Chile and Bolivia, and they are now entering into trade negotiations with Mexico and the European Union. U.S. exporters' access to markets in the region is starting to be adversely affected by these new trade agreements. Their impact is starting to be felt by U.S. firms in various sectors, such as agriculture, telecommunications, and the pharmaceutical industry. Whether or not the United States participates in shaping future trade liberalization efforts, representatives of several countries in the hemisphere generally agree that their countries will continue to advance their own regional free trade initiatives.

BACKGROUND

As the largest regional market for U.S. products, accounting for approximately $242 billion or 40 percent of U.S. exports in 1996, the Western Hemisphere has assumed growing importance for U.S. commercial interests. Canada and Mexico are by far the largest U.S. trade partners in the hemisphere, accounting for approximately two-thirds of total U.S. exports to the region. The United States is the largest source of foreign investment in the Western Hemisphere, accounting for about 30 percent of total U.S. foreign direct investment.

By the late 1980s, most Latin American countries instituted market-oriented economic reforms to stimulate economic growth and development. Although these reforms were primarily intended to address domestic economic problems, they also facilitated trade liberalization efforts. The 1988 U.S.-Canada Free Trade Agreement, which coincided with Latin America's opening to international trade, signalled a new commitment on the part of North American countries to regional trade liberalization. Currently, almost all countries in the hemisphere are involved in some form of free trade arrangement in what is becoming an increasingly complex web of subregional and bilateral trade groupings.

In launching the FTAA discussions, Western Hemisphere leaders sought to capitalize on the momentum toward regional trade liberalization, bringing together all countries in the hemisphere under a single and comprehensive free trade agreement by 2005. The Summit declaration committed participating governments to negotiate the elimination of barriers to trade in goods and services as well as investment and to provide rules in such areas as intellectual property rights and government procurement. Since the summit, trade ministers from participating countries have met three times—in Denver, Colorado (1995), Cartagena, Colombia (1996), and Belo Horizonte, Brazil (1997)—and have effectively laid the foundation for formal FTAA negotiations to begin in 1998.

WESTERN HEMISPHERE TRADE ARRANGEMENTS

The six major multilateral trading arrangements among countries of the Western Hemisphere are NAFTA, MERCOSUR, the Andean Pact, the Caribbean Community, the Central American Common Market, and the Latin American Integration Association. The United States is only a party to NAFTA. There are also over 20 smaller multilateral and bilateral free trade accords among countries in the region.

NAFTA

NAFTA, the most comprehensive trade arrangement in the region, was concluded in 1992 by Canada, Mexico, and the United States and became effective in January 1994. NAFTA created the world's largest free trade area, with a combined population of nearly 400 million and a combined GDP of $8 trillion. NAFTA provides for the gradual elimination of tariff barriers on most goods over a 10-year period. It covers trade in services, provides protection for investment and intellectual property rights, applies rules to government procurement, and contains a dispute settlement system. A distinct feature of NAFTA is the two side agreements on labor and the environment.

MERCOSUR

Mercosur was created in March 1991 by Argentina, Brazil, Paraguay, and Uruguay. Comprising a population of approximately 200 million and with a combined GDP of about $851 billion, Mercosur is the world's third largest integrated multinational market after NAFTA and the European Union. Mercosur currently functions as a customs union, providing not only for a free trade area but also for the establishment of a common external tariff.[3] Mercosur countries are committed to coordinate macroeconomic policies and to agree on a common foreign trade policy. Unlike NAFTA, Mercosur lacks agreements on intellectual property rights[4] and government procurement.

OTHER MULTILATERAL AGREEMENTS

Besides NAFTA and MERCOSUR, which were established in the 1990s, there are four older subregional multilateral trade groupings in the Western Hemisphere. Three of these groupings—the Andean Group, the Caribbean Community, and the Central American Common Market—are customs unions at varying stages of implementation. They have all recently taken steps to further liberalize trade and promote economic integration. The fourth subregional trade arrangement, the Latin American Integration Association, is a network of agreements granting tariff preferences for certain product categories to member countries.

In addition to the larger trade blocs, there are more than 20 smaller multilateral and bilateral trade accords among the countries of the Western Hemisphere. Many of these have been established in this decade.

STATUS OF FTAA DISCUSSIONS

At the FTAA meetings of ministers in Denver, Cartagena, and Belo Horizonte, 12 working groups were established for the purpose of collecting information to prepare for FTAA negotiations. The areas of responsibility assigned to the 12 FTAA working groups reflect some of the priorities of the United States and other countries in the hemisphere. For example, there are working groups on intellectual property rights and government procurement, issues of key interest to the United States; on subsidies, antidumping, and countervailing duties, areas of special concern to Argentina; and on smaller economies, a priority for Caribbean countries. The United States chairs the Working Group on Government Procurement.

The working groups were established to collect basic information on key issues in preparation for FTAA negotiations. U.S. and OAS officials explained that the working groups have been the mechanism for accelerating progress on the priorities of participating countries. Progress in meeting the information mandates set forth at the ministerials differs for each of the 12 working groups. The Working Group on Investment, for example, is particularly advanced, having prepared a comprehensive technical compendium on investment treaties in the region. According to both U.S. and OAS officials, the Working Group on Investment has also made considerable progress, exchanging views on elements that could be included inhapter, including investor protection, national treatment, and dispute settlement. Progress in other working groups has been more modest. For example, the Working Group on Market Access reported in February 1997 that many countries had yet to submit the schedules and statistics required to prepare a hemispheric data base on tariff structures and nontariff measures.

A Tripartite Committee, made up of the OAS, the Inter-American Development Bank (IDB), and the United Nations Economic Commission on Latin America and the Caribbean, was formed after the first ministerial in Denver to provide analytical support to the working groups as requested. Each organization in the Tripartite Committee is responsible for providing technical support to the FTAA process through the working groups. For example, the IDB is collecting trade statistics to assist the Working Group on Market Access, while the OAS has provided support to other groups on trade policy issues, such as subsidies and competition policy. At this time, the Tripartite Committee's role in support of the FTAA is anticipated to

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[3] According to a USTR official, the World Trade Organization (WTO)'s Committee on Regional Trade Agreements is currently reviewing Mercosur to ensure that it conforms with article 24 of the General Agreement on Tariffs and Trade. Article 24 lays out conditions under which member countries may form preferential trading arrangements, such as customs unions and free trade areas. This official noted, however, that without detailed information on Mercosur's implementation and schedule for liberalization, it is difficult to fully evaluate the agreement under the criteria set forth by article 24.

[4] An August 1995 protocol among Mercosur countries, however, provides limited common terms of reference on intellectual property rights.

be transitory. The countries are considering the possibility of establishing a temporary FTAA secretariat during the negotiations.

DIFFERENT STRATEGIES FOR PURSUING FTAA NEGOTIATIONS

At Belo Horizonte, consensus was reached on several key issues advanced in these proposals. A joint declaration was issued that called for formal FTAA negotiations to be launched by the next summit of Western Hemisphere leaders scheduled to take place in Chile in April 1998. In the declaration, countries agreed that the FTAA would be consistent with member countries' commitments under the WTO and that the FTAA. Moreover, countries agreed that the FTAA would co-exist with rather than supplant existing subregional trade arrangements, such as NAFTA or Mercosur, to the extent that rights and obligations under these agreements are not covered or go beyond rights and obligations under the FTAA. The declaration also recognized the right of participating countries to negotiate independently or as members of subregional trade groupings, and the need to establish a temporary administrative secretariat to support future negotiations. Finally, the declaration reiterated the commitment of participating countries to conclude a trade agreement encompassing the entire hemisphere by 2005 at the latest.

At Belo Horizonte, participating countries also agreed to set up a Preparatory Committee at the vice-ministerial level that will make recommendations for FTAA negotiations. The Preparatory Committee is supposed to meet at least three times between May 1997 and February 1998, when the next FTAA ministerial is scheduled to take place in San José, Costa Rica. At San José trade ministers are committed to reach agreement on the objectives, approaches, structure, and location of the FTAA negotiations, based on the recommendations of the Preparatory Committee.

Still, there is disagreement among participating countries on the pace and direction of formal negotiations. Most countries, including the United States, would prefer that formal FTAA negotiations on all issues begin during the next summit of regional leaders in 1998 and conclude no later than 2005. The members of Mercosur, however, have proposed that negotiations proceed in three phases: (1) in 1998 and 1999, countries would agree on and begin to implement "business facilitation" measures, such as adopting common customs documents or harmonized plant and animal health certificates; (2) from the year 2000 to 2002, work would begin on "standards and disciplines," including antidumping and countervailing duty rules, and market access for services; and (3) from 2003 to 2005, other disciplines and market access issues would be negotiated, including tariff reductions, a key concern of the United States.

RECENT DEVELOPMENTS IN REGIONAL TRADE LIBERALIZATION OUTSIDE THE FTAA PROCESS

In launching the FTAA discussions at the Miami Summit, the United States was building on the momentum for free trade generated by the passage of NAFTA a year earlier. At that time, NAFTA was generally regarded as a blueprint for further trade liberalization in the region. This expectation was also grounded on the anticipated Chilean accession to NAFTA. Only days after the summit, however, Mexico was hit by a serious financial crisis, with spillover effects in other Latin American economies. The commitment by the U.S. government of significant resources to stem and resolve the crisis raised concerns in the United States about further regional trade liberalization efforts. In the intervening period, fast track authority lapsed, and, although U.S. participation in the FTAA preparatory process continued, the executive branch has been constrained from pursuing other tariff liberalization negotiations in the region. Formal negotiations on Chilean accession to NAFTA, for example, were suspended in 1995.

OTHER COUNTRIES HAVE MOVED FORWARD WITH THEIR OWN TRADE INITIATIVES

While debate continues in the United States regarding further regional trade liberalization efforts, other countries in the region have proceeded to negotiate new trade agreements and deepen their participation in existing arrangements. Chile has been at the forefront of this trend; it has negotiated a network of free trade agreements with several countries in the region, including Colombia and Venezuela. In 1996, Chile concluded a free trade arrangement with Mercosur, becoming in effect an associate member of that trade bloc.

Chile's pursuit of free trade is not limited to South America. The Canada-Chile Free Trade Agreement, which became effective on July 1 of this year, is modeled on NAFTA and is intended as a provisional agreement to facilitate Chilean accession to NAFTA. Nevertheless, there are some notable differences between this bilat-

eral agreement and NAFTA, reflecting some of the areas where Chilean and Canadian interests differ from those of the United States. For example, under their bilateral agreement, Chile and Canada are committed to forgo imposing antidumping and countervailing duties within 6 years after the agreement goes into effect.

Mexico has also been extending its own web of bilateral trade agreements throughout the hemisphere. It has concluded bilateral free trade agreements with Costa Rica and Bolivia, and has a trilateral arrangement with Columbia and Venezuela. Mexico is also negotiating free trade agreements with Ecuador, El Salvador, Guatemala, Honduras, Panama, and Peru. In addition, it plans to negotiate a transitional agreement with Mercosur that will cover key areas, such as market access, government procurement, intellectual property rights, and investment.

Mercosur has also been active in subregional trade initiatives since the Miami Summit. In addition to its arrangement with Chile, Mercosur has concluded a free trade agreement with Bolivia and is engaged in negotiations to widen its reach to other Andean Group countries. Mercosur has also concluded a framework agreement on trade with the European Union and is scheduled to begin formal trade negotiations with Mexico in December 1997.

Mercosur has not only been broadening its network of agreements with other countries, it has also been deepening the level of economic integration among the four original member countries. In 1995 Mercosur countries instituted a common external tariff, which is currently applied to about 85 percent of imports from outside the bloc. Trade among Mercosur member countries has almost tripled, from approximately $5 billion in 1991 to $14.5 billion in 1995.

Some U.S Sectors Feel Impact of Other Subregional Trade Agreements

Lack of U.S. participation in shaping emerging Western Hemisphere trade agreements has created disadvantages for some U.S. exporters' access to these markets.[5] By lowering or eliminating tariffs among participating countries, subregional free trade agreements that exclude the United States result in comparatively higher duties for U.S. exports. For example, Chile's network of bilateral trade agreements has given Chilean agricultural products an edge over U.S. exports in South America. Thus, while Chilean apples enter many South American markets duty free, Washington State apples face 10 to 25 percent tariffs. In recent years, Washington growers have seen their share of these markets dwindle as Chile capitalizes on its tariff preferences.

Like Chile's arrangements with other South American countries, the Canada-Chile agreement has already yielded benefits for Canadian firms not enjoyed by U.S. companies. Recently, Canada's Northern Telecom won a nearly $200-million telecommunications equipment contract in Chile. According to the State Department, the choice of Northern Telecom over U.S. companies was at least in part due to the fact that buying from a U.S. producer would have meant an additional $20 million cost in duties relative to purchasing from Canada.

While U.S. exports to Mercosur countries have been growing, U.S. exporters will likely face increasing difficulties in penetrating markets in Mercosur countries as commitment to common bloc trade policies deepens. For example, a USTR official noted that Mercosur is currently considering adopting product safety standards that are quite different from U.S. standards. This official explained that if these standards are adopted, U.S. auto manufacturers could be at a disadvantage in accessing the growing markets of Mercosur member countries.

Mercosur's position on the recent WTO Information Technology Agreement also provides an indication of how the bloc's common foreign trade policy will complicate U.S. efforts to promote its economic interests in the region. The Information Technology Agreement, which was signed by 28 WTO members in Singapore in December 1996, provides important tariff concessions in an industry where the United States enjoys a considerable competitive advantage. Brazil did not join in the Information Technology Agreement, seeking to protect its own emerging information technologies industry. Brazil's position on the agreement has now been adopted as an element of Mercosur's common external trade policy, while other partners like Argentina, if acting individually, might have taken a different position.

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[5] These examples of select sectors illustrate cases where U.S. export opportunities have been adversely affected by subregional trade agreements. A broader evaluation of the costs and benefits of increased trade and specific trade agreements requires a consideration of both U.S. export and import-competing sectors. While trade liberalization has historically created net benefits to the aggregate economy through improvements in efficiency, it creates costs that fall more directly on certain sectors of the economy and labor force.

The difficulties faced by the U.S. pharmaceutical industry in the Argentine market also illustrate some of the drawbacks encountered by U.S. firms as countries in the region drift away from the longstanding U.S. concern regarding intellectual property protection. In a recent statement before the Trade Subcommittee of the House Ways and Means Committee,[6] the President of the Pharmaceutical Research and Manufacturers of America estimated that annual losses by member companies due to patent infringement in Argentina amount to several hundred million dollars. This official noted that NAFTA has the strongest safeguards for intellectual property rights of any trade agreement. He concluded that if Argentina had been brought into NAFTA, that government would have had to seek to curtail patent infringement more decisively than it does now. It is worth noting that Argentina's former Finance Minister favored joining NAFTA rather than integrating further within Mercosur. However, after NAFTA negotiations with Chile were suspended, it became clear that prospects for Argentine accession to NAFTA were rather distant, and Argentina proceeded to cement its position within Mercosur.

REGIONAL TRADE LIBERALIZATION LIKELY TO CONTINUE REGARDLESS OF U.S. PARTICIPATION

Other Western Hemisphere leaders have indicated their countries will continue their initiatives toward free trade and economic integration. For example, a Chilean trade official told us that, like the United States, Chile would like to see the widest and most comprehensive agreement possible on free trade for the Western Hemisphere. However, this official noted that whether through NAFTA or the FTAA, with or without the United States, Chile intends to continue to pursue trade liberalization because it is seen as furthering Chile's own interests. Chile still wants to join NAFTA, but NAFTA is now less critical to Chile than it was in 1995.

Like Chile, Canadian interests in regional trade liberalization generally coincide with those of the United States. However, the recent Canada-Chile free trade agreement demonstrates that Canada is pursuing its commercial interests in the region. According to a Canadian government spokesman on trade policy, Canada's free trade agreement with Chile was not only meant to expedite Chilean accession to NAFTA, but it was also intended to keep alive the momentum for free trade in anticipation of FTAA negotiations. Canada would like to see decisive U.S. participation in FTAA negotiations because the two countries share many interests with regard to trade.

Mexico's interests in regional trade liberalization parallel those of Chile and Canada. According to Mexican government trade officials, all of Mexico's agreements and negotiations with other countries in the hemisphere have sought to encourage the adoption of trade disciplines consistent with NAFTA. These officials explained that Mexico has actively supported Chilean accession to NAFTA and the concept of a free trade agreement that would encompass the entire hemisphere. Moreover, they noted that Mexico is committed to the principles of free trade and will continue to pursue free trade arrangements with other countries in the hemisphere and other regions.

In contrast to our NAFTA partners and Chile, the Mercosur countries' vision of the FTAA differs significantly from that of the United States. As the largest member of Mercosur, Brazil has sought to shape the FTAA process to make it consistent with its distinct trade priorities. Since the FTAA would entail broadening Brazil's ongoing market-opening efforts, Brazil favors a slower managed approach to hemispheric trade liberalization. Thus, Brazil has proposed that FTAA negotiations on market access be deferred until 2003, while the United States would like to see this matter addressed as soon as negotiations begin in 1998. A Brazilian government spokesman noted that, at a minimum, FTAA negotiations in 1998 could include items such as common customs documents, which would not require legislative approval. However, if that is the extent of the negotiations, discussions on market access would be deferred, as favored by Mercosur.

In conclusion, it appears that trade liberalization among countries in the Western Hemisphere will continue in the near future regardless of U.S. involvement. U.S. exporters' access to markets in the region is already being adversely affected by these new trade agreements. U.S. involvement in shaping the FTAA and other regional trade arrangements is likely to play a key role in determining how U.S. exporters will fare in Western Hemisphere markets in the future.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I will be glad to answer any questions you may have.

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[6] March 18, 1997.

Chairman CRANE. Thank you very much.
Mr. Sweeney.

STATEMENT OF JOHN P. SWEENEY, POLICY ANALYST, INTERNATIONAL TRADE AND LATIN AMERICAN ISSUES, HERITAGE FOUNDATION

Mr. SWEENEY. Mr. Chairman, thank you for the opportunity to address this hearing today. The road to the free trade area of the Americas must begin here in Washington, DC, and the first step down that road is to renew the executive's fast track negotiating authority. Without a fast track negotiating authority, the United States cannot undertake any new trade initiatives anywhere in the world—not just in Latin America.

Without fast track, U.S. trade policy is effectively stalled, and U.S. leadership is diminished around the world. Moreover, while the United States watches from the sidelines, other countries are negotiating free trade agreements throughout the Western Hemisphere and American business is losing export and investment opportunities in these opening foreign markets. As a result, American workers are hurt, because less American trade means fewer American jobs.

Except for special extensions granted by Congress for the specific purposes of completing the NAFTA and Uruguay round negotiations, President Clinton has been without an effective fast track negotiating authority since May 1993.

In the specific case of the Latin American region, the administration's lack of fast track negotiating authority has clearly hurt United States credibility and leadership. With trade off the United States-Latin American agenda, the United States today finds itself in growing disagreement with important Latin American countries in many issues, including Cuba policy, immigration, and fighting drug traffickers.

Moreover, the lack of fast track authority has been a direct causal factor in the change dynamics of the FTAA process, which have been eloquently commented today by the witnesses who appeared previously.

The FTAA process did not stop when the Clinton administration benched the United States more than 30 months ago. For example, our NAFTA partners, Mexico and Canada, have signed bilateral trade agreements with Chile.

Mercosur, the South American customs union, has grown internally and externally, deepening its trade disciplines, and gaining new associates in Chile and Bolivia. Other countries in line for Mercosur membership this year include Peru, Venezuela, and Colombia.

Today, the Brazilians are clearly challenging the United States for leadership of the FTAA process, and they are making progress. It is not that Mercosur is a more attractive pathway to an FTAA, but rather that Mercosur right now is the only game in town, because without fast track authority, NAFTA expansion to Chile and other countries is simply impossible.

The Western Hemisphere accounted for 39 percent of U.S. goods exports in 1996, and it was the only region in the world in which the United States recorded a trade surplus in both 1995 and 1996. As a market for United States goods, the Western Hemisphere today already is nearly twice as large as the European Union, an nearly 50 percent larger than Asia.

Moreover, while United States goods exports to the world generally increased 57 percent from 1990 to 1996, United States exports to Latin America and the Caribbean, excluding Mexico, increased by 110 percent during that same period.

If those trends continue, Latin America alone will probably exceed Japan and Western Europe combined as an export market for United States goods by the year 2010. However, without fast track authority, the FTAA process could stall, and possibly collapse, and the United States would lose markets abroad and growth and employment at home.

Now, President Clinton recently provided Congress with a 3-year NAFTA report. This report, I hope, in the coming weeks will come under intense congressional scrutiny, because many Members of Congress have indicated that their willingness to renew the President's fast track negotiating authority will depend on their perception of how well NAFTA has performed during its first 3 years.

If the Clinton administration's report is objective and accurate, it will show that NAFTA has been clearly quite successful. Trade flows have increased during NAFTA's first 3 years by 43 percent. North American trade increased by 43 percent in NAFTA's first 3 years, to $420 billion.

In 1996 United States exports to Canada and Mexico, at $190 billion, exceeded United States exports to any other area of the world, including the entire Pacific rim or all of Europe. United States exports have increased significantly in the last 3 years to Canada and Mexico.

In Canada's case, exports went up 33 percent in 3 years, and in the case of Mexico, 37 percent in 3 years.

What we feel, however, is most important about NAFTA is that it has shattered the myth that trade deficits destroy jobs. The combined United States trade deficit with Canada and Mexico increased during the first 3 years of NAFTA's implementation from $9 billion in 1992 to $39.9 billion in 1996.

Since 1992, however, the U.S. economy has created 12 million net new jobs. Moreover, manufacturing employment grew from a low of 16.9 million jobs in 1992 to 18.3 million in 1993. Clearly, NAFTA has been very good for the U.S. economy.

In conclusion, Congress should have no doubts about the success of NAFTA and the future success of an FTAA in which the United States is centrally involved as a leader, as the key economy in the FTAA.

Although NAFTA is only 3 years old, it clearly is performing remarkably well. And even though 3 years may seem like too little time to judge NAFTA, it is clear the critics of NAFTA have been wrong on every count.

Congress will be acting in American's best national interest when it approves a new, broad, fast track negotiating authority so that

the Clinton administration can put United States trade policy back on track in Latin America and around the world.

Thank you.

[The prepared statement follows:]

John P. Sweeney, Policy Analyst, International Trade and Latin American Issues, Heritage Foundation

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What are the prospects for achieving a Free Trade Area of the Americas (FTAA) by 2005? The White House will answer that question in September, when it finally sends Congress its formal request for a new fast-track negotiating authority. The Administration claims that it has no need for fast-track authority until March 1998, when President Clinton will travel to Chile for the second Summit of the Americas to launch formal FTAA negotiations. However, the Administration's view that fast-track is not needed yet is both naive and misleading.

The road to the FTAA begins in Washington, D.C., and the first step down that road is to renew the Executive's fast-track negotiating authority. Without a fast-track negotiating authority, the president cannot undertake any new trade initiatives anywhere in the world. Without fast-track, U.S. trade policy is effectively stalled, and U.S. leadership is diminished around the world. Moreover, while the U.S. watches from the sidelines, other countries are negotiating free trade agreements throughout the Western Hemisphere, and American business is losing export and investment opportunities in these opening foreign markets. As a result, American workers are hurt because less American trade means fewer American jobs.

Except for special extensions granted by Congress for the specific purposes of completing the NAFTA and Uruguay Round negotiations, President Clinton has been without an effective fast-track negotiating authority since May of 1993. In the specific case of the Latin American region, the Administration's lack of a fast-track trade authority has clearly hurt U.S. credibility and leadership. With trade off the U.S.-Latin America agenda, the U.S. today finds itself in disagreement with Latin America on many issues, including Cuba policy, immigration, and fighting drug traffickers.

Moreover, the lack of fast-track authority has been a direct causal factor in the changed dynamics of the FTAA process, which did not stop when the Clinton Administration benched the U.S. more than 30 months ago. For example, our NAFTA partners, Mexico and Canada, have signed bilateral trade agreements with Chile. Mercosur, the South American customs union, has grown internally and externally, deepening its trade disciplines and gaining new associates in Chile and Bolivia. Other countries in line for Mercosur membership include Peru, Venezuela, and Colombia. Today, the Brazilians are challenging the U.S. for leadership of the FTAA process, and making progress. It's not that Mercosur is a more attractive pathway to an FTAA, but rather that Mercosur right now is the only game in town—because without fast-track authority, NAFTA expansion to Chile and other countries is impossible.

The Western Hemisphere accounted for 39 percent of U.S. goods exports in 1996 and was the only region in which the United States recorded a trade surplus in both 1995 and 1996. As a market for U.S. goods, the Western Hemisphere already is nearly twice as large as the European Union and nearly 50 percent larger than Asia. Moreover, while U.S. goods exports to the world generally increased 57 percent from 1990 to 1996, U.S. exports to Latin America and the Caribbean (excluding Mexico) increased by 110 percent during the same period. If current trends con-

tinue, Latin America alone will exceed Japan and Western Europe combined as an export market for U.S. goods by the year 2010.

NAFTA AT THREE YEARS IS WORKING WELL

President Clinton is legally required to provide Congress with a detailed "report card" by July 1, 1997, covering the first three years of implementation of the NAFTA. This report will come under intense congressional scrutiny because many Members of Congress have indicated that their willingness to renew the President's fast-track negotiating authority will depend on their perception of how well NAFTA has performed during its first three years. If the Clinton Administration's report is objective and accurate, it will show NAFTA to be a success.

Indeed, if NAFTA were to be graded on its effects after only three years, it would receive an "A" for enhancing the level of trade between the United States and its North American neighbors; an "A" for increasing the number of U.S. jobs that support this increased trade; an "A" for its positive impact on manufacturing and on the personal income of American workers; and a "B" both for encouraging U.S. compliance with implementation of NAFTA's deadlines and for improving U.S. relations with Mexico in general. Finally, although much more can be done, NAFTA has been instrumental in the strides Mexico has made in liberalizing its economy, and is one reason Mexico is taking steps to reform its political system. With this kind of report card, Congress should have no doubts about the success that NAFTA has achieved.

Trade Flows Have Increased. Total North American trade increased from $293 billion in 1993 to $420 billion in 1996, a gain of $127 billion or 43 percent during NAFTA's first three years. If that gain had been with a single country, it would have made that country the fourth-largest trading partner of the United States. In 1996, U.S. exports to Canada and Mexico, at $190 billion, exceeded U.S. exports to any other area of the world, including the entire Pacific Rim or all of Europe. Mexico and Canada purchased $3 of every $10 in U.S. exports and supplied $3 of every $10 in U.S. imports in 1996. Overall, total U.S. exports of goods and services grew from $602.5 billion in 1993—the last year before NAFTA was implemented—to $825.9 billion in 1996, a gain of $223.4 billion.[1]

U.S. Exports to Mexico and Canada Have Increased. Thanks to NAFTA, Mexican tariffs—which had averaged 10 percent before the trade agreement was implemented—now average less than 6 percent, while average U.S. tariffs have fallen from 4 percent to about 2.5 percent. As a result, U.S. exports to Mexico grew by 37 percent from 1993 to 1996, reaching a record $57 billion.[2] During this period, U.S. exports to Canada also increased by 33 percent, to $134 billion. Total two-way trade between the United States and Canada was $290 billion in 1996, while total two-way trade between the United States and Mexico was nearly $130 billion. According to the U.S. Department of Commerce, U.S. exports to Mexico in the fourth quarter of 1996 were growing at an annualized rate of $64 billion. Moreover, U.S. market share in Mexico increased from 69 percent of total Mexican imports in 1993 to 76 percent in 1996. During NAFTA's first three years, 39 of the 50 states increased their exports to Mexico; moreover, 44 states reported a growth in exports to Mexico during 1996 as the pace of U.S. exports to that country accelerated.

NAFTA has shattered the myth that trade deficits destroy jobs. The combined U.S. trade deficit with Canada and Mexico increased during the first three years of NAFTA's implementation—from $9 billion in 1992 to $39.9 billion in 1996—because Canada and Mexico suffered economic recessions. Since 1992, however, the U.S. economy has created 12 million net new jobs. Moreover, manufacturing employment grew from 16.9 million jobs in 1992 to 18.3 million in 1993, an increase of 1.4 million net new jobs.[3] The general unemployment rate declined from 7.5 percent

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[1] The U.S. Department of Commerce estimates that every $1 billion increment in U.S. exports creates 22,800 new jobs in the United States. This would mean that U.S. export growth from 1993 to 1996 was responsible for creating over 5 million U.S. jobs, or 57.7 percent of the 8.8 million net new payroll jobs created by the U.S. economy during this three-year period.

[2] Exports of U.S. components to Mexico's duty-free component assembly industry made up approximately 28 percent of total U.S. exports to Mexico in 1996, according to a report for the USTR by the U.S. International Trade Commission (ITC). The ITC found that the use of U.S. components in Mexican assembly plants had grown at an average yearly rate of 15.8 percent since NAFTA was implemented in 1994.

[3] As of February 24, 1997, 110,408 U.S. workers had been certified as eligible for training assistance under NAFTA's Trade Adjustment Assistance Program, administered by the U.S. Department of Labor. The U.S. economy, however, currently creates this many net new jobs in about two weeks. The general U.S. unemployment rate declined from 7.5 percent in 1992 to 5.3 percent in 1996.

in 1992 to 5.3 percent in 1996. U.S. exports to NAFTA countries currently support 2.3 million U.S. jobs.

The largest post-NAFTA gains in U.S. exports to Mexico have been in such high-technology manufacturing sectors as transportation and electronic equipment, industrial machinery, plastics and rubber, fabricated metal products, and chemicals. NAFTA also has been a boon for major U.S. agricultural states like Montana, Nebraska, and North Dakota, and traditional southern textile states like North Carolina and Alabama. NAFTA has encouraged U.S. and foreign investors with apparel and footwear factories in Asia to relocate their production operations to Mexico. This diversion of investment from Asia to Mexico "saved the heavier end of clothing manufacture in the U.S.: the textile mills," as Rich Nadler, a journalist who has covered NAFTA's progress since 1992, recently observed.[4]

According to Nadler, who has reviewed pre-and post-NAFTA growth rates in U.S. standards of living, the rate of increase in personal wealth has more than tripled since NAFTA was implemented. His review measured the improvement in three ways: (1) inflation-adjusted gross domestic product (GDP) per capita grew by 1.79 percent annually in 1994 and 1995, compared with only 0.23 percent from 1990 to 1993; (2) disposable personal income growth, adjusted for inflation, averaged 1.89 percent annually in 1994 and 1995, compared with 0.25 percent annually from 1990 to 1993; and (3) personal consumption expenditures grew by an inflation-adjusted 1.76 percent annually during 1994 and 1995, compared with 0.56 percent a year from 1990 to 1993.

The data on trade, production, and employment growth for NAFTA's first three years quantify objectively that NAFTA is good for the United States. Moreover, a recent economic analysis published by the U.S. Federal Reserve Bank of Chicago concludes that NAFTA will lead to output gains for all three participant countries. These gains are roughly twice as large as those predicted by previous forecasts of NAFTA's potential for accelerated growth in North American trade, output, and employment growth.

The Federal Reserve study, based on a dynamic economic model, also predicts that the adjustment to NAFTA should be virtually completed by 2004 (although NAFTA will not be fully phased in until 2009) and that NAFTA will greatly expand the flow of all goods, both from Canada and the United States to Mexico and from Mexico to the United States and Canada. In general, bilateral Mexican-North American trade should increase about 20 percent as a result of NAFTA. This projected growth also means more U.S. jobs and a higher standard of living for American workers.

In his State of the Union speech on February 4, 1997, President Clinton called on Congress to approve new fast-track negotiating authority in order to pursue new trade initiatives in Asia and Latin America during 1997 and 1998. "Now we must act to expand our exports," the President said, "especially to Asia and Latin America—two of the fastest growing regions on earth—or be left behind as these emerging economies forge new ties with other nations."

Congress should have no doubts about the success of NAFTA. Although only three years old, this international trade agreement is growing rapidly. Even though three years may seem like too little time to reach any final judgments about NAFTA, it already is clear that critics of this agreement have been wrong on all counts. Congress will be acting in the U.S. national interest when it approves a new fast track negotiating authority so that the Clinton Administration can put U.S. trade policy back on track around the world.

FREE TRADE IS IMPORTANT TO AMERICA

Free trade makes good economic sense. Free trade creates jobs and maximizes personal economic liberty; it gives American consumers access to a greater diversity of goods at lower prices, and provides a larger market in which American companies can sell their products. Moreover, free trade enables firms to import crucial components to manufacture products in a cost-competitive manner. Today, over 90 percent of American manufacturing companies import components used in final products sold to American consumers. American companies continue to export goods and services to other countries because of the great demand for American products, and because they can produce more than Americans want. Free trade and sound investment policies have proven to be undeniably good for America, and for the American people, which the following facts substantiate:

America is the world's largest exporter of goods and services. In 1996, America sold $830 billion in goods and services worldwide. Global U.S. trade in 1996 (exports

[4] Rich Nadler, "NAFTA: Jobs, Jobs, Jobs," K. C. Jones, Overland Park, Kansas, April 1997.

plus imports) totaled $1.76 trillion—over 23 percent of America's gross domestic product, whereas in 1970, trade accounted for barely 13 percent of America's GDP. Moreover, the USTR's office estimates that by 2010, trade will represent 36 percent of America's GDP.

The value of U.S. merchandise exports has grown more than 600 percent over the last 25 years. Since 1988, almost 70 percent of the growth in the U.S. economy was derived solely from exporting goods and services.

