IMPORTANCE OF TRADE NEGOTIATIONS IN FIGHTING FOREIGN PROTECTIONISM: ACTIVE U.S. INVOLVEMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

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IMPORTANCE OF TRADE NEGOTIATIONS IN FIGHTING FOREIGN PROTECTIONISM: ACTIVE U.S. INVOLVEMENT

THURSDAY, MARCH 4, 1999

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

The Subcommittee met, pursuant to notice, at 10 a.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE CONTACT: (202) 225–1721
February 19, 1999
No. TR–4

Crane Announces Second Hearing in Series on the Importance of Trade Negotiations in Fighting Foreign Protectionism: Active U.S. Involvement

Congressman Philip M. Crane (R–Il), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold the second in a series of hearings on the importance of expanding trade and resisting protectionism through active U.S. involvement in trade negotiations. The hearing will take place on Thursday, March 4, 1999, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10 a.m. The first hearing in this series was announced on February 4, 1999, in release number TR–2.

Oral testimony at this hearing will be from both invited and public witnesses. Any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The United States currently participates in three major multilateral and regional trade negotiations. At the December 1994 Summit of the Americas in Miami, leaders of 34 Western Hemisphere democracies agreed to establish a Free Trade Agreement of the Americas (FTAA), in which barriers to trade and investment are progressively eliminated. They committed to begin the process immediately, make concrete progress by the year 2000, and conclude negotiations by no later than 2005. These negotiations were officially launched at the Second Summit of the Americas in Santiago, Chile, in April 1998.

The Asia Pacific Economic Group (APEC) forum, an association of 21 economies bordering the Pacific Ocean, working cooperatively to reduce barriers to trade and investment, has declared its intention to establish free trade and investment in the region by the year 2010 for developed countries and by 2020 for others. In November 1997, APEC members held a Joint Ministerial Meeting and Leaders Summit in Vancouver, where they identified 15 sectors in which they intended to cut tariffs and remove other barriers to trade. At the November 18, 1998, Ministers and Leaders Meeting in Malaysia, countries agreed to move work on the tariff portion of nine of these sectors into the World Trade Organization (WTO), with the aim of completing an agreement with participation beyond APEC countries by 1999.

The Uruguay Round was the eighth round or series of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). The agreements reached at the end of 1994 during the Uruguay Round were noteworthy in that they greatly expanded coverage of GATT rules beyond manufactured goods trade to include agricultural trade, services trade, trade-related investment measures, intellectual property rights, and textiles. The most visible accomplishment of this multilat-

eral round was to establish the WTO to administer the GATT agreements and to settle disputes among WTO members.

The Uruguay Round agreement calls for the resumption of negotiations by the year 2000 to further liberalize trade in agriculture and services, as well as on government procurement practices and enforcement of intellectual property rights. The next WTO Ministerial conference, which will be hosted by the United States November 30–December 3, 1999, is slated to consider the procedures and substance of the so-called "built-in" WTO agenda, as well as other matters of interest to WTO Members.

At the hearing held on February 11, 1999, the Subcommittee received testimony from United States Trade Representative Charlene Barshefsky, who discussed the President's trade agenda.

FOCUS OF THE HEARING:

The Subcommittee requests that witnesses address the adequacy and direction of the President's trade policy agenda and negotiating priorities for the remaining two years of this Administration.

In addition, witnesses should focus their testimony on such issues as: (1) the potential impact of ongoing trade negotiations on jobs, wages, economic opportunity and the future competitiveness of U.S. manufacturers and service providers, (2) implementation and compliance with existing trade agreements, (3) prospects for an agreement to establish a FTAA, (4) the status trade talks under the auspices of the APEC Group, (5) negotiations on the so-called "built-in" agenda in the WTO, (6) ongoing WTO accession negotiations for China and other countries, and (7) the possibility of further bilateral trade negotiations with Europe, Chile, New Zealand, Australia, and other nations in the Pacific Rim region.

DETAILS FOR SUBMISSIONS OF REQUESTS TO BE HEARD:

Requests to be heard at the hearing must be made by telephone to Traci Altman or Pete Davila at (202) 225–1721 no later than the close of business, Thursday, February 24, 1999. 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, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, of their prepared statement 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 Tuesday, March 2, 1999. 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 six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, with their name, address, and hearing date noted on a label, by the close of business, Thursday, March 18, 1999, 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, by close of business the day before the hearing.

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 submitted on an IBM compatible 3.5-inch diskette in WordPerfect 5.1 format, typed in single space and may not exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

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, company, address, telephone and fax numbers where the witness or the designated representative may be reached. 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.

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.

Chairman CRANE. Good morning. This is the second in a series of hearing of the Ways and Means Subcommittee on Trade to consider the importance of expanding trade and resisting foreign protectionism through active U.S. involvement in trade negotiations.

On February 11, Ambassador Barshefsky discussed the President's trade agenda for the remaining 2 years of this Administration. Today we are joined by CEOs from four major American com-

panies, the president of the American Farm Bureau, and by three witnesses who will represent the interests of several small businesses and a family farm. I have asked today's witnesses to give us their thoughts on the adequacy and direction of the President's trade agenda. Recognizing that the United States is currently participating in five major trade initiatives, including the new WTO round, the Free Trade Agreement of the Americas, APEC, and the Trans-Atlantic Economic Partnership, I will be listening very closely for advice on priorities for the next 2 years.

I recently read a speech given by Bill Gates in Seattle where he lays out the importance of trade negotiations for ensuring that the booming Internet trade remains tax-free and non-discriminatory, that U.S. intellectual property is protected, and that trade rules around the world are made more uniform. Because of the huge fixed costs associated with high tech industries of the 21st century, such as computers and software, their future survival will depend on the volume of sales inherent in global markets. As we have been saying, the United States needs to find new ways to sell to the 94 percent of the world's population that lives beyond our borders. Of course we can not conclude such negotiations without arming U.S. trade negotiators with the clout and the leverage they would realize from fast track negotiating authority.

At the last hearing, I said to Ambassador Barshefsky that I am prepared to discuss with the Administration any specific ways in which it believes that my fast track bill, which the Administration agreed to in 1997, is somehow deficient. I will reiterate my call today to any critics to show me precisely where they believe my bill falls short, and to offer constructive and specific proposals that can garner bipartisan support.

Because future trade agreements offer the best opportunity we have to expand and ensure the success of U.S. businesses and workers in the marketplace of the 21st century, we must do all we can to quickly pass fast track legislation. In the meantime, I hope that hearings such as this one today, will make crystal clear that all U.S. companies, workers, and consumers, stand to gain through trade agreements.

I would now like to recognize the Ranking Minority Member of the Trade Subcommittee, Sander Levin, for any statement he would like to make.

Mr. LEVIN. I thank you, Mr. Chairman. I will be very brief because we have two panels and we may have some votes. We want very much to get moving.

This is part of what I hope will be an intensive dialog about where we should be going in terms of our international trade. We have a lot of changing currents within the international trade picture. The countries that we trade with are increasingly those who have very different structures than we do, both in terms of their capital structures, their labor structures, and environmental structures. In my judgment, we need to adapt to these changing currents and make sure that we have a trade legislative framework that is responsive to these changes and sensitive to them.

As I have said before, I think we need to evolve a new consensus on trade. The one that we used to have broke down on various issues, including and especially this issue of how we respond to the

different nature of trade, the different content of it, the evolving trade with evolving economies. I hope out of this dialog will come some new ideas. I think it would require a reshaping substantially of the fast track proposals that were offered a couple of years ago.

But anyway, your testimony is an important part of this effort to have a renewed dialog, and I hope come to a new consensus on trade. So I join the chairman in looking forward to your testimony.

Chairman CRANE. Thank you, Mr. Levin. We will proceed in the order that you are indicated on the list of witnesses. I think you all have that before you. Mr. Micek, Mr. Condit, Mr. Baszile, Mr. Swift, and Mr. O'Hare. I would suggest that you try to keep your verbal presentations to around 5 minutes. Any printed statement will be made a part of the permanent record.

[The opening statement of Hon. Jim Ramstad follows:]

Statement of Rep. Jim Ramstad, a Representative in Congress from the State of Minnesota

Mr. Chairman, thank you for calling this hearing today to discuss the importance of trade negotiations.

Earlier this week, I met with Hennepin County Commissioner Randy Johnson, who was out in Washington, D.C. for the National Association of Counties meeting. One of the top issues he wanted to talk to me about was trade.

Commissioner Johnson is working with a group in Hennepin County that is trying to be proactive on behalf of Minnesota's workers and businesses. They are concerned that the Twin cities region may become a victim rather than a player, in the new world economy. They are doing all they can to develop an aggressive strategy, involving the public and private sectors, to allow the Twin Cities to compete in the global economy. They know their strong international involvement is critical to the economy of Hennepin County, the rest of the state and everyone living there.

I want to help in their effort. I want workers and employers in Minnesota to be able to compete with the rest of the world. I know when given a fair opportunity, they will succeed. I don't want them to be a powerless victim.

But my support for Hennepin County and the rest of this nation is hampered if the Administration does not have fast track authority. Regardless of how ambitious the Administration's agenda for the next two years is, they won't be achieving much if Congress doesn't give them the authority to negotiate trade agreements and help American companies compete throughout the world. We'll only have the WTO dispute settlement process to protect what trade liberalization we have already achieved—not the power to knock down more unfair barriers to trade throughout the world.

That's why I hope the Administration will submit suggestions to this Subcommittee soon on how best to craft legislation to extend the President this authority. I also wish all my colleagues in this House had the insight that Hennepin County has on the need for an aggressive approach and the importance of trade to our nation.

Again, thank you for holding this hearing to highlight these issues. I look forward to hearing from our witnesses today, especially Ernie Micek, Chairman and CEO of Cargill and a good friend from Minnesota.

So we will with that, proceed with Mr. Micek.

STATEMENT OF ERNEST S. MICEK, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CARGILL, INCORPORATED, MINNEAPOLIS, MINNESOTA, AND CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. MICEK. Thank you, Mr. Chairman, and good morning. My name is Ernie Micek. I am chairman and chief executive officer of Cargill, Incorporated. Cargill is a privately-held agribusiness company founded over 130 years ago in Iowa.

Cargill is an excellent example of why the United States needs to support an open trading system, both at home and abroad. Just as greater trade and investment in overseas markets increasingly fuel growth in our national economy, Cargill's growth depends in large part on markets outside the United States. In the commodity businesses in which we participate, we need to be a global company to grow and succeed.

But today, I am testifying as chairman of the Emergency Committee for American Trade on behalf of the heads of ECAT member companies, whose prosperity, like Cargill's depends on the continued expansion of U.S. international trade and investment. ECAT members are major American companies with global operations and represent all principal sectors of the U.S. economy. The annual sales of ECAT member companies total over $1 trillion, and the companies employ approximately 4 million persons. ECAT companies, besides providing employment, add value in many important ways to the communities where their plants and offices are located.

ECAT commends you, Mr. Chairman, and other Members of the Trade Subcommittee, for your leadership on the trade expansion initiatives. I am pleased to have the opportunity to testify before the Trade Subcommittee today on the importance of moving forward with a positive U.S. trade agenda and resisting the forces of protectionism. It was precisely this concern that led 33 ECAT CEOs to join me in sending a letter to the President at the end of last year, stressing the need to pursue a positive trade agenda to promote the health of the U.S. economy. I would like to ask that a copy of the ECAT letter be entered into the record of this hearing.

Above all else, ECAT member companies believe that a policy of expanding U.S. international trade and investment through bilateral, regional, and multilateral negotiations is essential to a sustained U.S. economic growth and standards of living. American companies, both large and small, are operating in a global economy that is increasingly concentrated outside the United States. In fact, 96 percent of the world's consumers are located outside of the United States. With the lowering of trade barriers and technological advances, American companies are increasingly able to reach these consumers. As a result, trade accounts for one-fourth of our gross domestic product. The agribusiness sector in which Cargill operates is a perfect example of this, as the products coming from one-third of America's acres are exported. But this number could be greater if it were not for the Asian crisis.

Trade and investment have strengthened the U.S. economy by generating new economic activity here at home through research and development, and capital investments, as well as by creating better, higher paying jobs, as documented in ECAT's 1998 study, *Global Investments, American Returns*. The trade and foreign direct investment of American companies has complemented rather than reduced economic activity in the United States in areas such as research and development, and investment in physical capital. American firms engaging in international trade and investment have provided important new business opportunities in the United States as they purchase over 90 percent of their intermediate inputs for their products from U.S. suppliers. At the same time, the

foreign affiliates of American firms are an important market for U.S. product and services, accounting for 40 percent of U.S. exports. This new economic activity generated by U.S. trade and investment, promotes U.S. economic growth and higher U.S. standards of living overall.