One out of every five American jobs is supported by trade. In 1996, export-oriented manufacturing and service companies supported 11.3 million American jobs that paid an average of 13 percent to 16 percent more than U.S. jobs overall. Nearly half of the manufacturing jobs created in the U.S. in recent years have been in foreign-owned companies.

Since 1965, unemployment has declined every year that the U.S. trade deficit expanded (more imports came into the U.S. than goods were exported). Conversely, unemployment increased in years in which the trade deficit shrank (fewer imports came into the U.S.). Increased exports mean more jobs for Americans, and increased imports adds to the national wealth.

America is as much an industrial giant today as it has been in the past. The manufacturing base of the United States is not shrinking because of free trade, as trade protectionists contend. In fact, it is not shrinking at all. According to the U.S. Department of Commerce, manufacturing accounts for 21 percent of GDP, which is the same percentage of the economy today as in 1967. Employment in manufacturing has remained relatively stable over the last three decades. The number of Americans working in manufacturing today (about 10.5 million) is about the same as it was in the early 1960s. While that number is a smaller percentage of a growing U.S. population, it proves that Americans are still finding jobs in manufacturing.

The 105th Congress and the Clinton Administration should seek to achieve very specific objectives to reestablish America's leadership role in the process of worldwide expansion of free trade. The general objectives policymakers should use as guidelines throughout the next presidential term are to:

(1) Put American trade expansion back on track;

(2) Expand the North American Free Trade Agreement to Chile.

(3) Enlarge and deepen the World Trade Organization;

(4) Support the Asia-Pacific Economic Cooperation (APEC) forum to make it a better vehicle for liberalizing Asian trade;

(5) Improve U.S. trade relations with China;

(6) Strengthen America's transatlantic relations with the European Union; and,

(7) Build congressional and public support for free trade and investment.

Strong presidential leadership and fast-track negotiating authority are essential for maintaining American leadership in the global economy. To expand America's international trade interests, strong and sustained presidential leadership is essential. If strong Executive leadership is lacking, even the wisest and best-intentioned congressional leadership will find it nearly impossible to advance America's trade interests. Similarly, fast-track negotiating authority is essential for the swift approval by Congress of trade agreements negotiated by the executive branch of government. Without fast-track negotiating authority, the balance of pressure from congressional constituencies with a direct interest in trade will likely shift toward a stance increasingly supportive of protective intervention. Clearly, then, the foundations for restoring a bipartisan congressional consensus in support of trade expansion are first, strong leadership from the executive branch, and second, the renewal by Congress of fast-track negotiating authority that limits the Executive's scope of action to tariff and non-tariff trade negotiations.

PUTTING AMERICAN TRADE EXPANSION BACK ON TRACK

Although America's international trade priorities and commitments span the globe, the Western Hemisphere is the region where U.S. trade negotiators scored the most impressive gains during the first half of the 1990s. Therefore, the process of putting American trade expansion back on track should begin in the Western Hemisphere. Between 1980 and 1992, the Reagan and Bush Administrations forged the closest relationship with Latin America that the U.S. has enjoyed in more than a century. This new hemispheric partnership was based on both democracy and the creation of a hemispheric free trade area as established in the Enterprise for the Americas Initiative (EAI) and the North American Free Trade Agreement (NAFTA), which was conceived as the base upon which U.S.-led trade expansion in the Western Hemisphere over the next decade would result in the creation of a Free Trade Area of the Americas (FTAA) by 2005.

During the period from 1990 to 1996, U.S. exports to the world increased 57 percent, while U.S. exports to Latin America and the Caribbean Basin (excluding Mexico) increased by 110 percent. The Western Hemisphere accounted for 39 percent of U.S. merchandise exports in 1996. Not only are Canada and Mexico the first and third largest U.S. trading partners, but the rest of Latin America and the Caribbean Basin has been one of the fastest growing U.S. export markets in recent years. During 1995 and 1996, it was the only major region with which the U.S. recorded a trade surplus. In 1995 the total gross domestic product (GDP) of Latin America and the Caribbean Basin was $1.5 trillion, Moreover, Latin America intra-regional trade more than doubled from $41 billion to $88 billion during the period from 1990 to 1995. The U.S. exported more to Chile in 1995 and 1996 than it did to Russia, India, or Indonesia.

To put American trade expansion back on track in the Western Hemisphere and around the world, the 105th Congress and the Clinton Administration should strive to agree on the following specific objectives:

Congress needs to renew the Executive's fast-track negotiating authority. The 105th Congress should grant the Executive a new fast-track negotiating authority quickly, in order to facilitate Chile's accession to NAFTA. The enlargement of NAFTA to include Chile would reaffirm America's commitment to creating a Free Trade Area of the Americas (FTAA) by 2005. One of the greatest mistakes made recently by U.S. policymakers was postponing the inclusion of Chile in NAFTA until after the 1996 elections. The failure to add Chile to NAFTA weakened American leadership and influence in the FTAA process. There is no reason to delay the admission of Chile to NAFTA. Chile's total gross national product is equivalent to about 1 percent of the American economy. Chile has enjoyed positive economic growth for 14 consecutive years. Growth during the past six years under a democratic civilian government has averaged 7.5 percent annually. Chile has pre-paid a large chunk of its external public-sector debt, has no balance-of-payments problem, and has enjoyed single-digit inflation since 1994. Its investment and savings rates are approaching those of the Asian tigers. The inclusion of Chile in NAFTA would confirm America's commitment to leading the FTAA process and open a new gateway for U.S. exports to markets in South America and APEC (of which Chile is a member).

The renewal of a broad fast-track negotiating authority, without any language linking trade issues to labor standards and the environment, also would facilitate the expansion of NAFTA to other countries in Latin America and the negotiation of free trade agreements with countries in Asia. Without a fast-track negotiating authority in hand, the Administration cannot enter into serious trade negotiations with Chile or any other country. Suggestions that fast-track is not necessary to enter into trade negotiations are mistaken. No country will invest the time or resources in negotiating with the U.S. if American negotiators cannot guarantee that any agreement reached will not be mutilated beyond recognition by the U.S. Congress.

Chairman CRANE. Thank you.

Mr. Lande.

STATEMENT OF STEPHEN LANDE, ADJUNCT SENIOR RESEARCH ASSOCIATE, NORTH-SOUTH CENTER, UNIVERSITY OF MIAMI

Mr. LANDE. Thank you very much for keeping your eye, or for the Subcommittee keeping its eye on the long range as well as the short range. Given the pressure in Washington in terms of day-to-day decisions, it is refreshing to be invited to a hearing where we can talk about the future of U.S. trade policy, particularly as reflected in the free trade area of the Americas.

I am also very pleased to be here on behalf of the North-South Center of the University of Miami. The mission of the North-South Center is to promote better relations and serve as a catalyst for change among the United States, Canada, and the nations of Latin America and the Caribbean.

Most recently, the center submitted a detailed set of policy recommendations and issue papers to the third Business Forum of the Americas, meeting in Belo Horizonte, Brazil. The papers were based on a thorough analysis of current FTAA and Latin integration policy implications and their implications for business. The input was provided by a series of private sector shadow groups.

Similar papers were also provided for the Cartagena ministerial meeting.

We believe very strongly, and perhaps this is the first point we would like to make in the testimony, that the involvement of the private sector, particularly at the hemispheric level, is very important in terms of the success of the process.

The private sectors of Latin America, the Caribbean and the United States have already been more involved in the FTAA process than they have been involved in any previous extraregional trade negotiation. Credit for this phenomenon is in part due to the leadership of the late U.S. Commerce Secretary Ron Brown, the head of the Colombia national export promotion agency, Jorge Ramirez Acampo, and the efforts of the Brazilian national confederation of industries, Senator Fernando Brazera and Jose Augusto Quello Fernandez.

At the meeting of Belo Horizonte, the trade ministerial, for the first time the private sectors of the region, of each of the countries who were represented at that meeting, made specific recommendations as to how they would like to see the FTAA proceed. As Mr. Pryce of the Council of the Americas indicated, there was some friction or some differences between the Brazilian point of view at the beginning of many of these talks and the American private sector point of view. But they did put together specific recommendations.

It is extremely important that these recommendations not fall on deaf ears. They were delivered to the ministers' meeting in Belo Horizonte, and it's extremely important that the hemispheric working groups that are currently preparing a negotiating program for the 11 functional areas should carefully review these inputs that they have received from the private sector.

To the extent that the U.S. Government has influence in this process, it should insist that each of the working groups which have received advice from the private sector should look at this advice and at least come back with some recommendations, either for immediate attention or in terms of future policy.

Currently, there had been no regular contact between the provider sector and government officials. It makes no sense to have businesspeople who bear the brunt of barriers to trade, who perhaps have the most to gain from removal of these barriers of trade, not to be involved in some way in the day-to-day consideration of these issues.

The compendium of trade issues which was referred to earlier and which was developed by the free trade area of the Americas is a good compendium. It would have been better if the private sector had been involved in helping to identify specific problems and perhaps have developed some recommendations for dealing with these particular issues.

I would like to make a third recommendation where perhaps the Subcommittee can be helpful as it pertains to increasing the role

of the private sector in this negotiation. What the negotiation is really about is, How do you go beyond Uruguay round obligations?

Yet there is a complete lack of knowledge, particularly among private sectors, not only in the United States, but throughout Latin America and the Caribbean, except for perhaps a few very specialized individuals, of what the obligations were in the Uruguay round. How do you go beyond them? How do you make things more detailed perhaps in the Uruguay round?

There are a lot of discussions on procedures for establishing standards, for establishing sanitary issues and phytosanitary regulations, for allowing accreditation of various providers of services.

How do you put them into effect so you can have true, free movement of goods between and within the hemisphere? If you expect a product in one country, how do you assume that it can transit the whole hemisphere?

It is the need to identify these specific possibilities for going beyond the Uruguay round which must be addressed, and my suggestion is that perhaps the Subcommittee itself, perhaps the USITC, the GAO, possibly USTR, could prepare a very simple, easy to understand review of obligations that were undertaken in the Uruguay round, and how you can go beyond these obligations in terms of what you can accomplish in the free trade area of the Americas.

A second issue I would like to address is the question of concrete results. Given early concrete results, or what we commonly refer to as an early harvest, given the prolonged nature of the hemispheric talks, the fact that they will continue into the year 2005, the negotiating countries must demonstrate that they recognize how essential it will be to achieve substantive agreements in commercially significant areas early on. Or else, let's face it, there will not be a political interest. There will not be a business interest in terms of the process.

I have already mentioned the importance of identifying specific sectors where you can make progress on business facilitation issues, whether those issues be in standards, whether sanitary or phytosanitary, or whether they be in service accreditation and so on.

Several of the working groups have already indicated they are willing to address these issues. However, none of the working groups have yet identified specific sectors where we can make progress.

A useful precedent is offered by the U.S.–EU Transatlantic Dialog, where agreements were worked out on covering seven sectors in terms of developing uniform standards, particularly medical equipment, pharmaceutical, and certain electronic products.

The WTO has adopted guidelines for the mutual recognition of qualifications to the accounting sectors. We would urge that this could be a prime candidate for the type of early concrete results, all of which would be appreciated by business, and keep momentum in the process.

All the working groups should also make recommendations on opportunities to harmonize regulatory processes, tender and bid submission procedures, procurement situations, handling of customs related protests, and so forth.

This would be consistent with a substantial majority of the recommendations of the Business Forum. They want to have harmonized regulations in the hemisphere. This comes before trade liberalization. It is easier to do, and the most interesting part of this issue, this is one of the areas where Brazil and the United States agree that there is a possibility of concrete progress.

There is no better way to maintain interest in the FTAA process than to borrow a leaf from the APEC experience. In addition to trade liberalizing groups, as exists in the FTAA, APEC has 13 groups pursuing economic and technical cooperation as a way to encourage increased investment and trade among its members.

These groups are considering joint activities in such areas as science and technology, small and medium enterprises, energy, transportation, telecommunications, and so forth.

Similar groups which are interested in actually making business deals could be established under the FTAA rubric, and would be a very positive development in terms of moving the process along.

Finally, we would like to address how the President's negotiating team might treat undertakings on nontrade issues, including workers' rights and environmental protection. That is, topics integral to the terms of the final trade and investment agreement, constituting the FTAA, without allowing these issues to become obstacles to the expansion of hemispheric trade.

I think in this regard, the example of NAFTA could be very useful. The recent NAFTA report that was released by the USTR indicated there was significant progress made in the labor and environmental issues. This progress, however, did not come about because of the threat of sanctions.

The best proof of this is that there were 11 areas under the labor rubric which NAFTA identified as possibilities for making significant progress. Only three of these areas were actually subject to sanctions. Sanctions were never brought into play.

Yet the progress that was made in terms of enforcement, in terms of education, in terms of improvement of standards within the labor regulations were extremely useful. This came about because of the institutional network that was developed under the NAFTA. This came about because of the public attention given these issues. This came about because there was a certain amount of funding available.

It is the same thing, basically, in terms of the environmental record under the NAFTA.

It would be hoped that in the summit process the same can occur. Fortunately, the FTAA process is not operating in isolation from other aspects of negotiations within the hemisphere. The Chilean summit is going to address four issues, of which trade is only one.

They will be addressing issues that will include eradication of poverty, development of human rights, assuring more meaningful distribution of income. There were various baskets they have identified.

It is very likely that environment and labor can be treated within this rubric, as well as under the FTAA. It is this attempt, it is this commitment that has been made by hemispheric participants in the FTAA process to make progress in these areas.

There was a question of whether it belongs in trade negotiations or not. At the WTO, it became clear that there was a desire by participants in that process to have labor issues considered under the International Labor Organization.

What we would suggest, perhaps, as a final recommendation, is that when one looks at fast track, and I agree with all the members of the panel, that the renewal of fast track is the key part of the process, that one should look beyond the narrow definitions of trade policy. One should see what is happening in these other areas of negotiations, and one should determine whether it is possible or not to bring these issues up in those contexts.

That would eliminate the annoying issue of sanctions, but it would also assure that these issues receive the attention they deserve in terms of a hemispheric integration process.

Thank you very much, Mr. Chairman.

[The prepared statement and attachment follow:]

Statement of Stephen Lande, Adjunct Senior Research Associate, North-South Center, University of Miami

Chairman Crane, Mr. Matsui, and Members of the Subcommittee on Trade:

On behalf of The North-South Center at the University of Miami, let me thank the Subcommittee for giving the Center an opportunity to appear before you on the subject of the Free Trade Area of the Americas.

The mission of The North-South Center is to promote better relations and serve as a catalyst for change among the United States, Canada, and the nations of Latin America and the Caribbean. Its simple approach to these challenging dual objectives is to advance knowledge and understanding of the major political, social, economic, and cultural issues affecting the nations and peoples of the Western Hemisphere.

Most recently, The Center submitted a detailed set of Policy Recommendations and Issues Papers to the Third Business Forum of the Americas, meeting in Belo Horizonte, Brazil. The papers were based on a thorough analysis of current FTAA (and Latin American integration) policy issues, and their implications for business, provided by a series of private sector "shadow groups" organized by The Center. These "shadow groups" were also active before the Second Business Forum, in Cartagena, Colombia, and helped in the drafting of the earlier Center publication, Private Sector Recommendations on Advancing Western Hemisphere Trade.

Today, we will discuss what we believe are three of the most critical issues facing the 34 nations committed to achieving a Free Trade Area of the Americas by the year 2005.

First, we will focus on what might be expected in the way of "interim" results before the final negotiating results are agreed in 2005. Given the prolonged nature of the hemispheric talks, the negotiating countries must demonstrate that they recognize how essential it will be to achieve substantive agreements in commercially-significant areas, even as other FTAA topics continue to be debated and developed.

Second, we will discuss the nature of the private sector's role in the negotiating process, and why this "hemispheric" free trade negotiation, both in its historical context, and as a continuing process of economic reform and liberalization, implies the need for a fully-articulated private sector advisory process, adopted and implemented by all the governments taking part in the FTAA negotiations.

Finally, we will address how the President's negotiating team might treat undertakings on non-trade issues, including workers' rights and environmental protection, as topics integral to the terms of the final trade and investment agreements constituting an FTAA, without allowing these issues to become obstacles to the expansion of hemispheric trade.

To San José, and Beyond

There is a consensus among the Hemisphere's Governments that a formal negotiating process will be endorsed and declared underway at the Santiago Summit of the Americas next year. Preceding the Summit, the hemisphere's Trade Ministers will meet in San José, Costa Rica to set the stage for Summit's decision to launch negotiations. Provided that the United States has passed, or is close to approving a fast-track negotiating mandate, a Hemispheric Negotiating Plan should be approved by the Trade Ministers without significant difficulty.

Even as the Government's prepare to tackle the complicated set of negotiating modalities that will give structure and balance to the talks, there is growing concern among private sector organizations—from Ottawa to Santiago—that the FTAA negotiations could very well retard, rather than accelerate the integration of the Western Hemisphere's 34 free-market economies.

This concern has been growing since the Second Trade Ministerial and Business Forum in Cartagena, Colombia last March, and I can state from first-hand experience that it was palpable at the Third Ministerial in Belo Horizonte, Brazil this spring.

As way of background, we would remind the Subcommittee that since the FTAA negotiations were never foreseen to end before the year 2005, political leaders and private sector officials were in agreement, at least at the 1994 Miami Summit, on the idea of developing an "early harvest" of concrete trade and investment liberalizing measures before the year 2000.

In the context of post-war trade talks, the "early harvest" idea gained some prominence during the Uruguay Round. Faced with what appeared to be several additional years hard bargaining, government attempted to develop an "early harvest" in 1988. Unfortunately, the difficulty of isolating specific subjects made it impossible to develop a meaningful package of undertakings, although some technical solutions were adopted. The Uruguay Round early harvest was not sufficient to maintain private sector interest, although the negotiations had sufficient momentum to finally reach closure four years later.

But this is not 1988. Today, the term "globalization" is as common to the vocabulary of international business as "profit" and "loss." At the speed that international markets—for goods, services, and financial instruments—are changing, both in terms size and organization, it is naive to think that the private sectors of our hemisphere would be content with a decade-long, protracted squabble over what everyone agrees is crucial to the stability of the economies, and to the success of the newly democratic political regimes of the Western Hemisphere.

Overcoming Current Private Sector Apprehensions

To avoid a "still-born" FTAA in Santiago next spring, the Hemispheric Working Groups that are currently preparing a negotiating program for eleven functional areas, should carefully review the inputs they received from the private sector at the Third Business Forum (Belo Horizonte,) with a view to rapid progress on measures having a business facilitating impact.

To the extent the United States Government has influence in this process, it should insist that each of the Working Groups which received recommendations, should prepare thoughtful responses to those recommendations. In cases where such replies are not appropriate before a negotiating phase is reached, the Working Group should recommend that responses be included on the negotiating agenda.

Naturally, the private sector expects more than a pro forma response, especially on topics for which its Business Forum recommendations represent a broad consensus in the hemisphere, and where the Brazilian and American private sectors are in full agreement. Two areas are of particular note:

1) Several of the Working Groups should be reflecting that the private sector has indicated it would be fruitful to identify sectors and products where mutual recognition, harmonization and equivalency agreements could be achieved in the short-term. A useful precedent is offered by the U.S.–EU Transatlantic Dialogue where agreements were worked out covering medical equipment, pharmaceuticals and certain electronic products. This initiative could also include identifying service sectors where mutual accreditation procedures could be agreed upon. For example, the WTO has adopted guidelines for the mutual recognition of qualifications for the accountancy sector.

2) All the Working Groups should make recommendation on opportunities to harmonize regulatory processes (e.g. the tender and bid submission processes in government procurement situations; or the handling of customs-related protests.) This would be consistent with a substantial majority of the recommendations of the three Business Fora.

There is, of course, a tendency for countries without significant negotiating leverage to resist making concessions until the final bargaining sessions. Here, in particular, we should look to the Hemisphere's private sector groups to help in tempering opposition from governments for an early resolution of these and other business facilitation issues.

Increasing Legitimacy Through Private Sector Involvement

It would be a mistake to say that the Summit process has been flawless. Despite the clear policy stated in the Declaration of Principles, governments receipt and as-

similation of the private sector's input to the Trade Ministerials has never have been formalized or institutionalized. Many private sector groupings in their submissions to the Belo Horizonte Ministerial indicated the need for closer coordination with the Vice Ministers of Trade and the HWGs in the period between Trade Ministerials.

Nevertheless, the private sector of Latin America and the Caribbean has already been more involved in the FTAA process than they were in any previous extra-regional trade negotiation. Credit for this phenomenon is in part due to the leadership of the late U.S. Commerce Secretary, Ron Brown, and the head of the Colombian national export promotion agency, Jorge Ramírez-Ocampo. Their early efforts were further advanced at the Belo Horizonte meetings by Brazilian officials associated with Brazil's National Confederation of Industries—Senator Fernando Bezerra and José August Coehlo Fernandes.

Taken together, this private-sector collaboration led to the transformation of the "Business Forum of the Americas" from a low-impact political event, into a serious and substantive gathering of the Hemisphere's leading national private sector actors.

Brown and Ocampo made certain that the private sector leaders attending the "Forum" would have a direct interaction with their Governments' trade ministers, at the precise moment that the ministers were taking decisions on the negotiating agenda and issue-specific work program for the FTAA negotiations.

At the Third Trade Ministerial and Business Forum, the substantive aspects of the Forum were organized so that the subjects of each of the private sector workshops and dialogues would correspond precisely with the issue areas around which the government-to-government discussions are being conducted. Thus, the submissions of attending private sector groups, and the dialogues at the workshops, were specifically focused on the issues driving the trade negotiating agenda, as of April, 1997.

Belo Horizonte was also significant for the agreement reached by the negotiating governments to circulate compendia of information on national barriers to trade in goods, services and investment, as well as the treatment of various issues under each of the existing subregional arrangements.

Contributing significantly to the value and relevance of the private sector's input at the Second and Third Forums was the early formation of a "Business Network for Hemispheric Integration (BNHI.) BNHI consists of about seventy subregional and national business organizations. This group has now held two general assemblies at which there have been fruitful discussions about the best way for the private sector to participate in the FTAA process. The current consensus is that the BNHI should allow for the dissemination of information being developed by the FTAA process to its member organizations, should serve as a sounding board for the views of its private sector members and for transmitting these views into the official FTAA process, and should be an instrument for mobilizing support for hemispheric free trade. However, the BNHI should allow national groups to develop recommendations on specific issues, and there should be no attempt to develop consensus on all but the most general issues. Currently, BNHI is being led by the Brazilian President of their Confederation of Chambers of Commerce, Paulo Manoel Protasio.

Most Western Hemisphere nations already possess a few organizations that work to facilitate private sector input into the trade advisory process. For example, each of the countries has a chamber of commerce, a chamber of industry (or similar institution), and a chamber of exporters. These organizations are involved in regular consultations with the government. However, consultations tend to address general economic conditions, macroeconomic and fiscal policies, rather than the details of trade talks.

We have recommended elsewhere that the private sectors of all the negotiating countries urge their governments to establish formal trade negotiations advisory systems, which would include the naming of recognized "private sector advisors" who would be cleared to receive information on the most sensitive government-to-government negotiations.

One issue that must be addressed if the private sectors role is to be meaningful is that, currently, between Ministerials, there is no regular contact or exchange of views between the various official institutions and the private sector. It makes no sense not to have businesspeople, who bear the brunt of barriers to trade, input into the development of these compendia of barriers.

No mechanism has been established for the private sector to provide suggestions or information to the vice ministers and to the HWGs beyond the two half-day workshops at the Americas Business Forum. Ideally, the private sector should have representation on the official HWGs or at least have some form of recognized "trans-

mission belt" for being kept informed of all developments and for delivering its input. Inclusive private sector meetings should be held at least six weeks before Trade Ministerials, in order to afford the private sector improved conditions for formulating inputs and assessing work from the official process. After all, when goods, services, technology, and capital move within a developing FTAA, the private sector will be the greatest stakeholder. During the Trade Ministerial, the Forum Workshops were addressed in most cases by the chairman of the applicable Working Groups. At a minimum, this procedure should be maintained, with the Negotiating Group Chairmen being required to brief the Workshop Chairs on the outcome of their meetings, including any reaction to Forum recommendations.

Additionally, data collected by the HWGs, which governments pledged to make public on a timely basis, is only beginning to be released. The few HWGs that made their information available after the Belo Horizonte meetings concluded seemed unconcerned that this key information was not able to be used by the private sector in preparing for the Third Business Forum, despite the fact that the private sector probably knows better than governments the practical importance of the myriad of impediments to trade and investment.

On the other hand, the private sector has some responsibilities, not the least of which is to gain sufficient expertise to understand the specific issues under negotiation. This means that each private sector entity wishing to play a role in the talks must understand the technical issues. In most cases, this starts with knowing the current commitments in the World Trade Organization (WTO)—the presumed floor of any negotiation—and determining how they should be deepened in a politically acceptable way. So far, the private sectors of most countries have not demonstrated that such knowledge exists beyond a handful of lawyers and former government officials.

Issue Linkage: Where Should Free Trade End And the Summit Begin?

There is currently no effort, either formal or informal, to consider how the prospective FTAA negotiations should relate to other so-called "baskets" which will be considered at the Santiago Summit. In addition to the basket on economic integration and free trade, the Chilean Summit will address i) education; ii) eradication of poverty and discrimination; and iii) preserving and strengthening democracy and human rights.

It would appear that the non-trade Summit "baskets" are, or could be made to be more suitable to the handling of workers' rights issues; environment protection; and corrupt practices. This is fortuitous since there is considerable Government resistance to expanding an already full agenda of FTAA issues into these controversial areas.

The Administration's report on the first three years of NAFTA had an extensive review of the operation of the two side agreements covering social issues. There is no question that these agreements have operated well. In both these agreements, there have been major improvements in enforcement, establishment of standards, education, etc. Institutions have been established to address these issues in a balanced fashion

The North American Agreement on Labor Cooperation (NAALC) has promoted cooperation on fundamental labor issues and enhanced oversight and enforcement of labor laws. The NAALC petition process subjects Member Governments to public scrutiny for alleged violations of labor laws. The petition process has resulted in such outcomes as recognition of an union previously denied recognition, and permitting secret union ballots at two companies where union votes previously were not secret.

Between 1993 and 1996, the Mexican Secretariat of Labor and Social Welfare increased funding for enforcement of labor laws by almost 20 percent. Mexico reported a 30 percent reduction in the number of workplace injuries and illnesses since the NAFTA was signed. Under the NAALC, the three countries have initiated cooperative efforts on a variety of labor issues, including occupational health and safety, training, industrial relations, workers' rights, and more specifically, child labor and gender issues.

There was similar progress on environmental protection. Environmental institutions have financed 16 infrastructure projects with a combined cost of nearly $230 million. The NADBank will be able to leverage its capital into $2 to 3 billion in lending for environmental projects.

The NAFTA Commismental Cooperation (CEC) has strengthened trilateral cooperation on a broad range of issues, including illegal trade in hazardous wastes, endangered wildlife, and the control of certain toxic chemicals and pesticides. Through the CEC, Mexico has agreed to join the United States and Canada in banning the pesticides DDT and chlordane. The United States and Mexico have

launched a Border XXI program establishing five-year objectives for achieving a clean border environment, and a blueprint for meeting these objectives. Work is underway to abate vehicle emissions at border crossings, improve tracking of transborder movement of hazardous wastes, and to operate a U.S.-Mexican joint response team to minimize the risk of environmental degradation.

A voluntary environmental auditing program has seen about half of the 800-odd maquiladora plants operating in Mexico sign environmental compliance action plans (this represents an investment in environmental controls worth more than $800 million.) Mexico reports a 72 percent reduction in serious environmental violations in the maquiladora industry since the NAFTA was signed and a 43 percent increase in the number of maquiladora facilities in complete compliance.

This level of meaningful progress vindicates those who felt NAFTA would be less successful without agreements covering labor cooperation and the environment. At the same time, the record also indicates that there is hardly any linkage between improved enforcement of national laws, and trade sanctions. There have been no sanctions applied in the course of creating a better set of circumstances for workers, and for protection of the environment.

The side agreement on labor cooperation covers eleven principles—freedom of association; protection of the right to organize; the right to bargain collectively; the right to strike; prohibition of forced labor; labor protections for children and young persons, minimum employment standards, elimination of employment discrimination, equal pay for women and men, prevention of occupational injuries and illnesses, compensation in cases of occupational injuries and illnesses, and protection of migrant workers. Although only the first three of these labor protections might lead to trade sanctions—i.e., occupational safety and health, child labor, and minimum wage standards—there has been substantial progress in all eleven areas

What we believe this demonstrates is that trade sanctions are not essential in achieving comparable progress on "social issues," relative to the improvements being made in the trade, commercial, and investment climate under a free trade agreement. However, the NAFTA experience does substantiate the value of parallel treatment of "social issues" during the course of the FTAA negotiations, and in the final set of agreements that emerge from the overall Summit process.

At the Santiago Summit, labor cooperation, the environment, and other germane issues can be considered under such rubrics as eradication of poverty, strengthening democracy, and human rights. The participating countries have already agreed that these "baskets" would be considered as part of the continuing Summit follow-up. Nora Lustig of The Brookings Institute, in her volume *Coping with Austerity: Poverty and Inequality in Latin America*, argued persuasively that this topic could effectively be treated under the Summit follow-up agenda item on "eradicating poverty."

One should look at fast-track in the context of current developments. Past debates over this subject have been colored by the legitimate concern of labor and environmental groups that without explicit authority to negotiate a trade-environmental (or trade-labor rights) linkage, these subjects would not be covered effectively in trade negotiations. However, at least for Latin America and the Caribbean, this is no longer a serious concern. There is no question that these issues will be addressed in a number of Summit "baskets." U.S. negotiating authority should recognize this fact, and the Committees in Congress responsible for trade should reflect in the fast-track legislation their legitimate interest in developments in these negotiations, even if some of these issues are not part of, but are running parallel to the FTAA talks.

The Authority to Negotiate

If fast-track is passed this year, NAFTA negotiations with Chile could be well advanced or even completed before the second Summit of the Americas in Santiago. Further, the most important obstacle to the launching of the FTAA negotiations would be eliminated.

If fast-track has not been renewed by 1998, the American position in Latin America will deteriorate rapidly. MERCOSUR already has free trade agreements with Chile and Andean Pact member Bolivia, and is holding discussions with Mexico, Central America and the Caribbean Islands—discussions which could lead to an expansion of free trade agreements whose preferences work against U.S. exports of goods, capital and investment. In an ironic development, the Central American countries having accepted fully the U.S. arguments for a major liberalization of their trade regimes, requested free trade talks with the U.S. but were flatly turned down by an Administration lacking negotiating authority.

Without a U.S. President in possession of a negotiating mandate, a successful Summit is all but precluded. Thus, if fast track is not renewed, the United States would have to rely on the leadership of other countries to salvage its hopes of

launching FTAA negotiations there. In this regard, the Mexican role could be crucial since it may have completed by the Summit a string of FTA agreements with all the Latin America countries with the exception of MERCOSUR. Unlike the agreements being negotiated by MERCOSUR, the Mexican network is closely modeled after NAFTA, with NAFTA level discipline.

As discussed above, we are convinced that the Congress can structure the authority to negotiate so as to permit the Summit to launch FTAA negotiations, but without trade sanctions entering into the discussion of non-trade issues. There is too much at stake in the FTAA and in the Summit process overall for there to be further delay in the granting of fast-track authority.

National support for the FTAA and the Summit could also be enhanced if the subject matters under negotiation were broadened. We ask that the Subcommittee consider the following topics in framing of a negotiating mandate:

1) The Trade-Monetary Linkage: Public opinion in all countries seems to hold that for free trade to work, monetary fluctuations must be minimized. In the past three years, Brazilian, Colombian and United States producers have been harmed by devaluations by their FTA partners: respectfully, Argentina, Venezuela, and Mexico. In fact, U.S. public opinion is still wary about free trade due to the coincidence in timing between NAFTA implementation, the fall in the peso's value, the resulting bailout, and subsequent trade deficit.

There is insufficient convergence in macroeconomic policy in the hemisphere to allow for formal linkage of monetary and exchange rate policy among all prospective members of the FTAA. However, the free exchange of goods among countries in the FTAA calls for some form of regular consultations and exchange of information among the participating countries.

Although mandatory requirements such as those included in the Maastricht Treaty for a European Monetary Union would not be appropriate for the FTAA, a system of non-binding indicators for setting off consultations would be useful. The indicators could be modeled after those in Maastricht and include such variables as the ratio of governmental budget deficits to GNP, government debt as a percentage of GNP, and relative fluctuations in exchange and inflationary rates.

2) Deregulation and Rule-making: The newest and most valuable addition to the agenda for trade negotiations may be deregulation. As production and investments become globalized, it is increasingly difficult and wasteful of resources for companies to adjust to different national rules and regulations. Although it is unrealistic to expect countries to give up their own system of rule-making, it is realistic to agree to harmonize the regulatory processes. Modeled after the rules on sanitary and phytosanitary measures and industrial standards, there could be agreement that regulations be as minimally disruptive to market decisions as possible, consistent with their social purposes. There should also be fully transparent rule-making procedures, with adequate warning of impending regulatory rule-making.

3) Development of the hemispheric infrastructure for trade: Business facilitation issues often go beyond the competence of individual Ministries. Thus, to truly promote trade, there must be involvement of more than the Trade Ministers in negotiations for the FTAA. For example, with respect to the agenda item on how to develop national infrastructures in ways which encourage the flow of goods and services throughout the hemisphere. A joint working group linking Trade and Finance officials should examine forms of additional financing.

4) Melding the operation of the Anglo-Saxon common law system with the more Roman system of Latin American countries: It has become obvious that a full scale legal review must be carried to decide how best to meld the legal traditions existing in the United States and the English speaking Caribbean, on the one hand, and those of Latin America on the other. This issue is already under discussion in national bar associations.

5) Ways to bring government and entrepreneurs together to actually facilitate business deals rather than focusing narrowly on the trade regime: There is no better way to maintain interest in the FTAA process than to borrow a leaf from the APEC experience. In addition to groups study trade and investment liberalization, AEC has thirteen groups pursuing economic and technological cooperation as a way to encourage increased investment and trade among the members. These groups are considering joint activities for 1) human resource development, 2) industrial science and technology, 3) small and medium enterprises, 4) economic infrastructure, 5) energy, 6) transportation, 7) telecommunication and information, 8) tourism, 9) trade and investment data, 10) trade promotion, 11) marine resource conservation, 12) fisheries and 13) agricultural technology. Similar groups set up under the FTAA rubric could provide the type of concrete results which actually generate business and employment.....

Thank you, Chairman Crane, Mr. Matsui, and the Members of the Subcommittee for giving us this opportunity to discuss the FTAA negotiating process.

This statement was prepared and presented orally by Mr. Stephen Lande, Adjunt Senior Resource Associate of the North-South Center. Mr. Lande is also president of Manchester Trade, Ltd., of Washington, D.C.

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Private Sector Recommendations on Advancing Western Hemisphere Trade

INTRODUCTION

The Americas Business Forum III

From May 13 to 16, 1997, the city of Belo Horizonte, Brazil, will host the third Americas Business Forum. These occasions have brought together an impressive cross-section of the business leadership of North and South America and the Caribbean. The participating executives gather to lend support and counsel to the hemisphere's trade and commerce ministers, in the latter's efforts to design and implement a Free Trade Area of the Americas (FTAA). At the second Forum, in Cartagena, Colombia, a precedent was established for the Trade Ministers collectively to attend the final session of the Business Forum, when presentations were made by the private sector summarizing the results of their issue-oriented workshops.

This type of interaction between the public and private sectors was foreseen in the Summit of the Americas Declaration of Principles, which states the following:

To assure public engagement and commitment, we invite the cooperation and participation of the private sector, labor, political parties, academic institutions, and other non-governmental actors and organizations in both our national and regional efforts, thus strengthening the partnership between government and society.

It is the purpose of this set of papers to pursue the spirit of this Summit principle. The papers review the importance of the issues, discuss existing impediments and barriers, and suggest public and private sector actions to be considered at the Belo Horizonte Ministerial. The North-South Center thus continues a practice begun before the first Summit took place, when it put together seminars of non-governmental actors to discuss the main lines of the Summit agenda and published the results. Following the Summit, the Center published a large volume of pre-Summit proposals that had been submitted to official channels from the various sectors of civil society. Before the Cartagena Ministerial, the Center brought together a number of business, labor, and academic experts to serve on "shadow groups," corresponding to the 11 Hemispheric Working Groups (see discussion of the HWGs below). The shadow groups' suggestions, prepared for the Business Forum in Cartagena, were embodied in the publication, Private Sector Recommendations on Advancing Western Hemisphere Trade. These recommendations have now been expanded and updated and are included in the current volume.

Following the Belo Horizonte Ministerial, we plan to continue to assist the FTAA process as an ongoing North-South Center project. We will present an interpretive note on the results of the Ministerial, inviting further input from non-governmental sectors. In these and other endeavors, the Center will be working closely with the widely respected Institute of the Americas in La Jolla, California, to establish a transcontinental program for promoting hemispheric integration.

The Belo Horizonte Hemispheric Trade Ministerial

Belo Horizonte will also host the third Trade Ministerial dedicated exclusively to the issues related to an FTAA and to hemispheric economic integration. The Ministerial should provide the clearest indication to date that the hemispheres governments will all begin implementing the FTAA by the year 2005—just as agreed at the first Summit of the Americas in 1994. A Ministerial commitment to complete the preparatory work for negotiations at the next Trade Ministerial (scheduled for February 1998, in San José, Costa Rica) will be one of several steps forward taken at Belo Horizonte. The honor of formally launching the FTAA negotiations will be

bestowed on the hemispheres heads of state and government, who are to gather for a Summit in Santiago, Chile, the month following the 1998 Ministerial.

Since the first Trade Ministerial (June 1995 in Denver), working-level officials have been meeting continuously to develop and refine the factual and organizational bases for formal negotiations. Having established a substantial catalogue of problems to be addressed during the negotiations, the governments, nonetheless, will not agree in Belo Horizonte on how to structure the formal negotiations nor on how the FTAA actually will be formed (that is, whether individual national governments will be the sole actors or whether subregional economic groups, such as MERCOSUR, will be central to the implementation process). Yet these disagreements in the spring of 1997 are unlikely to force a postponement of the launching of the negotiations in Santiago in 1998. By March 1998, an agreed-upon basis from which to launch the negotiations should be firmly in place.

The Summit Revisited

What is the essence of the trade negotiating process begun at the Summit of the Americas? The Summits Plan of Action lays out a two-track approach. Above the two tracks is an overarching principle that calls for the full and rapid implementation of global trading arrangements consistent with the rules established by the World Trade Organization (WTO). The freest possible global trading system is still the preferred overall policy, and regional arrangements should be able to be characterized as open regionalism. It remains our expectation that successful creation of the FTAA, including countries at all levels of economic and social development, from the most industrially advanced to the least developed, would help establish a basis for creating a global free trade community by the end of the first quarter of the next century.

The Plan of Action's first track, which always should be consistent with the principle of open regionalism, promotes building upon existing subregional free trade agreements. At this time, there are 27 such agreements in the Western Hemisphere, of which the North American Free Trade Agreement (NAFTA) and the Southern Cone Common Market (MERCOSUR) are only two. In the spirit of open regionalism, MERCOSUR entered into free trade agreements with Chile and Bolivia this year. Also in this spirit, Mexico is expanding its own network of free trade agreements. By the end of 1997, Mexicos agreements will include all Western Hemisphere countries except the members of MERCOSUR and the Caribbean Community (CARICOM). Further, Canada has entered into an agreement with Chile. The United States almost certainly would enter negotiations with Chile (and possibly with Central America) for either a stand-alone free trade agreement(s) or NAFTA expansion, provided the president is given fast-track negotiating authority by the Congress.

The second track of the Summits Plan of Action directed the countries to pursue "balanced and comprehensive agreements" on those aspects of trade in goods and services involving tariff and nontariff barriers. The plan listed a full array of subjects: "agriculture, subsidies, investment, intellectual property rights, government procurement, technical barriers to trade, safeguards, rules of origin, anti-dumping and countervailing duties, sanitary and phytosanitary standards and procedures, dispute resolution, and competition policy." It is under this track that negotiations for a single free trade undertaking are expected to be launched at Santiago in 1998.

Less than two weeks after the 1994 Summit, there occurred an unforeseen, unpleasant surprise—the Mexican peso crisis. It created financial shock waves, dubbed the "tequila effect," that resonated as far as the Southern Cone of South America. Yet, FTAA planning was not stalled. The Plan of Action was respected, and the two-track process continued. At the first two meetings of Trade Ministers in Denver in June 1995 and Cartagena in March 1996, 11 working groups were set up to cover the critical areas that are the real crux of transnational movement of goods, services, and investment.

The Denver Ministerial set up seven Hemispheric Working Groups with specific terms of reference and country coordinators; the Cartagena Ministerial added four more. Current HWGs and their monitoring countries are the following:

Market Access (El Salvador)
Customs Procedures and Rules of Origin (Bolivia)
Investment (Costa Rica)
Standards and Technical Barriers to Trade (Canada)
Sanitary and Phytosanitary Measures (Mexico)
Subsidies, Anti-dumping and Countervailing Duties (Argentina)
Smaller Economies (Jamaica)

Government Procurement (United States)
Intellectual Property Rights (IPR) (Honduras)
Services (Chile)
Competition Policy (Peru)

All 11 groups will have met at least three times between the Cartagena and Belo Horizonte meetings. With the exception of the four most recent groups set up at Cartagena (Government Procurement, IPR, Services, and Competition Policy), the groups will have completed almost all their work, specifically, fact finding, identifying areas of hemispheric convergence and divergence, and recommending negotiating modalities. Thus, between the Belo Horizonte and San José meetings, these groups will be concerned largely with final polishing and updating, while the newer groups complete their work. At Belo Horizonte, a twelfth group on Dispute Settlement is expected to be established.

The HWGs are composed of working-level public sector experts from all the Summit countries. Their progress is being supervised through meetings of the vice ministers for trade and given political approval at periodic Trade Ministerial meetings.

The Way to San José

The Belo Horizonte Ministerial might have been a decisive session in the preparatory phase of the FTAA process if the U.S. delegation had been empowered by congressional approval of fast-track negotiating authority. For many weeks following the U.S. presidential election, there were optimistic reports of Congress acting on fast-track in the first 90 days of the 105th Congress. Yet, as the Belo Horizonte meeting drew nearer, it became clear that political gamesmanship would preclude a major congressional vote on trade issues until much later in 1997.

Absent a clear political statement on trade from the U.S. Congress, Latin and Caribbean delegations were unwilling to reach final compromises on the objectives, approaches, modalities, sites, and structures of the negotiating blueprint. In fact, as the fortunes of fast-track legislation began to appear dubious in April, some Latin delegations withdrew support from what previously had been the consensus position on a few issues.

The United States and MERCOSUR were also far apart on the issue of negotiating "phases." MERCOSUR continued its support for a three-phase negotiating scenario, with business facilitation issues being negotiated first, rules and conditions of competition second, and actual market access for goods, services, and investment being delayed until a third phase (which is unlikely to begin until the next century).

Just prior to the Belo Horizonte Ministerial, the United States modified its position on the "phases" issue and joined 29 other delegations in recommending that all topics (identified as part of the mandates of the HWGs) should be negotiated simultaneously.

By contrast, the United States was all but isolated on the issue of a labor-trade linkage. The United States was also favoring that the Trade Ministerial's work be informed by a report of the Labor Ministers' Caucus. There is still strong resistance to these initiatives by other participants. They argue that the WTO Ministerial in Singapore clearly established that labor issues are not to be considered in trade negotiating forums.

The San José Ministerial will also have to come to closure on four other significant issues: 1) fuller private sector participation, 2) a secretariat to help manage the process, 3) the standing of subregional FTAs and their disciplines on certain issues, and 4) the realization of "substantial near-term progress," designed to facilitate hemispheric trade flows and business contacts.

Private Sector Participation

It would be a mistake to say that the Summit process has been flawless. This set of papers and the consultations that helped shape it reflect the fact that despite the clear policy stated above in the Declaration of Principles, governments receipt and assimilation of the private sector's input to the Trade Ministerial never have been formalized or institutionalized. Many private sector groupings in their submission to the Belo Horizonte Ministerial have indicated the need for a closer coordination with the vice ministers and the HWGs in the period between Trade Ministerials.

The General Coordinator of the Americas Business Forum in Cartagena, Jorge Ramírez-Ocampo, scored a success by scheduling the Forum in conjunction with the Cartagena Ministerial rather than after it, as had been the case at Denver. At the Americas Business Forum III, there will begin a more direct dialogue between the private sector and the FTAA working groups. Forum III workshops will develop specific recommendations for each HWG. HWG chairpersons will address the Forum workshop responsible for his/her issue areas.

An exciting development is that the Central American private sector, through the Federation of Private Entities of Central America and Panama (FEDEPRICAP), together with approximately 75 other private sector organizations have set up the Business Network for Hemispheric Integration (BNHI). This group was clearly the first specifically to address the role of the private sector in the hemispheric process. Now, in large part because of the work of the BNHI, the Americas Business Forum includes a special workshop on this topic.

Unfortunately, a leadership vacuum has occurred with the resignation of dynamic BNHI Executive Director José Manuel Salazar, who has become Costa Rican Trade Minister and de facto host of the San José Trade Ministerial.

One issue that must be addressed if the private sectors role is to be meaningful is that between Ministerials, there is no regular contact or exchange of views between the various official institutions and the private sector. Data collected by the HWGs, which governments pledged to make public on a timely basis, is only beginning to be released. The few HWGs that will have made their information available by the time Belo Horizonte concludes seemed unconcerned that this key information could not be used by the private sector in preparing for Americas Business Forum III, despite the fact that the private sector probably knows better than governments the practical importance of the myriad of impediments to trade and investment.

No mechanism has been established for the private sector to provide suggestions or information to the vice ministers and to the HWGs beyond the two half-day workshops at the Americas Business Forum. Ideally, the private sector should have representation on the official HWGs or at least have some form of recognized "transmission belt" for being kept informed of all developments and for delivering its input. Inclusive private sector meetings should be held at least six weeks before Trade Ministerials, in order to afford the private sector improved conditions for formulating inputs and assessing work from the official process. After all, when goods, services, technology, and capital move within a developing FTAA, the private sector will be the greatest stakeholder.

On the other hand, the private sector has some responsibilities, not the least of which is to gain sufficient expertise to understand the specific issues under negotiation. This means that each private sector entity wishing to play a role in the talks must understand the technical issues. In most cases, this starts with knowing the current commitments in the World Trade Organization (WTO)—the presumed floor of any negotiation—and determining how they should be deepened in a politically acceptable way. So far, the private sectors of most countries have not demonstrated that such knowledge exists beyond a handful of lawyers and former government officials.

An FTAA Secretariat

A second, equally serious problem in the process is the lack of an organizing entity to construct the FTAA. In the FTAA process, there is no analogue to the European Commission that undertook to act as secretariat for the building of a united Europe. Over the 39-month period between the Miami and the Santiago Summits, this responsibility will have been exercised by five countries—the United States, Colombia, Brazil, Costa Rica, and Chile—with each of the five having sole responsibility for a short period. This is a patently inefficient design for international negotiations, despite the quality of the professionals in each of these countries. A tripartite committee of international entities, the Organization of American States (OAS), the Inter-American Development Bank (IDB), and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), was given important responsibilities under the Plan of Action. A special Trade Unit was formed within the OAS, for example, which has produced high-quality studies and new basic information sources. Yet the Unit does not function as a secretariat for the entire process. Why does this gap exist? There is still resistance among many countries in the hemisphere to any organizational solution that smacks of supranational authority, now or in the future. For these countries, a Western Hemisphere version of the European Commission would be anathema. However, a small secretariat, responsible as a depository for documents and for distributing information, should be established. It will be the responsibility of the IDB to undertake a feasibility study on the creation of a temporary secretariat.

Amalgamating Subregional Agreements in Building the FTAA

A third problem, perhaps less serious for now, is that there is no agreed-upon plan or scheme for fitting together all the existing free trade agreements into the FTAA by the year 2005. In the view of some (principally in North America), the best method would be for NAFTA to expand southward until it reaches Tierra del Fuego. That is definitely not the view from Brasilia. MERCOSURs largest country wants

to join all of South America under a South American Free Trade Area (SAFTA) and bring this grouping to the negotiating table to confront the NAFTA countries. There now appears to be a developing consensus that the network of subregional agreements will not be rendered null and void by the FTAA. FTAA obligations will, at a minimum, attempt to reflect the highest level of obligations found in the subregional agreements and would thus act as a starting point for the deepening of existing arrangements and the expansion of the integration schemes.

Reinvigorating the Hemispheric Trading Environment

A fourth problem is the lack of vision concerning what can be implemented in the short term to facilitate greater commercial exchange in the hemisphere and a stronger hemispheric business community. There is agreement among all the participants, including Brazil and the United States, that a large number of business facilitation measures that reduce costs and increase efficiency should be introduced no later than the year 2000 and possibly earlier. Unfortunately, until now, the measures under consideration in the HWGs have been relatively technical—largely limited to publication of guides to hemispheric practices in a number of fields, simplification and unification of hemispheric procedures for customs clearance, establishment of agricultural and industrial standards, and establishment of standards for licensing professional and commercial service providers.

While finding solutions for these problems is important, there are more significant and pressing issues for which short-term progress is possible. However, many of these issues will be intractable unless the relevant HWGs coordinate their work. This is especially important in providing for the elimination, liberalization, and harmonization of regulatory barriers to the movement of goods, capital, and professionals.

Other opportunities for progress are being squandered by the failure of the Trade Ministers to involve other ministries in the FTAA process. For example, to facilitate the flow of capital, progress should be made in harmonizing hemispheric practices in defining acceptable types of collateral for long-term lending, common probity procedures for security markets, and privacy standards for credit-rating investigations. Harmonization, or at least the development of common elements in these areas, must involve the Trade Ministers working with other ministerial groups (that is, Finance and Labor Ministers) established at the Miami Summit.

We would hope that between the Belo Horizonte and San José meetings, a more fundamental and wider review of opportunities for the early harvest takes place so that the heads of state can agree on a wide-ranging program for implementation by the year 2000.

The Authority to Negotiate

An additional question involving the entire process has to do with the leadership role of the United States, an issue more of perception than reality. Many Latin Americans and some in the United States question the post-Summit political will of the United States to follow through with the "spirit of Miami." This has to do with the unfulfilled promise to incorporate Chile into NAFTA. The problem is not Chile but the failure of the U.S. executive and legislative branches to agree on the terms of fast-track negotiating authority. The apparent differences between Republicans (who want a "clean"—trade only—fast-track) and Democrats (who want to include environment and labor considerations) should be resolvable, using legislative drafting techniques.

Unfortunately, U.S. partisan differences may mask fundamental disagreements that have been smoldering since the epic NAFTA debate. Although the situation can become positive quickly (witness the sudden turnaround in Republican opposition to the Chemical Weapons Treaty), the outlook immediately preceding the Belo Horizonte meeting is gloomy. There are wide cleavages within the Democratic and Republican parties as to whether the United States should be entering into free trade negotiations with countries at lower levels of development. Second, relations with China and the annual fight over MFN renewal will act to divert the business sectors attention from the fast-track effort.

If fast-track is passed this year, NAFTA negotiations with Chile could be well advanced or even completed before the second Summit of the Americas in Chile. Further, the most important obstacle to the launching of the FTAA negotiations would be eliminated.

If fast-track has not been renewed, a successful Summit is all but precluded. The United States would have to look to other countries—Canada, Mexico, and Chile, for example—for leadership in continuing progress in trade liberalization. The process could continue but with a serious loss of momentum. More important, the

United States would be precluded from taking part in subregional preferential arrangements.

Without President Clinton having negotiating authority, the United States would have to reduce its own goals for hemispheric liberalization. It would not be able to participate in the widening and deepening of existing subregional and bilateral agreements and in the addition of new integration arrangements. In fact, it would find its own exports of goods, services, and investments subject to increasing discrimination in the hemisphere both in relationship to other hemispheric suppliers and third countries that join such arrangements. Instead, it would be limited to pushing for implementation of the Uruguay Round commitments as expeditiously as possible; urging Western Hemispheric countries to join existing WTO sectoral agreements, such as the recently concluded telecommunications accord; and participating in, rather than leading, future trade negotiations.

Present Progress, Future Challenges

The current drive in the United States toward free trade does not come only from inside the Washington beltway. Instead, the commitment to continue efforts toward hemispheric free trade reflects a deeply held set of policies throughout Latin America, the Caribbean, and Canada (which has negotiated its own FTA with Chile).

The numbers tell the story. The value of U.S. exports has quintupled since 1978, despite the "lost decade" of debt during the 1980s. Export values rose from $22 billion in 1978 to around $30 billion in 1986 and to more than $120 billion in 1996. The political mainstream of Republicans and Democrats who supported NAFTA, the GATT/WTO, and APEC will not allow this country to lose out on such an obvious opportunity. Free trade agreements such as NAFTA can, in the short term, become the political scapegoat for U.S. economic dislo is that the gross domestic product of the United States is too heavily dependent upon international trade to allow the luxury of turning inward.

Chairman CRANE. Thank you.

Mr. Schott, you had mentioned earlier that you are prepared to elaborate on that provision in the Canada-Chile free trade agreement dealing with countervailing duties and antidumping. Could you elaborate a little bit?

Mr. SCHOTT. Certainly, Mr. Chairman. Canada has sought for many years to incorporate provisions in its free trade agreements with the United States that would limit both countries' ability to use antidumping measures on bilateral trade. Such provisions have not been included in either the Canada-FTAA or the NAFTA.

In the agreement Canada reached with Chile, however, both sides agreed that as soon as tariffs are eliminated on any particular product, antidumping measures will no longer be allowed on that product. Hence, over the course of the next 6 years, almost all antidumping measures applied to bilateral trade between Canada and Chile will be eliminated. Antidumping is a practice that many countries in the hemisphere would like to discipline, particularly when it comes to measures imposed by the United States. Currently, there is interest in many countries in using the Chilean-Canada agreement as a precedent for the FTAA so that antidumping measures would be eliminated for bilateral trade between Western Hemisphere countries. Of course, there would be very sharp differences of opinion here in the Congress on that issue.

Chairman CRANE. My next question to you, Mr. Sweeney, is, Are the lower labor costs of other countries something U.S. workers should fear?

Mr. SWEENEY. No. I don't think so. Lower labor costs in countries like Mexico, Brazil, Venezuela, Colombia, and Panama are more than offset in most cases—or in all cases—by the terrible under-

development of the infrastructure of these countries, which elevates the cost of doing business and producing.

Labor to me is not the issue. The issue is expanding trade. The more trade the United States does with the rest of the world, the more American employment is created. I think the empirical record for the past 4 years—as NAFTA has been implemented, and as the Uruguay round agreements have started to go into effect—what we have seen is a tremendous explosion in the growth of the American economy.

The economy is doing very well. There has been significant job creation year after year, and clearly this shows empirically that the more we trade, the more American labor benefits.

Chairman CRANE. I share that view, and one of the things that still comes up at town meetings is the "sucking sound" and the loss of jobs and business moving out of the United States.

And yet, ironically, we have been now, as you know, for almost 2 years, at, for all practical purposes, full employment.

One final question for all of you, and that is, Do you think the recent political developments in Mexico, namely the elections, were affected in any way by our NAFTA Agreement?

Mr. Lande.

Mr. LANDE. I would think that the recent elections in Mexico, probably more than any other development, justified the faith of those who believe that through free trade, opening markets, you strengthen democratic institutions.

What occurred in Mexico was an election that all sides agreed was fair, where we have begun to see a political change—movement on the right, movement on the left.

There has been much discussion by those opposed to NAFTA who speak about the conditions on the border and the conditions in the States, and how they are degradations to perhaps the average Mexican.

One of the most important results of that election was not only that it was an open election, but the party that did the best in the northern part of Mexico was the PAN party, which is the party of free market, free enterprise, and a strong supporter of NAFTA.

The party that did the second best was the PRI, the party that negotiated the NAFTA. The party that did the worst in the area where there has been the most impact from NAFTA was the PRD, which is most opposed to many of the NAFTA provisions, although in that particular election they did not make a big issue of it.

My own belief is that if you let the market operate, as happened in the United States, there develops democratic institutions which make for a much more stable hemisphere, and I think that's what the Mexican elections have demonstrated.

Mr. SCHOTT. Let me just add a point or two to that very briefly. Clearly, the Mexican political reforms are homegrown. Mexico deserves a lot of credit for its democratic advances. It has come a long way in a few short years.

Mexico's political reforms are directly related to the economic reforms that have been implemented in Mexico over the past decade or more, and reinforced by the NAFTA. The World Bank has done extensive case studies of economic reform in a variety of developing countries and has found that, in instances in which economic re-

forms were sustained, they also achieved very real benefits in terms of promoting political pluralism.

This is a lesson that we can carry over to the entire FTAA negotiation process; namely, that reinforcing the domestic economic reforms in Latin America will pay us dividends as well, in terms of strengthening democratic processes throughout the hemisphere.

Mr. SWEENEY. I would add, to the extent to which countries like Mexico and other countries in Latin America enter into free trade agreements like NAFTA, join the WTO, become members of APEC, and become committed to these international agreements, that strengthens the underlying base of the economic reforms.

And as these economies open up and globalize, the people themselves press for greater democratic freedoms and greater participation in the democratic process. We are seeing this in Mexico. We saw it in the recent elections, and we have been seeing it for the last 10 years throughout the entire Western Hemisphere.

Chairman CRANE. Well, I have faith that that goes beyond the Western Hemisphere. But I want to thank you all for your testimony and look forward to ongoing input from you as any and all trade issues continue to bounce around here in the Congress.

And please get your communications out, as I urged before, to colleagues and to the White House on the importance of fast track renewal, as soon as possible.

Thank you all.

I would now like to welcome our last panel, and we will begin with Jacques Gorlin, director of the Intellectual Property Committee. And then proceed with Lina Hale, who will be testifying on behalf of the California Cut Flowers Commission and the California Floral Council; Arthur Heyl, president of Heyl Roses and Roses, Inc., on behalf of the Floral Trade Council; and Matthew McGrath, representing Florida Citrus Mutual.

If you will all please be seated. Since Mr. Gorlin is not here yet, I will ask Ms. Hale to proceed.

STATEMENT OF LINA AEBI HALE, ROSE GROWER, RICHMOND, CALIFORNIA; CALIFORNIA ROSE GROWERS, AEBI NURSERY, RICHMOND, CALIFORNIA; AND CALIFORNIA FLORAL COUNCIL; ON BEHALF OF CALIFORNIA CUT FLOWER COMMISSION

Ms. HALE. Thank you, Mr. Chairman. I am not going to talk about fast track. I don't know if that will be a disappointment or a pleasure.

My name is Lina Aebi Hale, and I am a third generation rose grower from Richmond, California. I manage our family's 135,000 square foot nursery. Our business began in 1890 with my grandfather. In 1928 he and my father expanded, and our present location in Richmond evolved over the next 38 years.

The purpose of my testimony is to bring to you incontrovertible evidence that the domestic rose industry has suffered severe economic losses, beginning in the late seventies, and continuing to the present. I hope to convince you that H.R. 54 is of vital importance to the rose industry and that it deserves the support of this Subcommittee.

In the midfifties, my nursery joined with nine other growers, and we formed the Mount Eden Rose Pool. That pool shipped to the

Eastern, Midwestern, and Southern States. Loss of those pool market shares began in the seventies and into the eighties.

By 1979 market trends in this country caused us to visit Bogota, Colombia, and the huge rose operations there caused us great concern in the United States.

While we were losing market share, California growers were not idle. In an effort to be competitive, we installed all the automatic labor-saving devices known to man. It was not enough.

Soon thereafter, Colombia began to target our most lucrative holiday markets with tremendous volumes of product. The resultant oversupply upset the laws of supply and demand and severely depressed market prices.

Loss of the shipping markets in the United States eventually led to the demise of the rose pool of which I was a member. I now currently sell in the San Francisco wholesale flower market, where my greatest competitors are not my domestic colleagues, but those selling imported roses at cheap prices.

Mother's Day 1997, my extra fancy roses—those are 36 inch stems, large heads, clean foliage, beautiful product—25 stems in one bunch, sold for $5.50 a bunch, or 22 cents a piece. Foreign roses sold for $5, or 20 cents apiece.

In April 1990, the Floral Trade Council that represents many rose growers estimated from industry statistics that 5,000 U.S. flower growers, not necessarily rose growers, but flower growers across the United States had gone out of business in an 18-year period, and they took 30,000 American jobs with them.

A later USDA 1996 survey shows that an additional 59 growers went out of business between 1992 and 1996. Those 59 growers sacrificed 7,509,000 rose bushes at a cost of approximately $2.90 apiece, or 21,776,000 dollars' worth of roses. The loss of jobs, 1,500.

Using a formula found in my written testimony, a small nursery operator, say, 100,000 square feet, would have sacrificed over $1 million in capital investments, plus the cost of the land.

Therefore, a large nursery of 1 million square feet, of which there are many in California, would sacrifice 10 times as much.

A list of 39 growers personally known to me is attached to my written testimony. However, that number has to be amended to 40 California rose growers out of business, because Friday morning one of my neighbors threw in the towel.

The Andean Trade Preference Act has had a devastating effect on U.S. rose growers. Colombians started in 1971 with less than 1 percent of our market. Twenty-six years later they now have over 66 percent of the rose market, and for other commodities, a much higher number. It almost seems that it should be enough.

A United States agency called Agency for International Development in the sixties provided Colombian growers with their start—United States technology and United States methods at United States taxpayers expense. The Colombian Flower Council itself, out of Bogota, states that the 1996 biggest floral culture crop was roses—510 million dollars' worth, and 141,000 tons of roses.

American growers feel like sacrificial lambs in a failed war on drugs. Our numbers may not sound like very much to people who are accustomed to dealing in trillion dollar budgets, but to us they are significant.

I have heard it said that if Colombian roses are taken out of the market, American consumers will suffer from higher prices. Simply ask yourself, when was the last time a retail florist ever said to you, I'm going to cut the cost of the arrangement you have ordered because it contains foreign roses, or foreign floral products. I will bet that not one person here has ever had that lovely experience.

Aside from the Colombians natural growing advantages, every other advantage they now possess has been granted to them by our own government. And so today representing growers throughout the United States. I respectfully invite your attention to my written testimony and to our request to help us now before it is too late.

Move H.R. 54 out of Committee, and support its passage through the House.

Thank you for this opportunity to address the Subcommittee.

[The prepared statement follows:]

Statement of Lina Aebi Hale, Rose Grower, Richmond, California; California Rose Growers, Aebi Nursery, Richmond, California; and California Floral Council; on Behalf of California Cut Flower Commission

My name is Lina Aebi Hale. I am a third generation rose grower from Richmond, Cal. I am 65 years old and have spent my life in the rose growing business.

I manage our family's 135,000 square foot nursery with the help of my partner who is the grower, my daughter, who manages the office and her husband, who is in charge of plant propagation and personnel. Greenhouse workers, graders and bunchers number is 13. Overall management is still in the hands of my parents, who, although in their late 80's, are still active in the business. They have been growing roses for 68 years.

I am here today, testifying before this committee in the express hope of bringing you incontrovertible evidence that domestic growers, and rose growers in particular, have suffered severe economic losses over a period of years, beginning in the late 70's and continuing to the present. I hope to convince you that HR 54 is of vital importance to the future of the Rose Industry in the U.S. and that it deserves the support of this Committee.

SHORT HISTORY OF MY BUSINESS

The family business was begun in 1890 in Berkeley, Cal. My Grandfather, Frederick Aebi, immigrated to this country from Bern, Switzerland. In 1928, my Grandfather and my Father began our present nursery located in Richmond, across the bay from San Francisco. We started with three small wood framed greenhouses −25,000 square feet. The 1930's were one long, dry spell. One of those years, my parents calculated that after all expenses were paid, their combined profits were 17.5 cents per hour. During and following WWII we realized modest profits. These profits were plowed back into the business in the form of additional greenhouses, bringing our total square footage to 135,000.

In 1968, believing that the flower business had great potential, we borrowed a great deal of money and built a second nursery in the Salinas Valley of Cal. That business was operated by my brother, Francis Aebi, Jr. until 1996, when it was sold. My father, Francis Aebi, Sr., still active in the business today at 89 years old, is the Rose Grower Emeritus at our Richmond nursery.

MARKETING PRODUCT

In the mid 1950's our company joined with nine other growers to form the Mt. Eden Rose Pool of California. Those nine growers represented 2.5 million square feet. The pool marketed the roses of the nine growers by shipping to Eastern, Mid-Western and Southern markets, with a very small percentage sold in local markets. By mid 1980, with the advent of increased imported roses and other cut flowers from Colombia, the pool was forced to withdraw from those shipping markets in high-population states and concentrate on California markets where imported roses had not yet secured a large market share.

As early as 1979, American growers were forewarned that more trouble lay ahead when note was taken of the condition of the domestic carnation and chrysanthemum markets. According to figures supplied by the *Ornamental Crops National Market Trends*; *USDA Floriculture Crops*; *Newsletter of Pennsylvania State University*; and

the *International Trade Commission Rose Study Report*, carnations and chrysanthemums began losing market shares to importers as early as 1971.

In 1979, because of our concern over loss of market shares, we sent a representative to Bogota, Colombia to see firsthand the rose production areas. Our representative, Francis Aebi, Sr., visited eight growers, some of whom were larger in size than the entire Mt. Eden Rose Pool. Francis Aebi returned home with the message that a "freight train" of production was bearing down on the American rose market at high speeds. His 1979 analogy has proven to be right on the mark as USDA statistical numbers I will present to you will show.

Historically, in rose markets throughout the United States, our strongest demands occurred at holiday times such as Easter, Mother's Day, Valentine's and Christmas. These were the holidays that we counted on to make the profits that allowed us to meet our expenses when sales passed into the summer doldrums. The Colombians and other exporters targeted these lucrative markets and supplied peak volumes of product timed to hit our major markets. They didn't always hit right on time but that didn't make any difference because coming in too early or too late upset the law of Supply and Demand and depressed market prices. This oversupply made it impossible for us to obtain the prices needed at holiday time.

That "freight train" of production mentioned earlier just kept coming. The market was regularly oversupplied with red roses at prices that were sometimes below their own production costs and certainly below those of domestic growers: As our market for red roses dried up, we were forced to replace red rose plants with pastel colors that the Colombians did not yet have access to. The capital expenditure required to replace 25 percent of my nursery's production area amounted to $50,625.

The inequity in production costs weighs heavily in favor of the Andean production areas. Employee expenses are low, there are no costs for heating and few environmental regulations or expenses. Excellent spray materials restricted for use in California are in regular usage there. New rose varieties entering the U.S. from European hybridizers are subject to a two year quarantine. No such hindrances are in place for Colombian growers. However, the single largest factor in the takeover of our market has been the refusal of our Government and its' agencies, to lift a finger to provide sensible guidelines for the number of stems entering the U.S.

As Colombia gained additional market shares, they were free to invest in the pastel varieties that buyers were demanding. With large central distribution warehouses in Miami, and a fleet of 747 jets, they now had all the tools needed for a full market takeover.