The ECAT publication includes case studies from 10 ECAT member companies. Cargill's case study describes our fertilizer business that has production activities concentrated in the United States. Our fertilizers are distributed to more than 20 countries around the world. Our Florida facilities produce more than 4 million tons of phosphate per year, 75 percent of which is exported.

What this means in human terms is that our fertilizer trade supports approximately 1,500 jobs at Cargill, and an estimated 40,000 phosphate-related jobs in Central Florida. The company employees, whose jobs are supported by trade, do the best job of conveying the human side of trade.

In the fall of 1997, just before the expected vote on trade negotiating authority, Jim Johnson, a maintenance mechanic and past president of the local union from our fertilizer operation near Tampa, took time off from his job to come to Washington to tell Members of Congress what trade meant to his job and his son's job at our Tampa plant. He urged Members of Congress to support trade negotiating authority so that the United States would not be left behind while the rest of the world continues to form trade alliances to its advantage.

Jim hit the nail on the head, saying that the lack of trade negotiating authority kind of puts us in a position of having our tools around our neck instead of in our hands. Borrowing Jim Johnson's words, ECAT is concerned that unless the United States adopts a forward-looking, positive trade agenda, we will be left with our tools to expand trade investment around our necks, instead of in our hands. Simply put, the United States needs to press for our trading partners to take more challenging steps to open their borders to trade.

The increase in America's standard of living that has occurred since World War II would not have been possible without U.S. political and economic leadership and maintaining an open trading system that has produced a dramatic rise in world trade. As our economy has become more closely integrated into the world economy, it is more important than ever that the United States, as the leader of the current economic order, not abandon its over one-half century of leadership of the world trading system. The gains we have made over the past half century could be lost if we do not maintain our commitment to an open trading system, and resist domestic and global pressures toward protectionism.

The world achieved a great degree of global economic integration from the late 19th century until World War I. It was only in the early 1980's that the world reached and then exceeded the earlier level of international economic integration.

As chair of ECAT, I have made trade education a continuing ECAT priority. In order to move forward on a positive trade agenda, we must re-engage the support of Congress, the Administration, and American workers and their families for trade expansion.

Globalization is now an inescapable fact of life. We can't turn back the clock. While the global economic system is in its early stages in facing great challenges, it is up to us to have a positive leadership role that promotes greater economic opportunities for U.S. companies and their employees and their families. ECAT believes that a positive trade agenda should establish a clear set of objectives for the 1999 WTO Ministerial and a new round of WTO negotiations and commitments to achieve China's full integration into the international trading system and renewal of trade negotiating authority.

This year, as host of the 1999 WTO Ministerial, the United States has the opportunity to exercise its leadership in launching a new round of trade negotiations that will advance trade liberalization well into the 21st century. In order to achieve this result, the upcoming ministerial agenda must remain focused on trade liberalization, advance a reasonable framework and scope for the new round, and must promote new initiatives that will create momentum for liberalization. We believe the United States must take the lead in this effort.

U.S. business has an important role to play in ensuring the success of the ministerial, by encouraging the adoption in the United States of a positive agenda in making the case for the contributions of the WTO and to continuing trade liberalization.

ECAT is joining with the Business Roundtable and other U.S. business organizations through an ad hoc coalition on a WTO Ministerial to coordinate business support for ministerial activities. ECAT also supports early action on several items, including CBI Parity, the African trade bill, and the miscellaneous tariff bill because they are important in and of themselves and in order to create momentum for the action under the broader trade agenda. The African Growth and Opportunity Act would provide a valuable platform for increasing U.S. commercial ties with sub-Saharan Africa. The CBI Parity bill would benefit both the United States and Caribbean economies.

In pursuing a positive trade agenda, we must resist pressures to close our borders, despite the rising trade deficit. The world is watching us and the actions that we take. For instance, if we respond to rising steel imports, other than in accordance with procedures set out in our unfair trade remedies statutes and other than ways consistent with multilateral trading rules, we will set a dangerous precedent. Speaking both as chairman of ECAT and as CEO of a company that has a steel division, we must stand firm and reject protectionist measures or we will risk more retaliation.

The United States and its trading partners must face the pressures on the open trading system by acting in accordance with the rules of the multilateral trading system. The United States will not succeed in this regard without the cooperation of our trading partners.

So in summary, I and other members of ECAT, believe that efforts must continue to reach a bipartisan agreement on the extension of trade-negotiating authority that will ensure trade expansion into the 21st century. ECAT believes that armed with the positive trade agenda that we have outlined, Congress, the Administration, and the business community, will be best positioned to offer con-

structive alternatives to protectionist proposals. In both the short and the long-term, moving forward on a positive trade agenda gives us the greatest opportunity to guarantee that the trade and foreign direct investment of U.S. companies will continue to produce American returns in the form of greater U.S. economic growth and higher standards of living.

I appreciate the opportunity to present ECAT's views. I would be happy to answer any questions that Subcommittee Members might have.

[The prepared statement follows:]

Statement of Ernest S. Micek, Chairman and Chief Executive Officer, Cargill, Incorporated, Minneapolis, Minnesota, and Chairman, Emergency Committee for American Trade

INTRODUCTION

My name is Ernie Micek. I am Chairman and Chief Executive Officer of Cargill, Incorporated. Cargill is a privately-held agribusiness company founded over 130 years ago in Iowa. Today the company is headquartered in Minneapolis, Minnesota, and is involved in marketing, processing, and distributing agricultural, food, financial, and industrial commodities throughout the world. We have some 80,000 employees in more than 1,000 locations in 65 nations with customers and suppliers in approximately 130 more countries.

Cargill is an excellent example of why the United States needs to support an open trading system both at home and abroad. Just as greater trade and investment in overseas markets increasingly fuel growth in our national economy, Cargill's growth depends in large part on markets outside the United States. We need to be a global company to grow and succeed.

Today, I am testifying as Chairman of the Emergency Committee for American Trade on behalf of the heads of ECAT member companies, whose prosperity like Cargill's depends on the continued expansion of U.S. international trade and investment. ECAT members are major American companies with global operations and represent all principal sectors of the U.S. economy. The annual sales of ECAT member companies total over one trillion dollars and the companies employ approximately four million persons.

ECAT commends you, Mr. Chairman, and other Members of the Trade Subcommittee for your leadership on trade-expansion initiatives. I am pleased to have the opportunity to testify before the Trade Subcommittee today on the importance of moving forward with a positive U.S. trade agenda and resisting the forces of protectionism. It was precisely this concern that led 33 ECAT CEOs to join me in sending a letter to the President at the end of last year stressing the need to pursue a positive trade agenda to promote the health of the U.S. economy. I would like to ask that a copy of the ECAT letter be entered into the record of this hearing.

Before addressing the specifics of ECAT's views on the U.S. trade agenda, I want to discuss how the global trade and investment activities of American companies are producing significant returns for the U.S. economy.

GLOBAL INVESTMENTS, AMERICAN RETURNS

Above all else, ECAT member companies believe that a policy of expanding U.S. international trade and investment through bilateral, regional, and multilateral negotiations is essential to sustain U.S. economic growth and standards of living. American companies, both large and small, are operating in a global economy that is increasingly concentrated outside the United States. In fact, 96 percent of the world's consumers are located outside of the United States. With the lowering of trade barriers and technological advances, American companies are increasingly able to reach these consumers. As a result, trade accounts for one-fourth of our Gross Domestic Product. The agribusiness sector, in which Cargill operates, is a perfect example of this, as the products coming from one-third of America's acres are exported.

Trade and investment have strengthened the U.S. economy by generating new economic activity here at home through research and development and capital investments, as well as by creating better, higher-paying jobs. As documented in ECAT's 1998 study, *Global Investments, American Returns*, the trade and foreign direct investment of American companies have complemented rather than reduced

economic activity in the United States, in areas such as research and development and investment in physical capital. American firms engaging in international trade and investment have provided important new business opportunities in the United States, as they purchase over 90 percent of their intermediate inputs for their products from U.S. suppliers. At the same time, the foreign affiliates of American firms are an important market for U.S. products and services, accounting for 40 percent of U.S. exports. This new economic activity generated by U.S. trade and investment promotes U.S. economic growth and a higher U.S. standard of living overall.

I think the best way to communicate what this really means is to look at actual company case studies and the lives of company employees whose jobs depend on trade and investment. The ECAT publication includes case studies from 10 ECAT member companies. Cargill's case study describes our fertilizer business that has production activities concentrated in the United States and product distributed to more than 20 countries around the world. Our Florida facilities produce more than four million tons of phosphate per year, 75 percent of which is exported. Cargill's phosphate exports enable us to operate the Florida facility 24 hours-a-day, 365 days-a-year. If we had to rely on the U.S. market alone, our Florida plant would sit idle for most of the year and our production costs would increase.

What this means in human terms is that our fertilizer trade supports 1,450 jobs at Cargill and an estimated 40,000 phosphate-related jobs in Central Florida. The company employees whose jobs are supported by trade do the best job of conveying the human side of trade.

In the fall of 1997, just before the expected vote on trade-negotiating authority, Jim Johnson, a maintenance mechanic and past president of a local union from our fertilizer operation near Tampa, took time off from his job to come to Washington to tell Members of Congress what trade meant to his job and his sons'; jobs at our Tampa plant. Jim urged Members of Congress to support trade-negotiating authority, so that the United States would not be left behind while the rest of the world continues to form trade alliances to its advantage. Jim hit the nail on the head, saying that the lack of trade-negotiating authority "kind of puts us in a position of having our tools around our neck instead of in our hands."

A Positive Trade Agenda

Borrowing Jim Johnson's words, ECAT is concerned that unless the United States adopts a forward-looking, positive trade agenda, we will be left with our tools to expand trade and investment around our neck instead of in our hands. The increase in America's standard of living that has occurred since World War II would not have been possible without U.S. political and economic leadership in maintaining an open trading system that has produced a dramatic rise in world trade. As our economy has become more closely integrated into the world economy, it is more important than ever that the United States not abandon its over half-century of leadership of the world trading system.

The gains we have made over the last half-century could be lost if we do not maintain our commitment to an open trading system and resist domestic and global pressures toward protectionism. The world achieved a great degree of global economic integration from the late 19th century until World War I, during which time international trade and investment reached high levels. This period was followed by decades of global fragmentation caused by political conflicts, as well as protectionist trade policies such as the prohibitive U.S. Smoot-Hawley tariffs that helped bring on the depression of the 1930s. It was only in the early 1980s that the world reached and then exceeded the earlier level of international economic integration.

Trade Education. As Chair of ECAT, I have made trade education a continuing ECAT priority. In order to move forward on a positive trade agenda, we must reengage the support of the Congress, the Administration, and American workers and their families for trade expansion. ECAT's trade education initiative, called TradeWorks, is intended to rebuild the support of American workers, Congress, and the Administration for an open trade system and continued trade liberalization. It aims to achieve this objective by doing a better job of explaining why and how the global activities of American firms promote U.S. living standards and benefit the lives of company employees. First, it is seeking to broaden understanding of the critical role of both trade and investment in promoting economic growth and higher living standards in the United States. Toward this end, ECAT's study, *Global Investments, American Returns,* details the benefits that flow to the U.S. economy from trade and foreign direct investment. Second, the project is developing a set of educational materials and an efficient delivery system that will enable ECAT member companies to educate their workers, communities, and elected officials about the ways in which their worldwide operations help to raise U.S. living standards, and

inform them about how international trade and investment better their lives. The name "TradeWorks" is taken from Cargill's own trade education program and conveys the simple idea that trade works to make our lives better.

Elements of A Positive Trade Agenda. In this time of global economic challenges, the United States must lead by example in keeping its markets open and pursuing a positive trade agenda that promotes greater economic opportunities for U.S. companies and their employees and their families. ECAT believes that a positive trade agenda should establish a clear set of objectives for the 1999 WTO Ministerial and the new round of WTO negotiations, and commitments to achieve China's full integration into the international trading system and the renewal of trade-negotiating authority.

ECAT also supports early action on several items, including CBI Parity, the Africa trade bill, and a miscellaneous tariff bill, because they are important in and of themselves and in order to create momentum for action on the broader agenda. The African Growth and Opportunity Act would provide a valuable platform for increasing U.S. commercial ties with sub-Saharan Africa. The CBI-Parity bill will benefit both the U.S. and Caribbean economies. CBI Parity can be an important part of rebuilding the economic infrastructure of Caribbean nations devastated by Hurricane Mitch.

In pursuing a positive trade agenda, we must resist pressures to close our borders despite the rising trade deficit. The world is watching us. If we respond to rising steel imports other than in accordance with procedures set out in our unfair trade remedy statutes and other than in ways consistent with multilateral trading rules, we will set a dangerous precedent. Speaking both as Chairman of ECAT and as CEO of a company that has a steel division, we must stand firm and reject protectionist measures.

ECAT's views on the major elements of this agenda are set out below.

THE 1999 WTO MINISTERIAL: LAUNCHING A NEW WTO ROUND

This year as host of the 1999 WTO Ministerial, to be held in Seattle, Washington, the United States has the opportunity to exercise its leadership in launching a new round of trade negotiations that will advance trade liberalization well into the next century. In order to achieve this result, the upcoming ministerial agenda must remain focused on trade liberalization, must advance a reasonable framework and scope for the new round, and must promote new initiatives that will create momentum for liberalization.

The Seattle Ministerial. It is important that the United States work to ensure that the Seattle ministerial meeting is successful in producing a positive framework and agenda for the launch of the new round and in reinforcing both domestic and international support for the multilateral trading system.

To create a positive framework for the new round, the focus of the ministerial agenda must be kept on trade expansion. The agenda should not be sidetracked by divisive issues such as labor, environment, competition policy, and investment on which there is little hope of gaining consensus within the WTO. On labor and environment, the United States should assume a constructive role and emphasize ways in which international cooperation and consensus may best be achieved. For example, the United States is pursuing an appropriate course on labor issues by increasing its support for the ILO and focusing its efforts to achieve a consensus on labor issues within that organization. If the United States allows contentious issues to dominate the ministerial, confidence in the global trading system and U.S. leadership will be undermined.

To be successful, the ministerial agenda should also include a renewed effort to broaden WTO membership to include those emerging economies that are not yet subject to WTO rules. China, the largest emerging economy in the world, must be brought into the multilateral trading system. Its admission to the WTO on the basis of a commercially-acceptable protocol of accession should be given top priority on the ministerial agenda. The continuing financial instability in Asia and the slowdown in the global economy make it more critical than ever that China be subject to WTO rules and a participant in sectoral liberalization initiatives.

Reaching an agreement on sectoral market access initiatives, such as the negotiations on the nine sectors covered under the Early Voluntary Sector Liberalization (EVSL) negotiations, at the time of the ministerial would help to make it a success and would provide momentum for liberalization negotiations in the new round. The EVSL initiative would result in the elimination of tariffs in chemicals, toys, medical equipment and scientific instruments, energy, fish and fish products, and forestry sectors in global trade. Similarly, progress at the ministerial in negotiations to re-

move non-tariff barriers in the information technology sector would also promote a successful meeting.

U.S. business too has a role to play in ensuring the success of the ministerial by encouraging the adoption of a positive agenda and making the case for the contributions of the WTO in continuing trade liberalization. ECAT is joining with the Business Roundtable and other U.S. business organizations through an ad hoc coalition on the WTO ministerial to coordinate business support for ministerial activities.

A WTO ministerial that produces a positive agenda backed by consensus will send a strong signal to global markets about the strength and vitality of the open trading system. A successful ministerial will encourage emerging economies to stay the course on trade liberalization.

Success in Seattle will reinforce domestic support for the WTO. Under the Uruguay Round Agreements Act, the Administration is required to report to Congress next year on how the WTO has worked for American interests in the first five years of its operation. The law also provides that Congress can vote to revoke U.S. membership in the WTO if the WTO dispute settlement body rules against the United States three times in any five-year period. It is essential that the Administration be able to submit a positive report on the benefits of the WTO following a highly successful U.S. ministerial meeting.

Finally, if the ministerial produces a trade-liberalizing agenda, U.S. support will build for renewal of trade-negotiating authority. One of the factors that has hindered progress on renewal has been the lack of a specific articulation of negotiating objectives. The Administration, the Congress, and the private sector are now engaged in the process of developing negotiating objectives for the new round, which will clarify areas in which negotiating authority is necessary.

Standstill Commitment. To help U.S. trading partners resist the adoption of protectionist measures in response to global economic pressures, the United States should take the lead in urging that WTO members enter into a standstill on trade restrictive measures in advance of the ministerial. The United States could then propose that WTO members formally adopt a standstill commitment at the ministerial. Such a commitment would help safeguard the liberalization achieved under the Uruguay Round and subsequent sectoral negotiations and provide a positive foundation for future liberalization in the new round.

Scope and Framework for Negotiations. A new round should be broad in scope, including negotiations mandated under the built-in agenda on agriculture and services, as well as negotiations to reduce industrial tariffs, promote business facilitation, and improve transparency in government procurement. The scope of the negotiations should also be flexible to allow the later inclusion of sectors or issues that are not currently ripe for negotiation.

Negotiations should generally adhere to the WTO model of a "single undertaking" that requires all WTO members to observe the final agreements reached in a new round. At the same time, the framework for the new round should allow for agreements to be implemented as soon as they are finalized, rather than require that their implementation be delayed until all agreements are completed, as was the case in the Uruguay Round. It is also important to establish timetables to ensure that negotiations yield positive results within reasonable time periods.

ECAT's views on the major areas that should be included in a new round are provided below.

1. *Agriculture*. The agriculture negotiations should aim to secure substantial, progressive reductions in support and protection, including deep cuts in bound tariff rates and the elimination of export subsidies. Negotiations should seek a reduction in average tariff bindings over six years by 50 percent from current levels. Tariff peaks should be reduced to levels that will not prohibit imports. Negotiations should clarify that tariff-rate quotas are transitional measures and provide for their phase-out. Sectoral zero-for-zero tariff agreements should also be encouraged.

The agriculture negotiations should seek a reduction in the aggregate measure of support beyond the Uruguay Round level. The United States also should seek to eliminate the monopoly control of state trading entities (STEs) and discipline their behavior.

In connection with the launch of the agriculture negotiations, the Seattle ministerial declaration should endorse the initiative being developed within APEC to establish a global "open food system." The initiative calls for putting the reform of food and agricultural policies at the top of the U.S. and global trade agendas. It is based on the premise that encouraging greater reforms in agricultural policies and promoting a more efficient global food system will encourage global economic development, as well as broader trade and investment in the goods and services sectors. The United States should advocate the establishment of a WTO working party to discuss the creation of a global "open food system."

2. *General Agreement on Trade in Services (GATS)*. The United States should pursue new negotiations to liberalize trade in services, particularly financial services, as part of a new round. Further liberalization of services trade will enhance global growth, assist developing countries in obtaining the necessary infrastructure to sustain development, and help restore investor confidence in global markets.

One of the primary objectives of the services negotiations should be to encourage the creation of transparent, impartial regulatory regimes in local markets. The creation of such regimes is essential to make the GATS national treatment and market access commitments meaningful.

In seeking expanded liberalization commitments, the United States should aim to limit reservations to the greatest degree possible. The United States should seek commitments to ensure national treatment and the right of establishment, eliminate restrictions on cross-border transactions, promote pro-competitive regulatory reform, and remove obstacles to the free movement of business personnel.

3. *Market-Access Negotiations*. The new round should include market-access negotiations to remove tariff and non-tariff barriers in a wide range of industrial sectors. The negotiations should include efforts to achieve tariff reductions in the nine EVSL sectors to the extent such reductions have not been finalized by the time of the ministerial. The market-access negotiations should also cover the six additional sectors identified in APEC for further liberalization, particularly food products.

Textile and apparel tariffs, which remain very high relative to other industrial products, should also be included in market-access negotiations, with the goal of seeking further reductions before the termination of textile and apparel quotas in 2005. Finally, the negotiations should encompass efforts to broaden membership in the Chemical Tariff Harmonization Agreement (CTHA), with the understanding that no further reductions in chemical tariffs should be considered until all major chemical-producing nations are fully committed to the CTHA.

4. *Trade Facilitation*. ECAT strongly supports the inclusion of business-facilitation issues on the ministerial agenda. The United States should seek a WTO agreement on trade facilitation that would encompass the adoption of a binding WTO agreement based on the rules contained in the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention), a work program on trade facilitation, and a commitment to simplify rules of origin. The United States should encourage the WTO to focus its trade-facilitation efforts on customs procedures and advocate the establishment of a WTO working group on the harmonization and simplification of customs procedures. The United States should also support the simplification and harmonization of non-preferential rules of origin so that they no longer create unnecessary trade impediments.

5. *Government Procurement*. ECAT supports U.S. efforts to bring more countries into the WTO Procurement Agreement, to broaden its coverage, and to negotiate an agreement on transparency in procurement. The United States should seek to conclude an agreement on transparency by the time of the ministerial. It should include requirements regarding the transparency of procurement laws and regulations, adequate notice of bidding opportunities, use of objective criteria in preparing bid specifications and in evaluating bids, adequate dispute settlement, and WTO notification of preference levels.

The transparency provisions of the Government Procurement Agreement should be harmonized with the text of a new transparency agreement.

CHINA'S ACCESSION TO THE WTO

Securing China's accession to the WTO on the basis of a commercially-viable protocol of accession is a priority for ECAT. The United States can no longer afford to have China, as the largest emerging economy in the world, outside of the global trading system. Fully integrating China into the global trading system will help to ensure that it plays a positive role in the global economy and provides broader market access for U.S. goods, services, and agriculture. China's accession to the WTO would be read by financial markets throughout the world as a vote of confidence in the international economy. It would also send a powerful signal to other Asian emerging economies about the value of maintaining open markets and adhering to multilateral trading rules in restoring global economic stability and growth.

In advocating China's WTO membership, ECAT does not believe it should be at any price. China must be willing to make the necessary economic reforms and market-access commitments to create a commercially-viable protocol of accession that provides meaningful market access for U.S. goods, services, and agriculture. These commitments must be in addition to China's full implementation of existing liberalization commitments. If China agrees to such a protocol, the United States should

support China's WTO membership and request that the Congress approve the permanent extension of normal trade relations (NTR) status to China.

China's market holds enormous potential for U.S. goods, services, and agricultural exports. Since 1979, when the United States first extended most-favored-nation treatment to China, U.S. exports of goods and services have grown nearly twenty times, reaching $18 billion last year. Over the same time period, U.S. investment in China has grown to $25 billion. U.S. exports to China support more than 200,000 jobs in the manufacturing and agricultural sectors, as well as tens of thousands of jobs in the U.S. retail, services, transportation, marketing, consumer goods, and telecommunications sectors.

The United States has just begun to scratch the surface of the China market. China is already the fourth largest market for U.S. agricultural exports. In recent years, China has imported large quantities of U.S. grains, cotton, poultry, vegetable oils, and other agricultural products. The American agricultural community views China as its most important growth market for the twenty-first century.

There is vast potential too for further sales of U.S. non-agricultural products and services. Even allowing for the impact of the Asian financial crisis, the purchasing power of China's middle class is expected to rise dramatically over the next decade. China also has huge developmental needs to improve the living standards of its population and is committed to spending over $750 billion on infrastructure over the next decade.

Cargill has a substantial stake in the China market, as it is one of our largest markets for grain, proteins, fertilizers, and other agricultural commodities. Until recently, when a controversy arose over the presence of a fungus, TCK smut, in certain U.S. wheat, China was buying on average of 8- to 10-million tons of grain per year. Cargill also ships orange juice and phosphate fertilizer to China from our plants in Florida and exports cotton, corn, soybeans, soybean products, and meat to China. Cargill has investments in animal-feed plants, a bulk fertilizer plant, and a soybean-crushing plant in China and employs over 500 people in China.

Doing business in China presents great challenges because of poor infrastructure and extensive market restrictions, including high tariffs, discriminatory sanitary and phyto-sanitary standards, and government control of pricing and distribution, as well as restrictions on trading rights. China's WTO accession offers the opportunity to negotiate firm commitments to remove such barriers and to secure further market access.

The United States and China have an important window of opportunity early this year to reach a final agreement on the terms of China's accession to the WTO. If an agreement is not reached within the next few months, there is a real risk the process will be delayed for several years. Securing an early agreement on a commercially-viable protocol of accession must remain a priority on the U.S. trade agenda.

RENEWAL OF TRADE-NEGOTIATING AUTHORITY

Renewal of the President's trade-negotiating authority is also an integral part of a positive trade agenda, as it provides the basic infrastructure necessary to achieve further trade liberalization and other trade policy objectives. Over the past 25 years, the legislative extensions of trade-negotiating authority have been the primary mechanism for the executive and legislative branches to come together on a bipartisan basis to carry forward U.S. trade policy objectives. No mechanism has been created to take the place of this process since the expiration of the last extension of negotiating authority in 1994. As a result, a vacuum has been created and U.S. trade policy remains stalled, jeopardizing U.S. leadership in the global trading system and endangering the continued expansion of trade and investment.