Taking note of the decreasing market shares, California growers undertook the capital investments necessary to initiate production cost savings. At our own nursery we automated all aspects of our growing operation, including automatic watering, ventilation, misting systems, heating, and fertilization. We invested in new steam heating boilers that would be more energy efficient and installed heat curtains in the greenhouses to further conserve fuel. Beyond these cost saving measures we also set aside a sizable test area for the purpose of testing new hybrid varieties that would provide higher production, longer stems and plant life, resistance to disease, longer vase life and lower winter heating costs. Our own nursery began these cost saving measures in the late 70's as a direct result of what was seen in Bogota by our representative.

By 1985, in spite of all our efforts to cut costs, and despite producing a quality product and being close to domestic markets and able to deliver product in a timely manner, our profits plummeted. We were being undersold and out-produced. Cheaply priced product flowed into our markets in unrestricted numbers.

Rose growers throughout the United States were petitioning the International Trade Commission (ITC) to investigate dumping and other trade violations, such as government subsidized Colombian products. Each step along the way of this type of intervention was vigorously opposed by Colombian growers and their counsel. Suffice it to say that any small victory that domestic growers may have won was insufficient to preserve our way of doing business and our profits. By 1989, the ITC published the results of their study entitled, *Competitive Conditions in the US and World Markets for Fresh Cut Roses.* The conclusion of the study was that, "the number of firms reporting losses increased from 31 in 1985 and 1986, to 36 in 1988. Those firms reporting losses represented almost 38 percent of the growers that supplied usable financial data on their rose growing operations." (Report to Congress on investigation No. 332–263 under Section 332(g) if the Tariff Act of 1930 as amended, USITC Pub. 2178, April 1989

It should be noted that domestic rose growers were losing market shares in a *steadily growing market.* In a three year period from 1985 to 1988 domestic growers' share of the market declined from 73 percent to 69 percent, whereas consumption *increased by 29 percent. During this same period, imported roses increased by 86 per-*

cent and domestic production by nine percent. There is no doubt that the growing demand in the market was being met by the foreign growers. A portion of the domestic increase can be attributed to carnation and chrysanthemum growers who switched crops when their own market evaporated.

In my own business, I saw the once profitable Mt. Eden Rose Pool disband due to loss of shipping sales. In an attempt to remain competitive, the Pool's management had established twelve separate outlets throughout Los Angeles and San Francisco. Where they had once dealt solely in shipping to wholesale customers throughout the Eastern, Mid-Western and Southern states, they set up a satellite system of truck operations, delivering a variety of cut flowers directly to the retailer's door. The Pool also courted the Supermarket business which proved to be only a temporary help since the "Supers" emphasis was on price first and quality second. It was all to no avail. One by one, the Mt. Eden Pool growers, no longer able to make a profit, drifted away. Some of them went to different wholesalers and some tried to market their own products. Some simply sold out.

By mid 1993, many of its' growers were no longer able to recover the cost of production, and after a disastrous Valentine's holiday, my company severed our 45 year connection to the Mt. Eden Pool. 1993 was a painful year of reckoning for our 65 year old business.

At the present time, we are selling through a San Francisco Wholesaler, the bulk of whose sales are within California, with a very small percentage of shipping customers, some of whom are as far away as Anchorage, Alaska and the former Soviet Union. In this San Francisco market our competitors are not local producers but wholesalers within the market who deal primarily in imported roses. Mother's Day of 1997, our wholesaler was asking $10 for 25 Extra Fancy roses. Our competitor, selling foreign roses was asking $5. Whose roses do you think sold? For the month of May 1997, our average price per bunch was $5.50 (or 22 cents each)—that included our Premium grade of roses measuring 36 inches or more.

THE CURRENT STATE OF DOMESTIC ROSE GROWERS

Since the first imported rose stems appeared in the U.S. in 1971, the market shares garnered by importers has risen from .2 percent to 70.0 percent in 1996.

The Andean Trade Preference Act passed as H.R. 1724 in 1991 has had a devastating effect on U.S. growers. At the time that Colombia was granted tariff-free incentives, they already owned 48 percent of our market. It was abundantly clear to domestic growers that the Andean growers needed no further incentives to come into our markets. Nevertheless, the President and the Congress forged ahead with this ill-founded pact.

By April of 1990, The Floral Trade Council which represents domestic cut flower growers, estimated that cut flower imports had forced nearly 5000 U.S. cut flower growers out of business during an 18 year time span. The estimate at that time was that the closure of these nurseries eliminated 30,000 U.S. jobs.

The U.S. Dept. of Agriculture has a new set of statistics that cover the years 1992 through 1996. The numbers are alarming to those of us remaining in the industry since they show an increasingly foreboding trend and we are absolutely dumbfounded that our government cannot see the damage done to U.S. growers.

Looking at Losses (USDA Study)

Year	No. of Rose Growers	No. of Plants
1992	224	26,295,000
1993	212	24,269,000
1994	200	23,230,000
1995	179	19,448,000
1996	165	18,786,000

This USDA table shows that 59 growers are out of business during the above time period. The number of rose bushes taken out of production by the 59 growers during the five year time period is 7,509,000.

The cost of these patented rose bushes is conservatively priced at today's value of $2.90 each, for a total of $21,776,100.

Because it takes one production worker for every 15,000 rose plants, the 7,509,000 plants required 500 production workers.

Behind every production worker are two non-production workers, such as sales, transportation, maintenance and office workers, etc. Therefore, over the five year period, the real loss of jobs is 1500.

These 1500 workers all contributed to a healthy economy with their Federal and State income taxes, sales taxes and purchases of commodities. Until new jobs open up to these workers, or until they are retrained for different positions, they are candidates for unemployment benefits. Keep in mind that many of these workers are those with no other skills for the job market.

Now consider the nursery owner forced to close his 100,000 square foot nursery. In the depressed state of the industry, and because greenhouses have only one use, he is not likely to find a nursery buyer who will utilize his greenhouses. Supposing that he is able to find a buyer for the land alone, he will be obligated to raze his capital investment at an estimated cost of $5.41 per square foot. Assuming that many of these nurseries are second and third generation businesses, it is safe to assume that construction costs at that time, 30 to 40 years ago, were at least $5.50 per square foot, plus the cost of erection of $1.50 per square foot, plus the cost of the plants @ $2,75 each for 50,000 plants, plus another $5.00 per square foot for supporting equipment, such as trucks, tractors, wells, steam boiler for heating, fertilizer systems, spray equipment; supporting buildings such as packing houses, tools, and etc. Therefore, a conservative estimate of the capital idled by a single 100,000 square foot nursery closing, built approximately 30 to 40 years ago, would be $1,337,500 plus the value of the land.

Now consider the fact that some of the 59 documented rose nurseries out of business since 1992 are *not* small businesses as is the 100,000 square foot nursery in our example, but are some of the giants of the Industry, such as the one million square foot Kitayama Brothers' Nursery in Hayward, Cal. In that case, the capital investment lost is ten times the amount in the example or $13,375,000. In terms of the Budget numbers that this Committee is regularly asked to consider, I realize that our Industry numbers may seem insignificant, but rest assured that to those of us who have spent our life building these businesses and had hoped to pass them on from generation to generation, the numbers of losses are catastrophic.

SUBSTANTIAL DAMAGE

Throughout the U.S., 59 growers are out of rose production and in California alone, in the period 1991 through 1996, I personally know of at least 39 growers who went out of the traditional rose business. Their names are listed at the conclusion of this testimony. Members of the Ways and Means Committee now have the formulas to interpret what these losses have cost our industry as well as the economy of the U.S. What the Committee *does not* have is the sense of utter frustration with which domestic growers struggle as each year passes and our options continue to diminish. On my own nursery, there are no more significant cost savings to be realized through automation or other measures. My colleagues tell me the same thing.

CONCLUSION

The Andean Trade Preference Act passed as H.R. 1724 in 1991 has had a devastating effect on U.S. growers. Remember, when Colombia was granted tariff free trade they already had 48 percent of our rose market. It was certainly clear to rose growers that Colombian growers needed no further incentives to come into our markets. Nevertheless, the President and the Congress went ahead with this ill-founded pact that created an unequal playing field. Now the Andeans own 66 percent of our market. Isn't 66 percent enough?

In 1960, when Colombian flower growing was in its' infancy, the U.S. Agency for International Development (AID) with an eye toward promoting economic growth in underdeveloped countries such as Colombia, investigated the country's potential for export. Deciding that Colombia was too dependent on coffee as a principal export, AID provided U.S. Government funding for the technical assistance for beginning growers and helped Colombia establish a central distribution system—all done with U.S. taxpayer's money. Today, Colombian flowers are second in export value to coffee, and their share of the world market is 11 percent, second only to Holland. Sev-

enty-seven (77) percent of their exported flowers are sold in the U.S. *The Colombian Floriculture,* a publication of the Colombian Flower Council, states that two thirds of all flowers sold in the U.S. were produced in Colombia. It also states that rose culture has expanded, making it the number one cash crop in 1996.

During the 1970's, most of the legal actions filed on behalf of domestic growers ended with the agencies siding with the Colombians. Not until 1989 did the ITC concede that a significant number of domestic firms (38 percent) were experiencing annual losses. (ISITC Pub. 2178, April 1989)

American growers today feel that we are being sacrificed in a hopeless war on drugs and that the sacrifice has been futile. The war on drugs is a failed effort. Colombia has either not been able or has not been willing to end the shipments of illegal drugs into the U.S. In February of 1997, General McCaffrey's office published a statement which said that over a five year period, Colombia had increased it's cultivation of cocoa leaves used in the production of cocaine by 11,438 hectares; further, their production of opium poppies is second to that only of Asia—yet our government continues to offer the Andean nations free and uncontrolled access to our markets. Our once viable and profitable industry has been made the instrument by which the standard of living in Colombia can be raised, while that of the owners and workers in American Floriculture is lowered.

Aside from the natural growing advantages enjoyed by Andean producers, their every other advantage has been granted to them by our own government at the expense of American growers.

Meanwhile, the largest percentage of America's National Flower, the Rose, is being grown abroad, and should the present trend continue, it will not be long before 100 percent of them will come from off-shore growers.

Today, representing the rose growers of California and all others across the nation, I would respectfully invite your attention to our plea. Help us before it is too late. Move HR 54 out of Committee and support its' passage in the House.

OUT OF BUSINESS PARTIAL LIST NORTHERN CALIFORNIA ONLY

These persons have sold, are in the process of selling or have switched to other crops:

Aebi Nursery Salinas
Mt. Eden Nursery Hayward
Enomoto Nursery Half Moon Bay
Oakview Roses Watsonville
Sakai Bros. Hayward
A. Kuramoto Salinas
K. Yonemitsu Salinas
B. Matusyama Salinas
T. Yamaguchi Salinas
Sunnyside Nursery Salinas
Kamimura Nursery Salinas
C. Iwashita Nursery Salinas
Ocean Front Nursery Watsonville
Siri Bros. Nursery Palo Alto
Siri Bros. Nursery Watsonville
D. Dooka Nursery Soquel
Takeyoka Nursery Watsonville
Casserly Farms Watsonville
El Camino Nursery Watsonville
Watsonville Roses Watsonville
E. Uyemura Nursery Watsonville
Makayn Nursery Watsonville
I. Yamasita Nursery Watsonville
A. Yamashita Watsonville
D. Arita Nursery San Marin
B. Yonemoto Half Moon Bay
C. Pastorino Nursery Half Moon Bay
Kitayama Bros. Nursery Hayward
Cherry City Nursery San Leandro
Iwasaki Nursery Palo Alto
D. Kubota Nursery Castroville
Baldwin Nursery Watsonville
San Andreas Nursery Watsonville
Yamasaki Nursery Watsonville
Kohara Nursery Salinas
Salinas Carnation Co. Salinas
Uto Nursery Salinas
Nabeta Nursery Richmond
Hillside Nursery Salinas
Sunbright Nursery Salinas

These are a portion of the companies that have paid the price for America's participation in the Andean Trade Preference Act.

Chairman CRANE. Thank you, Ms. Hale.
Mr. Heyl.

STATEMENT OF ARTHUR L. HEYL, PRESIDENT, HEYL ROSES, INC., GREEN VILLAGE, NEW JERSEY; AND PRESIDENT, ROSES, INC., HASLETT, MICHIGAN; ON BEHALF OF FLORAL TRADE COUNCIL

Mr. HEYL. Mr. Chairman, and distinguished Members of the Subcommittee on Trade of the Committee on Ways and Means, ladies and gentlemen, I am Arthur Heyl, president of Heyl Roses, Inc., of Green Village, New Jersey, and the current president of Roses, Inc., the trade association for growers of fresh cut roses, with members predominantly in the United States and Canada.

I have been asked by the Floral Trade Council, which represents U.S. growers on trade issues, to provide the Subcommittee insight on the status of the domestic cut flower industry as it pertains to the ATPA, Andean Trade Preference Act of 1991.

The data I will relay on domestic flower production is taken from Floriculture Crop Surveys conducted by the USDA national Agricultural Statistics Service from 1992 to 1996. Import figures are taken from Ornamental Crops and National Market Trends, also by the USDA and the U.S. Department of Commerce Bureau of the Census.

The International Trade Commission found in 1995 and 1996 that the ATPA had a greater impact on the U.S. fresh cut flower industry than any other market examined. The complete duty-free opening of the United States market to Andean flowers under the act has essentially created an expanded NAFTA for the major flower producing countries in the Western Hemisphere.

With no domestic markets to speak of in the Andean nations, growers in these nations have targeted the U.S. market. The result is the U.S. grower has found the agreement to be a one-way street.

Since 1991 the U.S. fresh cut flower industry has been forced to make dramatic cuts in production in response to a huge increase in Andean cut flower imports. At the current rate of reduction, there will be no significant fresh cut flower production left in the United States by early in the next century.

Since the passage of the ATPA, 42 percent of standard carnation growers, 36 percent of minicarnation growers, 26 percent of standard chrysanthemum growers, 32 percent of pompon chrysanthemum growers, and 26 of the rose growers in the United States have closed their doors. This has amounted to an aggregate reduction of 27,039,000 square feet of domestic fresh cut flower production since the act took effect.

To put these losses in perspective, I'll break loss figures down to each State represented by this Subcommittee as best I can.

In California, 127 growers of the major fresh cut flower varieties left the business with a loss of $50,973,000 in wholesale value since 1991. Florida has seen a reported $3,701,000 reduction in annual wholesale fresh cut flower value since 1991. Illinois has reported a $3,225,000 loss, or a 66.25-percent reduction, with the last rose grower pulling his production late last year.

Iowa, Louisiana, Massachusetts, Michigan, and Washington have all suffered significant losses. Virtually alone among the States, Minnesota has shown a modest gain of $1,107,000 in cut flower production during this period, but I know that Mr. Ramstad's constituent, and Roses, Inc.'s, past president, Len Busch, has been to

Capitol Hill expressing his support of the removal of flowers from the ATPA and his concern over the current health of the U.S. industry.

In New York our ranks suffered a major blow by losing seven rose growers, amounting to $4,900,000 annual loss in wholesale value. There is equally compelling data of grower losses in other States, notably Indiana, Ohio, and Colorado.

While domestic producers have suffered these losses, Andean nations have clearly increased their already significant market share. In 1991 there were 1,341,000,000 imported stems of major cut flowers. In 1996 2,414,000,000 stems were imported.

Andean nations accounted for 93 percent of this total. This data clearly indicates a crowding out of the U.S. producer. The U.S. International Trade Commission estimated in 1996 that the U.S. rose consumer benefited a total of $2.4 million between 1993 and 1995, in exchange for $43.1 million in displaced domestic shipments.

Consumers of carnations, chrysanthemums, anthuriums, and orchids received a mere $1.99 million in exchange for $24.8 million in displaced U.S. production.

Many of us believe that the consumer has lost over the last decade because retail prices have seen little or no change, and the consumer has often little choice but to buy an Andean product which usually takes 5 days to reach the market.

Mr. Chairman, a complete review of current trade agreements with Latin America should include the Andean Trade Preference Act. The International Trade Commission acknowledged in 1995 and 1996 that the Andean cut flowers were the single largest beneficiary of the ATPA.

Sir, this Subcommittee must consider ATPA if it is to consider Latin American trade. Many growers believe the Andean Trade Preference Act abandoned them for the drug war.

It is reasonable to say that growers, consumers, and our kids on the street lost in that deal. I hope that any future agreement of the Americas does not pursue a similar strategy at our expense.

Thank you for your consideration. I hope this information is helpful in providing a clear picture of the effects of the Andean Trade Preference Act on the fresh cut flower industry.

[The prepared statement and attachments follow:]

Statement of Arthur L. Heyl, President, Heyl Roses, Inc., Green Village, New Jersey; and President, Roses Inc., Haslett, Michigan; on Behalf of Floral Trade Council

Mr. Chairman, distinguished Members of the Subcommittee on Trade of the Committee on Ways and Means, ladies and gentlemen, I am Arthur L. Heyl, president of Heyl Roses, Inc. of Green Village, New Jersey, and the current president of Roses Inc., the trade association for growers of fresh cut roses, with members predominately in the U.S. and Canada. I have been asked by the Floral Trade Council, which represents U.S. growers on trade issues, to provide the committee insight on the status of the domestic fresh cut flower industry as it pertains to the Andean Trade Preference Act of 1991 (ATPA).

The data I will relay on domestic flower production is taken from Floriculture Crops Surveys conducted by the USDA National Agricultural Statistics Service from 1992 to 1996. Import figures are taken from Ornamental Crops and National Market Trends, also by the USDA, and the U.S. Department of Commerce, Bureau of the Census.

The International Trade Commission found in 1995 and 1996 that the ATPA had a greater impact on the U.S. fresh cut flower industry than any other market exam-

ined. The complete duty-free opening of the U.S. market to Andean flowers under the Act has essentially created an expanded NAFTA for all the major flower producing countries in the Western Hemisphere. With no domestic markets to speak of in the Andean nations, growers in these nations have targeted the U.S. market. The result is the U.S. grower has found the agreement to be a one way street.

Since 1991, the U.S. fresh cut flower industry has been forced to make dramatic cuts in production in response to a huge increase in Andean cut flower imports. At the current rate of reduction, there will be no significant fresh cut flower production left in the U.S. by early in the next century.

Since the passage of the ATPA, 42% of standard carnation growers, 36% of mini carnation growers, 26% of standard chrysanthemum growers, 32% of pompon chrysanthemum growers and 26% of the rose growers in the U.S. have closed their doors. This has amounted to an aggregate reduction of 27,039,000 square feet of domestic fresh cut flower production since the Act took effect.

To put these losses in perspective, I'll break loss figures down to each state represented by this committee as best as I can. In California, 127 growers of the major fresh cut flower varieties left the business with a loss of $50,973,000 in wholesale value since 1991.

Florida has seen a reported $3,701,000 reduction in annual wholesale fresh cut flower value since 1991. Illinois has reported a $3,225,000 loss or a 66.25% reduction, with the last rose grower pulling his production late last year. Iowa has seen a similar reduction of reported fresh flower production of 61.45% or a loss of $408,000 in wholesale value.

In Louisiana, fresh flower production was not listed in 1991, was valued at $69,000 by 1992, reached $265,000 in 1995, then declined to $168,000 in 1996. Massachusetts has suffered a 18.45% reduction in wholesale value in cut flowers since 1991. Michigan had a 13.32% reduction in wholesale value in production during the same period with rose $513,000 or 14.97%.

Virtually alone among U.S. states, Minnesota has shown a modest gain of $1,107,000 in cut flower production during this period, but I know that Mr. Ramstad's constituent and Roses Inc.'s past President Len Busch has been to Capitol Hill expressing his support of the removal of flowers from the ATPA and his concern over the current health of the U.S. industry.

In New York, our ranks suffered a major blow by losing 7 rose growers amounting to $4,969,000 annual loss in wholesale value or 54.7% of that once vibrant industry. Finally, in the state of Washington, wholesale values suffered an annual average reduction of $349,000 or 2.95%.

There is equally compelling data of grower losses in other states, notably Indiana, down 65.41%; Pennsylvania, down 52.80%; Ohio, down 31.62%; and Colorado, down 17.67% in wholesale value.

While domestic producers have suffered these losses, Andean nations have clearly increased their already significant market share. In 1991, there were 1,341,635,372 imported stems of major cut flowers. Andean nations accounted for 92% of that total. In 1996, imports increased 80% to 2,414,894,669 stems. Andean nations accounted for 93% of this total.

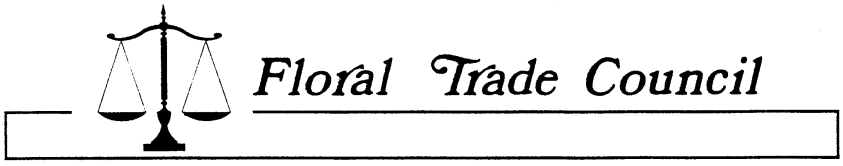
This data clearly indicates a crowding out of the U.S. producer. In the major cut flower crops, per capita consumer spending remains relatively stagnant from $12.90 in 1992 to $12.21 in 1996.

The U.S. International Trade Commission estimated in 1996 that the U.S. rose consumer benefited a total of $2.4 million between 1993 and 1995 in exchange for $43.1 million in displaced domestic shipments. Consumers of carnations, chrysanthemums, anthuriums and orchids received a mere benefit of $1.99 million in exchange for $24.8 million in displaced U.S. production. Actually, many of us dispute these figures and argue that the consumer has lost over the last decade because retail prices have seen little or no change and the consumer has often little choice but to buy an Andean product which usually takes five days to reach the market.

Mr. Chairman, this hearing is billed to be a complete review of current trade agreements with Latin America as well as exploring expansion of free trade to the entire hemisphere. The Andean Trade Preference Act is a significant precursor to this eventuality. Again, the International Trade Commission acknowledged in 1995 and 1996 that Andean cut flowers were the single largest beneficiary of the ATPA.

Sir, this committee must consider ATPA if it is to consider Latin American trade. Many growers believe the Andean Trade Preference Act abandoned them for the drug war. It is reasonable to say that growers, consumers and our kids on the street lost in that deal. I hope that any future trade agreement of the Americas does not pursue a similar strategy at our expense.

Thank you for your consideration. I hope this information is helpful in providing a clear picture of the effects of the Andean Trade Preference Act on the fresh cut flower industry.



Cut Flower Grower Loss Since The Passage of The Andean Trade Preference Act

	Number of Growers	Sq. Footage
Standard Carnations		
1992	139	17,236,000
1993	116	14,937,000
1994	93	12,723,000
1995	93	8,740,000
1996	80 (-42%)	7,536,000 (-56%)
Mini Carnations		
1992	123	6,148,000
1993	114	6,522,000
1994	92	5,301,000
1995	100	4,937,000
1996	78 (-36%)	4,121,000 (-32%)
Standard Chrysanthemums		
1992	152	5,399,000
1993	139	4,776,000
1994	120	4,392,000
1995	116	4,593,000
1996	112 (-26%)	3,914,000 (-27%)
Pompon Chrysanthemums		
1992	173	14,113,000
1993	148	9,055,000
1994	141	9,028,000
1995	135	10,023,000
1996	116(-32%)	8,554,000 (-39%)
Roses, Hybrid Tea		
1992	225	38,495,000
1993	213	37,052,000
1994	197	34,142,000
1995	179	29,607,000
1996	165(-26%)	30,227,000 (-21%)

Source: USDA Agricultural Statistics Board, NASS, 1993 - 1996

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Removal of Fresh Cut Flowers from the Andean Trade Preference Act: H.R. 54

Summary:

Congress should remove fresh cut flowers from the Andean Trade Preference Act ("ATPA"). The primary beneficiary of this statute has been the already powerful Colombian fresh cut flower industry. Although the ATPA was intended to stimulate legal exports in lieu of drugs from Andean nations, Colombia has twice been found uncooperative in narcotics control efforts after almost five years of ATPA benefits while the United States continues to lose members of a once vital domestic industry.

The Andean Trade Preference Act (19 U.S.C. § 3201, et seq.):

- The ATPA exempts fresh cut flowers from Colombia, Ecuador, Bolivia, and Peru from tariffs ranging from 3.6% to 7.4%, depending on the flower type.

- Duty-free treatment under the ATPA was intended to encourage Andean countries to develop legal alternatives to drug crop production. Instead, duty-free access to the U.S. market has encouraged increased flower imports.

- The ATPA has not had the anticipated effect on drug production. For example, the number of hectares devoted to coca cultivation in Colombia increased from 37,500 hectares to 50,900 from 1991 to 1995. Moreover, the President has twice found Colombia uncooperative in narcotics control efforts.

- Colombia continues to be one of the largest exporters of fresh cut flowers in the world and controls the U.S. fresh cut flower market. Ecuador is also a leading fresh cut flower exporter.

- The U.S. fresh cut flower industry is being decimated by Colombian fresh cut flowers. The total number of fresh cut flower growers of the major cut flower types (in the 36 states surveyed) plummeted from 943 in 1992 to 706 in 1995.

- Despite the fact that the ATPA covers approximately 6000 products, including fresh cut flowers, the U.S. International Trade Commission's annual reports confirm that Colombian fresh cut flowers continue to be the chief beneficiary of preferential tariff treatment under the ATPA and that the ATPA has had the greatest estimated impact on the domestic fresh cut flower industry by displacing domestic shipments.

H.R. 54:

- H.R. 54 will eliminate ATPA duty-free treatment for fresh cut flowers and live plants from Colombia, Ecuador, Bolivia, and Peru. Because fresh cut flowers are eligible for duty-free treatment under the Generalized System of Preferences Program, the only flowers likely to be affected by H.R. 54 are (1) roses from all four countries; and (2) chrysanthemums, standard carnations, anthuriums, and orchids from Colombia.

The Floral Trade Council is a U.S. trade association of domestic growers and wholesalers of fresh cut flowers. For further information, please contact William Carlson, Executive Director, at 517-339-9765.

The Effect of Duty-Free Treatment Under the Andean Trade Preference Act on Domestic Shipments

Roses	Net Welfare ($000)	Displacement of Domestic Shipments ($000)	U.S. Shipments ($000)
1993	706	14,900	162,200
1994	864	12,790	149,715
1995	850	15,444	119,054

Chrysanthemums, standard carnations, anthuriums, and orchids	Net Welfare ($000)	Displacement of Domestic Shipments ($000)	U.S. Shipments ($000)
1993	673	8,800	49,203
1994	805	7,435	55,556
1995	519	8,580	45,083

Source: Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, USITC Pub. 2814, at viii, 38-39 (Sept. 1994); USITC Pub. 2926, at viii, 23 (Sept. 1995); USITC Pub. 2995, at Table 3-4 (Sept. 1996).

U. S. IMPORTS FOR CONSUMPTION - STEMS

	1991	1994	1995	1996	1991-96 % Increase
POM POM CHRYSANTHEMUMS					
Colombia	180,107,298	483,749,173	534,741,959	544,872,550	203%
ATPA Countries	181,852,679	487,914,590	542,766,887	550,899,326	203%
All Countries	200,625,174	557,872,749	591,372,565	611,575,923	205%
% ATPA Countries of Total	91%	87%	92%	90%	
ROSES (OTHER)					
Colombia	330,759,830	477,640,534	513,285,690	557,444,810	69%
ATPA Countries	373,324,934	583,654,438	677,135,843	745,724,525	100%
All Countries	447,179,708	671,241,497	773,823,879	837,413,908	87%
% ATPA Countries of Total	83%	87%	88%	89%	
STANDARD CARNATIONS					
Colombia	637,715,221	780,668,110	822,592,813	871,740,731	37%
ATPA Countries	644,818,016	786,697,697	835,297,908	835,297,908	30%
All Countries	650,304,665	791,587,149	844,046,699	913,640,600	40%
% ATPA Countries of Total	99%	99%	99%	91%	
STANDARD CHRYSANTHEMUMS					
Colombia	41,358,213	38,447,638	46,438,453	49,734,794	20%
ATPA Countries	42,090,412	38,793,478	47,001,466	50,470,949	20%
All Countries	43,525,825	45,644,636	51,276,846	52,174,238	20%
% ATPA Countries of Total	97%	85%	92%	97%	
TOTAL ABOVE					
Colombia	1,189,940,562	1,780,505,455	1,917,058,915	2,023,792,885	70%
ATPA Countries	1,240,153,460	1,896,903,523	2,102,313,529	2,252,707,221	82%
All Countries	1,341,635,372	2,066,346,031	2,260,519,989	2,414,804,669	80%
% ATPA Countries of Total	92%	92%	93%	93%	

Andean Trade Preference Act (ATPA) countries include Bolivia, Colombia, Ecuador and Peru.
Source: U.S. Department of Commerce, Bureau of the Census CDs.

Floral Trade Council

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Chairman CRANE. Thank you.

Mr. McGrath.

STATEMENT OF BOBBY F. MCKOWN, EXECUTIVE VICE PRESIDENT AND CHIEF EXECUTIVE OFFICER, FLORIDA CITRUS MUTUAL; AS PRESENTED BY MATT MCGRATH, COUNSEL, BARNES, RICHARDSON AND COBURN, FLORIDA CITRUS MUTUAL

Mr. MCGRATH. Mr. Chairman, I am Matt McGrath of Barnes, Richardson and Coburn, counsel to Florida Citrus Mutual. I appear here today on behalf of Mutual and Bobby McKown, the executive vice president and chief executive officer, who was unable to attend due to an emergency in Florida.

We appreciate the opportunity to testify today on a matter of great importance to the future of the American citrus industry, the proposed free trade area of the Americas.

Florida Citrus Mutual is a voluntary cooperative association whose 11,693 members account for 90 percent of the citrus growers in Florida, and more than 80 percent of the U.S. growers of citrus for processing.

This morning we heard considerable testimony on the macroeconomic analysis and issues concerning free trade. Florida Citrus Mutual does not oppose the institution of free trade discussions. It does not oppose the passage of fast track negotiating authority, but it does want to point out some of the microeconomic effects that should be addressed, that have an impact on industries such as ours, and the ones that are testifying here on this panel.

The core of our position on the proposed free trade area of the Americas can be easily summarized, and we ask that it be acknowledged by U.S. negotiators and Congress at this early stage. That is, that any trade agreement which further reduces United States tariffs on orange juice, or fresh citrus imported from Brazil beyond the levels bound in the Uruguay round, will not only contravene assurances made by the U.S. Trade Representative during NAFTA negotiations, but will also spell the end of the United States industry growing citrus.

While the United States industry has compromised in the past on other trade liberalizing measures affecting citrus in the Caribbean Basin Initiative, the United States-Israel Free Trade Agreement, and on NAFTA, deference in this instance to the apparent Brazilian priorities to expand access for what is the largest citrus producer in the world would simply be self-destructive.

Some clear cut protections must be spelled out in advance for the highly import sensitive industries like citrus. Ultimately, the lifeblood of the multibillion dollar Florida horticultural industry, such as citrus, vegetables, and tomatoes, is found in the equalizing import tariff imposed on products from countries which do not incur the environmental, worker safety, water, welfare, tax, and other costs which Florida growers must bear.

Furthermore, that tariff alone does not account for unfair advantages enjoyed by some foreign producers who have engaged in dumping or received subsidies in past years that put Florida growers at a distinct disadvantage for many years into the future.

Our written testimony and charts document the challenges posed to United States citrus growers by the dominant Brazilian citrus industry. Global wholesale prices for citrus have dropped dramatically in recent months as the current Brazilian orange juice pack is projected to exceed both last season's output and the most recent record output—which is, in turn, far larger than the United States output.

A formidable Brazilian oversupply can only grow heavier with the promise of future tariff reductions in a free trade area negotiation. Brazil is, and has been for several years, the world's largest producer of citrus, and has been found to have engaged in both sales at less than fair value prices, and in granting countervailable subsidies.

The number of bearing trees in the Sao Paolo production region continues to expand at the rate of 5 to 6 percent annually.

Unlike annual crops, the citrus tree has a productive life of approximately 25 years, with the grower's investment, depreciation and financing decisions made accordingly.

For both the Brazilian and the Florida growers, the commencement of citrus production is not a decision which can be reversed or modified easily. Once the tree is turned on, it cannot simply be turned off.

Because of the overproduction, prices have been directly affected over the long term, in the commodity futures market, which has declined over the last 10 years in tandem with Brazilian expansion. This has had a direct impact in the United States on the on-tree price for oranges, which directly affects U.S. growers.

This has cut into growers' returns and continues to do so over the long term.

Aside from the impact of unrestrained free trade on the U.S. citrus industry, the most highly touted benefit of free trade agreements, lower prices to consumers, would not be realized in the case of processed citrus products. Increasingly, the price of retail juice products has not tracked the decline in the wholesale price of orange solids, leading to a buildup in Florida stocks.

It is fair to assume that the eventual demise of the Florida growing industry under an FTAA is not likely to yield direct price benefits to consumers, but only cost savings to reprocessors. If anything, the Brazilian industry, which is already highly concentrated—80 percent of production being held by four companies—will lose the competitive restraint on prices, and the United States consumer will suffer.

In conclusion, we would submit that before any negotiations to reach an FTAA are commenced, sufficient limitations should be incorporated into the authorizing legislation to assure that citrus and similarly situated agricultural industries are not subjected to drastic and destructive tariff cuts.

We strongly believe that while free trade negotiations may cover all trade among the member countries, citrus products should be exempt from further tariff cuts in this negotiation due to their proven import sensitivity.

The U.S. citrus growers cannot be expected to support unconditionally a free trade agreement with the largest producer in the world when their unique conditions of trade, and, indeed, their very continued existence necessitates some concessions in order to maintain the continued viability of this vital sector of the Florida and the U.S. economy.

Thank you very much for your attention, and I would be happy to respond to any questions.

[The prepared statement and attachments follow:]

Statement of Bobby F. McKown, Executive Vice President and Chief Executive Officer, Florida Citrus Mutual; as Presented by Matt McGrath, Counsel, Barnes, Richardson and Coburn, Florida Citrus Mutual

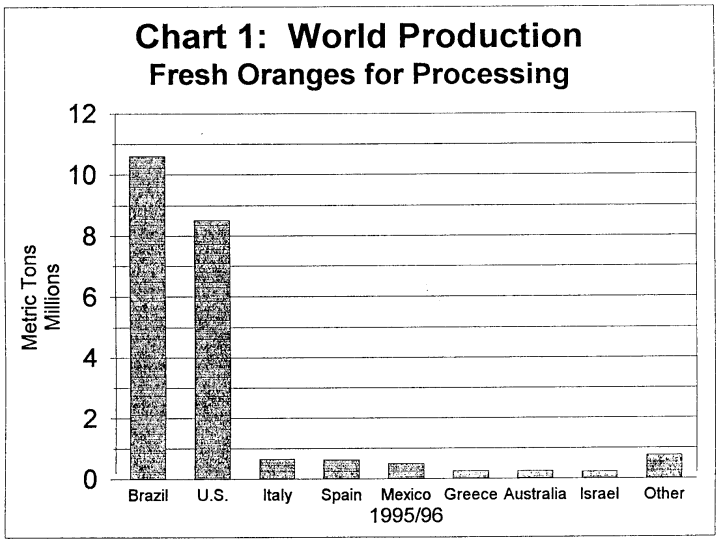
Mr. Chairman and members of the subcommittee, I am Bobby F. McKown, Executive Vice President and CEO of Florida Citrus Mutual. I appreciate the opportunity to testify today on a matter of great importance to the future of the American citrus industry: the proposed Free Trade Area of the Americas. We have been invited to comment on a range of issues relative to the proposed FTAA, but the core of our position can be easily summarized and must be fully acknowledged by U.S. negotiators and Congress: any trade agreement which further reduces U.S. tariffs on orange juice and/or fresh citrus imported from Brazil, beyond the levels bound in the Uruguay Round, will not only contravene assurances made by the U.S. Trade Representative during the NAFTA negotiations, but will also spell the end of the U.S. industry producing citrus for processing and fresh channels of trade. The Brazilian Government and citrus oligopoly are certainly well aware of this fact, since the Brazilian citrus industry is the world's largest by a significant margin, and has made no secret of its need to expand market share in the world's most lucrative market—the United States—in order to provide an outlet for the over-planting and overproduction which characterized much of the past two decades. While the U.S. industry has compromised in the past on numerous trade liberalizing measures affecting citrus—the Caribbean Basin Initiative, the U.S.-Israel Free Trade Agreement, and even NAFTA—deference in this instance to the apparent Brazilian priorities would be tantamount to suicide. The U.S. citrus industry cannot support unconditionally any free trade negotiation which does not provide clear-cut protection for highly import sensitive industries like citrus. Florida Citrus Mutual is a voluntary cooperative association whose membership consists of 11,693 growers of citrus fruit for processing and fresh shipments. FCM represents more than 90% of Florida's citrus growers, and 80% of the U.S. growers of citrus for processing into processed citrus products. FCM understands why an FTAA, as currently envisioned, could bring economic benefits to a broad cross-section of the U.S. economy, especially as standards of living and patterns of consumption increase throughout Latin America. However, any further regional trade agreements similar to the North American Free Trade Agreement, must fully account for and prevent the likely adverse effects and major dislocations to certain sectors which would otherwise result directly from such an agreement. The NAFTA addressed only some of these issues with respect to Florida agriculture, and even the protections built into that agreement are modest in scope and temporary in application.

Ultimately, the lifeblood of the multi-billion dollar Florida horticultural industry (citrus, vegetables, tomatoes) is found in the equalizing import tariff imposed on products from countries which do not incur the environmental, worker safety, water, welfare, tax, and other costs which Florida growers must bear. Furthermore, that tariff alone does not account for unfair advantages enjoyed by some foreign producers who have engaged in dumping or received subsidies in past years that put Florida at a disadvantage for many years into the future. In an ideal free market world economy, natural advantages would outweigh arguments for tariff protection, but the Florida agricultural sector in general, and citrus in particular, cannot defer to that assumption, nor close our eyes to the reality that eventual elimination of the tariff on South American citrus would be a death sentence for the citrus industry and devastating to the economy of Florida.

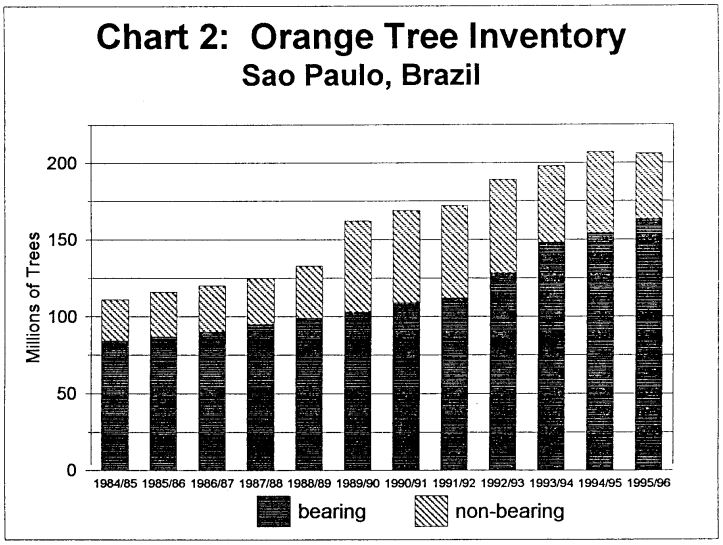
While it is difficult to generalize from a snapshot of trade data, recent developments in world citrus markets illustrate the challenges posed to U.S. citrus growers by the dominant Brazilian citrus industry. Global wholesale prices for citrus have dropped dramatically in recent months, as the current Brazilian orange juice pack is projected to exceed both last season's output of 374 million gallons, and even the 1994/95 pack of 388 million gallons (42 degrees Brix). When carry-in inventories

from the previous season are added, these numbers present a formidable oversupply that can only grow heavier with the promise of tariff reductions.

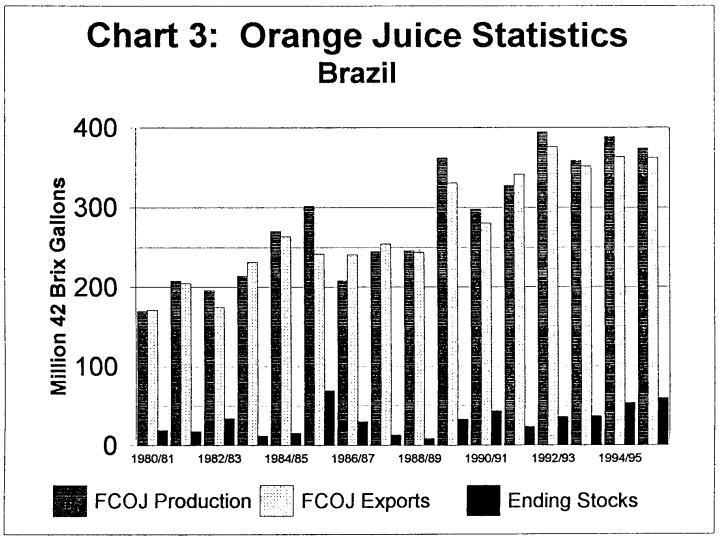
Brazil is and has been, for several years, the world's largest producer of citrus (Chart 1) and has been found to have engaged in both sales at less than fair value prices, and receipt of countervailable subsidies. An antidumping order remains in effect on frozen concentrated orange juice from Brazil. The number of bearing trees in the Sao Paolo production region continues to expand at a rate of 5–6% annually (Chart 2). Unlike annual crops, a citrus tree has a productive life of approximately 25 years, with the grower's investment, depreciation, and financing decisions made accordingly. For both the Brazilian and Florida growers, the commencement of citrus production is not a decision which can be reversed or modified easily. These planting decisions are reflected in the continuing growth of Brazilian bearing and non-bearing acreage (Chart 2). The latter reveals that new plantings continue, despite the obvious impact on world supplies and prices. The immediate results are shown in the continuing upward expansion of Brazilian orange production, exports, and ending stocks (Chart 3).



Source: Compiled by Barnes, Richardson & Colburn with data from the Foreign Agricultural Service, USDA.

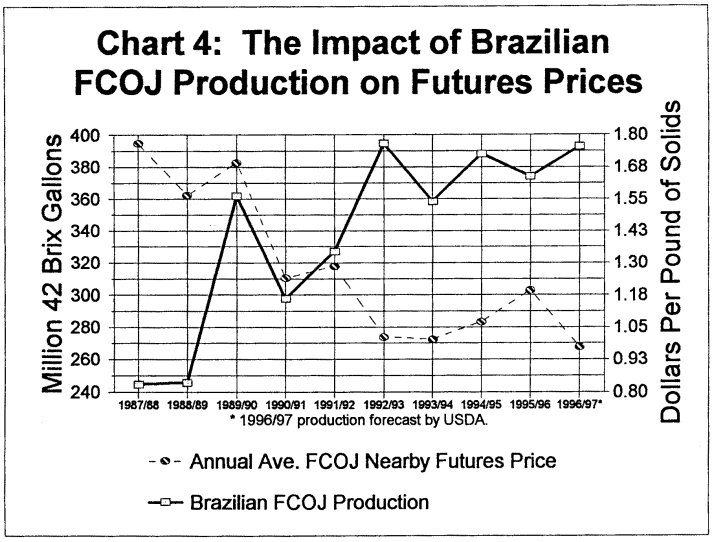


Source: Compiled by Barnes, Richardson & Colburn with data from the Sao Paulo Department of Agriculture.

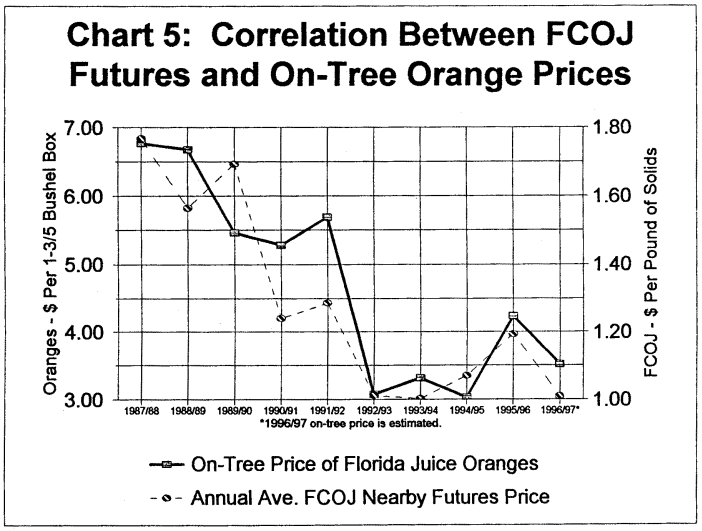


Source: Compiled by Barnes, Richardson & Colburn with data from the Foreign Agricultural Service, USDA.

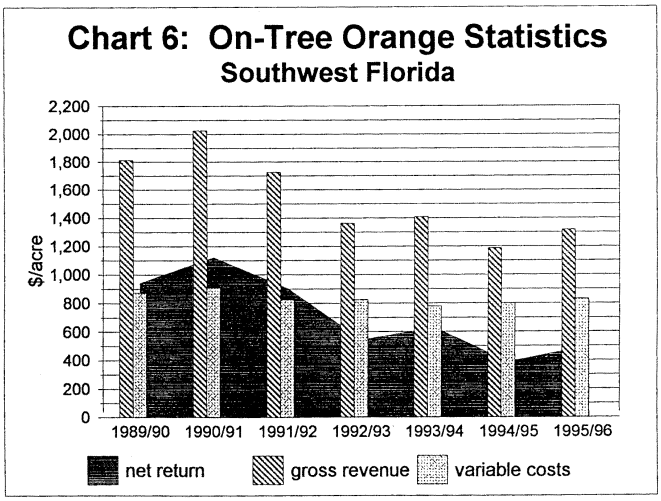
It cannot be denied that Brazil's over-production has directly affected the long-term trend in commodity futures prices for frozen concentrated orange juice (FCOJ), which have declined over the last ten years in tandem with the Brazilian expansion (Chart 4). Commodity futures prices are utilized as one of the most accurate indicators of the U.S. price for FCOJ, and U.S. FCOJ prices have had, and will continue to have, a direct impact on the U.S. on-tree price of oranges for processing (Chart 5). These low on-tree prices have been increasingly cutting into growers' returns (Chart 6), placing them in an extremely tenuous position. The long-term outlook for oversupply in Brazil does not present a rosy picture for Florida growers.



Source: Compiled by Barnes, Richardson & Colburn with production data from the Foreign Agricultural Service, USDA; and price data from the NY Cotton Exchange.



Source: Compiled by Barnes, Richardson & Colburn with on-tree prices from the Florida Agricultural Statistics Service; and futures prices from the NY Cotton Exchange.



Source: Compiled by Barnes, Richardson & Colburn with data from the Citrus Research and Education Center, University of Florida; and the Florida Agricultural Statistics Service.

Aside from the impact of unrestrained free trade on the U.S. citrus industry, the most highly touted benefit of free trade agreements—lower prices to consumers—would not be realized in the case of processed citrus products. Increasingly, the price of retail juice products has not tracked the decline in the wholesale price of orange solids, leading to a buildup in Florida stocks. It is fair to assume that the eventual demise of the Florida industry under an FTAA is not likely to yield direct price benefits to consumers, but only cost savings to re-processors. If anything, the Brazilian industry, which is already highly concentrated (80% of production is held by four companies), will lose the competitive restraint on prices and the U.S. consumer will suffer the consequences.

In conclusion, Florida Citrus Mutual submits that before any negotiations to reach an FTAA are commenced, sufficient limitations must be incorporated into the authorizing legislation, to assure that citrus and similarly situated agricultural industries are not subjected to drastic and destructive tariff cuts. We strongly believe that, while free trade negotiations may cover all trade among the member countries, citrus products should be exempt from further tariff cuts, due to their proven import sensitivity. The U.S. citrus growers cannot be expected to support unconditionally a free trade agreement with the largest producer in the world, when their unique conditions of trade and indeed, their very continued existence—necessitate concessions in order to maintain the continued viability of a vital sector of the economy.

I will be pleased to respond to any questions.

Chairman CRANE. Thank you, Mr. McGrath.

I have a question, Ms. Hale. I have here, and this is from the Department of Agriculture, the percent of the market due to imports. And this line here is 1992, when the Andean Trade Preference Act was passed.

And if you go from that figure to today, there has been about a 3-percent reduction in imports since the Andean Trade Preference Act. And the figure over here is roughly the equivalent of where it was in 1987.

And I am not saying there wasn't a big surge because of our promotion of raising flowers and selling flowers from Colombia. That started back in the sixties. But I don't think there is, based on the Andean Trade Preference Act, really a correlation between any

surge in importation, according to this Department of Agriculture chart.

Ms. HALE. Well, Mr. Chairman, what you may be looking at is a composite of floral products, and there have, indeed, been some serious reductions within the last several years of production among Colombian carnation growers and chrysanthemum growers.

Because of a disease on chrysanthemums called white rust, they are unable to export those to the United States. They are not allowed into the United States. And because of price failures on an oversupply of carnations, those crops were also sharply curtailed.

But the uptake occurred on roses. And I have in front of me USDA numbers that show that since 1971, when there was a 1-percent market, to 1995, the market share that Colombians have has risen incrementally from 1 percent, 15 percent, 22 percent, in 1991 when the Andean Trade Preference Act was first passed, 48 percent, and the last figure—

Chairman CRANE. Excuse me. Are you talking about their percentage of all imports?

Ms. HALE. I am talking about their percentage of the rose market, sir.

Chairman CRANE. Of total, the total market?

Ms. HALE. No. Roses.

Chairman CRANE. I mean, our market.

Ms. HALE. Yes. Total Colombian shares of the American rose market.

Chairman CRANE. All right.

Ms. HALE. And the last figure I have is 1995 when 66 percent of the American rose market was held by Colombian producers, and at that time 77 percent of Colombia's flower production, not just roses, all flowers, were sold in the United States.

And two-thirds of all flowers sold in this country today came from Colombia.

Chairman CRANE. I am not disputing that, but what I am saying is there is not really, according to this chart, with the exception of your explanation of market share, roses, vis-a-vis chrysanthemums or carnations, since passage of the Andean Trade Preference Act, that percent of imports has remained a constant. In fact, it has marginally declined.

Of the total market, for imported flowers, coming from Colombia. I am not saying there was not this effort made by the United States to get them to get into flowers instead of drugs. But that goes way back and that was when that percentage of flower imports was very low.

I am not disagreeing with you in terms of how we did not apparently think down the road as to what the consequences might be to the domestic market, but that was not immediately and directly related to Andean Trade Preference legislation.

And unless you get into a restrictive trade policy where you say no, we are going to put the walls up again——

Ms. HALE. Well, sir, I do not believe we should put up any walls. I think I am certainly one of the people that believes in free trade. I think it benefits the American consumer.

However, I do feel that that trade should be a fair trade, and I would like to point out that at the time the Andean Trade Pref-

erence Act was passed, Colombian growers had 48 percent of our market.

And they did not need an incentive of free tariff——

Chairman CRANE. Wait just a second. They had almost 70 percent of our market.

Ms. HALE. Of the entire market.

Chairman CRANE. Entire market.

Ms. HALE. But I am talking about the rose market.

Chairman CRANE. Just roses.

Ms. HALE. Yes. Forty-eight percent of the rose market, and 70 percent overall.

And they certainly did not need any incentives with a fleet of 747's coming in daily to Miami, and warehouses as large as football fields, and a central distribution center out of Miami. American growers are unable to understand why they were given free tariff on our product.

Why not free tariff on petroleum products, coal, oil, coffee, and other products? So I guess what I am saying is, Why were we the sacrificial industry? I know that on the grand scheme of things, flower growers throughout the United States are not a tremendous industry.

However, it should be considered that if American small business is the backbone of this country, and the jobs that we provide, then certainly the demise of our industry in another 25 years will have a severe effect upon U.S. economy, remembering that the jobs that we offer are many times to those who have no other skills in the job market.

They are either going to be on unemployment, or they are going to have to be retrained for some other job that may exist in the United States.

And it is the eventual demise of our industry that we are concerned with. We do not want to put up barriers to trade. We simply want to make sure that trade is fair.

Chairman CRANE. Well, I understand that there are many antidumping and countervailing duties assessed on imports in your sector. And is a safeguard petition something your industry has considered?

Ms. HALE. That we have availed ourselves of the opportunity to file antidumping petitions many times. Suffice it to say, however, any small gains we may have made in that area have not been sufficient to deter Colombian growers from flooding our markets, and they have not been sufficient to maintain American growers in business and to maintain the profits that are necessary to meet our costs of production and keep us in business.

The fact that 40 of my colleagues in northern California—I don't know about southern California—northern California alone, have said we give up. And they have closed their nurseries.

A greenhouse has only one use. It is only used to grow a product. It can't be leased to another company for a warehouse. So what does this grower do when he says, I give up?

He has to demolish his greenhouses and the entire facility. Packing sheds, boiler houses—demolish it all. Knock it down, with the guidance of the Environmental Protection Agency, which watches over your every step in that process.

And then if you can find a buyer for your land, you will have at that time incurred a cost for every square foot of greenhouse space you had, it will have cost you, according to my colleagues who have been through it, between $5 and $5.41 a square foot to demolish your nursery.

Those who have been able to recapture the capital investment are in the minority.

So these are the concerns that we bring to this Subcommittee today. Not seeking to do away with free trade but seeking to obtain fair trade.

Chairman CRANE. I would like to ask you, and it is in the same vein, Mr. McGrath, about the antidumping and countervailing duties on imports of frozen concentrated orange juice.

Has the system worked basically for you folk in this area?

Mr. MCGRATH. Well, we petitioned for a countervailing duty order in the early eighties, and an antidumping order which was issued in the late eighties, and it worked pretty well.

The effect was that it imposed a price discipline on the marketplace which had theretofore not been present. And the larger commodity brokers and producers and exporters in Brazil, I think, were aware that prices were being monitored.

The order is still in effect, with respect to some of the producers, but most of the industry, I think, has been subject to revocation at this stage. But the process did work, and it remains an option, if prices decline to levels that appear to be discriminatory between markets, between the United States and Europe, for instance.

But there really is no comparison between United States prices and home market prices in Brazil. That industry is designed to export. They have no home market, or they have only a minimal home market.

That is an option which remains. But as I said at the outset, there are numerous other factors that are equalized by the imposition of the current level of tariff. We are not looking to the current tariff level or maintaining it simply as a surrogate for replacing antidumping measures. There are other reasons why the tariff, I think, offsets some differences.

The very existence of the Brazilian industry, for instance. It was established with a great deal of government support, with a lot of subsidies some years ago, which cannot be offset now through any countervailing measures this many years later.

There were advantages that were available then and continue to be available, and the industry looks to the tariff as an offset to those advantages, including environmental laws and some of the other factors that all of the agricultural industries are, I think, aware of, and the problems, the challenges that they deal with in functioning in the United States.

Chairman CRANE. Well, Mr. Farr and Mr. Campbell from your home State testified earlier today. I do not know whether you were here for their testimony.

Ms. HALE. Yes, sir.

Chairman CRANE. They are doing their utmost to faithfully represent you folks. And we, through the advancement of free trade, are trying to minimize the kinds of injuries you have talked about.

With that, our Trade Subcommittee hearing is concluded, and the record will remain open until August 5. And with that, the Subcommittee stands adjourned, and thank you so much.

[Whereupon, at 12:59 p.m. the hearing was adjourned.]

[Submissions for the record follow:]

Statement of American Farm Bureau Federation

Farm Bureau represents 4.7 million families in the United States and Puerto Rico. We welcome this opportunity to testify on the status and outlook for negotiations aimed at achieving a Free Trade Area of the Americas (FTAA).

It is our understanding that negotiations concerning a FTAA are in process. These negotiations should lead to an agreement in which barriers to trade and investment will be progressively eliminated. The commitment is to begin the process as soon as possible, make concrete progress by the year 2000, and conclude negotiations no later that 2005. Farm Bureau generally supports such an effort.

Farm Bureau believes that higher living standards throughout the world depend upon mutually beneficial trade among nations. We urge that trade and other economic policies be developed that promote rather that retard the growth in world trade. We recommend more effort toward increasing international trade on a commercial basis because exports represent such a significant part of the total market for our agricultural production. Currently over one-third of U.S. agriculture production depends on export markets.

Just last year, American farmers and ranchers exported about $60 billion worth of agricultural goods to the rest of the world. In return, the rest of the world sent about $30 billion worth of agricultural goods into the United States. Thus, agricultural trade remains a growth industry for the United States—and an industry with a trade surplus relative to the rest of the world. It is our aim to keep these trends growing. The next logical public policy step appears to include more of our neighbors to the south in a free trade agreement.

American farmers and ranchers already ship many commodities to Latin America. For fiscal 1997, the United States expects to export almost $10 billion worth of agricultural commodities to Latin America. This figure will equal about one-sixth of all of our agricultural exports to the entire world.

Our largest regional trading partner to the south is Mexico, which of course, is already linked in trade to the United States through the North American Free Trade Agreement (NAFTA). For the current fiscal year, $5.5 billion of agricultural exports are expected to be sent to Mexico, an increase of 10 percent over last year as well as a trade record.

Other Latin American trading (export) partners of note include Brazil and Venezuela. Together, the United States will send almost $1 billion worth of agricultural exports to these two countries during the current fiscal year. There is greater potential to export agricultural commodities to the rest of Latin America as well if market barriers can be reduced.

We understand that international trade is a two-way street. For fiscal 1997, Latin America will import almost $12 billion worth of agricultural goods into the United States, led by Mexico, Brazil and Chile. Since two-way agricultural trade is so vital in the Americas--we must insist that any trade agreement concerning the Americas include agriculture as a key ingredient.

In many cases, the United States competes with other countries in the sale of agricultural commodities. In Chile, for example, we compete in the areas of grapes, apples, dried fruits, processed tomatoes, pears, kiwi, fruit juices, plums, nectarines and peaches. If Chile expects to sell such items in the United States, they also need to realize that the United States must be allowed to send such items into their country as well. We must have strong agreements with Chile that guarantee free movement of U.S. products into Chile.

Other areas of concern in any trade agreement include; common standards, lessening of technical barriers to trade, removal of subsidies, anti-dumping rules, science based sanitary and phytosanitary measures, equivalent customs procedures, standard rules of origin and (most important) increased market access.

Our government must continue to insist on strict implementation of international trading rules to prevent unfair practices by competing nations and to assure unrestricted access to domestic and world markets. All trade agreements should be continually evaluated with emphasis on fair trade as well as free trade (more open trading systems), including GATT, NAFTA, and any potential FTAA.

We view the passage of NAFTA as the starting point for greater and better trade relations with Canada, Mexico and other Latin American countries. Efforts should

be made to build upon NAFTA's passage to further enhance our trade relationships with these countries. The negotiations of a Free Trade Area of the Americas is an excellent step in this direction and agriculture must have a place at the negotiating table.

To move U.S. agricultural trade forward throughout the Americas, the President must have fast-track negotiating authority. We have urged the administration to move quickly in requesting Congress to provide fast-track negotiating authority that does not include social issue or labor and environmental restrictions. We must have a clear fast-track to allow our negotiations to move forward and open new markets for agricultural products.

Trade agreements must be monitored and enforced. The American Farm Bureau Federation has been concerned for some time about the level of attention and commitment by the U.S. Trade Representative's Office (USTR) toward our issues and has called for a Deputy Ambassador for Agriculture. I heartily applaud Ambassador Charlene Barshefsky in her move toward designating an ambassador for agriculture under the title previously carried by Ira Shapiro. This is a granting of use of the title by the State Department, not a permanent position. However, we believe that there should be a permanent position of Deputy Ambassador, not one which is at the mercy of personnel changes or changes in administrations. A legislated Deputy Ambassador for agriculture at USTR and continued close coordination with USDA is critical for successful long-term agriculture trade.

International and especially trade with our close neighbors can create a significant market for U.S. agricultural commodities. Agreements like NAFTA must ensure that trade remains both freer and fairer for all commodities. We need to continue to expand and enforce these accords to make sure the benefits promised to farmers and ranchers are fully realized.

Statement of Eugenio M. Valdes, President of Sunburst Farms, Inc.; and Vice President of Association of Floral Importers of Florida; on Behalf of Association of Floral Importers of Florida

Mr. Chairman and Members of the Subcommittee:

The Association of Floral Importers of Florida ("AFIF") submits this statement to highlight the importance of fresh cut flower imports to the U.S. floral industry and to urge Congress to oppose H.R. 54, which would revoke duty-free treatment for flowers imported into the United States under the Andean Trade Preference Act ("ATPA").[1] If enacted, H.R. 54 would economically harm AFIF's member importers, increase the price of fresh cut flowers for U.S. consumers, adversely impact the economy of southern Florida, and needlessly jeopardize many thousands of U.S. jobs.

BACKGROUND ON THE ASSOCIATION OF FLORAL IMPORTERS OF FLORIDA

AFIF represents the interests of the South Florida fresh cut flower importers. The association, founded in 1982, currently speaks for 52 importers of fresh cut flowers based in the Miami area. AFIF represents this large group of importers at the federal, state and local level on various industry issues which impact floral importation including antidumping, legislative and transportation matters. In addition, AFIF represents its member importers before such federal entities as the U.S. Customs Service, the Department of Agriculture and the Department of Commerce.

AFIF members directly employ over 5,400 people. Payroll for these employees totaled $67,500,000 in 1995 alone. In that same year, the Miami flower importing community occupied more than 1.4 million square feet of office, warehouse and cooler space and spent approximately $6.8 million on insurance; $3.4 million on professional fees; and $4.5 million on office expenses. AFIF's members handle more than 90% of all flower imports that flow through South Florida flower importers.

THE IMPORTANCE OF FLOWER IMPORTS TO FLORIDA AND THE U.S. ECONOMY

A. Florida

Today, an astounding 70 percent of all flowers consumed in the United States are imported through Miami. In 1996, these flower imports were valued at $740 million.

The importation business and the 5,400 people it employs tell only part of the true impact that imported flowers have on the Florida and national economies. An

[1] For ATPA purposes, the Andean countries are Bolivia, Colombia, Ecuador and Peru.

entire industry—beyond importers—has developed to move the huge volume of flowers that flow through Miami. Today, there are eight (8) U.S. airlines that transport flowers into Miami—an estimated 33,000 boxes on 21 flights per day. These airlines employ more than 1,400 people. Nine (9) trucking companies employ approximately 1,500 people with an annual payroll totaling $44 million. In addition, 140 people are employed at 4 brokerage houses that handle floral shipments.The employment picture at the wholesale and retail level is even more impressive. In Florida alone, more than 3,250 workers are employed in over 1,600 supermarkets and 30 grocers that maintain floral departments.

B. U.S. Economy

At the national level, 70,000 wholesalers, retail florists, supermarkets and independent grocers employ more than 200,000 U.S. workers in the floral industry. All of these people are either directly or indirectly dependent on the free flow of flowers from the ATPA countries for their jobs and livelihood. One of the most dramatic impacts on the national economy has been the development of thousands of floral departments in America's supermarkets and grocery stores. These floral departments, which employ over 30,000 people are almost exclusively supplied by flower imports from the ATPA countries. In addition, the United States' 55,000 retail florists, which employ 150,000 workers, and wholesalers, which employ another 20,000, are also heavily dependent on low price, high quality flowers from the ATPA countries.

C. Consumers

U.S. workers are not the only ones who have greatly benefited from imported flowers. U.S. consumers have also reaped tremendous benefits. Due to the extremely favorable growing climate of Latin America, U.S. consumers are able to enjoy a greater variety of cut flowers year-round with much higher quality than can be obtained from U.S. producers. The increased supply has meant more affordable prices for the many popular varieties of cut flowers as a direct result of the importation of flowers. Reports prepared by an independent trade body, the International Trade Commission, indicate that of all products entering the U.S. under ATPA, U.S. consumers of roses, carnations and other cut flowers reaped the largest benefits in terms of reduced prices. According to the Commission, under the ATPA, U.S. consumers paid 7.8 percent less for fresh cut roses and 7.7 percent less for chrysanthemums and carnations than they otherwise would have without this tariff preference program.

THE IMPORTANCE OF COLOMBIAN FLOWER IMPORTS TO THE U.S. FLORAL INDUSTRY

What do all 200,000 workers involved in the U.S. floral industry have in common? A singular reliance on imported flowers from Colombia. Two-thirds of all flowers sold in the U.S. are produced by Colombian growers.

The important role played by Colombian flowers to support the large and growing U.S. floral industry cannot be overstated. If one looks at the percentages of all flowers produced domestically and imported, the picture becomes clear. For roses, 961,207,029 stems were imported or grown in 1996 from 29 countries and California; of these, Colombia supplied 50 percent (or 485,007,135 stems). For carnations, mini-carnations and pompons, Colombia supplied more than 80 percent of these varieties imported or grown in the U.S.[2]

The flower imports from Colombia have dramatically increased the size of the U.S. floral market. The floral market in the U.S. has boomed in recent years to become an $11.5 billion industry, $8.05 billion attributable to imported flowers. The stable and varied supply of flowers has led to new outlets, such as supermarket floral departments and street vendors, as well as new customers. This growth in the market has benefited all domestic and foreign suppliers of fresh cut flowers, not just Colombian. According to data from the U.S. Department of Agriculture, the share of the U.S. market held by Colombia has remained steady for many years.

THE DANGER OF H.R. 54

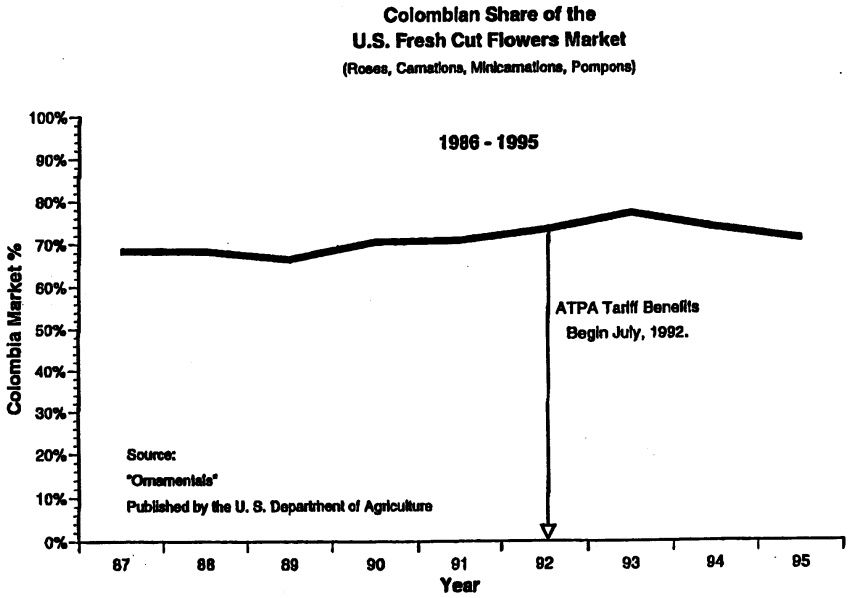
Supporters of H.R. 54 claim the legislation will restore the health of U.S. flower producers, primarily in California. H.R. 54 would shut off the flow of imported flowers by revoking duty-free treatment of flowers under the ATPA. H.R. 54, according to its supporters, would make U.S. flower producers robust again by improving their

[2] For carnations, Colombian growers supplied 88 percent of all carnations imported or domestically produced in 1996. For mini-carnations, Colombian growers supplied 85 percent of all mini-carnations produced domestically or imported. For pompons, Colombian growers supplied 82 percent of all pompons produced domestically or imported in 1996.

share of the U.S. floral market—once the Andean producers, particularly the Colombians, are cut out of the picture.