ECAT is recommending that the WTO ministerial and the launching of a new round be used as the rationale for a new positive trade agenda, even in the absence of trade-negotiating authority. While the United States may be able to move forward through the ministerial and immediate post-ministerial period without negotiating authority, our ultimate liberalization objectives cannot be achieved without it.

The Seattle WTO ministerial offers the United States the opportunity to reassert its leadership within the WTO; however, unless the President is granted negotiating authority for agriculture, services, and any other areas to be included in a new round, the United States risks being left on the sidelines. Absent negotiating authority, it will be difficult for the United States to credibly participate in the new-round negotiations and achieve further liberalization in sectors of greatest interest to the United States. Our trading partners will reap the advantage.

Renewing trade-negotiating authority is also necessary for the United States to reassert its leadership in regional trade negotiations such as the Free Trade of the Americas (FTAA) and the Asia Pacific Economic (APEC) Forum. Although the FTAA

negotiations have been launched, serious questions remain whether our Latin American trading partners will be willing to enter into substantive negotiations beyond trade facilitation measures before the United States has trade-negotiating authority. In addition, the lack of U.S. negotiating authority has given Brazil the opportunity to expand the Mercosur arrangement and to solidify its influence in shaping the trade agenda within the FTAA.

Trade-negotiating authority is also essential to continue the sectoral liberalization process that the United States is encouraging through APEC under the 15 sectors identified under the EVSL initiative. The United States will not be able to implement fully the tariff reductions agreed to in the nine sectors covered under the EVSL initiative or the other six sectors that may be the subject of future negotiations. Similarly, the United States may lack authority to implement fully an agreement to reduce non-tariff barriers in the information technology sector under a second Information Technology Agreement (ITA II).

The absence of a forward-looking trade policy backed by a grant of trade-negotiating authority is taking its toll on the competitiveness of U.S. goods, services, and agriculture. Since the expiration of negotiating authority in 1994, regional preferential trade arrangements among our competitors in Europe, Latin America, and Asia have mushroomed, putting U.S. products at an increasing disadvantage. For example, U.S. agricultural exports are losing out to South American competitors as a result of the preferential tariffs they enjoy under the Mercosur Agreement. Our Canadian, Asian, and European competitors are also continuing to gain advantage over the United States as they negotiate their own preferential arrangements with Latin American countries. The European Union has begun free-trade negotiations with Mexico and is close to initiating free-trade negotiations with Chile and Mercosur. It is also negotiating preferential agreements on standards with Asian countries. Canada now has its own free trade agreement with Chile, has entered into a cooperation agreement with Mercosur, and is rapidly expanding its market access in Latin America, thereby increasing the competitive challenge posed by Canadian exports to U.S. manufactured and agricultural exports.

While we must not delay progress on developing other U.S. trade policy priorities in the absence of trade-negotiating authority, we must continue our efforts to build bipartisan support for such authority.

THE CHALLENGES AHEAD

The United States and its trading partners must face the pressures on the open trading system by acting in accordance with the rules of the multilateral trading system. The United States will not succeed in this regard without the cooperation of our trading partners. For this reason, ECAT believes that the United States should call upon its trading partners to support a standstill on the imposition of trade-restrictive measures in advance of the Seattle Ministerial that will be formally adopted at the ministerial.

The United States must also ensure that the integrity of the WTO and its dispute settlement process is maintained by insisting that the European Union and other major trading partners uphold the decisions of WTO dispute settlement panels. In preparing for the next ministerial and the possibility of a new round of multilateral negotiations, the United States must ensure that the framework and results of such negotiations strengthen WTO rules and expand market access for U.S. goods, services, and agriculture.

In seeking a more constructive bilateral relationship with China, the United States faces the complex challenge of securing China's entry into the WTO on the basis of a commercially-viable protocol of accession, at a time when China is renewing its efforts to repress dissent and is imposing new restrictions on trade and investment.

I and the other members of ECAT also believe that efforts must continue to reach a bipartisan agreement on the extension of trade-negotiating authority that will ensure trade expansion into the twenty-first century.

Time will tell whether we will be able follow Cargill's Jim Johnson's advice about getting our trade policy tools from around our necks and into our hands. ECAT believes that armed with the positive trade agenda that we have outlined, the Congress, the Administration, and the business community will be best positioned to offer constructive alternatives to protectionist proposals. In both the short and long term, moving forward on a positive trade agenda gives us the greatest opportunity to guarantee that the trade and investments of U.S. companies will continue to produce American returns in the form of economic growth and higher living standards.

I appreciate the opportunity to present ECAT's views and I would be happy to answer any questions subcommittee members may have. I would also like to ask that ECAT's comments to USTR on the 1999 WTO Ministerial agenda be entered into the record of this hearing.

Chairman CRANE. Thank you, Mr. Micek.

Mr. Condit.

STATEMENT OF PHILIP M. CONDIT, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, BOEING COMPANY, SEATTLE, WASHINGTON, AND CHAIRMAN, INTERNATIONAL TRADE AND INVESTMENT TASK FORCE, BUSINESS ROUNDTABLE

Mr. CONDIT. Mr. Chairman, and Members of the Subcommittee, good morning. My name is Phil Condit. I am chairman and CEO of Boeing Company. I also have the privilege of serving as the Business Roundtable's chairman of the Trade and International Investment Task Force. It is my privilege to offer our views on the future direction of U.S. trade policy. I have asked that my written testimony be submitted in the record. I will just summarize my key points.

I would also like to introduce the gentleman to my left, Mr. Barry Baszile, who is president of Baszile Metals Service, and aerospace supplier who has come from Los Angeles to testify this morning. He is the perfect example of a small business that depends heavily on trade. I will let him tell his story.

Mr. Chairman, the United States clearly faces a number of fundamental choices on the direction of trade policy. Despite the fact that trade has never been more important to this Nation's economic growth, there continue to be questions on the wisdom of these efforts, the efforts to expand trade by negotiating new agreements and trying to break down barriers to U.S. exports.

I would venture that those views are based upon concerns about whether trade benefits people broadly in the United States, whether U.S. firms and employees are actually benefiting from trade agreements, given the problems with compliance and enforcement. Clearly these are legitimate concerns. In fact, they must be addressed if we are to work together to build a national consensus for trade and continue to fuel our Nation's economic growth.

Mr. Chairman, I would argue that America's trade agenda must be based on a set of fundamental principles. Let me see if I can outline what I believe those principles need to be. Principle No. 1. America must recognize the reality of a global economy and develop the trade and investment policies that enable us to navigate through the complexities of this global system. That involves both the financial institutions that are required to promote international economic stability, and the review of U.S. laws and regulations, including sanctions and trade statutes that ensure that they do not unnecessarily impede the ability of U.S. agriculture, industry, and their employees to compete in world markets.

Principle No. 2. We must reaffirm U.S. leadership. The United States is the leader, and the world is looking to the United States for leadership.

Principle No. 3, and probably the most important. Rules matter. The economic system of the world must be based on a rules-based system. Compliance and enforcement of those rules are required if this system is to work.

Principle No. 4. Business must be a force for positive change in the global economy. We must contribute to implementing a trade policy that is win-win. That means we must work together to make sure that that global system benefits all.

Mr. Chairman, while there are many issues that you and this Subcommittee will be considering, I would like to mention two in particular. The first is that we have a great opportunity to continue the process of trade liberalization and improve the rules during the upcoming WTO Ministerial in Seattle. This is the first time that ministerial will be held in the United States. It is a unique opportunity to demonstrate U.S. leadership and introduce a new round of trade negotiations.

Second. The strength of the multilateral trading system depends on all key players being part of the system. I believe that it is strongly in our benefit to work hard to include China in that world trading system on a commercially meaningful basis. That will be a difficult and important negotiation, but one I believe is a real opportunity in the months ahead.

I commend the Subcommittee for taking the important and leadership steps toward building a consensus that is required by holding this hearing. Thank you very much.

[The prepared statement follows:]

Statement of Philip M. Condit, Chairman and Chief Executive Officer, Boeing Company, Seattle, Washington, and Chairman, International Trade and Investment Taskforce, Business Roundtable

Mr. Chairman, Members of the Subcommittee, good morning. My name is Philip Condit. I am Chairman and CEO of The Boeing Company. I also have the privilege of serving as the Chairman of the Business Roundtable International Trade and Investment Task Force.

I want to thank you for providing me and The Business Roundtable with the opportunity to share our views on the future direction of U.S. trade policy. Mr. Chairman, I would ask that my written testimony be submitted for the record and that I summarize the key points. I would also like to introduce Mr. Barry Baszile, President of Baszile Metals Services, who has come to Washington, D.C. from Los Angeles to testify with me today. Mr. Baszile is one of Boeing's small business suppliers and is a terrific example of how when Boeing exports its products to international customers, the benefits extend throughout the U.S. economy.

Mr. Chairman, the United States today faces a number of fundamental choices in the direction of its trade policy. Despite the fact that trade has never been more important to this nation's economic growth, some continue to question the wisdom of efforts to liberalize trade. I would venture that their views are based upon concerns about whether the benefits of trade are broadly shared and whether U.S. firms and workers are actually benefiting from trade agreements.

These are clearly legitimate concerns and need to be addressed. In fact, they must be addressed if we are to work together to rebuild a national consensus for trade and fuel the nation's economic growth.

I. AMERICA MUST REACH NEW TRADE AGREEMENTS TO PROSPER

Over the last several decades, successive Congresses and Administrations working together on a bipartisan basis have made significant and admirable progress in breaking down foreign trade barriers, benefitting our companies, workers, farmers and the country as a whole. However, the ever-changing global economy continually presents new opportunities and challenges. The United States must reach out for these opportunities and meet these challenges. To do so, the United States must continue to pursue trade liberalization, especially through new international agree-

ments. If we are not in the vanguard, we risk falling behind other countries that are pursuing their own agendas.

International trade agreements are needed to open foreign markets for American companies, workers and farmers. The United States has been the leader in working for open markets because we know that, with our market the most open in the world, and with our companies, workers and farmers the world's most competitive, we have the most to gain from removing foreign barriers to our goods and services through trade agreements and the most to lose if such barriers persist.

However, despite recent trade agreements and improvements in world trade rules, foreign barriers remain and new ones continue to be erected. Many countries still impose significant tariffs on our exports. In an increasingly competitive global economy, these "taxes" can make the difference between success and failure in foreign markets.

Moreover, as tariffs and traditional non-tariff barriers to our goods and services exports have fallen, new problems have emerged. For example, inadequate intellectual property protection, customs, and standards-related and other regulatory barriers have become a new set of problems for U.S. exporters and their workers. Our agricultural exports continue to face tariff and non-tariff barriers. Recent agreements have partially resolved some of these problems, but more progress is needed.

Some interest groups have argued that given the deterioration in the U.S. trade balance in 1998, this is no time to begin new liberalization initiatives. But this is the wrong way to look at the issue. Launching new trade negotiations has the potential to stimulate economic growth in countries whose economies are suffering. That will, in turn, boost demand for American exports.

The United States must lead in promoting trade liberalization for the undeniable reason that today we live in a global economy. The United States is the world's largest exporter. Our total exports were $931 billion in 1998. Total trade—imports plus exports—accounted for over $2 trillion in business activity, or nearly 24 percent of the size of the U.S. economy. More than 95 percent of the world's consumers live outside the United States, and the world's fastest-growing and most promising new markets are spread across the globe. There is no way that the United States can have a bright economic future if we do not actively pursue these foreign customers and markets.

Trade is good for our economy, good for business, good for workers, good for farmers and good for consumers American companies, workers, and farmers have worked hard to compete in the global economy, and the United States has seen the positive results. U.S. exports continue to rise at an impressive pace—between 1996 and 1998, real exports were up 30 percent from the 1993–1995 period. These exports are the engine driving economic growth and job creation in the United States. Export growth has accounted for about 27 percent of the nation's overall economic growth over the past ten years. During this time export growth outpaced the expansion of the economy as a whole. U.S. exports did slow in 1998 because of the Asia economic crisis, which highlights the reality that U.S. economic growth and stability depends increasingly on access to international markets.

I have heard a lot of talk that trade is good only for big companies. This is just not the case as Mr. Baszile will explain in greater detail. Small- and medium-sized companies are active exporters too. In addition to directly exporting, many small- and medium-sized companies also supply large companies with products and services that are used in the production of exports. These suppliers are what we have referred to in the past as the invisible exporters.

Trade is also good for American workers. Approximately 12 million U.S. jobs are supported by exports. Exports account, directly or indirectly, for about one in ten civilian jobs in the nation and about one in five manufacturing jobs. These export-related jobs are high-wage jobs. They typically pay 13 to 16 percent more than the average compensation.