Instead, if H.R. 54 is enacted, the cut off of Colombian flowers and/or increase in floral prices would undermine the strong U.S. floral industry. The impact would be devastating to floral importers and their employees. Thousands of U.S. jobs would be lost or at risk, including hundreds of U.S. businesses in the transportation, wholesale and retail sectors. The impact on U.S. consumers would be disastrous because the demands for fresh cut flowers in the U.S. cannot be met by U.S. producers alone.

Contrary to the claims of supporters of H.R. 54, the ATPA has had little impact on the Colombian share of the U.S. fresh cut flower market. Every year since 1987 (five years prior to the ATPA's implementation in 1992), Colombia held approximately 70 percent of the U.S. market. In 1995, after three full years of ATPA preferences, Colombia held exactly the same share of the U.S. market. (Data compiled by the Department of Agriculture (chart attached)).



Moreover, supporters of H.R. 54 have misinterpreted the goal of the ATPA. They have argued that the ATPA was enacted to stimulate crop substitution and because flower cultivation in Colombia has not supplanted cocoa cultivation, the ATPA is a failed policy. However, drug crop substitution was never the central goal of the ATPA. The primary goal of the ATPA was to encourage alternative economies to the production and trafficking of drugs by providing broad access to the U. S. market for alternative products and to encourage cooperation against narcotics trafficking. These alternative economies offer legitimate sources of employment to workers that might otherwise become involved in the drug trade. By this benchmark, the ATPA has been successful. The Colombian flower growers and exporters have developed and sustained a viable alternative means of employment for thousands of Colombians. Currently, more than 150,000 Colombians are employed by the Colombian floral industry. The industry has led the private sector in co-operation against drug trafficking.

THE IMPORTANCE OF THE COLOMBIAN FLORAL INDUSTRY TO THE U.S. "WAR ON DRUGS"

The Colombian flower industry has been a key ally in the U.S. "war on drugs" and it has been recognized by the U.S. Government for its efforts to combat the drug trade. Its commitment to fight drug trafficking has been valuable to the U.S., especially in view of the U.S. Government's serious concerns about the commitment of the Colombian Government at its highest levels.

The Colombian flower industry has worked extremely close with U.S. law enforcement agencies to establish extensive anti-smuggling programs to combat the flow of drugs. This close cooperation, coupled with sophisticated, state of the art security systems installed by flower growers, exporters and transportation companies, has been recognized as a model by the U.S.'s leading drug interdiction agencies, including the Customs Service and the Drug Enforcement Agency.

In fact, the former top United States diplomat for international narcotics and law enforcement efforts, Ambassador Robert Gelbard, publicly praised the efforts of the Colombian flower growers when he testified before Congress in September of 1996. At the hearing before the House International Relations Committee, Ambassador Gelbard said, "There are many groups in Colombia, including in the private sector particularly, who have been...very good examples of those honest Colombians who are trying to produce serious results in the fight against drugs. For example, the Colombian flower growers...have been very prominent in pushing the [Colombian] government to try to do more."

In a recent letter from President Bill Clinton responding to several Members of Congress, he stated, ". . . The ATPA was put in place in late 1991 to stimulate alternatives to illicit narcotics production and to encourage continued cooperation against narcotics trafficking. One of the most positive changes in the fight against drug traffickers has been the participation of the private sector in stimulating the Colombian government to take action on counternarcotics. The Association of Colombian Flower Growers has been in the forefront of that movement."

AFIF Supports Continued Free Trade Under the ATPA

In conclusion, AFIF strongly supports the continued duty-free treatment of flower imports from Andean countries under the ATPA. Without the continued supply of fresh cut flowers that AFIF members import every day, the economy of south Florida and the U.S. floral industry will be seriously damaged. U.S. consumers will be faced with much higher prices for flowers. Continued duty-free treatment of Andean flower imports will continue to expand the U.S. floral market—which will benefit U.S. growers—and help continue to create U.S. jobs.

THE WHITE HOUSE

WASHINGTON

July 25, 1997

Dear Peter:

Thank you for your letter regarding certification of Colombia and the potential suspension of benefits under the Andean Trade Preference Act (ATPA).

I decided to deny Colombia certification for a second consecutive year because it did not meet the statutory standards for certification. This was intended to send a strong signal to the Colombian government that it must do more to produce tangible progress in the common fight against drugs. Sanctions were not, however, taken against the private sector by suspending the ATPA.

The ATPA was put in place in late 1991 to stimulate alternatives to illicit narcotics production and to encourage continued cooperation against narcotics trafficking. One of the most positive changes in the fight against drug traffickers has been the participation of the private sector in stimulating the Colombian government to take action on counternarcotics. The Association of Colombian Flower Growers has been in the forefront of that movement.

My Administration remains committed to vigorously pursuing international cooperation against drug trafficking. We will continue to monitor this issue and other events in Colombia closely.

Sincerely,

Bill

The Honorable Peter Deutsch
House of Representatives
Washington, D.C. 20515-0920

AFIF
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Association of Floral Importers
Membership List

A.G.A. Flowers, Inc.
Agriflora Corporation
American Floral Exchange, Inc.
Blooming Fields, Inc.
Bloomx, Inc.
Brown Flowers, Inc.
CCI Farms
CFX, Inc.
Consolidated Floral
Continental Farms, Inc.
Continental Flowers
Eden Floral Farms, Inc.
Eldorado trading Corp.
Elite Farms
Emerald Farms, Inc.
Equiflor Corporation
Esprit Miami, Inc.
Everflora Miami, Inc.
Falcon Farms
Finesse Farms, Inc.
Florafresh International
Floral Trends Miami, Inc.
Floribal, Inc.
Florida Green/Durablum
Flower Trading Corporation
Flower Transfer, Inc..
Four Farmers, Inc.
Gardens America, Inc
Gelco International, S.A.
Golden Flowers
Hosa International
Horizon Farms Incorporated
International Floral Corp.
International Flower Exchange
Las Amalias
Maxima Farms, Inc.
Montana Flowers, Inc.
Natural Flowers, Inc.
Omni Flowers Corporation
Premium Flowers Corporation
The Queen's Flowers Corp.
Riverdale Farms
Sabana Farms
Selecta Farms, Inc.
Southern Rainbow Corp.
Sunburst Farms, Inc.
Sunrite Farms
Superior Florals, Inc.
Unique Flowers, Inc.
U.S. Floral Corporation
World Flowers, Inc.
XL Group, Inc.

Statement of Hon. Peter Deutsch, a Representative in Congress from the State of Florida

Mr. Chairman and Members of the Trade Subcommittee:

This statement is submitted in response to testimony before the Subcommittee on H.R. 54, which seeks to revoke duty-free treatment under the Andean Trade Preference Act for fresh cut flowers.

I am particularly interested in the impact this legislation will have on the economy of southern Florida. While the goal of the legislation is to help U.S. flower producers, its impact on the economy of southern Florida would be devastating.

Why H.R. 54 is Bad for the Florida Economy

Imports of Colombian fresh cut flowers primarily are shipped to the United States via air through Miami International Airport and then transported via trucks throughout the United States. Over 30,000 boxes of fresh cut flowers are shipped to Miami every day. Almost all of the transportation infrastructure for moving Colombian flowers is based in southern Florida. As such, fresh cut flowers from Colombia are a major source of employment in Florida. Over 6,600 persons are employed as part of the importing, shipping and transportation sectors handling Colombian flowers. An estimated $740 million in annual economic activity is generated in Florida alone by fresh cut flower imports. The jobs supported by this infrastructure, coupled with many U.S. jobs at the wholesale and retail level, results in more than 200,000 U.S. jobs being dependent on Colombian flower imports. In sum, cutting off the flow of Colombian flower imports will result in the loss of thousands of jobs in Florida as well as substantial revenue losses.

The Goal of the Andean Trade Preference Act

The primary goal of the Andean Trade Preference Act ("ATPA"), enacted on December 4, 1991, was to develop and sustain alternative, legitimate industries to the drug producing and trafficking industries of the Andean countries. According to the U.S. International Trade Commission ("ITC") report on ATPA, "[t]he goal of ATPA is to promote the development of sustainable economic alternatives to drug crop production in the Andean countries by offering these alternative Andean products broader access to the U.S. market." (U.S. International September 1996, page vii.)

The ATPA was never meant to be a pure drug crop substitution program. Such a goal would be extremely difficult, if not impossible to achieve, given the fact that drug producing crops and flowers need very different agricultural environments in which to thrive.

Based on this stated goal of the ATPA, it has been extremely successful in the largest beneficiary of the ATPA program: the Colombia flower industry. Colombian flower growers and exporters now employ over 150,000 Colombians, directly and indirectly, in good paying, legitimate jobs.

I would like to see the U.S. floral industry to become more robust. However, as the attached information from the U.S. Department of Agriculture clearly indicates, the ATPA has not been the cause of its current problems. In its report on ATPA, the ITC stated, "This series of reports has documented the decline in U.S. production of chrysanthemums, et al. (90 percent of which is imported from Colombia)—even during periods of declining imports of competing products entered under ATPA provisions—because of reduced acreage, adverse weather factors, and import competition." (U.S. International Trade Commission Third Report on the ATPA, September 1996, pages 25–26.) Cutting off ATPA preferences for flower shipments from the Andean countries will cause much more harm—both in the United States and in the Andean countries—than any supposed benefits that will accrue to the U.S. flower industry from its passage.

I urge the Subcommittee to oppose this legislation and thank the Chairman for this opportunity to address the Subcommittee.

Statement of Distilled Spirits Council of the United States

The following statement is submitted on behalf of the Distilled Spirits Council of the United States, Inc. (DISCUS), for inclusion in the printed record of the hearing on the Free Trade Area of the Americas. DISCUS is the national trade association which represents U.S. producers and exporters of distilled spirits.

I. Introduction

As exporters to nearly every country in Latin America, DISCUS member companies fully embrace the concept of free trade in the hemisphere. DISCUS actively supported the North American Free Trade Agreement (NAFTA) and more recently the initiation of negotiations on Chile's accession. DISCUS also participated in the Cartagena and Belo Horizonte Business Forums and continues to regard the proposed Free Trade Area of the Americas (FTAA) as a tremendous opportunity for the economies of the region and our member companies.

DISCUS applauds the decision of the trade ministers at Belo Horizonte to recommend that the FTAA negotiations be launched in conjunction with the April 1998 Hemispheric Summit in Santiago, Chile. We also view the decision at Belo to form a Preparatory Committee to develop the guidelines for negotiations as a very positive step. In our view, however, many participants in the FTAA process appear to be focusing greater attention on the development of other trade agreements, including some with trading partners outside the hemisphere. The FTAA process is at a critical juncture. In the run-up to the next Ministerial meeting at San Jose, Costa Rica, participants must demonstrate a renewed commitment to the FTAA process by refocusing their attention on the region as a whole and by fully agreeing to a timetable and procedures for conducting and completing the FTAA negotiations.

We also remain concerned that tangible benefits of the FTAA process will not be realized in the near term and that the momentum of the initiative will continue to waver. Therefore, DISCUS urges that the FTAA participants go further and agree to specific, early "down payments" toward liberalization, which should be announced in conjunction with the launch of the negotiations at the Santiago Summit. Such measures are essential to maintaining the support of the region's business community which is so critical to the FTAA's success.

At both the Cartagena and Belo Horizonte Business Forums, DISCUS distributed a paper that offered a number of suggestions on steps that FTAA participants could take to facilitate business and create such early "down payments" towards liberalization. We believe that many of these suggestions merit repeating as the participants embark on the run-up to San Jose. Provided below is an updated assessment of the principal trade barriers faced by U.S. distilled spirits producers in the region and several recommendations for eliminating these barriers.

II. Market Access

The combined effect of high tariffs and taxes is the most significant impediment to open and fair competition in the Latin American market. Of primary concern to the distilled spirits industry is the abundance of discriminatory excise tax systems in the region. Brazil, Chile, Colombia, and Uruguay all employ liquor tax systems that discriminate between distilled spirits products and, in certain countries, protect domestic production. Chile, for example, continues to tax its local distilled spirit, pisco, at 25 percent ad valorem but taxes U.S. Bourbon and Tennessee Whiskey at 70 percent. This discriminatory treatment of imported spirits violates the basic national treatment provisions of the NAFTA and the GATT (1994). DISCUS seeks equal tax treatment of all spirits, both domestic and imported, throughout the hemisphere, through the adoption of a single specific rate of tax based on alcohol content.

While trade liberalization has led to a significant reduction in tariffs, many Latin American and Caribbean countries apply rates to distilled spirits that exceed the average duty levels. Tariff elimination is the most basic element of a free trade agreement. Therefore, we believe tariff negotiations should be one of the first priorities when formal negotiations commence.

However, even prior to such negotiations, we suggest that FTAA participants agree to a schedule for complying with existing WTO obligations, such as providing national treatment with respect to the taxation of imported distilled spirits and for accelerating tariff reduction commitments agreed to in the Uruguay Round. With the input of the private sector, these measures should be identified by the Working Groups with the goal of full implementation by the time of the Santiago Summit. In addition, DISCUS urges all FTAA participants to agree to eliminate tariffs for every product in the "zero-for-zero" sectors identified in the Uruguay Round, including for all distilled spirits, by no later than 2003. In this regard, we note that the

United States agreed at the recent WTO Ministerial in Singapore to eliminate its tariffs on most distilled spirits by 2000 and by 2003 for certain types of rum and began to implement that obligation on July 1, 1997.

III. Standards and Technical Barriers to Trade

Differing and sometimes antiquated beverage alcohol product standards have either deterred or prevented the introduction of new distilled spirits products in many Latin American markets. For example, Bourbon and Tennessee Whiskey consistently face technical barriers to trade because production standards for beverage alcohol in many countries do not always contemplate the characteristics of these unique U.S. products. Other minor variances, such as unnecessary limitations on certain additives or colorings, can force U.S. distillers to bypass potentially lucrative markets, due to the production expense of conforming with an individual country's product standard.

In situations where new standards are under consideration, the lack of transparency and adequate notification procedures often prevent interested U.S. distilled spirits companies from contributing comments or even anticipating changes that will affect their business. Member companies also spend considerable time and capital to conform to varied and often protracted testing requirements in each country, despite having satisfied the stringent testing and product control of the Bureau of Alcohol, Tobacco and Firearms (BATF) in the United States.

Labeling requirements also differ from country to country within the region. These differences create disincentives for entering markets and contribute to inventory and distribution inefficiencies. For example, products that must display a label with a country's particular information requirements before entry are predestined for that market, thus preventing exporters from utilizing "just in time" inventory procedures or rerouting shipments to other markets. While providing consumer information is essential, exporters should be given sufficient flexibility to meet labeling requirements, including through "stickering" of market specific labels.

As an early business facilitation measure, DISCUS proposes that participants agree to the creation of a standard "stickered" bottle label that is uniform in size, typeface and basic consumer information. Country-specific information, such as the name of the importer, could be applied to the bottle after entering the country.

In addition, priority attention should be given to the ongoing development and implementation of standards and regulations. FTAA participants should agree on procedures, such as those under the NAFTA, for notifying other countries and interested parties about the establishment of or amendment of standards in a given country, with uniform timeframes for public comment, implementation and compliance. Using these guidelines, we urge the participants to agree to begin a hemisphere-wide standards review procedure that will allow all FTAA participants and their private sectors to comment on the development or renewal of any future standards. Such a procedure would generate greater private sector participation, create a first step towards eventual standards harmonization, and in the meantime stem the growth of inconsistent standards within the hemisphere. Institutions such as the OAS already are available to coordinate such a process.

IV. Customs Procedures

The variety and redundancy of customs procedures and documentation requirements throughout the hemisphere often lead to unnecessary and costly delays in delivering shipments. U.S. distilled spirits companies also encounter problems due to abrupt changes to customs and regulatory enforcement rules, leaving them with little or no time to adjust their practices.

In addition, certain countries still require distilled spirits bottles to display a tax stamp or ribbon to indicate proof of tax payment, sometimes in a discriminatory fashion. Bottle stamps are redundant and impose cumbersome administration and storage procedures on the importer, often delaying the entry of products through customs. Proof of payment can be easily indicated on the customs documentation or through other means.

In this area, DISCUS recommends that the FTAA Customs Working Group explore the possibility of creating uniform customs invoices and other shipping documentation, with the aim of eliminating redundancy and paperwork. As an initial step, participants should agree on alternative methods for proof of payment of taxes and develop a timeframe for the elimination of tax stamps and ribbon requirements before the end of the century. The Working Group also should develop proposals for establishing hemisphere-wide customs implementation and notification procedures that are consistent and transparent.

V. Intellectual Property Rights

Distilled spirits are often subject to counterfeiting and parallel importation, particularly in those Latin American countries with extremely high tariffs and/or taxes. Moreover, these smuggled goods are frequently adulterated or bootlegged, creating health risks to consumers and damaging the image of the producers. Inadequate intellectual property laws and negligent enforcement measures in the region exacerbate the problem and deter U.S. distilled spirits companies from introducing new and innovative products with confidence.

The recognition of Bourbon and Tennessee Whiskey as distinctive products of the United States has proven very valuable to U.S. producers in their efforts to develop foreign markets for these products. Article 23 of the WTO TRIPS agreement provides for the protection of distinctive distilled spirits. Thus, the effective implementation of Article 23 by all countries in the FTAA is of great importance to U.S. distilled spirits companies.

DISCUS recommends that the FTAA Intellectual Property Rights Working Group give early attention to determining the status of participants' implementation of the obligations of the TRIPS agreement. We also suggest that the participants discuss the findings during the period leading up to the Santiago Summit and at that time agree to accelerate implementation of the TRIPS obligations, in particular those contained in Article 23.

VI. The Role of the Private Sector

While the participation of the private sector in the FTAA process has been encouraged in a general context, direct communication between the private sector and the individual working groups should be enhanced. We propose that the ministers agree to develop a region-wide private sector advisory committee for each working group, which will collect and channel advice and recommendations on the issues under negotiation. We believe the recommendations of these advisory groups would be invaluable as the negotiating process unfolds.

VII. Conclusion

The FTAA offers an excellent opportunity for the U.S. distilled spirits industry to secure improved market access conditions in Latin America on a comprehensive scale. However, subregional integration and trade arrangements with other countries from outside the hemisphere appear to be moving at a much faster pace, to the detriment of the FTAA process. Therefore, DISCUS urges the FTAA participants, led by the United States, to reinvigorate the promise of hemispheric integration by reaching agreement on the timeframe and structure of the negotiations so that they can be formally launched at the Santiago Summit in April 1998. In addition, we strongly urge the participants to agree to additional measures to secure improved market access conditions during the negotiating process, so that globally minded industries such as ours can begin to take full advantage of the opportunities for growth within the hemisphere before the turn of the century.

Statement of Jacques J. Gorlin, Director, Intellectual Property Committee

The IPC views the FTAA process as a critical element in the overall strategy for gaining improved intellectual property protection not only in this hemisphere but around the world. Strengthened intellectual property protection will come about in the future as a result of the cumulative bilateral, regional and multilateral efforts of the United States—all of which are necessary for building the foundation for keeping the TRIPS Agreement current.

The IPC believes that the preparatory work for the next FTAA Trade Ministerial meeting, which will precede next year's March Summit of the Americas by one month, will not only be a critical milestone in the negotiating process that seeks to establish a free trade area in the region but will also provide an opportunity to accomplish two critical short term objectives: (i) to provide the impetus for improved intellectual property protection in the hemisphere; and (ii) to provide support for the WTO by ensuring that, at least, the countries in the hemisphere will have put in place national laws and regulations to implement the WTO TRIPS Agreement at the very latest by the year 2000, when the TRIPS transition periods are effectively over.

More than just the TRIPS Agreement is at stake. The ability of the developing countries to meet the January 1, 2000 deadline will be a critical test for the future viability of the WTO as a body that can develop international rules and enforce

them. If the developing countries abuse the transition periods by failing to enact the intellectual property protection required by TRIPS, there will likely be a flood of WTO intellectual property complaints on January 2, 2000. This will overwhelm the WTO's dispute settlement process and highlight the WTO's failure in this area. We must take steps today to avoid this possibility.

With respect to the longer-term objective of negotiating strong standards of intellectual property protection and enforcement as part of the FTAA, the trade ministers should lay the ground work next year for dealing with hemispheric intellectual property protection in a post-TRIPS world. The ministers should ensure that the intellectual property standards that will be incorporated in any FTAA Agreement will reflect the technological advances of the 21st century, when the FTAA negotiations will be concluded.

The IPC believes that the FTAA Agreement should include very short transition periods, which should be measured in the months used by the United States in its bilateral and regional (i.e., NAFTA) intellectual property agreements and not in the years that characterize the WTO TRIPS Agreement. The IPC is gratified that the Trade Ministers at Belo Horizonte agreed that the outcome of the FTAA negotiations would constitute a comprehensive single undertaking. This is critical, because any segmentation of the negotiations, which could result in either early completion of the intellectual property negotiations or a stand-alone intellectual property agreement, would increase the risk that tradeoffs would be achieved within the intellectual property sector in the form of weaker standards or longer transition periods rather than in the overall FTAA Agreement.

The IPC strongly supports the efforts of the United States to begin consideration within the FTAA intellectual property working group of the approaches for the negotiation of intellectual property within the FTAA, as instructed by the ministers at Belo Horizonte. The IPC, in particular, supports the US proposal that phase one of the intellectual property negotiations, which would be completed by the year 2000, provide for a reaffirmation of the basic standards of intellectual property protection contained in the WTO TRIPS Agreement and the Berne, Paris and some of the other substantive multilateral agreements negotiated in WIPO.

The IPC strongly supports the negotiation of agreements to further improve intellectual property protection and enforcement in the region as well as globally. While it is premature to conclude that these agreements will require any changes in US law, there is a strong possibility that such changes will be required, especially given the new technologies that may be covered in future intellectual property agreements. The IPC thus believes that it is absolutely critical for the negotiation of future intellectual property agreements that the Congress and Administration reach agreement on fast track authority.

The IPC urges Ambassador Barshefsky and her counterparts in the other countries of this hemisphere to recommend to the Heads of State that they support an aggressive program on intellectual property protection by adopting the types of actions suggested by the IPC. Such actions will go a long way in both improving current intellectual property protection in the region and properly launching the FTAA intellectual property negotiations.

I am Jacques J. Gorlin, Director of the Intellectual Property Committee (IPC). I appreciate your invitation to provide the views of the IPC on the negotiations aimed at achieving a Free Trade Area of the Americas (FTAA). My testimony today will focus on the status of intellectual property protection in the region and the role of the FTAA in strengthening intellectual property protection in the area.

The views of the IPC on the need for the highest standards of intellectual property protection and enforcement worldwide and, in particular, on the proper and timely implementation of the TRIPS Agreement are known to the Subcommittee. IPC representatives have appeared before this Subcommittee on numerous occasions over the course of the Uruguay Round negotiations and since the completion of the Round. Most recently, in September of last year, I provided the IPC's views on the role that the WTO Singapore Ministerial could play in meeting US policy objectives of the proper and accelerated implementation of the TRIPS Agreement.

The IPC was formed in March, 1986—six months before the Punta del Este ministerial meeting that launched the Uruguay Round—with the specific mission of mobilizing domestic and international support for the negotiation of an intellectual property agreement in the GATT. The current members of the IPC—General Electric, Hewlett-Packard, IBM, Johnson & Johnson, Merck, Pfizer, Procter & Gamble, Rockwell International, Texas Instruments and Time Warner—represent the broad spectrum of private sector US intellectual property interests. In June, 1988, the IPC achieved a significant milestone when it reached a tripartite consensus with the Keidanren, representing Japanese industry, and UNICE, representing European industry, on how the GATT should deal with intellectual property in the Uruguay

Round negotiations. The 100 page report defined in detail the minimum standards for ensuring fundamental protection for all categories of intellectual property and proposed procedures for enforcing that protection. The IPC continues to collaborate closely with our private sector counterparts abroad in support of our mutual objective of strong worldwide intellectual property protection.

The IPC's long support for the negotiation of the TRIPS and NAFTA agreements and our continuing search for improved worldwide intellectual property protection in such regional negotiations as the FTAA stem from the inexorable link between intellectual property protection and American competitiveness and job growth. America's competitive edge rests ultimately on our creativity and resourcefulness—the unique ability of Americans to generate new ideas and develop new ways of looking at the world. Our most internationally-competitive industries depend on intellectual property protection: for example, the computer software, motion picture, sound recording, pharmaceutical, chemical and electronic industries are among the largest and fastest growing segments of the US economy. Employment in these industries grew at close to four times the rate of employment in the economy as a whole between 1983 and 1993. Furthermore, the foreign sales of these industries make major positive contributions to the US balance of payments.

In stressing the importance of the intellectual property-dependent industries to the US economy, I underline the IPC's concern that policy makers in the United States and in our trading partners not fall into the trap of thinking that the negotiation of the TRIPS Agreement has by itself solved the intellectual property problems that we are facing today. Should policy makers adopt this view, technology-exporting countries will be taking a major economic risk, because the resultant failure of intellectual property protection abroad to keep pace with new technologies will endanger the future commercial health of those industries that have had a demonstrated track record of making positive contributions to economic and commercial activity.

TRIPS implementation includes not only the proper and timely implementation of the intellectual property standards currently found in the agreement but also the periodic upward adjustment of those standards to higher levels of intellectual property protection. The necessity of ensuring the strengthening of the TRIPS Agreement was foreseen in the agreement itself and is an integral element of TRIPS implementation.

In briefly digressing from the specific focus of this hearing to provide an overview of the IPC's involvement in the TRIPS negotiations, I have sought to underscore the IPC's long-held view of the importance of regional efforts such as the FTAA to meeting the overall US objective of gaining strong intellectual property protection around the world. Reliance on mass intellectual property negotiations on the scale of TRIPS are a phenomenon of the past; rather, strengthened intellectual property protection will come about in the future as a result of the cumulative efforts that the United States will undertake bilaterally, through the Special 301 program, regionally, through the negotiation of trade agreements such as APEC and the FTAA, and multilaterally through ongoing WTO discussions and negotiations. These bilateral, regional and multilateral initiatives are necessary for building the foundation for keeping the TRIPS Agreement current. In the absence of these initiatives, there is a real likelihood that TRIPS will become moribund with respect to the protection of intellectual property in a rapidly evolving technological environment.

FTAA Process

Short Term Objectives

It is, in part, with this linkage in mind that the IPC approaches the FTAA process and, in particular, the preparatory work for next year's Summit of the Americas that was launched at the recent Trade Ministerial in Belo Horizonte. The IPC believes that the preparatory work for the next Trade Ministerial meeting, which will precede the March Summit by one month, will not only be a critical milestone in the negotiating process that seeks to establish a free trade area in the region but will also provide an opportunity to accomplish two critical short term objectives:

To provide the impetus for improved intellectual property protection in the hemisphere;

To provide support for the WTO by ensuring that, at least, the countries in the hemisphere will have put in place national laws and regulations to implement the WTO TRIPS Agreement at the very latest by the year 2000, when the TRIPS transition periods are effectively over.

To that end, the Trade Vice Ministers should develop, for the consideration of the Ministers, a program that will begin to address the current environment for intellectual property protection and enforcement.

Regional TRIPS Implementation—It is critical that the trade ministers confirm next year the intention of their governments to take all necessary actions to have TRIPS-level protection in place by January 1, 2000. The IPC urges US negotiators to impress upon their colleagues the importance of prompt implementation of TRIPS-level protection in their countries.

Such a signal from the trade ministers is critical because we are no longer talking about accelerated TRIPS implementation, which has been a US intellectual property objective since it was included in the Uruguay Round Agreements Act at the insistence of the Congress and, in particular, of this Subcommittee back in 1994. January 1, 2000, which was six years away back then, is today less that two and a half years away. We are no longer dealing with a question of TRIPS acceleration but with a question of TRIPS compliance. If the United States and other developed countries do not undertake, in cooperation with the developing countries, a concerted program, which will be in operation for the rest of 1997, 1998 and 1999, to ensure that the developing countries comply with their TRIPS obligations, we will greet the turn of the century without any appreciable improvement in intellectual property protection in those countries that are availing themselves of the TRIPS transition periods.

More than just the TRIPS Agreement is at stake. The ability of the developing countries to meet the January 1, 2000 deadline will be a critical test for the future viability of the WTO as a body that can develop international rules and enforce them. If the developing countries abuse the transition periods by failing to enact the intellectual property protection required by TRIPS, there will likely be a flood of WTO intellectual property complaints on January 2, 2000. This will overwhelm the WTO's dispute settlement process and highlight the WTO's failure in this area.

The Administration recognizes this challenge. In announcing the results of the 1997 Special 301 annual review last April, Ambassador Barshefsky took note of the TRIPS transition periods which defer many TRIPS obligations on developing countries until January 1, 2000 and expressed concern that "certain developing countries have not begun the process of reforming their laws and enforcement mechanisms so as to fully implement TRIPS obligations by January 2000." She called upon those countries to "take steps now so that they are fully prepared to meet these obligations as they become due." The IPC welcomes Ambassador Barshefsky's announcement and urges the Administration to develop a focused program to ensure that result. The FTAA process should give a boost to that effort by supporting the approach contained in the US paper which was recently tabled in the FTAA intellectual property working group that called on the governments of the hemisphere to reaffirm their intention to take all necessary actions to have TRIPS-level protection in place at the latest by January 1, 2000.

Anti-Piracy Campaign—The ministers should endorse a hemispheric-wide campaign to combat the unauthorized trade in goods and services protected by intellectual property rights. The ministers should agree to consider internal actions as well as border measures, which could be taken either individually or on a coordinated basis. The campaign should have a public education component, in which the economic, social and legal costs of piracy and counterfeiting are explained to the people of the hemisphere.

Training Programs—The ministers should also recognize the importance of trained police, prosecutors and judges for the proper enforcement of intellectual property rights and agree to develop Hemispheric-wide training programs to that end.

Intellectual Property Acquisition and Maintenance—Another announcement that the ministers should make next year is a pledge of their support to Hemispheric-wide measures that will facilitate the acquisition and maintenance of intellectual property rights throughout the region. Among the steps that the ministers could endorse are the exchange of information and development of cooperative arrangements for the establishment of more efficient patent search and examination systems and more efficient trademark systems.

Ratification of Outstanding Intellectual Property Treaties—The ministers should encourage FTAA members to ratify the Trademark Law Treaty, which would help modernize and simplify trademark systems in the hemisphere, and the Copyright Treaty and Performances and Phonograms Treaty, both of which were recently negotiated in WIPO.

As I indicated earlier, a pledge by the trade ministers to undertake the above actions with the view to having their TRIPS obligations fully in place on January 1, 2000 would demonstrate their commitment to not only strong intellectual property protection but also to the World Trade Organization and its open trade principles. This would lay a strong foundation for the creation of the FTAA.

Longer-Term Objectives

The Trade Ministers agreed at Belo Horizonte that, at next year's meeting, they would formulate how the FTAA negotiations would proceed, including such features as their objectives, approaches, structure and venue. With respect to this longer-term objective of negotiating strong standards of intellectual property protection and enforcement as part of the FTAA, the *ministers should lay the ground work next year for dealing with hemispheric intellectual property protection in a post-TRIPS world*. It will not be enough for them to repeat the TRIPS standards. Rather, *the ministers should ensure that the intellectual property standards that will be incorporated in any FTAA Agreement will reflect the technological advances of the 21st century, when the FTAA negotiations will be concluded*. In doing so, the ministers should recognize that the TRIPS Agreement was negotiated with the technological issues of the 1980s and early 1990s in mind and that, in some areas of technology, new international norms of protection have already been developed since the negotiation of the TRIPS Agreement. These norms are contained in such international treaties as the NAFTA chapter on intellectual property and the WIPO Copyright Treaty and Performances and Phonograms Treaty. The ministers should also recognize that intellectual property norms may be developed in other areas of technology before the end of the FTAA negotiations, which should also be included in the FTAA Agreement.

The IPC believes that the FTAA Agreement should include very short transition periods, which should be measured in the months used by the United States in its bilateral and regional (i.e., NAFTA) intellectual property agreements and not in the years that characterize the WTO TRIPS Agreement. Since the FTAA negotiations are scheduled to end in the year 2005, when the WTO TRIPS transition periods will be effectively over, the major countries of the region, which today may not have strong intellectual property protection and enforcement, will have implemented at least TRIPS-level standards of intellectual property protection and enforcement. The move to the higher levels of protection that will be negotiated in the FTAA will, therefore, not involve major changes in national intellectual property protection. A lengthy transition process akin to that which characterizes current implementation of the WTO TRIPS Agreement will not be necessary for the FTAA Agreement. To avoid any misunderstandings down the road, the United States should declare, at the onset of the FTAA negotiations, that it does not believe long transition periods to be appropriate for the FTAA intellectual property agreement.

The IPC believes that it is critical that the intellectual property-related activities that the ministers will launch next year begin immediately and that intellectual property be among the first group of subjects covered in the FTAA negotiations. We are gratified that the Trade Ministers at Belo Horizonte agreed that the outcome of the FTAA negotiations would constitute a comprehensive single undertaking. This is critical, because any segmentation of the negotiations, which could result in either early completion of the intellectual property negotiations or a stand-alone intellectual property agreement, would increase the risk that tradeoffs would be achieved within the intellectual property sector in the form of weaker standards or longer transition periods rather than in the overall FTAA Agreement.