The United States cannot, and should not, ignore the real effects of job loss for individuals, regardless of the cause. But trying to freeze the U.S. economy in place is impossible and would not be in the interest of this or future generations. The United States needs to ensure that all Americans earn the education and learn the skills they need in order to be competitive in the global economy.

Exports are particularly important for the nation's farmers. As a whole, the U.S. agricultural sector is more than five times as reliant on foreign trade as the U.S. economy. U.S. agriculture exports hit a record $60 billion in 1996 but have fallen since then due to economic crises and recessions in Asia and Latin America.

Imports are also important to consumers by contributing to a vibrant, competitive economy and high standards of living. Imports can help keep inflation in check, which often translates into low interest rates, high investment, and hence high job creation. Imports also give consumers a greater choice of goods and services, includ-

ing those not available domestically. They create jobs in areas such as retail, distribution, ports and transportation. Imports allow U.S. companies and employees to use the best technology from around the world, increasing their productivity and competitiveness and therefore leading to higher wages and creation of more U.S. jobs. Moreover, imports encourage competition and innovation.

Because the United States is the world's most competitive nation, it has the most to gain from the global economy and from trade liberalization. In the 1980s and early 1990s, conventional wisdom held that the United States had been overtaken by Japan and Germany and might never regain its place as an economic leader. Today, the United States is back on top. Our economy has been growing faster than those in Europe and Japan. We are the world's biggest exporter of both goods and services. We have the highest budget surplus (as a percentage of gross domestic product) of any G–7 economy except Canada. We have created more net jobs in the past few years than all other G–7 nations combined, and our unemployment rate is below that of every other major industrial economy except Japan.

The United States has the world's largest economy, the most productive employees, the best technology, and the most innovative people. That is why it is considered to be the most competitive large country in the world, as recently confirmed by the *Global Competitiveness Report* from the World Economic Forum. The United States is highly competitive in a range of important industries, such as: semiconductors, computers, computer software, aerospace equipment, applied materials, biotechnology, construction equipment, telecommunications and other information-based equipment and services, financial services, information services and entertainment. These are the technologies of today—and of the 21st century.

The United States has done so well because its companies and workers have aggressively sought out the opportunities presented by the global economy. The U.S. Government needs to continue negotiating new international trade agreements and enforce existing agreements to ensure that U.S. companies and workers, and the products and services they produce, are given the opportunity to compete fairly and to prosper in the global economy. The United States has nothing to fear from a rules-based trading system.

Because trade is so economically vital, the direction and execution of U.S. trade policy can make a big difference. The decisions that this Committee and the Congress will make in 1999 will have ramifications for decades to come. Recognizing this, we appreciate the opportunity to offer some views from the business community.

II. U.S. Trade Policy Should be Keyed to Principles

In defining a trade agenda that will ensure U.S. competitiveness, as we enter a new century, U.S. policymakers can be helped by orienting principles.

The four principles are:

1. *Given the reality of the global economy, the United States needs trade and investment policies to navigate through the complexities of a global system and ensure that trade achieves its intended purpose—to raise American and global living standards.* The U.S. Government needs to continue to be a powerful advocate for U.S. exports, both in terms of political support and programs to support U.S. exports. At the international level, there is a need for effective global financial institutions to promote international economic stability. Within the United States, there is a need for periodic review of U.S. laws and regulations—including sanctions and trade statutes to ensure that they do not unnecessarily impede the ability of U.S. agriculture, industry, and their employees to compete in world markets.

2. *U.S. leadership is critical.* For the last 50 years, the United States has led the effort to liberalize trade, and the United States and our trading partners have benefited both economically and strategically. Continued efforts to liberalize trade will require U.S. leadership.

3. *The rules-based trading system is the foundation of the global economy and enforcement of the rules is the basis for public trust and support for U.S. involvement in the global economy. The strength of the rules-based World Trade Organization (WTO) system also lies in its inclusiveness and transparency.* Compliance with, and enforcement of, the rules governing trade is key to sustaining support for further trade liberalization. This applies to the WTO as well as bilateral rules under agreements negotiated between the United States and other countries. Furthermore, given the importance of the rules-based WTO system, aggressive efforts should be made to incorporate into the system trading partners that have demonstrated a commitment to WTO principles and trade liberalization.

4. *Business is a key driver in the global economy and must be a force for developing and implementing a trade policy that is no longer viewed as a zero sum game.*

Nations pursue trade to benefit their citizens. Business must work together with government to create a global trading system that provides benefits to more individuals in society and accommodates the interests of a broader range of stakeholders. Business must also ensure that the stakeholders clearly understand the importance of trade to their future. The best way to assure that trade is a win-win for a broader group of Americans is by training and upgrading the skills of the workforce, enforcing international trade rules and, when necessary, ensuring that companies and employees have access to appropriate import relief procedures and remedies.

Mr. Chairman, we believe that these principles will help government officials in gaining public support for ambitious market opening initiatives. Attention to principles can also help trade negotiators assure that the policies being pursued are internally consistent and mutually reinforcing.

III. The Agenda: Strengthening the World Trading System and Expanding Coverage to New Players

While there are many issues over which you and the Subcommittee will be deliberating during the weeks and months ahead as you define America's trade agenda, I would like to focus on two critical issues that go to the heart of what will continue to be the strength of our trade policy—that is, the rules-based trading system. These include: (1) launching a new round of trade negotiations at the WTO Ministerial meeting this fall in Seattle; and (2) bringing China into the trading system on commercially meaningful terms.

The Urgency of WTO Negotiations

Initiating new multilateral trade negotiations in the WTO is vital for the United States and the global economy. Since the Uruguay Round negotiations were completed in 1993, the benefits of open trade for consumers and workers have been amply demonstrated. The new WTO has provided a framework for carrying on negotiations in selected sectors, for settling disputes, and for promoting communication between governments and stakeholders in the private sector. This record demonstrates that the trading system works. Now it is time to begin new negotiations to remove remaining barriers to trade and investment. Efforts are also needed to improve the WTO's rules and its dispute resolution process.

It is important to launch new world trade negotiations in 1999 and not to allow differences in economic performance among countries, or election cycles their, delay start. The world waited seven years between the GATT Tokyo Round and the Uruguay Round. But today economic constant communication electronic commerce change is much more rapid. Because markets respond so quickly in our global economy, trade negotiations begin to generate economic benefits very quickly. Thus, further delay in starting new negotiations will postpone the economic stimulus that successful trade negotiations can deliver. Even worse, a lack of momentum for new trade talks may lead some governments to renege on previous liberalization commitments.

Although some have criticized the WTO, the fact is that the WTO is an organization of governments who cooperate to reduce trade barriers and eliminate improper trade discrimination. A strong, successful WTO is in the U.S. interest because this rules-based system can be used to confront governments that discriminate against Americans who export goods, services, and capital investments.

The WTO Ministerial to begin in Seattle on November 30 offers an opportunity for the U.S. Government to promote the launching of new WTO negotiations. This is the right moment to start new talks because the experience of the last few years shows several areas in which current WTO agreements can be built upon and improved. To assist trade negotiators in crafting an agenda for new WTO negotiations, we offer several recommendations for how U.S. interests can be best advanced.

Suggested Agenda for New WTO Negotiations

In considering what a new WTO negotiation should accomplish, it helps to divide the issues into two categories:

- the built-in agenda that carries forward ongoing negotiations, and
- review and strengthening of various WTO agreements.

By distinguishing these two categories, it may become clearer to policymakers and the public that much of what needs to be done within the WTO, at this time, is not the development of new rule-based agreements, but rather the continuation of the unfinished business of the Uruguay Round. This requires the completion of current negotiations and the adjustment of Uruguay Round agreements based on the experience of the first five years of operation.

The improvement of current WTO agreements is especially important to preparing the world trading system for the 21st century. Although the Uruguay Round included a number of trade agreement milestones, the full potential of these agreements has not yet been achieved. Rather than devoting resources to the negotiation of entirely new WTO agreements, it may be best for governments to focus on improving existing disciplines.

Governments should aim to keep the overall negotiating process flexible regarding the implementation of new decisions. In the past, the operating procedure in trade negotiations was that nothing is decided until everything is decided. Yet the more structured WTO decisionmaking mechanisms may provide a way to implement agreements in individual areas as they are agreed. Requiring all agreements to be finalized at the same time would likely draw out the negotiating process, with no concrete results attainable for several years. Given the growing importance of trade to the United States and world economies, the United States should not have to wait over seven years (as in the Uruguay Round) before a package of agreements is finalized.

A precondition for successful trade negotiators is that all WTO members should agree to a standstill on trade-restrictive measures in advance of the Ministerial and throughout the negotiations. Such a standstill would ensure that governments do not modify their laws in order to gain bargaining advantage. The standstill should not interfere with the continued use of trade remedy laws consistent with WTO rules.

It is important that the new agreements apply to the largest possible number of large countries. Thus, the WTO should continue working to achieve the accession of China and other non-members on commercially acceptable terms. Strengthening the WTO will also underline to non-members the value of being part of the multilateral trading system.

Let me now discuss some actions that the WTO should take with respect to the built-in agenda.

The Built-in Agenda

There are three parts of the Built-in Agenda—Services, Agriculture, and Tariffs.

Services. Because world trade in services is increasing at a faster rate than trade in goods, the expansion of the Services Agreement should be a top priority in the next round. The problem in Services is that, at present, the General Agreement on Trade in Services provides only minimal disciplines.

The WTO needs to begin this process by encouraging governments to ratify the Financial Services and Basic Telecommunications Agreements and to fulfill their commitments under them. Negotiations should also be launched to expand liberalization commitments under these two agreements. Among the high priority sectors for obtaining new services agreements are: all levels of distribution, transportation, construction, tourism, information technology, health care, advertising, express delivery, and business professional services.

Agriculture. The Uruguay Round made notable progress in reducing agricultural trade barriers and making import protection more transparent. But there is far more to do in addressing policies that impede trade. Negotiations on agriculture are especially important because the prospects for developing countries of obtaining greater market access can encourage responsive commitments by these countries not only on agriculture, but also on other sectors of interest to industrial countries.

Tariffs. Although average tariff levels have fallen as a result of trade negotiations, tariffs remain significant barriers in some sectors. This should be a high priority in new negotiations. High tariffs must be put on a timetable for reduction. When feasible, zero-for-zero proposals should be considered and "nuisance" tariffs—those under 5 percent—should be eliminated.

Review and Strengthening of WTO Agreements

Moving beyond the Built-in Agenda, the WTO should address several problems that have risen in the implementation of the Uruguay Round Agreements. Using the upcoming negotiations to improve the effectiveness of the WTO is the best way to strengthen the trading system for the challenges of the 21st century.

The following is an overview of the major issues that need to be addressed:

Intellectual Property. Even after the improvements achieved in the Uruguay Round Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), significant gaps remain in the protection and enforcement of intellectual property rights—regarding patents, trademarks, copyrights, and trade secrets. Governments also need to focus on improving the enforcement of TRIPS obligations. For example, developing countries must honor their TRIPS obligations following the termination of the transition period ending January 2000.

Subsidies and Countervailing Measures. The WTO Agreement on Subsidies and Countervailing Measures (SCM) was an important achievement of the Uruguay Round, and trade negotiators should resist proposals to weaken it. In addition, negotiators should consider ways to strengthen the Agreement; for example, by requiring developing countries to apply the same disciplines against export subsidies.

Customs-Related Issues. Although often technical, national regulations regarding rules of origin, pre-shipment inspection, import licensing, and valuation can have a significant impact on business costs and trade flows. For example, the Uruguay Round provides for a work program on the harmonization of rules of origin. These efforts have been slow going. The trade ministers should renew their efforts to achieve such harmonization.

Sanitary and Phytosanitary Measures. The WTO Agreement on Sanitary and Phytosanitary Measures (SPS) does not prevent governments from enforcing legitimate food safety and public health regulations. What SPS aims to do is to assure that governments do not block imports through unnecessary regulations either inadvertently or through inadvertence. Any attempt to water down these requirements should be opposed.

More attention should be given to the provision calling for governments to base their SPS measures on international standards except when those standards fail to provide a high enough level of health protection. Greater harmonization of food safety standards will lead to a safer world food supply and will help achieve the dual goals of fewer trade restrictions and the avoidance of episodes in which protectionists blame tainted food on free trade.

Technical Barriers to Trade. As tariff barriers fall, some governments and standard-setting organizations will be tempted to use technical standards as a substitute for tariffs in order to protect national industry. Recognizing this possibility, the Uruguay Round produced a new Agreement on Technical Barriers to Trade (TBT). These new disciplines have not yet been tested in WTO dispute settlement. Nevertheless, a number of concerns have arisen. For example, for standards seeking to fulfill health, safety, or environmental objectives, TBT lacks a requirement that such standards be based on scientific principles.