Role of the FTAA Intellectual Property Working Group

The IPC believes that its suggestions for the types of actions that the ministers should take both to improve current intellectual property protection in the region and also to properly launch the FTAA intellectual property negotiations can be accommodated in the broad recommendations on immediate action items that the FTAA intellectual property working group has made to the trade ministers. The recommendations include a call on the governments (i) to undertake collective and individual actions that would "strengthen the capacity of countries of the Hemisphere to incorporate the disciplines of the TRIPS Agreement in their national legislation"; (ii) to develop recommendations to address hemispheric piracy and counterfeiting and (iii) to encourage the development of more efficient mechanisms for obtaining intellectual property rights. Finally, the recommendations recognize the dynamic nature of intellectual property protection by calling on the governments to "identify and seek solutions to additional problems linked to intellectual property hindering businesses in the Hemisphere."

While the IPC recognizes that the recommendations are a negotiated text, they do provide, with the necessary political will, the basis for serious immediate work on improving intellectual property protection in the Hemisphere. The IPC strongly supports the efforts of the United States to begin consideration within the working group of the approaches for the negotiation of intellectual property within the FTAA, as instructed by the ministers at Belo Horizonte. As I indicated earlier, the

IPC, in particular, supports the US proposal that phase one of the intellectual property negotiations, which would be completed by the year 2000, provided for a reaffirmation of the basic standards of intellectual property protection contained in the WTO TRIPS Agreement and the Berne, Paris and some of the other substantive multilateral agreements negotiated in WIPO.

FTAA and Private Sector Advice

Concrete steps by the governments in the region in the direction of stronger intellectual property protection will facilitate the provision of private sector advice from throughout the Hemisphere and its incorporation into the FTAA process. As long as the current culture of imitation that pervades the region is endorsed by governments through weak intellectual property protection and enforcement, it will be very difficult for fora such as the Business Forum of the Americas, which are designed to gain private sector advice from the Hemisphere, to effectively do so. Once again, this year's report of the Technology and Intellectual Property Workshop of the III Business Forum of the Americas, while it contained an extensive list of agreed recommendations, also demonstrated that on some key points of intellectual property protection industry in the hemisphere remains split. While the efforts to solicit private sector input from the Hemisphere should not be abandoned, the United States should continue to make qualitative assessments of the overall advice provided by these hemispheric fora, especially in intellectual property.

Fast Track Authority

The IPC strongly supports the negotiation of agreements to further improve intellectual property protection and enforcement in the region as well as globally. While it is premature to conclude that these agreements will require any changes in US law, there is a strong possibility that such changes will be required, especially given the new technologies that may be covered in future intellectual property agreements. Negotiations are already scheduled in 1998 and 1999 in the WTO TRIPS Council regarding patent protection for biotechnology products and one possible outcome could be higher levels of TRIP-mandated protection for such products. We also anticipate that the FTAA intellectual property negotiations, although not scheduled to conclude until 2005, will contain higher levels of intellectual property protection than are currently contained in either TRIPS or NAFTA. The IPC thus believes that it is absolutely critical for the negotiation of future intellectual property agreements that the Congress and Administration reach agreement on fast track authority.

CONCLUSION

The IPC views the entire FTAA process as a critical element in the overall strategy for gaining improved intellectual property protection not only in this hemisphere but around the world. Countries in the region are increasingly recognizing the important role that strong intellectual property protection plays in attracting vitally-needed foreign investment. The FTAA process should serve as a catalyst for expediting that recognition and for translating the recognition into effective intellectual property protection on the ground.

The IPC urges Ambassador Barshefsky and her counterparts in the other countries of this hemisphere to recommend to the Heads of State that they support an aggressive program on intellectual property protection by adopting the types of actions suggested by the IPC. Such actions will go a long way in both improving current intellectual property protection in the region and properly launching the FTAA intellectual property negotiations.

INTERNATIONAL TRADEMARK ASSOCIATION
NEW YORK, NEW YORK
July 22, 1997

The Honorable Philip M. Crane
Chairman, Subcommittee on Trade
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Re: Free Trade Area of the Americas

In response to your initiative to hold hearings on the status and outlook for negotiations aimed at achieving a Free Trade Area of the Americas (FTAA), the International Trademark Association (INTA) would like to submit for the record our views regarding the progress of the FTAA discussions and the national interests served by the formation of a hemispheric free trade area.

INTA is a 119 year-old, worldwide membership organization representing over 3,400 corporations, law firms, package design firms and professional associations in 120 countries. INTA's membership, which crosses all industry lines and includes both manufacturers and retailers, is united in our goals of supporting the essential role trademarks play in promoting effective commerce, protecting the interests of consumers, and encouraging free and fair competition.

Trademark Rights as Essential Elements of Trade and Development

INTA believes that trademarks in the Western Hemisphere must be viewed in terms of:

(a) protection of the public;

(b) protection of the valuable rights of owners: and

(c) development of the political, legal and administrative infrastructure and institutions appropriate to each nation of the region that will encourage investment and trade.

INTA also appreciates that the nations of the hemisphere are developing at different rates and in different ways. We nevertheless believe that all nations should meet certain minimum standards of trademark protection essential to securing the rights of trademark owners, avoiding public confusion and deception, and enhancing development.

The greatest impediment to trade and investment which a number of nations in Latin America face is their inadequate protection and enforcement of intellectual property rights (IPR). Technology-based companies, including pharmaceuticals, telecommunications and electronics, will continue to be reluctant to provide their latest and best efforts to the Latin American market unless the IPR regimes in those nations are significantly and dramatically improved, both prior to and as a result of the FTAA. Thus, inadequate protection of IPR not only deters domestic incentives to develop new technology and create products and services, but will also result in a loss of access to foreign technology, know-how and capital.

At the ever-increasing rate at which investment capital flows from place-to-place, it is not in the best interest of Latin America to wait until the year 2000 or thereafter to commence full integration into the established norms of intellectual property protection as set out under the World Trade Organization's Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS). If Latin American nations do not act effectively and soon to fully protect intellectual property, the current growth spurt that they are experiencing will slow, and the knowledge-based businesses which are the future of the developing nations will pass them by.

The failure to adequately protect IPR technology in addition to deterring foreign investment, takes a toll on the public in terms of confusion, deception, loss of warranty, loss of safety and consumer financial losses. In addition, trademark owners lose domestic sales, export sales, royalties, profit margins that fund research and development, and most important suffer diminishment or loss of reputation.

INTA recognizes the significant changes that have occurred in the political, social and economic landscape of Latin America in the last decade. Democratic institutions have continued to grow in virtually every nation. Both promise and challenge are presented by these changes.

The FTAA Process and National Interests

With these realities in mind, we submit the following thoughts regarding the progress of the FTAA process to date, the national interests served by the formation of a hemispheric free trade area, and how INTA might assist in this valuable process:

1. Regarding the progress of the FTAA process to date, it is our impression that the negotiations in the intellectual property area have been painfully slow. Nevertheless, the FTAA process provides a vehicle to move recalcitrant nations more quickly toward TRIPS compliance and other "TRIPS-Plus" goals. The intellectual property-related negotiations already are helping to spur some nations in the hemisphere to update and improve their trademark laws and enforcement regimes. We would like to see the FTAA intellectual property discussions accelerated both to ensure TRIPS compliance by the year 2000 and to stimulate consideration of ways in which the nations of the Western Hemisphere can go beyond the minimum requirements of TRIPS.

2. From the perspective of most trademark owners, a major issue in Latin America is *protection of well-known marks*, especially those that may not have been registered before they were pirated. Many companies in a variety of industries face enormous problems in stemming the rising tide of piracy and counterfeiting throughout Central and South America. Countries that are members of the Paris Convention should effectively implement Article 6bis which provides that the Member Nations protect well-known marks. Moreover, these countries should begin to move towards the broader protection afforded to well-known marks by Article 16 (2) and (3) of the TRIPS Agreement. Effective implementation of Article 6bis by all the nations of the Americas should be a condition placed on FTAA membership.

3. A corollary to the protection of well-known marks is *timely* and *effective enforcement* of trademark rights. Even the most well-crafted treaties and laws are of little value if trademark owners cannot obtain prompt action by customs authorities, the courts and other agencies of Latin American governments. Many nations of Latin America have no effective border enforcement. Exacerbating enforcement efforts is the extreme slowness of the courts in processing even blatant cases of counterfeiting. The courts in many instances have permitted the illegal activity to continue or resume pending trial (which may be three to six years after the action is filed). Effective preliminary relief, in the form of injunctions and seizure orders, is necessary for all nations of the Americas if intellectual property rights are to be adequately enforced.

4. Certain Latin American countries have erected or maintain barriers to the full use and enjoyment of trademark rights. For example, some countries require mandatory recordal of trademark license contracts which in turn disclose to the public highly confidential business information between a trademark owner and its licensee. Even worse in some nations, if a U.S. trademark owner fails to record its license, the trademark registration will be canceled, thus exposing valuable trademark rights to be misappropriated by trademark pirates. INTA takes the position that trademark license recordal should be voluntary, not mandatory, and that this principle should be a part of any intellectual property agreement that emanates from the FTAA process. Another example of possible violations under TRIPS are requirements for labeling or packaging that injure and diminish the rights of trademark owners such as printing the generic name of pharmaceuticals on labels in type size substantially larger than the trademark for the product. It is in the interest of all nations of the Western Hemisphere to bring down these inappropriate barriers to trade and investment.

5. After enforcement and effective protection under existing laws, the FTAA process should emphasize full and timely implementation of GATT–TRIPS, and adoption of the Trademark Law Treaty, which aims at reducing the burden of seemingly endless formalities required to authenticate filings and perfect and protect trademark rights in most Latin American countries. In this regard INTA has developed Model Trademark Law Guidelines that incorporate TRIPS-compliant provisions. We are prepared to provide those Guidelines to any nation of the hemisphere and work with the executive, legislative, judicial and administrative branches of the governments of these nations to adopt and implement TRIPS-compliant laws and regulations. We already have engaged in this process with the government of Paraguay, both through our participation in a private IPR mission sponsored by the U.S. Department of State to that nation in March, 1997 and submission of comments regarding Paraguay's new draft trademark legislation in April 1997.

6. Adoption of the Madrid Protocol, which will greatly enhance timely, cost effective and efficient international applications to secure trademark rights, should be a centerpiece of the FTAA process, with the United States leading the way in adopt-

ing and implementing this treaty. There has been some discussion within the FTAA working groups of a "trademark application mailbox" and other means for facilitating trademark registration within the Western Hemisphere. While such discussions help to focus attention on the benefits of easy registration across national jurisdictions, the Madrid Protocol's international registration system which is administered by the World Intellectual Property Organization already exists. Accordingly, the Madrid Protocol should be an essential building block for IPR infrastructure improvements in the hemisphere and thus is essential to the success of the FTAA initiative.

7. Many nations of the Western Hemisphere lack the resources to implement effective IPR protection regimes. INTA, along with other groups interested in protecting intellectual property, has initiated discussions with the Inter-American Development Bank (IDB) on structuring certain loans to the governments of Latin America for the purpose of enhancing the protection and enforcement of intellectual property rights. Our goal is to eventually work with the governments of interested countries in developing grant and loan packages that will build the legal frameworks and institutions necessary to attract trade and investment. We hope to advance these discussions over the next few months. We understand that both USAID and the World Bank also are contemplating efforts in the field of IPR. We would welcome enthusiastic support from the Subcommittee on Trade for these efforts.

8. INTA conducts seminars and roundtables throughout the world for the discussion and exchange of information and views on trademark issues. These events have attracted leaders from industry, government, academia and the private bar. INTA already has sponsored several roundtables in the Americas regarding the FTAA and TRIPS. INTA will be pleased to participate with the FTAA IPR Working Group in arranging appropriate educational and informational presentations in the hemisphere regarding TRIPS compliance.

We hope that these comments will be useful to the Subcommittee. INTA would be happy to answer any further questions that the Subcommittee may have. Again Mr. Chairman, thank you for allowing INTA to participate in your hearing process.

Sincerely yours,

DAVID C. STIMSON
President

House Rule XI Disclosure

Pursuant to House Rule XI, Clause 2 (g) (4), the Subcommittee is hereby informed that the Internaitonal Trademark Association has received no federal grant, contract, or subcontract in the current and preceding two fiscal years.

JBC INTERNATIONAL
August 5, 1997

The Honorable Philip M. Crane
Chairman, Subcommittee on Trade of the Committee on Ways and Means
U.S. House of Representatives
1102 *Longworth House Office Building*
Washington, DC 20005

Dear Chairman Crane:

On behalf of JBC International, an international trade consulting firm, I respectfully submit these comments regarding the development of a Free Trade Area of the Americas (FTAA). I also serve as chairman of the Industry Functional Advisory Committee on Customs (IFAC–1) and secretariat of the Joint Industry Group and National Council on International Trade Development. Our involvement with these global trade organizations and JBC International has allowed us to work with various world trade facilitation initiatives. We support the concept of the FTAA. In this regard, the following recommendations are provided for establishing the FTAA, reducing tariffs, and facilitating customs processes among member nations.

In previous recommendations, we have encouraged adoption of all GATT/WTO customs-related agreements such as Preshipment Inspection; Customs Valuation, including the 1984 decision on the valuation of software; Rules of Origin; and the World Customs Organization's Harmonized System of Commodity Description and Coding (HS) before a country is granted membership. In our view, all future FTAA members should adopt these agreements prior to accession.

Since there is no WTO agreement covering the customs process, we believe that an effective trade regime should contain basic elements that include transparent

and expeditious customs clearance procedures, such as those provided for in Article X of the General Agreement on Tariffs and Trade. In exploring the needs of US businesses, we have identified a number of key attributes a fair and efficient customs clearance agreement should include. The following is a list of those processes we believe are most important and should be provided for in any hemispheric trade agreement.

CARGO PROCESSING

- Provisional release of goods prior to completing paperwork and payment of duties for all agency purposes.
- Use of an automated selectivity or statistically valid compliance measurement system.
- Define all data forms and fields in terms for UN/EDIFACT messages.
- Separate the merchandise import and inspection process to eliminate delays and reduce the risks of corruption.

TRANSPARENCY TO ENHANCE VOLUNTARY COMPLIANCE

- All relevant rulings should be published and available to exporters and importers prior to customs entry of goods.
- Customs should give timely notice before implementation of any new regulation or practice, or any change in a regulation or established practice.
- The Customs entry process should provide a timely and prompt system to protest rulings and decisions.

PASSENGER PROCESSING

- Integrate passenger processing with immigration and allow for expedited processing of business travelers.

AUDIT

- Rely on post-import audits to verify compliance.

Thank you again for this opportunity to express our views and for your work in expanding the Free Trade Area of the Americas. We will be happy to elaborate on any of the above recommendations.

Sincerely,

JAMES B. CLAWSON
President

[By Permission of the Chairman]

Statement of Hon. Dr. Richard L. Bernal, Ambassador from Jamaica to the United States

Thank you for providing me an opportunity to submit a statement on the impact of hemispheric free trade on the US/Caribbean trade partnership. As the Subcommittee moves forward with its review of these critically important issue, I believe it is important to provide you with a Jamaican perspective.

In December, 1994, the 34 Democratic nations of the Hemisphere came together in Miami to hammer out an agreement to establish a Free Trade Area of the Americas (FTAA) by the year 2005. Earlier this year, the trade ministers of those nations met in Belo Horizonte to agree that negotiations to launch a trade agreement should begin early next year. As the Hemisphere marches to put this vision into practice, it will be important that the needs and special circumstances of the smaller economies—which make up a majority of the nations in the hemisphere—are addressed in the final FTAA implementation package.

I. THE US TRADE AGENDA AND THE US/CARIBBEAN BASIN PARTNERSHIP

The US Congress and successive Administrations have long since recognized that promoting strong economic development in the Caribbean Basin is in the US national interest. This becomes even more apparent in the context of the FTAA. Many Caribbean countries view the United States as their single largest market and as the largest source of their imported supplies. Moreover, many of the smaller economies of the Caribbean are extremely fragile, depending upon a single crop or service

to earn much of their crucial foreign exchange. These economies can be extremely susceptible to external shocks or the corrupting influences of narco-traffickers, and are often not flexible enough to undertake the kinds of reforms necessary for survival in the modern international economy. Sustained and tangible expressions of US support for these countries—through continued engagement on the trade front—re vital to help them defend themselves against external disruption and internal resistance to change.

Although many see the US/Caribbean relationship as altruistic or one-sided, it is truly a mutually beneficial relationship. Statistics on regional trade and investment flows underscore this point.

—Presently, the US/Caribbean commercial relationship supports more than 300,000 jobs in the United States and countless more throughout the Caribbean. During the past decade, the US/Caribbean Basin relationship has created more than 18,000 jobs a year in the United States.

—The Caribbean Basin is in aggregate now the tenth largest export market for the United States, surpassing countries such as France.

—The Caribbean Basin is one of the few regions in the world where US exporters maintain trade surpluses. In 1996, the 11th consecutive year for which the United States recorded a trade surplus with the Caribbean Basin, that surplus surpassed $1.4 billion.

—In 1996, US exports to the region passed $ 15.9 billion, resulting in a 170 percent increase in US exports during the past 11 years. Virtually every state in the union has benefited from this relationship.

—In 1996, US imports from the region reached $ 14.5 billion, completing an 11-year growth rate of nearly 120 percent.

—It is estimated that between 60 to 70 cents of each dollar spent in the Caribbean Basin is spent back in the United States compared with only 10 cents of each dollar spent in Asia.

—When US trading partners are ranked by the US share of their markets, CBI countries claim 12 of the top 20 spots. Jamaica, which in 1995 purchased 75 percent of its imports in the United States, is ranked second and is only surpassed by Canada.

The basis of this healthy and balanced trade relationship is a complementarity between the CBI economies and the US economy. While the US economy is highly industrialized, the CBI countries tend to emphasize more agriculture, raw materials, tourism, and, increasingly, labour-intensive manufacture. These economic patterns are natural catalysts for the trade based-economic growth.

For example, apparel has become Jamaica's leading manufactured export and has grown very rapidly. It has grown because of a complementarity involving the combination of US capital goods and raw materials being produced with Jamaican labour for US companies. The result is the creation of jobs in the textile and shipping sectors both here and in Jamaica. In addition, this integrated transnational process of production draws upon the strength of both economies to manufacture a final product that can be competitive in the US and global market. This equation again adds up to jobs, especially through the preservation of jobs and corporate entities in the Unites States which could not survive by producing goods entirely in the United States.

II. NAFTA'S IMPACT ON THE US/CARIBBEAN PARTNERSHIP

A. The CBI/NAFTA Imbalance

Clearly, the biggest issue facing the Caribbean Basin is the lack of parity of US market access with Mexico. The CBI has provided a good foundation, particularly in the era when aid from the United States is declining. It has been a good strategy of trade, and not aid, which has proved more beneficial in the long run. But the CBI has several built-in limitations.

One problem is that, while it liberalizes 90 percent of the trade categories, the CBI does not liberalize 90 percent of the actual trade flows, primarily because the very goods—such as apparel and footwear—on which the CBI has a comparative advantage are the goods that tend to be restricted by US import laws. The paralyzing effect of these exclusions becomes more noticeable as CBI economies begin to produce products that are not covered by the CBI. In 1996, the annual International Trade Commission survey on the CBI reported that average duties paid for CBI imports rose from 1.9 percent in 1984 to 12.3 percent in 1994. If left unchecked, the current CBI formula will have a declining impact on Caribbean economic development.

In contrast, NAFTA eliminates the duty and quota treatment for these same articles, either immediately or over a phase-out period. Under NAFTA, import duties were immediately removed on the overwhelming majority—approximately 80 percent—of Mexican apparel exports to the United States. The remaining 20 percent benefits from an accelerated implementation of free trade, with annual duty cuts and quota liberalization set to be completed by the year 2000. To be fair, NAFTA also phases out the duties on the products for which the CBI countries already enjoy duty free treatment.

But the result is far from even. Mexico gains parity with the Caribbean countries for CBI-covered products, establishing a level playing field for those items on which Mexican and Caribbean exporters face no duty. But on the products excluded from the CBI, such as textile and apparel products, Mexico gains access to the US market, exceeding that granted to the Caribbean countries. This tilts the playing field in Mexico's favor, and gives Mexican exporters a distinct advantage over Caribbean exporters. When combined with Mexico's access to cheap energy, lower transport costs, greater economies of scale, and low wage rates, this advantage becomes quite substantial.

B. NAFTA's Impact on the Caribbean Basin

Broadly speaking, NAFTA's implementation—and advantages over the CBI—poses clear risks for the US/CBI partnership. The elimination of quotas and the phase-out of tariffs on Mexican products removes the advantage enjoyed by CBI exports to the US market, diverting trade flows from CBI countries to Mexico. Since the NAFTA was implemented, there has already been a measurable diversion of trade from the CBI to Mexico. Before NAFTA was implemented, the growth rate of US apparel imports from Mexico and the CBI region were on par. Three years after the NAFTA was implemented, Mexican apparel import growth rates have consistently outpaced Caribbean growth rates by at least a 2 to 1 margin. As this trend continues, Caribbean market share in the United States will be consumed by Mexican suppliers.

Another consequence of NAFTA's implementation has been the diversion of new investment. One of the primary indicators has been the fact that in the last 3 years there has been a pause in investment in the region, as investors first waited to evaluate the NAFTA provisions and then established new operating facilities in Mexico, instead of in the Caribbean. This trend, which is now being fully realized, was anticipated by the US International Trade Commission, which reported in 1992 that "FTA will introduce incentives that will tend to favor apparel investment shifts away from the CBERA countries to Mexico."

As existing investors begin to source their products out of Mexico, others are rushing to transfer or close existing productive capacity—particularly in the "foot-loose" apparel industries which can easily be relocated—to take advantage of Mexico's market access. In many Caribbean Basin countries, NAFTA directly reverses past successes of the CBI program, effectively turning back the clock of Caribbean development. Employment is hit particularly hard by this trend, as manufacturers close factories and lay off employees. According to estimates by the Caribbean Textiles and Apparel Institute, more than 150 apparel plants closed in the Caribbean, resulting in the loss of 123,000 jobs during 1995 and 1996. This trend is particularly damaging to women, who often look to the textile and apparel sector for their livelihood.

An erosion of export access to the United States will eventually translate directly into a contraction of economic activity in the CBI region. Such a contraction would lower regional incomes, and, ultimately, the demand for imports from the United States. In such a scenario, US exports of goods and services to the CBI would decline while regional instability—fostered by a decrease in economic opportunities—would rise. Judging from past patterns, the resulting unemployment in the United States would be met with an increase in immigration from displaced Caribbean workers and a rise in narcotics trafficking.

C. Caribbean Enhancement (Parity) As An Immediate Remedy

While the long term solution is to determine how to fully integrate Caribbean countries—and the specific needs of their smaller economies—into the NAFTA or a Free Trade Area of the Americas (FTAA), a short term solution calls for the leveling of the playing field between Mexico and the Caribbean countries. In Bridgetown earlier this year, President Clinton renewed and unequivocally reconfirmed his strong commitment to seek enactment of a Caribbean Basin Trade Enhancement package during 1997. Congressmen Phil Crane and Charlie Rangel and Senator Bob Graham have also worked to support enactment of Caribbean parity provisions this year. As Congress and the Administration move ahead on this proposal to re-impose balance

between Mexican and Caribbean access to the US market, they should ensure that the legislation on which they act encompasses several key principles:

First, the legislation must cover all products currently excluded from the CBI. As the Caribbean economies liberalize, it becomes increasingly difficult to erect artificial barriers between product categories. Improving market access for only certain textile and apparel products would have a limited effect, and would retain the anomalies that encourage unbalanced economic growth. Enacting a comprehensive bill, however, is both economically more feasible and symbolically more consistent with the notion of free and open trade.

Second, the legislation must serve as a gateway to the Free Trade Area for the Americas. One of the implicit goals of parity is to provide Caribbean Basin countries an opportunity to complete the trade liberalization and economic reform steps necessary for accession to the FTAA. While some countries—such as Jamaica—are now ready to negotiate either a free trade agreement with the United States or accession to a NAFTA, others may need a longer period. The Caribbean trade enhancement proposal should provide that transitional period, without locking CBI countries into a perpetual state where their trade posture is being slowly eroded.

Third, any Caribbean trade enhancement proposal must be of a sufficiently long duration to provide credibility and certainty, and to help re-establish confidence lost in past years. It is now clear that this legislation will require Caribbean countries to undertake certain obligations and implement specific measures in order to access the full benefits. Such reciprocity makes sense, but only if the reciprocal commitments are maintained in force indefinitely.

Fourth, on a related note, the legislation must not impose entrance requirements that are insurmountable. The 24 nations of the Caribbean Basin represent diverse economies that are at different stages of liberalization. Ideally, the legislation will not establish a new set of criteria by which countries can become eligible for the benefits, but rather link the enhanced benefits to more rigorous application of the existing CBI program criteria. In this way, countries can fully pursue trade liberalization without being harmed by a break in market access or the sudden resurgence of an unbalanced playing field.

III. Sustaining US/Caribbean Trade Links for the Longer Term

Moving past the immediate concerns of Caribbean Basin trade enhancement are the longer term debates of NAFTA expansion and the development of the FTAA.

A. NAFTA Accession and the Caribbean

The prospect of NAFTA accession for Caribbean countries takes on added importance with the on-going delay in enactment of Caribbean parity provisions. It also provides an important long term framework for the CBI, especially since the CBI exists now as the product of a legislated action by Congress, and not as the product of a reciprocal trade negotiation.

Although there are quite a few countries in the region that are close to meeting the requirements of joining NAFTA, there is a perception that only a handful of big emerging markets—such as Brazil and Argentina—hould be considered for NAFTA accession once Chile has joined. It may, however, make sense to look to smaller Caribbean economies for the next stage of NAFTA expansion. First, most Caribbean economies would be complementary, not competitive, with the US economy. Second, because Caribbean economies are small, they are unlikely to disrupt the US economy. Third, there may be no better way of securing the long-term economic development of the Caribbean then by forging a close link based on reciprocity with the United States. Finally, the Caribbean is the logical place to start since many Caribbean economies have already implemented the kind of trade liberalization and economic reforms that would be called for under NAFTA accession.

Regardless of the accession queue, it is vitally important for the US Government to establish a transparent process in which there are clear eligibility criteria. Without clear guidelines, countries are focusing on political jockeying to compete to see who should come in next, rather than focusing on meeting specific criteria that is a more appropriate measure of readiness.

B. The FTAA And The Caribbean

At the same time, Caribbean countries are engaged with their hemispheric neighbors in discussions on erecting a Free Trade Area of the Americas (FTAA). Although a hemispheric free trade agreement will provide a long-term framework under which a solid security relationship can flourish, the process of achieving that goal may prove exceptionally disruptive for many Caribbean countries.

FTAA participants will have the unprecedented task of erecting an FTAA that encompasses in a single trade agreement countries which differ widely in size, levels of development, extent of industrialization, and degree of liberalization. At the same time, for the FTAA to be worthwhile, it must strive toward a uniform series of standards and disciplines that are consistent with international and hemispheric trading practices. To ensure full and equitable participation, especially of the smaller economies in the Caribbean, the FTAA implementation path must reflect several important principles.

First, there must be an orderly accession process. This can be achieved if the process is politically transparent. Orderly accession requires the establishment and enunciation of a clearly defined set of eligibility criteria, procedures for applying for membership, and a timetable for expansion. The absence of these factors creates a situation in which various arbitrary, non-economic criteria may disproportionately influence the selection and sequence of admission of new members.

Second, the path will have to accommodate considerable flexibility since it will probably not be possible for all countries to move at the same pace and arrive at a single destination. In fact, there is some concern about how quickly the smaller, less developed countries of the Caribbean region or Latin America could undertake the full range of commitments that will be expected under the FTAA. A suitable transitional arrangement must be designed for these countries and involve asymmetrically phased assumption of obligations and disciplines. An appropriate adjustment period not only will take account of the level of development, extent of liberalization, and undiversified structure of these economies, but it also would permit time for completion of the structural adjustment process of the wider Latin American region. For example, Caribbean Basin countries could be provided fuller access to the NAFTA markets, with phased in reciprocity, to transition them to the disciplines of the NAFTA. A suitable transitional arrangement would enable these economies to complete their processes of economic reform and structural adjustment, which will put them in a position to move towards reciprocity. A premature attempt by these countries to provide full reciprocity immediately could be detrimental to these processes of adjustment, and could inhibit export expansion.

Third, the FTAA will need to contain provisions for associate or partial membership to permit countries, or sectors within those countries, to undertake FTAA commitments in a way that do not infringe upon existing obligations. This would provide an opportunity, for countries that, despite a commitment to the FTAA, are not ready for full membership or are precluded by existing commitments to sub-regional trade arrangements with trade groups outside the hemisphere. Looking back at example of the Caribbean, CARICOM members of the preferential Lome Convention are obliged to provide no-less favorable conditions to the EU than that provided to any developed country. If Caribbean countries were to provide reciprocity to the United States and Canada by virtue of an FTAA agreement, or even NAFTA membership, then these countries would be obliged to provide reciprocity to the EU under the terms of Lome. Associate membership would facilitate liberalization in a limited number of areas and obviate the enforcement of across the board reciprocity by the European Union.

Finally, the FTAA process must pay close attention to the needs of the smaller economies. While constituting a majority of the Western Hemisphere, the smaller economies are not likely to be a major determinant on what constitutes the FTAA, the path to the FTAA and the schedule for negotiations and the commencement of the FTAA. Yet without their participation, the FTAA loses its character as a truly hemispheric exercise. At a minimum, the Ministers must integrate the special needs of small developing countries in all their work, rather than confine these concerns to the Working Group on Smaller economies.

IV. Conclusion

The prospect of hemispheric free trade figures prominently in US/Caribbean trade relations. If the Administration and Congress can develop a common approach for continued trade expansion, they can signal to the hemisphere that the United States remains fully engaged in the international trading community over the next decade. Failure to reach such a consensus not only sends the wrong signal on trade, but also stands as a real barrier to continued US/Caribbean trade. Conversely, any setbacks in the effort to enact Caribbean parity suggests an ambiguous commitment to promote trade liberalization on the part of the United States.

Countless studies have shown that strong regional economic links are crucial, not only in creating economic opportunities throughout the United States and the Caribbean Basin, but also in supporting stable and mutual beneficial security relationships. In the dozen years since it has been implemented, the CBI has provided a

key framework of economic development for the Caribbean, and has stimulated sound US/Caribbean commercial relations.

However, with the many challenges facing the Caribbean today, it is imperative that the US and Caribbean Basin Governments jointly work to sustain a healthy relationship and keep the vision of the CBI relevant. In crafting the Bridgetown Partnership, US and Caribbean policy makers have taken a first step to address concerns in a number of sensitive economic and security areas. A critical premise of this work is the understanding that both the United States and the Caribbean partners will move ahead to foster and implement additional trade liberalization. Such an understanding is important since the continued vitality of this relationship will be a key ingredient in the approach to hemispheric free trade.

Statement of Mattel Toys, Inc., El Segundo, California

As a multinational corporation with offices in over 30 countries, sales in more than 140 countries, and manufacturing activities in 7 countries, Mattel strongly supports the goal to establish the Free Trade Area of the Americas agreement by 2005. We support all multilateral initiatives to promote the reduction of tariffs and non-tariff barriers, especially those within the hemisphere. Latin America is a very important market for Mattel's products. With sales and marketing offices in Mexico, Argentina, Chile, Venezuela and Colombia, and strong export sales to the rest of the region, we've enjoyed significant annual sales growth in Latin America for more than a decade. Nonetheless, we have also experienced significant restrictions to trade in the region including high tariffs and import taxes, proliferation of anti-dumping (safeguard), retaliatory tariff measures against toys from China, and yearly introduction of laws threatening imports by imposing stricter standards, labeling requirements or other criteria.

U.S. Objectives in FTAA Process

1. The FTAA should eventually supersede and integrate all sub-regional trade accords (i.e. NAFTA, Andean Pact, ALADI, Mercosur, etc.) providing for one common set of trading rules and tariff phase-out schedules.
2. The FTAA should promote the voluntary acceptance among all participatory countries of International Customs Guidelines. Under this framework, countries can cohesively work towards the goal of providing automated customs systems, the ability to appeal decisions of each nation's Customs Service, as well as pre-entry binding advice and post-entry audit procedures.
3. The FTAA could improve the enforcement of Intellectual Property Rights in Latin America by recognizing and endorsing the effective methods of the U.S. Customs Service to protect U.S. companies from IPR violations. U.S. Customs (under 19 CFR 133) allows businesses to register trademarks, copyrights or trade names with U.S. Customs. In turn, the agency protects these companies against infringing imports by denying entry to, or seizing goods which violate recorded rights. U.S. Customs also requires importers to obtain letters of authorization from trademark holders granting them permission to import products bearing the latters' registered trademark.
4. The FTAA should work to harmonize product safety standards and testing/certification requirements in the hemisphere. To the greatest extent possible, uniform and consistent safety standards should be adopted by all parties. Where safety certification is required, countries should allow approved laboratories to conduct such certification within any country that is party to the agreement.
5. The FTAA overall should promote the ideals and objectives of the WTO to provide for transparent, consistent and fair trade policies, and systemic approaches to resolving trade conflicts.

Major Issues Not Address by International Disciplines

If international disciplines refers to multinational organizations such as the World Trade Organization and the World Customs Organization, then there are few, if any, trade issues that are not already addressed or able to be addressed through those organizations.

However, as mentioned in Point 3 above, there is much room for improvement in the enforcement of intellectual property rights (IPR). As the world leader in innovative technology, the U.S. stands to lose the most in the face of weakly enforced IPR around the world. We strongly urge U.S. officials to push for the adoption by other countries of stricter controls to protect IPR by dedicating more resources towards

such protection, and preferably modeling their enforcement on U.S. Customs initiatives, as domestically, those initiatives have protected American industries well.

Advantages/Disadvantages to Specific Sector Agreements of Codes

While we do not recognize advantages to specific sector agreements, we do believe all industries would benefit more from a hemispheric free trade agreement were the current 7 percent de minimis allowance for non-originating materials provided for under the NAFTA rules of origin, and the eventual FTAA rules of origin, to be increased to 25 percent. The outstanding balance of 75%, which would be the originating value, is substantial enough to ensure that the majority of all costs associated with labor, materials and production were derived in the hemisphere.

Also, just as the U.S. eliminated the Form A for GSP claims in 1994, with no decline in compliance rates, we believe it is possible and justifiable to eliminate the NAFTA certificate of origin. The NAFTA form is not required to be submitted with entry documentation, and is requested for less than 1% of all entries. Given the stiff penalties for non-compliance with NAFTA, the elimination of the form would not reduce adherence to the rules. As such, we further recommend that no certificate of origin requirements be developed pursuant to the FTAA.

Extent to Which Subregional Arrangements Affected your Interests

Our interest in the region has been strong for years from a sales and marketing standpoint, but with the growth in subregional arrangements (such as Mercosur and ALADI) we are increasingly recognizing Latin America as a potential source for manufacturing products.

As a result of exports to Latin America from our two manufacturing plants in Mexico and third-party vendors, we have begun to experience the benefits of free trade in the region as a result of Mexico's participation in a free trade agreement with Chile, the G–3 accord with Venezuela and Colombia and the ALADI (LAIA).

Measures to ensure private sector advice

The ministers should ensure that private sector advice is received and incorporated into the FTAA process by making agreements in all sectors under negotiation available to trade associations and organization in each country with sufficient time to provide thoughtful input and comments. Public-private sector meetings can be held to review the controversial aspects of the agreement.

Participation by the business community and their eventual support of a final agreement will be critical, particulary when the time comes to promote the agreement before national legislators within each participating country.

Steps toward Economic Integration most beneficial to U.S. interests overall

An important step in the process of hemispheric economic integration is for countries to afford foreign-owned companies invested in their country the freedom to participate and have voting power in local trade organizations. Regardless of the location of the parent company, these entitities have a stake in the economy and in the practices and laws imposed by the government which affect their industries. As employers and taxpayers, foreign-owned companies should have a venue in which to voice their interests.

A case in point: Mattel has two wholly-owned Maquiladora plants in Mexico. Manufacturing done there consists of plastic injection, extrusion and molding, the assembly of the product, and packaging. According to NAFTA rules, the status of the Maquiladora plants will be eliminated in the year 2000, to be reclassified as domestic manufacturing plants. Mexico should accelerate the process and currently recognize these companies as domestic entities, based on the level of their investment in the economy and their required compliance with Mexican law. Although Mattel is one of the major toy producers in Mexico, as the law stands, Maquiladora plants cannot participate in the Toy Manufacturers Association of Mexico.

In general, achievement of the U.S. objectives outlined in Point 1 would greatly benefit overall interests. In addition, the accelerated reciprocal reduction of tariffs by our trading partners and their commitment to develop transparent commercial practices would also be significant progress in economic integration.

Impediments Most Detrimental to U.S. companies doing business

We have seen a proliferation of protectionism in the region in the form of antidumping (safeguard) retaliatory tariffs being imposed on toy and other products from China. As of January 1997, Brazil has imposed import relief duties as high as 70% on toys from certain countries and in addition established price indexes for dolls which under WTO regulations are considered illegal. This action seems to have

sparked an alarming trend; Argentina had considered similar measures but fortunately the measure was not approved by the government.

In both cases these tariff hikes will severely damage Latin America as a market for U.S. toy manufacturers. While large American toy companies may outsource the bulk of production, our high wage jobs in the States depend on the ability to efficiently manufacture goods around the world and on our ability to maintain and expand our presence in international markets. The current and proposed retaliatory tariffs will lead to burdensome price registrations, and moreover, are not necessarily targeted to protect domestic producers.

In the arena of non-tariff barriers, costs incurred by erratic safety standards are also of great concern. Currently, some Latin American countries, such as Mexico, will not recognize U.S. safety standards. Requiring products to undergo repeated testing at the country of export adds unnecessary additional costs to export, and more importantly, delays the delivery of product to the ultimate consumer.

Problems in the region

1) ALADI Documentation

Our affiliate in Argentina is unable to benefit from ALADI (LAIA) tariff preferences for Mexican-made products since the invoice used for customs declaration purposes reflects a Netherlands address. The invoice used in Argentina for customs purposes is our trading company invoice. Like many multinational corporations, Mattel sells its products to all its markets directly from our trading company. In our case, the trading company serves to ensure that all dutiable assist costs (such as tooling and design and development) are allocated into the final product cost. The product in question for which we are unable to obtain ALADI benefits has been certified by Mexican authorities to qualify and was shipped directly as required to Argentina. The fact that the customs invoice does not show a Mexican address should not preclude our affiliate in Argentina from gaining ALADI benefits when the product is otherwise eligible. The FTAA should ensure that documentation requirements are flexible and realistic enough to recognize the peculiarities of multinational business transactions.

2) NAFTA Business Travel

Following NAFTA, Mexico introduced a new form, FMN valid 30 days, for business professionals working in Mexico. This form is onerous and time consuming to obtain, since it must be certified by the Mexican Immigration when entering the country, and returned to Mexican Immigration officials upon exit. This new form encourages business travelers to use the much simpler Tourism form when they travel on a business trip. This falsification causes a discrepancy on the statistical registration of foreign arrivals for Mexico and generally jangles the nerves of American business travelers.

3) Development of uniform labeling standards.

In Mexico, it is mandatory for toys to comply with two labeling standards, one with general information and the second with specific information on toys. This gratuitous approach to labeling seriously impacts the cost of exporting toys into Mexico, both in terms of repackaging requirements and lost time during Mexican Customs inspection of shipments. We recommend that the specific labeling standard for toys remain, but that compliance with the general information label be eliminated. This would simplify the import process for both the Mexican government and the toy industry.

4) Non-reciprocal tariffs

In the Uruguay Round of GATT, the United States eliminated import duties for approximately 95% of all toys under the "Zero for Zero Agreement." Converse to this duty-free status, Mexico still imposes a tariff duty of approximately 20% on most toys, but absent a certificate of exclusivity, a countervailing duty of 350% for those from China. Even toys which qualify under NAFTA are subjected to an average duty rate of about 12%. Mexico must accelerate its commitment in the toy industry to reciprocal rates of duty. Our other NAFTA partner, Canada, has made significant progress in tariff reductions for toys, but needs to accelerate its progress regarding tariff rates for sets classified under sub-heading 9503.70 and children's ride-on vehicles, classified under heading 9501.

Opening Statement of Hon. Jim Ramstad, a Representative in Congress from the State of Minnesota

Mr. Chairman, thank you for calling today's hearing to discuss U.S. trade with Latin America and the Free Trade Area of the Americas.

There has been a special relationship between the U.S. and our fellow nations in the Western Hemisphere. While trade with Latin America, excluding Mexico, currently accounts for only 7% of total U.S. merchandise trade, we know the potential for growth in this trade relationship is tremendous. This region is the fastest growing region for U.S. exports and is expected, when you include Mexico, to surpass trade with Europe and Japan combined by 2010.

Of course, this is our potential growth rate—and we must take the appropriate steps to realize this goal, which will contribute mightily to the U.S. economy and create more and better paying jobs for U.S. workers.

We have been watching closely the many regional trade agreements being negotiated in the region over the past few years, most of which do not involve the U.S. While these regional agreements certainly help the participating nations' economies, I am worried about the lack of U.S. involvement. Of course, many initiatives we would like to be negotiating are on hold because we have not yet renewed Fast-Track Authority.

I believe Fast-Track must be renewed soon and we should actively pursue the Free Trade Area of the Americas (FTAA) initiative first proposed by President Bush. The FTAA includes 34 of the Western Hemisphere nations and, since it will be compatible with the WTO and build on progress made in existing regional trade agreements, it will further open up the growing markets in Latin America to U.S. exports.

The FTAA will also help those Latin American nations which have been working so hard to reform their economies. While they have reduced the role of the governments over their economies and come to rely more on market-driven forces and private ownership, they have not yet achieved the rate of growth that can come from foreign direct investment, investments in education and infrastructure and the development of independent central banks and judiciaries. The FTAA will be a driving force in promoting this next level of reforms, and help the economies and workers throughout the Hemisphere.

Thank you again, Mr. Chairman, for calling this hearing. I look forward to hearing from today's witnesses about the importance and implications of U.S.-Latin American trade and the FTAA.

Statement of Rubber and Plastic Footwear Manufacturers Association

The Rubber and Plastic Footwear Manufacturers Association (RPFMA) is the spokesman for manufacturers of most of the rubber-soled, fabric-upper footwear; waterproof footwear, and slippers made in this country. The names and addresses of the Association's members appear on appendix I.

Rubber footwear is a labor-intensive, import-sensitive industry: Labor constitutes more than 40 percent of total cost; imports of fabric-upper footwear and of slippers take in excess of 80 percent of the U.S. market and imports of waterproof footwear in excess of 40 percent. These imports come from countries where wages are from one-fifteenth to one-twentieth of the level in the domestic industry.

In announcing its hearing on the status and outlook for a free trade area in the Americas, the Trade Subcommittee stated that among matters to be considered would be the anticipated impact of such agreements on U.S. workers and industries. While the rubber footwear and slipper industry recognizes that expanded trade in this hemisphere is indeed in the interest of the United States, we are nonetheless concerned that the overall objective of trade expansion should not be at the price of threatening the continued existence of such an import-sensitive industry as rubber footwear and slippers.

A free trade agreement with Latin America is unlikely to enhance export opportunities for the products of this domestic industry because of the difficulty of competing anywhere in the world with such low-wage producers as China, Indonesia, Malaysia, and now Vietnam. On the other hand, the elimination of duties on imports of rubber footwear and slippers from Latin America would cause havoc to what is left of this domestic industry, particularly since countries like Chile, Brazil and Argentina already have a significant number of rubber footwear and slipper plants. Duties on fabric-upper footwear with rubber soles average in excess of forty percent and duties on protective footwear and slippers are, for most products, thirty-seven

and half percent, and their elimination would have a more serious impact than in the case of virtually any other American industry.

In the early 1970s, there were some 26,000 production employees making rubber and plastic footwear and 10,000 making slippers in the U.S. By the end of 1996, these figures shrunk to 4,500 and 2,100 respectively. This downsizing is attributable to the growth of the industry abroad.

The dozen or so rubber footwear and slipper companies left in this country represent survival of the fittest. These companies believe that they can continue to survive if there is no further erosion in the present levels of their tariff protection. Although they have already found it necessary to do a significant amount of importing in order to remain competitive, a majority of their production still occurs in this country.

A dramatic example of the effect on this industry of duty-free trade is what has happened in the Caribbean. Until 1990, rubber footwear was excepted from duty-free treatment under the Caribbean Basin Initiative. The 1990 amendment to the CBI eliminated the exemption for footwear when that footwear is made with American components. As a result of that elimination of duties, rubber footwear imports from the Caribbean rose from 200,000 pairs in 1990 to in excess of 12 million pairs in 1996.

Accordingly, any agreement for a free trade area in the Americas should provide for an exception for the very few domestic industries, such as rubber footwear and slippers, whose continued survival would be endangered by the elimination of duties. Surely it was a recognition of the need for such limited exceptions which accounted for the language of paragraph eight in article XXIV of the GATT which defines a free trade agreement as one where "the duties and other restrictive regulation of commerce ... are eliminated in substantially all the trade between the constituent territories or products originating in such territories" (emphasis added). Surely the benefits which accrue from a free trade agreement would not be diminished by protecting the minuscule fraction of one percent of the country's trade represented by rubber footwear and slippers.

The Rubber and Plastic Footwear Manufacturers Association urges that Congress, in any grant of authority for the negotiation of a free trade area of the Americas, should make it clear that the objective is the elimination of substantially all duties and that exceptions are to be permitted in extraordinary situations where the very survival of a domestic industry is at stake.

Appendix I

RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION

American Steel Toe
P.O. Box 959
S. Lynnfield, MA 01940–0959

Converse, Inc.
One Fordham Road
North Reading, MA 01864
(with a plant in North Carolina)

Draper Knitting Co.
28 Draper lane
Canton, MA 02021

Genfoot
673 Industrial Park Road
Littleton, NH 03561

S. Goldberg and Co.
20 East Broadway
Hackensack, NJ 07601–6892

Hudson Machinery Worldwide
P.O. Box 831
Haverhill, MA 01831

Kaufman Footwear
Batavia, NY

LaCrosse Footwear, Inc.
P.O. Box 1328
LaCrosse, WI 54602
(with plants also in New Hampshire and Oregon)

Frank C. Meyer Co.
585 South Union Street
Lawrence, MA 01843

New Balance Athletic Shoe, Inc.
38 Everett Street
Allston MA 02134–1933
(with plants also in Maine)

Norcross Safety Products
1136 2nd Street, P.O. Box 7208
Rock Island, IL 61204–7208

Spartech Franklin
113Passaic Avenue
Kearney, NJ 07032

Tingley Rubber Corporation
200 South Avenue, P.O. Box 100
S. Planfield, NJ 07080

Opening Statement of Hon. E. Clay Shaw, Jr., a Representative in Congress from the State of Florida

Mr. Chairman and members of the Subcommittee:

Thank you for allowing me to submit this statement in opposition to legislation under consideration by this Subcommittee that would amend the Andean Trade Preferences Act ("ATPA") to prohibit the provision of duty-free treatment for fresh-cut flowers. The Subcommittee has heard testimony on this specific area of Latin American trade from the bill's sponsors, and my colleagues Congressmen Sam Farr and Tom Campbell as well as domestic flower interests. As the Subcommittee considers this proposed legislation, I believe it is important to understand the significance of fresh cut flower imports to the Florida and the United States' economies. Imports of fresh-cut flowers greatly benefit the U.S. economy and U.S. consumers and provide a major economic stimulus to the State of Florida.

Miami is the point of entry for most imports of fresh-cut flowers from Latin America, primarily Columbia, which is by far the largest source of fresh-cut flower imports. Indeed, $8.0 billion worth of flowers each year are shipped into this country through Miami's ports and airports. About $600 million in annual economic activity is generated in Florida alone by fresh-cut flower imports.

Fresh-cut flower imports are a major source of employment in Florida. Among the many jobs that may be lost or severely harmed by enactment of the Farr/Campbell proposal are the 6,600 persons who handle the 30,000 boxes of flowers daily as part of the shipping and transportation sectors:

100 Florida importers, with a collective payroll of $62 million and 1,800 employees, who depend on fresh-cut flowers imports, and the 10 Bouquet companies that employ an additional 600 workers.

The pilots, airline staff and 1,400 airport personnel whose jobs rely on the 21 daily flights devoted to carrying fresh-cut flowers from Columbia to Miami.

The 1,500 employees in the Florida trucking industry who move flowers throughout the U.S. for a collective annual payroll of $44 million.

Additionally Florida's 1,600 supermarkets and 30 grocers, which have floral departments, employ 3,260 persons. These jobs depend on the import and sale of flowers.

Imports of fresh-cut flowers are also important to the U.S. economy and U.S. consumers.

In 1996, annual industry sales to consumers totaled $11.5 billion. Seventy percent (70%) of this figure or $8.05 billion resulted from fresh-cut flower imports. The importation of these fresh-cut flowers supports a very substantial number of jobs in the United States . U.S. flower importers alone employ nearly 7,000 workers; air cargo companies handling flowers imported through Florida employ nearly 2,000 workers; and trucking companies moving flowers within the U.S. employ about 1,600 workers.

The 1,000 wholesalers handling fresh-cut flower imports employ 22,800 workers. Supermarkets and independent grocers, a market largely ignored by U.S .flower growers employ over 30,483 workers in their floral departments. Retail florists in the U.S. who rely heavily on fresh-cut flower imports employ 151,000 workers.

Fresh cut flower imports have also benefited the U.S. consumer. What used to be a luxury item that few Americans could afford is now affordable and more widely available than ever before. According to a U.S. Internatioal Trade Commission ("ITC") Report on the ATPA published in September 1996, of all imports to the U.S. receiving ATPA preferences, U.S. consumers reap the largest benefits from the Columbian fresh-cut flowers. At the same time, the ITC report found that the displacement effect of Columbian fresh-cut flowers on the U.S. flower industry is "relatively small."

Mr Chairman, this attempt to withdraw ATPA trade prefernces from fresh-cut flowers is directed at Columbia, as mentioned above, the largest source of fresh-cut flower imports from Latin America. Proponents argue that because Columbia remains at the forefront in traffiking in illicit drugs to the U.S. that we should withdraw ATPA benefits. I believe there is a mistaken belief among the sponsors of this legislation that the main goal of the ATPA was to encourage crop substitution, and on that basis, the ATPA has failed. In fact, Congress enacted the ATPA in 1991 to promote broad-based economic development, stimulate investment in nontraditional industries, and to diversify the export base of Columbia and the other Andean countries, Ecuador, Bolivia and Peru. The primary goal of the ATPA is in fact being met by the fresh-cut flower sector: a significant, alternative source of jobs and economic growth has been created and sustained, thus providing a key means by which to shift resources away from illicit activity and towards legitimate industry.

The ATPA preferences are critical to the continued viability of U.S. flower wholesalers and retailers who have no adequate alternative supply of fresh cut flowers. Withdrawal of ATPA trade benefits will harm an important industry sector and source of jobs here in the U.S. and in Florida.

I urge the Chairman and the Subcommittee to support the ATPA and oppose this legislation.

Statement of Albert C. Zapanta, President, United States-Mexico Chamber of Commerce

INTRODUCTION

The United States brings the world's leading economy, largest market and the fewest barriers to trade to negotiations on the Free Trade Area of the Americas (FTAA). The country also has one of the world's most dynamic export sectors—small, medium and large companies that provide jobs in the United States and would clearly benefit from an FTAA. Such an agreement will not be possible and will not be in the United States' interest withoug strong United States leadership. Fast-track authorization for the President is crucial to United States leadership in the Western Hemisphere.

As part of the process of examining whether the United States should embark on a hemispheric free trade agreement, it makes sense to examine the impact on the United States of the North American Free Trade Agreement. NAFTA has been in existence for three and one-half years and it is the first free trade agreement between countries with such different levels of income. After three and one-half years it is clear that NAFTA is good for the United States and good for Mexico and that the exaggerated claims both by NAFTA's proponents and NAFTA's opponents during the NAFTA ratification process were off the mark. The large number of job losses or job gains has not materialized. Instead, a historical process is leading toward a more prosperous regional economy. The U.S. took the first step toward a FTAA with the U.S.-Canada Free Trade Agreement in 1989. In 1993, Congress approved NAFTA, which created a a comprehensive rules-based agreement between the United States, Canada, and Mexico. The Agreement dramatically reduced some tariffs immediately while other tariffs will fall to zero over a 5 to 15 year period.

NAFTA goes well beyond tariff reduction.

- In goods trade it opened previously protected sectors in agriculture, energy, textiles, and automotive trade.
- It opened up the U.S.-Mexico border to trade in services with specific rules in financial services, transportation services, and telecommunication services.
- It set rules on government procurement and intellectual property rights.
- It set specific safeguards including how to deal with subsidies and unfair practices; it set up procedures for dealing with private commercial or agricultural disputes; and it set up a process for dealing with NAFTA implementation concerns.

Mexico is making far more significant changes to its economy because of NAFTA than the United States. Mexican tariffs on U.S. goods averaged 10 percent in 1993 while U.S. tariffs on Mexican products averaged 14 percent. Mexico is moving its rules on investment closer to those which prevailed in the United States.

NAFTA has continued the process of opening the U.S.-Mexico border to increased commerce. Two way trade between the United States and Mexico has risen 60 percent from 1993, the year before NAFTA was implemented to 1996, the third year of its existence.

The NAFTA has bipartisan support in the U.S. During his campaign in 1980, President Reagan proposed a "North American Accord." In the mid-1980's, President de la Madrid began a dramatic opening of the Mexican economy leading to Mexico's accession to the General Agreement on Tariffs and Trade (GATT) in 1987. Negotiations to "lock in" and deepen this trade and investment liberalization took place under the leadership of President Bush with the oversight of a Democratic-led Congress. This agreement was passed with the strong support of President Clinton and the Republican leadership in the Congress.

NAFTA has broad support in Mexico. NAFTA is publicly supported by the majority party in Mexico (PRI) and has the support of leading opposition parties.

But Mexico is economically small compared with the U.S. Mexican GDP in 1996 was about $327 billion, or 4.4 percent of the U.S. GDP—$7,500 billion. Put another way, Mexico's economy is about the size the state of Florida's economy.

Therefore, much of the rhetoric about jobs, both from proponents of NAFTA and from its opponents were highly exaggerated. The most reliable current information suggests that NAFTA has had almost no impact on overall employment levels in the U.S. However, the information does show that the jobs created from new U.S.-Mexico trade induced by NAFTA have higher wages than the jobs that have left the country. Indeed, broader research carried out by the Institute for International Economics has shown that export-related jobs pay on average 10 percent higher than jobs related to production solely for the domestic market.

U.S. employment has risen, and the level of unemployment has decreased during the first three years of NAFTA. The 6.4 million net new jobs created over this three year period led to a decrease in the number of unemployed from 8.5 million to 7.2 million, which was due only in the most marginal way to NAFTA. Rather it is due to the continued expansion of the U.S. economy. In fact, over this three year period, it is estimated that 31,000 new jobs were created and 28,000 jobs were lost due to NAFTA. This needs to be put into perspective. Over this period millions of jobs were created and lost due to ongoing changes in the dynamic U.S. economy.

MEXICO'S ECONOMY

Therefore, the peso crisis and the shifting of the U.S. and Mexican trade balance has had little impact on employment in the United States. Mexico was forced to dramatically devalue its peso, making its exports far more competitive, and reducing its imports both because they were relatively more expensive and because Mexico experienced a severe recession in 1995.

• The Mexican overall trade balance went from a $18.5 billion deficit in 1994 to a $7.1 billion surplus in 1995 after the peso devaluation in December 1994. The impact of this change on the U.S. exports to Mexico was significantly less than the impact on Asian or European exports to Mexico. This was due in part to NAFTA commitments made by Mexico and due in part to co-production schemes between Mexico and the United States. This increased commerce in intermediate goods from the United States began with the opening of the Mexican economy in the mid-1980s and has accelerated with NAFTA. U.S. exports to Mexico slipped only $4 billion in 1995 while Mexican exports to the U.S. rose about $12 billion that same year.

• That U.S. jobs rose and unemployment fell during this $25 billion trade balance shift with Mexico is strong evidence that trade deficits are not a cause of job losses or its corrolary, that trade surpluses lead to job gains. France is an example of a country running a large trade surplus but it has an unemployment rate exceeding 15 percent. The number of jobs in an economy depends on macroeconomic and microeconomic conditions in the economy and not on a nation's trade balance.

• The fall in the Mexican economy was muted and its recovery accelerated because of NAFTA. NAFTA provides investors with an additional level of confidence and its existence undoubtedly helped the political case for the major rescue package put together at the outset of the peso crisis.

• Because of the recovery of the Mexican economy in 1996, when GDP grew 5.1 percent, U.S. exports to Mexico have recovered well and are now 20 percent higher than before the peso crisis and 35 percent higher than before NAFTA. However, even with this beginning of a recovery in Mexico, large number of Mexico's workers are still feeling the effects of the devaluation and the resultant recession.

Mexico remains exceptionally important to the U.S. Mexico's population of approximately 93 million is about one third the size of the U.S. As the third-largest market for U.S. goods and services, a growing, prosperous Mexico is in the interest of every citizen in the U.S. Not only will this lead to lower illegal immigration and a healthier environment in Mexico, but a vibrant Mexico will be better able to deal with illegal drug activities which are hurting both of our societies.

• The economic policies of the Zedillo Administration in Mexico today should lead to dynamic export-led growth in Mexico with a stable, consumer driven economy which will continue to buy higher and higher quantities of sophisticated products made in capital intensive and high wage U.S. industries.

• The reality is that the U.S. trade surplus with Mexico in 1994, which made up part of Mexico's $30 billion current account deficit, was unsustainable. In order to fund this huge current account deficit up to December 1994, Mexico was forced to adopt economic policies which, over the long term, constrained economic growth. United States citizens (and Mexican citizens) need to take a longer term view of our bilateral economic relations.

MAINTAINING CONFIDENCE IN NAFTA

Some friction is inevitable under a large complex agreement such as NAFTA, but both the United States and Mexico need to act quickly to find solutions so that con-

fidence in the overall agreement is maintained. The United States should work to resolve outstanding NAFTA issues as it continues FTAA negotiations.

• The United States should implement the transportation agreement negotiated under NAFTA. The NAFTA agreement called for trucks from both the U.S. and Mexico to be able to deliver goods across the border, to border states in Mexico and the U.S., starting in December 1995. The U.S. government has delayed the certification process for Mexican trucks. All parties agree that it is important that foreign trucks meet domestic safety rules. It is important for the future of NAFTA implementation that this breach of the NAFTA implementation schedule be fixed as soon as possible so that it does not set a precedent for partner countries to ignore selected NAFTA rules under strong political pressure.

• One of the key principles of NAFTA is national treatment. Governments must treat firms of partner countries in the same way they treat their own firms. One area where Mexico's Ministry of Transportation and Communications (SCT) has reneged on national treatment is in small package express delivery. While Mexico agreed to national treatment of this service in NAFTA, it has yet to implement the rules to make this happen.

• In the last U.S. Congress, the Senate failed to act on a bill which would lift the embargo placed on Mexican tuna caught in the eastern Pacific. Because Mexican fishing fleets have adopted all the accepted international procedures for reducing the number of dolphins killed when catching tuna, this bill was supported by all the main environmental groups in the United States. The new Congress should act quickly to lift this embargo.

• Both the U.S. and Mexican governments should reconsider actions taken in the corn broom dispute. In December, 1996, the U.S. invoked a NAFTA safeguard clause permitting a temporary increase in duties on Mexican corn brooms. Mexico has retaliated by raising duties on a variety of unrelated items. While both actions are acceptable under NAFTA rules, they go against the spirit of the agreement.

• The final rule issued by the U.S. Department of Agriculture on January 31, 1997 to overturn the 83-year ban on the importation of avocados from Mexico and permit their export to 19 Northeastern states and the District of Columbia should ease a major irritant in U.S.-Mexico trade relations. While this decision was based on scientific evidence, it could still face challenges from the courts or from direct Congressional action.

ENVIRONMENT AND LABOR

The 2,000 mile U.S.-Mexico border separates two countries with significantly different income levels. The development of appropriate infrastructure to deal with increased commerce, continuing the process of reducing environmental degradation, and improving working conditions on both sides of the border, will be essential to maintain confidence in NAFTA.

The United States and Mexico have made progress over the past three years addressing three decades of deteriorating environmental conditions along the U.S.-Mexico border. The North American Agreement on Environmental Cooperation (NAAEC) was approved as a side agreement to NAFTA to insure that all parties enforce national and international environmental laws and address environmental issues that arise as a result of NAFTA implementation.

• There has been improved environmental regulations and positive action to jump-start two new environmental institutions set up to address environmental infrastructure problems on the U.S.-Mexico border. Both the Border Environment Cooperation Commission (BECC) and the North American Development Bank (NADBank) have developed mechanisms for community participation, and have approved and allocated loan funds for infrastructure projects. In addition, the Border XXI Program, a plan by the U.S. and Mexican governments to address border environmental issues and assure sustainability, has received extensive citizen input and the final version of the plan was published in October 1996.

• The Commission for Environmental Cooperation (CEC) was created to oversee the implementation of the NAAEC.

• The U.S. Congress recently named the U.S.-Mexico Chamber of Commerce as the recipient of a grant—through the Department of Commerce—to improve the U.S.-Mexico business community's access to Mexico's environmental rules. The goal of the grant is to remove non-tariff barriers present in regulatory uncertainty, enhance business opportunities and promote sustainable environmental practices.

The North American Agreement on Labor Cooperation (NAALC) rests on sound labor laws of the United States, Mexico, and Canada. This pact was also approved as a side agreement of NAFTA and permits citizens of any NAFTA country to request that their government examine how the labor laws in a partner country are

being enforced. This agreement does not rewrite any country's labor laws, but puts public pressure on enforcement.

• For example, in one case which involved the right of union registration at a Mexican electronics plant, not only did the Mexican government meet separately with the workers and the plant managers, but agreed to commission a study by independent experts to examine the issue of union registration in Mexico and prepare a public report. In addition, the Mexican government held a series of public seminars in Mexico City, San Antonio, and Monterrey attended by government officials, academics, management, and labor representatives to discuss the issue of union registration and other labor law issues.

ACCESSION

The NAFTA contains a very simple clause which states that if agreed to by the United States, Mexico, and Canada, other countries can accede to this agreement. In June 1995, officials of the United States, Mexico, and Canada agreed that negotiations should begin regarding Chile's accession to the NAFTA.

• In the fall of 1996, when the President was unable to obtain fast-track negotiating authority, Chile withdrew from the negotiations and has negotiated separate bilateral arrangements with Mexico and Canada.

• Under fast tract negotiating authority, the Congress delegates to the President the authority to negotiate a trade agreement involving tariff reductions and agrees to either vote for or against the agreement and not amend it. This authority is essential—historically the Congress has been unsuccessful in carrying out trade negotiations because of the diverse views of its members and because countries are unwilling to negotiate with the President an agreement which can be changed by the U.S. Congress.

• In December 1994 the 34 democratically elected leaders in this Hemisphere agreed to forge a Free Trade Area of the Americas (FTAA) by 2005. If the strong rules-based disciplines contained in the NAFTA are to become the norm in the hemisphere, it is imperative that the President be given fast track authority by the Congress so that Chile can be admitted and momentum for this type of Hemispheric agreement can be obtained.

Canada and Mexico are reaching out to other countries in the hemisphere and signing bilateral trade agreements. These arrangements put U.S. firms at a competitive disadvantage compared with their Canadian and Mexican counterparts.

CONCLUSION

NAFTA has locked in fundamental economic reforms in Mexico and, under President Zedillo, these reforms are being widened and deepened. With the increase in commerce between the United States and Mexico, which began in the late 1980s and accelerated with NAFTA, the lives of the citizens of the United States and the citizens of Mexico are being improved. Clearly, the United States has benefitted from a free trade agreement. But NAFTA was only the first step toward a larger goal. An FTAA would lock in the economic reforms already established by the Hemisphere's democracies and further open some of the most important and most dynamic markets in the world. U.S. and Mexican firms—including many members of the U.S.-Mexico Chamber of Commerce—have found that this agreement has worked for them and their workers. Now, the Untied States should reassert its leadership in the FTAA process by granting the President Fast Track authority and the ability to negotiate on behalf of the United States. Congress will still have final say on any agreement reached by the executive branch.

The United States-Mexico Chamber of Commerce (USMCOC), incorporated in 1973 in the District of Columbia as a 501 (c)(6) non-profit corporation, is a chartered binational chamber promoting trade and investment between the two American nations. The USMCOC represents more than 1,000 businesses and maintains offices in Washington, D.C., Mexico City, Los Angeles, San Diego, Dallas, Austin, New York, Denver, Albuquerque, Chicago, Tampa, Seattle, Portland, Detroit, Monterrey, Guadalajara and Tokyo. The following firms sit on the Chamber's Board of Directors.

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Guadalajara, Jal.

Amedex Worldwide
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American Trucking Associations, Inc.
Alexandria, VA

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Arthur Andersen L.L.P.
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AT & T Communications Americas
México, DF

AT&T
Coral Gables, FL

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Border Trade Alliance
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México, DF

DUMAC
Garza Garciéa, N.L.

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Washington, DC

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Vienna, VA

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Grupo Cisneros Internacional
Lakewood, CO

Grupo Editorial Expansion
México, DF

Grupo ISA
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Armonk, NY

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Mexico, DF

International Hospital Corporation
Dallas, TX

Jenkens & Gilchrist, P.C.
Dallas, TX

Jones & Co.
Seattle, WA

Juan Woodroffe & Assoc.
San Juan, PR

KN Energy, Inc.
Lakewood, CO

KPMG Cardenas Dosal
México, DF

KPMG Peat Marwick
Los Angeles, CA

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Mid-America Committee
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Mobil Oil Corporation
Fairfax, VA

NationsBank
Dallas, TX

NationsBank de México
México, DF

Opticas Lux, S.A.
México, DF

Orion International Technologies
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Pilgrim's Pride de México
México, DF

Qualcomm Incorporated
San Diego, CA

RKF International
Alpine, CA

Royal Caribbean International
Miami, FL

San Diego Gas & Electric
San Diego, CA

Seguros Monterrey Aetna, S.A.
México, DF

Source One Management, Inc.
Denver, CO

Stanton Chase International
Dallas, TX

TFM/TMM
México, DF

Travel Agent Magazine
New York, NY

United Parcel Service
Washington, DC

United States-Mexico Border Progress Foundation
San Diego, CA

Universidad de las Américas-Puebla
Mexico, DF

University of Texas at Dallas-Amundsen Institute
Dallas, TX

USMCOC Border Area Task Force
San Diego, CA

USMCOC Tourism Task Force
New York, NY

USMCOC Transportation Task Force
Washington, DC

Vitro, S.A.
Garza Garcia, NL

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Birmingham, AL

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Whitehall Financial Group
Los Angeles, CA

WMC Mortgage Corp.
Los Angeles, CA

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