Government Procurement. The Agreement on Government Procurement is not part of the WTO single undertaking but rather is a "plurilateral" agreement comprising only 26 of 133 WTO member countries. The upcoming Trade Round should review this status to see if the Procurement Agreement can be fully brought into the WTO. This is a huge sector totaling over $3 trillion a year worldwide.

For those governments that do participate in the Procurement Agreement, efforts should be made to strengthen the Agreement by: (1) expanding coverage of subnational governments and government-controlled enterprises; (2) inclusion of additional service sectors; and (3) lowering the threshold for obligations to apply. The issue of developing country participation in agreement the Procurement Agreement should also be discussed. These countries may have the most to gain from transparent and fair procurement processes that make best use of their limited resources.

Electronic or E-Commerce. E-Commerce does not appear to require unique trade rules, but because of the importance of this new sector to economic efficiency and growth, the WTO should give specific attention to it. A top priority at the Ministerial should be to make permanent the standstill regarding tariffs on electronic transmission. Another objective should be to ensure that MFN and national treatment are accorded to foreign providers of Internet and interactive services.

Trade-Related Investment Measures. The WTO Agreement on Trade-Related Investment Measures (TRIMs) is the thinnest of the WTO Agreements. Attention should be given to strengthening its provisions. One of the critical areas for discipline is the imposition of trade-related investment measures, such as mandatory technology transfer requirements. Such requirements are trade-distorting and can often render new investment impossible.

Transparency of Government Policies. Transparency requirements are currently spread throughout the WTO Agreements. The WTO should consider the negotiation of a general transparency agreement that would encompass tariffs, internal taxes, standards, sanitary measures, domestic regulations, subsidies and export incentives, export controls, procurement, agricultural policies, rules of origin, and other customs practices. Such an agreement could provide for clear publication of government rules and perhaps help to curtail bribery and corruption. It could also affirm the value of private sector participation in the rules-setting process.

Dispute Settlement. The WTO's Dispute Settlement Understanding is the key to effective enforcement of WTO agreements. However, experience with the WTO dispute process has revealed several areas where the procedural rules need improvement. We recommend that trade negotiators consider whether the timetable for the panel process can be substantially streamlined perhaps by cutting down the time

by 50 percent. Right now, the biggest problem lies in the slow implementation of panel and Appellate Body reports over a 12–15 month period. While this period may already be too long, "gaming" by governments may drag out the compliance process even longer. The WTO needs to address this tactic in order to retain public confidence in the dispute settlement system.

Trade and Environment. In 1994, trade ministers created a Committee on Trade and Environment. The WTO renewed that mandate in 1996. The Committee has held numerous meetings, but has made very limited progress. Later this month, the WTO is sponsoring a high-level meeting on Trade and Environment to review the issues and to stimulate new proposals.

The WTO is not the right forum to negotiate international environmental policy. Attempting to do so would distract trade ministers from what should be their primary objective which is to open markets, prevent export subsidies, and stop trade discrimination. Recognizing, however, that unmanaged transborder environmental problems can sometimes become trade issues, the Roundtable endorses efforts by governments, working with interested stakeholders, to improve the effectiveness of multilateral environmental institutions and agreements.

There are also a few environment-related issues that need to be addressed in the WTO, and governments should strive to make greater progress here. For example, the status of multilateral environmental agreements under trade rules needs to be clarified so that the WTO is not perceived in some quarters as an impediment to environmental protection. The problem of subsidies that harm the environment e.g., European agricultural subsidies deserves more attention, and the Trade Policy Review Mechanism might be used to cast a spotlight on such practices.

Labor Issues. The issue of trade and labor rights has engendered so much controversy that it has eclipsed the real issue, which is obtaining more respect for internationally recognized labor standards around the world. During 1998, significant progress was made in Geneva when the International Labor Organization (ILO) adopted a Declaration on Fundamental Principles and Rights at Work. This was a landmark achievement for the ILO and exemplifies what The Business Roundtable called for in 1995 when the Roundtable urged that ILO programs be improved. Governments should continue to pursue multilateral efforts to promote labor standards. The organization of primary responsibility should be the ILO, but complementary activities in other organizations should not be ruled out, or insisted upon.

An important labor standard is freedom from forced labor practices. The WTO is not oblivious to this heinous problem. Article XX(e) of the General Agreement on Tariffs and Trade has always allowed governments to ban imports of products made with "prison labor." At this time, the applicability of this exception to products of forced labor remains uncertain. It may be timely for the WTO to clarify this ambiguity by affirming that governments may ban products made using forced labor. Doing so might help governments combat forced labor, a practice that is anathema to free market principles.

Consideration should also be given to expanding GATT Article XX to deal with products made using child labor. This year, the ILO will complete a new Convention on exploitative child labor, and the definitions employed in this Convention might be utilized in modifying Article XX. It should be noted that Article XX would not permit punitive trade sanctions on unrelated products. Rather, Article XX would only permit an import ban on the product made using child labor.

New Initiatives

A number of new rule-based WTO initiatives have been proposed such as investment and competition policy. These issues are important to the international economic system, and careful consideration should be given to determine whether these issues are ripe for WTO negotiations.

Competition Policy. The globalization of business activities raises important questions about the extent to which foreign anticompetitive practices may undermine market access opportunities created by bilateral and multilateral trade and investment agreements. However, at this time, there are huge uncertainties as to the proper goals for a competition policy negotiation in the WTO and whether the WTO is the optimal forum. For example, what are the downsides and, conversely, the upsides of addressing market access problems through an international competition policy agreement in the WTO or other fora?

Under these circumstances, it is premature to launch a WTO negotiation on competition policy. A more constructive approach would be to establish a new WTO work program that will focus more on exchanging information about the development and enforcement of appropriate antitrust laws.

Investment. Achieving disciplines on how governments treat foreign investment is important to gaining the full benefits of the international economic system. If the WTO Ministerial decides not to launch comprehensive international investment negotiations, a constructive course now would be (1) to strengthen the WTO Agreement on Trade-Related Investment Measures by expanding it to include additional trade distorting investment measures, such as technology transfer requirements, and (2) to establish a WTO work program on investment that will focus more on exchanging information about how to structure an investment regime that will promote economic growth.

CHINA'S WTO ACCESSION

Mr. Chairman, over the next five weeks, the United States and China have a window of opportunity to accelerate the process of bringing China into the global trading system. As the largest emerging economy in the world, China can take on a pivotal role in helping to chart the course for recovery in Asia particularly in light of the continuing weakness in the Japanese economy. In addition, the growth of the Asian market is important to the United States and further opening China's market will lead to increased U.S. exports of goods, services and agriculture.

Fully integrating China into global economic institutions, such as the WTO, is the best means to ensure that China will play a positive role in the global economy and provide broader market access for U.S. goods and services. In order to join the WTO, China should be required to enter into binding commitments to open its markets and abide by the disciplines of multilateral trading rules. The liberalization required under WTO rules would provide important new opportunities in the vast Chinese market, which will help maintain global economic growth. WTO-mandated liberalization in China will also promote growth in China itself as the removal of discriminatory trade barriers creates new opportunities for economic activity and jobs. WTO accession would also provide another venue to encourage China to maintain a stable currency.

While China's WTO membership is important because of the benefits it would provide to the American, the Chinese and the global economy, it would also be viewed by financial markets throughout the world as a vote of confidence in the global economic system. China's WTO membership would send a powerful signal to Asian economies and other emerging markets around the world the importance of maintaining open markets and adhering to multilateral trading rules if economic growth is to be maintained.

In advocating China's WTO membership, we do not suggest that it be at any price. China must be willing to agree to a commercially viable protocol of accession, which provides meaningful market access for U.S. goods, services and agriculture. These commitments must be in addition to China's full implementation of existing liberalization commitments. If China agrees to such a protocol, the United States should be ready to support China's WTO admission and request that the Congress approve the permanent extension of normal trade relations (NTR) treatment so that U.S. firms and workers will be able to take full advantage of the market opening agreements that have been so paintstakingly negotiated.

Bringing China into the global trading must remain one of America's greatest priorities. We ask for your continued leadership in achieving this goal by making it an integral part of your global economic strategy, and we commit our support to you to work to build support for permanent NTR trading status.

IV. CONCLUSION

The next nine months will be very important in determining the future direction of U.S. trade policy. First, the United States will hopefully be successful in securing China's accession to the WTO on the basis of a commercially viable protocol of accession. This will help restore stability in Asia and strengthen the multilateral trading system by ensuring that key members of the team are all playing by the same rules. Second, we hope that the United States will provide the leadership necessary to launch new negotiations in the WTO to further liberalize trade and strengthen the WTO. I urge the Congress and the Administration to work together to reach a consensus on moving forward this year on these critical issues. And, I commend the Subcommittee for holding these hearings to help inform members of the Congress and the public about these vital issues and to continue the process of building a national consensus on America's trade policy.

Chairman CRANE. Thank you, Mr. Condit.
Mr. Baszile.

STATEMENT OF BARRY BASZILE, PRESIDENT AND OWNER, BASZILE METALS SERVICE, LOS ANGELES, CALIFORNIA

Mr. BASZILE. Mr. Chairman, Members of the Subcommittee, good morning. I am Barry Baszile, the owner and president of Baszile Metals Service. Our main office is located in Los Angeles, California, and we have branch offices located in Seattle, Washington, and in York, Pennsylvania.

First, I would like to thank you for the opportunity to be with you today to represent my company of 40 employees and our community. One of my primary reasons for being here with you today and the reason that I am so excited about this opportunity is to try and put a face on what you all hear so much about. That is, how international trade impacts the thousands of small businesses in communities scattered throughout this country.

I can tell you that Baszile Metals Service is living proof that the benefits of participating in a global economy are not limited just to big business. Some 24 years ago, I founded Baszile Metals. Today, we are the only black-owned firm to manufacture parts, process and deliver aluminum sheet, plate, rod, bar, and extrusions to the aerospace and defense industries. I began my career making cold sales calls on large companies. Many of those companies, like Boeing, gave us a chance. The door was opened, and it was up to us to be reliable and provide quality products at competitive prices.

I am fortunate to have a talented, dedicated workforce. These are people who really care about their jobs and their customers. They know that our products must be of the highest quality because lives depend on it. Over the past 24 years, our products have been a part of every Boeing model of commercial aircraft, NASA's space shuttle, the international space station, the F–15 and F–16 jet fighters. We are also a supplier for the Joint Strike Fighter program.

Our customers have included the Boeing Company, Rockwell International, Northrop-Grumman, McDonnell-Douglas, Lockheed Martin, the Department of Defense, and NASA. We have even provided copper, nickel, and zinc to the Treasury Department for the coins. We are also a stocking supplier for bus brake and axle parts and brake assemblies and repair kits. The hard work and dedication of our employees has paid off. Last year, our company was selected as the Boeing Company's Small Disadvantaged Supplier of the Year. One of the reasons for our selection was our 97.6 percent on-time delivery record. We are extremely proud of our performance and of this recognition.

I am keenly aware of the role that my customers play in the international marketplace, and how competitive it can be. Our role as a supplier is to deliver quality products on time and at competitive prices. However, I have another responsibility. That is to provide jobs and economic opportunity in my community. If possible, I would like to take just a moment to tell you how our association

with companies like Boeing manifest itself in our inner city Los Angeles community.

Our firm is transitioning into a true manufacturing company. Soon, we will not only be providing metals, but producing metal parts for our customers. We are building a 10,000-square foot machine shop to produce precision parts. The people who make those parts will be individuals who could be classified as socially and economically disadvantaged. We are working hand-in-glove with Los Angeles law enforcement, black and Hispanic groups, the International Association of Machinists, and the United Auto Workers, to identify and train so-called "deadbroke dads" for jobs as machinists. Some of the men with this label are not deadbeats. What so many of them need are jobs to help them fulfill their obligations. We are going to do that. They need training to build a skill that they can take pride in and help restore their self respect as contributing members of the community. We are going to help them do just that.

If I might, Mr. Chairman, I would like to talk about one more program that my company is involved in. In October, we announced the formation of a new non-profit organization called Welfare to Work Partners, to help address the critical needs of our inner-city community. Welfare to Work Partners will target crucial problems such as preparing welfare recipients to successfully enter the workforce by improving their academic competencies and life skills. Our goal is to enhance the level of bonding and emotional relationships between non-custodial fathers and their children, establish paternity, increase the fathers' earning capacity, and to improve community awareness of fatherhood. The Welfare to Work Partners program is off and running. We even have our own Website. You can find us at www.wwpartners.org.

We are teaming with the successful Fast Track LA program, which is a unique program that provides classes to improve both academic and important life skills. As an inner city employer, I am sensitive to the needs to assist our employees in their own self-improvement and education. Baszile Metals has a 20 station computer lab where our employees can work on programs designed to improve their English, reading, and math skills levels.

My background and training was as a probation officer and social worker. Today I am a businessman working with some of our Nation's largest companies, including the country's largest exporter, the Boeing Company.

Ladies and gentlemen, what I hope I have left with you today is what one company can do in its community as the result of having strong business partnerships with major companies to do business in the international marketplace. I encourage you to continue to find ways that we as a Nation can participate in fair and open trade with other nations, so that our employees and our communities can benefit.

Thank you very much.

[The prepared statement follows:]

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If possible I would like to take just a moment to tell you how our association with companies like Boeing manifests itself in our inner city Los Angeles community.

Our firm is transitioning into a true manufacturing company. Soon we will not only be providing metals, but producing metal parts for our customers. We are building a 10,000 square foot machine shop to produce precision parts. The people who make those parts will be individuals who could be classified as socially or economically disadvantaged.

We are working hand-in-glove with Los Angeles law enforcement, Black and Hispanic groups, the International Association of Machinists and the United Auto Workers to identify and train so called "deadbroke Dads" for jobs as machinists. Some of the men with this label are not "deadbeats." What so many of them need are jobs to help them fulfill their obligations . . . and we are going to do that. They need training to build a skill that they can take pride in and help restore their self-respect as contributing members of the community . . . and we're going to help them do just that.

If I might, Mr. Chairman I would like to talk about just one more program that my company is involved in.

In October we announced the formation of a new, non-profit organization called "Welfare to Work Partners" to help address the critical needs of our inner-city community.

"Welfare to Work Partners" will target crucial problems such as preparing welfare recipients to successfully enter the workforce by improving their academic competencies and life skills.

Our goal is to enhance the level of bonding and emotional relationships between non-custodial fathers and their children; establish paternity; increase the fathers' earning capacity and; improve community awareness of fatherhood. The Welfare to Work Partners program is off and running. We even have our own web site www.wwpartners.org.

We are teaming with the successful Fast Track LA program, which is a unique training program that provides classes to improve both academic and important life skills.

As an inner city employer, I am sensitive to the needs to assist our employees in their own self-improvement and education. Baszile Metals has a 20 station com-

puter lab where our employees can work on programs designed to improve their English, reading and math skill levels.

My background and training was as a probation officer and social worker. Today I am a businessman working with some of our nation's largest companies, including the country's *largest* exporter—The Boeing Company.

Ladies and Gentlemen, what I hope I have left with you today is what just one company can do in its community as the result of having strong business partnerships with major companies to do business in the international marketplace. I encourage you to continue to find ways that we, as a nation, can participate in fair and open trade with other nations, so that our employees and our communities can benefit.

Thank you.

Chairman CRANE. Thank you, Mr. Baszile.

Mr. Swift.

STATEMENT OF RICHARD J. SWIFT, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, FOSTER WHEELER CORPORATION, CLINTON, NEW JERSEY, ON BEHALF OF THE NATIONAL FOREIGN TRADE COUNCIL, INC.

Mr. SWIFT. Mr. Chairman, and Distinguished Members of the Subcommittee, I am Dick Swift, the chairman and chief executive officer of Foster Wheeler Corporation, a global engineering, construction, and manufacturing company specializing in the process and power industries. I also serve as the chairman of the National Foreign Trade Council, a broad-based organization founded in 1914, of more than 550 U.S. companies having substantial international interests.

I am appearing today on the Council's behalf. I would like to submit my detailed statement for the record and summarize my remarks for you now.

I appreciate the opportunity to testify today. Foster Wheeler, like many other NFTC members, depends on its success in the international marketplace for the majority of its business. In fundamental respects, our Nation's economic strength has been due to our extensive trade and investment with other countries, and our willingness to remain open and unafraid of global competition. World Trade Organization trade ministers will meet in Seattle later this year, creating a real opportunity to advance America's economic interests and demonstrate bipartisan support for increased trade.

Through a new round of multilateral negotiations, the United States can reduce barriers to agricultural trade, open trade in services, and give American business new access to other markets around the world. We can also strengthen and improve our existing WTO trade agreements and enforcement mechanisms. The NFTC has provided recommendations to the U.S. trade representative on future WTO negotiations that are included in my statement for the record.

For decades, America has been the world's most powerful and articulate advocate of an open rules-based trading system. Today however, many have begun to doubt America's commitment to open trade. It is time to get back to the positive role of trade and demonstrate the leadership necessary to implement a forward-looking trade agenda. Congress has a vital role to play. Passage of a broad

pro-trade bill would clarify and renew America's commitment to open markets and global growth. Such a package could strengthen the hand of our negotiators and the competitiveness of our business in the international marketplace.

The bill should contain these elements. First, strongly endorse multilateral trade liberalization through comprehensive WTO negotiations and other bilateral and regional trade initiatives. Such liberalization would be a powerful stimulant to global economic growth and recovery.

Second, renew traditional trade negotiating authority. This will provide our negotiators the tools they need to negotiate from strength, and allow major new trade negotiations under the WTO, FTAA, and APEC to proceed in a serious and meaningful manner. We recognize that there will be little progress until we address the environmental and labor issues that have been raised. We believe that a meaningful dialog must be started to move the process forward.

Third, enact common sense sanctions reform. This will put in place a process for thoughtful and rational cost-benefit analysis before imposing counter-productive unilateral economic sanctions. The NFTC strongly endorses the sanctions reform legislation that will be introduced shortly and will be sponsored by the distinguished Chairman of the Subcommittee, Congressman Crane, along with Congressmen Dooley and Manzullo.

Fourth, provide American exporters and workers with the tools they need to compete on a level playing field. This should include multi-year authorization for OPIC, the Export-Import Bank, TDA, and the Trade Advocacy Center. These organizations provide tremendous economic return on a very small investment, and the services they provide are crucial for helping keep America competitive against foreign government supported exports in overseas markets.

Fifth, reform cold war era trade laws such as Jackson-Vanik, and grant multi-year Normal Trade Relations status to China and Vietnam. Provisions should also be made to grant permanent NTR to them upon accession to the WTO on a meaningful commercial basis.

Finally, the bill should include provisions to renew and reform the Export Administration Act and the Trade Adjustment Assistance program. Congress may also wish to include preferential trade programs for less developed countries, such as those contained in the Africa Growth and Opportunity Act, and the Caribbean Parity legislation.

In crafting a pro-trade bill, the NFTC strongly urges Congress to make sure that all of its provisions are consistent with our obligations under the WTO, and are market opening, not market closing.

Mr. Chairman, the NFTC believes that enactment of a broad-based, pro-trade bill will erase many of the doubts about our commitment to open trade, and increase America's competitiveness in the global market. The NFTC and its members stand ready to work with the Committee in developing and supporting such a package. Thank you.

[The prepared statement follows:]

Statement of Richard J. Swift, Chairman, President and Chief Executive Officer, Foster Wheeler Corporation, Clinton, New Jersey, on behalf of the National Foreign Trade Council, Inc.

Mr. Chairman and distinguished Members of the Subcommittee, I am Richard J. Swift, Chairman, President and Chief Executive Officer of Foster Wheeler Corporation. Foster Wheeler is a U.S.-based engineering, construction and manufacturing company specializing in the process and power industries. I am appearing today on behalf of the National Foreign Trade Council (NFTC), a broad-based organization of more than 550 U.S. companies having substantial international operations and interests. At the beginning of this year, I became the Chairman of the NFTC.

I appreciate the opportunity to testify today on U.S. trade policy and the trade agenda. I would like to begin by applauding the historic leadership role of the Ways and Means Committee in forging a bipartisan, pro-trade agenda for our nation. Such an agenda has never been more important.

I would like to focus my remarks on three issues: (1) the fundamental importance of trade to the U.S. economy and the need for American leadership in fostering global growth; (2) the need to support American exporters, workers, farmers, and consumers through passage of a bipartisan pro-trade bill; and (3) the critical importance this year of a successful World Trade Organization (WTO) Ministerial Conference which launches new multilateral trade negotiations.

1. IMPORTANCE OF TRADE TO THE U.S. ECONOMY AND NEED FOR AMERICAN LEADERSHIP IN FOSTERING GLOBAL GROWTH

As the world's largest trader and most open, major market economy, the United States has benefitted enormously from expanding global trade and investment. In fundamental respects, our nation's economic strength at home has been due to our vibrant trade and investment with other countries and to remaining open and unafraid of global competition. The result has been the longest domestic economic expansion since World War II.

The facts speak for themselves. More than one-third of America's economic growth during the 1990s was from exports. Trade now accounts for close to 25 percent of our GDP. Millions of workers depend on trade for stable, well-paying jobs. It's been said many times, but it bears repeating—only 4 percent of the world's population lives in the United States. American businesses, workers, farmers and consumers must continue to engage actively in global trade if our economy and standard of living are to grow and remain healthy.

Like many NFTC members, Foster Wheeler depends on expanding trade and investment for a majority of its overall revenue. More than 60% of Foster-Wheeler's revenues are from our international activities. When Foster Wheeler grows globally, our domestic activities also thrive. These activities include millions of dollars in purchases from American small and medium business suppliers, who are often unaware that they are "invisible exporters."

Let me give you one example. Two years ago, Foster Wheeler signed a contract to supply six steam generators for the Yancheng electric power project in China—the largest single boiler contract in Chinese history. The project is keeping at least 200 people employed at our Dansville, New York, facility. It's also generating millions of dollars in orders for suppliers of all kinds of products in 26 states. By the time it's complete, Yancheng will bring in $310 million in orders for America goods and services—orders that are already supporting hundreds of jobs across the country.

Yancheng isn't just a success story for Foster Wheeler. It's a success story for American trade policy. We win such contracts because our government supports an open, rules-based global trading system. Those American jobs are possible because Congress supports normal trade relations with China. Suppliers all across the country are receiving those orders today due to continued congressional reauthorization of the Export-Import Bank, which provided critical financing.

I would like to turn briefly to the positive role of imports and keeping the trade deficit in perspective. A primary cause of our rising trade deficit is because the U.S. economy is much stronger than many other major economies, which have been in severe recession, stagnation or a slower growth mode. The Asian financial crisis and the subsequent serious downturn in these and other key markets led to a decline in our exports last year. At the same time, the strength of the U.S. economy has kept U.S. demand for imports at a high level. This is what is driving our rising trade deficit. It is notable, however, that the deficit is still much smaller as a percentage of GDP than it was the last time our nation's trade deficit (goods and services) peaked in 1987—1.98 % versus 3.27%.

While recognizing that certain sectors of our economy have been hit hard by slower growth overseas and stronger imports, imports play a positive role in the U.S. economy. They provide consumer freedom of choice, fill a market demand that may not be available domestically, and are often incorporated as components into American-made final products. Imports also provide a healthy dose of competition. In fact, the competitiveness fostered by our openness to imports is one of the fundamental reasons our economy is as strong as it is today. Finally, the United States, like other countries, has trade laws to deal with injurious imports.

American economic leadership in bolstering global economic growth and U.S. exports can help stem the rising U.S. trade deficit. This means stabilizing economies in turmoil in Asia and Latin America, keeping markets open, further liberalizing trade and investment, and making sure American exporters and workers have the necessary tools from our government to compete globally on a level playing field. These tools include establishing predictable and effective trade rules, negotiating market-opening trade agreements, halting the use of counterproductive unilateral economic sanctions, and providing competitive export and investment financing.

There are also important indirect benefits from global economic engagement. Expanding trade and investment supports broader national objectives. It stimulates economic growth and development, which provides countries with the means to address other important objectives besides alleviation of poverty and basic economic survival. It improves workers lives. For example, affiliates of American companies abroad provide higher average wages and better benefits such as health care and housing. It improves the environment by incorporating higher environmental standards in new plants, by exporting environmentally advanced technologies, and by eliminating harmful subsidies, particularly in the agricultural sector. And finally, America's trade expansion, as well as trading regimes such as the WTO, spread core American values such as respect for the rule-of-law, openness, transparency and regulatory due process. Trade deserves much greater credit as a positive force for building better civil societies.

2. The Need for a Positive, Bipartisan Pro-Trade Package

For decades, America has been the world's most powerful and articulate advocate of an open, rules-based trading system. Today, however, many have begun to doubt America's commitment to open trade. Uncertainties about U.S. trade policy threaten to undermine many of the opportunities expanded trade could create for American business and workers. For example, the Administration's trade negotiating authority has lapsed. Our relationship with our fourth-largest trading partner, China, continues to be the subject of acrimonious debate every year. Far too often, America imposes unilateral trade sanctions in disputes with foreign countries, even our friends. Reauthorization and funding for vital agencies that promote U.S. exports is uncertain. Even American participation in organizations like the International Monetary Fund (IMF), the World Bank and the WTO itself cannot be taken for granted.

It is time to get back to the positive role of trade, and demonstrate the leadership necessary to implement a forward-looking trade agenda. Congress has a vital role to play. Congressional passage of a broad pro-trade bill would help to clarify and renew America's commitment to expanding trade and fostering global growth. Such a package could strengthen the hand of our negotiators and the competitiveness of our businesses and workers in the international marketplace.

The bill should contain these key elements:

- Strong support for advancing global trade liberalization, trade expansion and effective trade rules through comprehensive WTO trade negotiations, and other important bilateral and regional trade initiatives. Such action will serve as a powerful engine of growth domestically and globally.
- Renewal of traditional trade negotiating authority on a multi-year basis to provide America's trade negotiators the tools they need to get the job done from a position of strength and allow major new trade negotiations, including WTO, Free Trade Area of the Americas (FTAA) and Asia Pacific Economic Cooperation (APEC) trade talks, to proceed in a serious and meaningful manner. We recognize that there will be little progress on this matter until we address the environmental and labor issues that have been raised. We are prepared to sit down with the members of this Committee, the Administration, and others to engage in a meaningful dialogue that will move the process forward. I don't expect that we will agree on all the issues, but we have a mutual interest in resolving this impasse so that we can advance our national interests in the global economy.
- Common sense sanctions reform to put in place a process for thoughtful and rational cost/benefit analysis prior to the imposition of unilateral economic sanctions,

and lifting current sanctions that are counterproductive and harmful to American exports and jobs. The NFTC strongly endorses the legislation that will be introduced as soon as next week by the distinguished Chairman of this Subcommittee, Congressmen Crane, along with Congressmen Dooley and Manzullo.

• Essential trade tools for American exporters and workers to compete on a level playing field. These should include multi-year reauthorizations for the Overseas Private Investment Corporation and the Export-Import Bank, as well as the programs of the Trade and Development Agency and the Commerce Department's Advocacy Center. These organizations provide tremendous economic return on a very small investment, and the services they provide are crucial to keeping America competitive against foreign government-supported exports in overseas markets.

• Reform of Cold War era trade statutes, such as the Jackson-Vanik amendment to Title IV of the Trade Act of 1974, by granting multi-year Normal Trade Relations (NTR) status to China, Vietnam and other covered countries, promoting their accession to the WTO in a commercially meaningful manner, and granting permanent NTR to them upon such accession.

• Reauthorization and reform of the Export Administration Act in a manner which recognizes current commercial realities of dual-use technology in the global marketplace, and which places greater emphasis on viable multilateral solutions.

• Renewal and reform of the Trade Adjustment Assistance program to help dislocated workers obtain new skills and jobs, greater technical assistance to bolster International Labor Organization (ILO) initiatives, and support for effective implementation of the June 1998 ILO Declaration on Fundamental Principles and Rights at Work.

• Preferential trade programs for less developed countries, including extension of the Generalized System of Preferences, the Africa Growth and Opportunity Act, Caribbean Parity legislation, and renewal of the Andean Trade Preferences Act.

The NFTC and its members stand ready to work with the Committee and other groups in developing such a pro-trade agenda in a bipartisan manner.

3. The Critical Importance of a Successful WTO Ministerial and New WTO Round

Finally, I'd like to turn to one of the most important issues on our nation's trade agenda this year—the WTO Ministerial Conference and the launching of new WTO trade talks. The NFTC believes a successful WTO Ministerial is vitally important and that our government should be bold and farsighted in leading the way for comprehensive new WTO negotiations to advance global trade liberalization and strengthen existing WTO agreements.

The NFTC submitted detailed comments to the United States Trade Representative last October on its recommendations for the scope and content of future WTO trade talks, and has submitted recent comments on upcoming WTO negotiations on government procurement issues. These comments are attached to this statement and we request that they be made part of the record.

The NFTC supports the Administration's efforts to reach agreement by the time of the ministerial meeting, in a few key areas as a down payment for launching a more comprehensive, accelerated round of WTO negotiations. So-called "deliverables" should include a WTO agreement on the "early voluntary sectoral liberalization" initiative launched by APEC countries, an agreement on transparency in government procurement, conclusion of the second round of Information Technology Agreement negotiations, and a continued moratorium on tariffs on e-commerce. The NFTC supports a new WTO Round that further opens and expands trade for American businesses, workers, and farmers. This should include mandated "built-in" negotiations on services and agriculture, industrial tariff reductions, improvements to existing WTO agreements and rules, and certain institutional changes to ensure the WTO is equipped for the 21st century.

As members of the subcommittee are well aware, the WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), form the core foundation of an open and expanding multilateral trading system. It is rules-based, market-opening, and provides for effective dispute settlement. It has been key to fostering global growth and prosperity for over five decades. The Uruguay Round alone—the last round of multilateral trade talks which concluded in 1994—represented the largest global tax cut in history and forged unprecedented agreements in areas such as agriculture, services, intellectual property and dispute settlement.

The upcoming WTO Ministerial in Seattle offers us a rare opportunity to demonstrate united American leadership on trade by showcasing its benefits, and by galvanizing support for comprehensive WTO market-opening negotiations and improvements to existing WTO agreements. Such action—setting the example and

leading the way for further multilateral progress on trade—is one of the most important steps we can take to restore global growth and prosperity. Part of setting the example includes upholding existing WTO obligations. The NFTC urges all WTO members to agree to a "standstill" against new trade barriers.

Historically, the United States has led the rest of the world in advancing multilateral trade liberalization. As the world's economic superpower, we must again step up to the plate. The NFTC is working with other major business groups, some of which are represented here today, helping the business community do its part to assure a successful WTO Ministerial.

Mr. Chairman, thank you for the opportunity to share the NFTC's views on the U.S. trade policy agenda.

[An attachment is being retained in the Committee files.]

Chairman CRANE. Thank you, Mr. Swift.

Mr. O'Hare.

STATEMENT OF DEAN R. O'HARE, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CHUBB CORPORATION, WARREN, NEW JERSEY, AND CHAIRMAN, COALITION OF SERVICE INDUSTRIES

Mr. O'HARE. Thank you, Mr. Chairman. It is a pleasure to present the views of the Coalition of Service Industries, CSI, on priorities for expanding U.S. services trade.

CSI believes that an open rules-based international trade system is essential to maintain U.S. economic prosperity, and that the World Trade Organization is absolutely essential to that system. The WTO has proven its value to the U.S. services sector by concluding good market access agreements on telecommunications and financial services. Nonetheless, the organization must improve implementation and enforcement of trade agreements already negotiated and increase the accessibility to the public. Strong U.S. leadership will be required to achieve these goals.

Our coalition's very great interest in the WTO services trade negotiations, scheduled to start in 2000, the first comprehensive services negotiation ever undertaken, is explained partly by the fact that the United States is the world's largest exporter and importer of services. In 1998, U.S. services exports were $260 billion. Imports were $180 billion. The trade surplus was $80 billion from services.

CSI has produced at USTR's request, an initial statement of liberalization objectives in eight service sectors. I ask, Mr. Chairman, that this document be included in the record of this hearing.

In essence, we seek the following general objectives. First, ensure the right to establish and to control ownership of our investments. Second, ensure national treatment for U.S. investors. Third, eliminate unnecessary restrictions on cross-border transactions. Fourth, remove obstacles to the free movement of critical business personnel. Finally, promote pro-competitive regulatory reform.

What is pro-competitive regulatory reform? It means abandoning outdated forms of regulation by which governments limit the number of participants in a market, limit the introduction of new products, restrict market-based pricing, and discriminate against foreign firms.

The next round of services negotiations must include reform of these out-dated regulatory practices. We made a start in this by in-

cluding the 1997 U.S. Japan bilateral insurance agreement in the WTO financial services agreement. These provisions would create a pro-competitive regulatory environment in Japan, and were aimed at leveling the playing field for foreign insurers.

Unfortunately, significant aspects of the agreement have not been implemented. The United States is engaged in other important trade initiatives that complement efforts in the WTO. Of these, our bilateral relationship with China is critical. We strongly support the Administration's effort to reach a WTO accession agreement that lets us participate fully in the Chinese market.

As you are aware, U.S. negotiators are now in Beijing. We urge USTR to continue to insist that without commercially meaningful commitments on services, there simply can be no deal with China. And if China agrees to play by WTO rules, then the United States should provide normal trade relation status to China.

In conclusion, Mr. Chairman, we believe the United States must continue to take the lead in multilateral and other efforts to eliminate trade and investment barriers, and establish an even stronger system of international trading rules centered on the WTO, and buttressed by national pro-competitive regulatory supports. This will require extending broad multi-year trade negotiating authority to the President. We must ourselves avoid protectionist trade actions and we must build a strong domestic consensus that the benefits of open international trade outweigh its costs.

CSI is helping build this consensus by holding the first World Services Congress in Atlanta on November 1–4, this year. In addition, CSI has helped lead a new coalition, the U.S. Alliance for Trade Expansion, USA Trade, to support the WTO Ministerial in Seattle. These hearings are an important step in developing a consensus on these issues, and we appreciate the opportunity to present our views. Thank you very much, Mr. Chairman.

[The prepared statement follows:]

Statement of Dean R. O'Hare, Chairman and Chief Executive Officer, Chubb Corporation, Warren, New Jersey, and Chairman, Coalition of Service Industries

It is a pleasure to appear today to present the views of the Coalition of Service Industries (CSI) on the importance of expanding trade and resisting protectionism through active U.S. involvement in trade negotiations, and on U.S. negotiating priorities for the next several years.

CSI was established in 1982 to create greater public awareness of the major role services industries play in our national economy; promote the expansion of business opportunities abroad for U.S. service companies; advocate an increased focus on liberalization of trade in services in international trade negotiations; and encourage U.S. leadership in attaining a fair and competitive global marketplace. CSI represents a broad array of U.S. service industries including the financial, telecommunications, professional, travel, transportation, information and information technology sectors.

It is timely and important that the Subcommittee review U.S. trade policy and the challenges now confronting it. Strong, focused United States leadership is, more than ever, essential in a world economy torn by financial shocks and economic dislocation. As the world's strongest economic power the U.S. must lead by example. We must pursue trade, investment and economic policies that encourage domestic and international growth. Just as we ask other countries to pursue sound policies, we must avoid protectionist actions that they might emulate.

An open, rules based international trade system is essential to maintain U.S. economic prosperity, and the World Trade Organization is an absolutely essential element of that system.

The WTO is first of all dedicated to promoting the market-driven economic principles that underlie our own economic success. It does so by providing a forum

where governments commit themselves to reductions in trade barriers. The WTO is what its member governments make it. And the members of the WTO rely on constant, skilled U.S. leadership to keep the WTO moving ahead.

In its first five years, the WTO has proven its value to the U.S. services sector by the negotiation of agreements on basic telecommunications and financial services. We are fortunate to have had the skillful, energetic leadership of Director General Ruggiero during this initial period. It is very important that he be replaced with a strong, highly able leader upon his retirement this April.

CHALLENGES TO THE WTO

While we believe it is essential to strengthen the role of the WTO in creating a level field where players can compete freely and fairly, the organization faces several major problems which U.S. leadership must help overcome.

The first of these is the issue of the implementation and enforcement of trade agreements already negotiated. The WTO is an effective forum where governments negotiate agreements. By and large it has also been an effective forum where governments can bring complaints against those who do not abide by their agreements. But it has a long way to go to develop as an institution that ensures that trade agreements are implemented and commitments fulfilled. In part, this is a responsibility of member governments and the industries that benefit from agreements. CSI takes this role very seriously. Our Research and Education Foundation has mapped out a process for monitoring governments' implementation of the telecommunications agreement. We will be putting more effort into this in the future. Likewise, we will be closely tracking the implementation of the GATS financial services agreement, which entered into force on March 1st.

A case in point is the WTO Financial Services Agreement that was concluded by 71 signatories on December 13, 1997. Those signatories agreed to file their formal acceptances of the agreement by January 29 this year, and they agreed that it would come into effect on last Monday, March 1. In fact, 16 of the signatories were not able to file their acceptances by the deadline. The issue before our financial services industry was, therefore, whether to advise our government to support, or to oppose, entry into force of the agreement. On balance, we concluded that it would be in our overall interest to support it because most of the major 16 non-accepting countries would almost certainly do so in the next six months. In addition, according to the WTO, the governments that have accepted the agreement account for approximately 95 percent of global financial services activity. Nonetheless, it is disquieting that countries like Australia, Poland, Brazil and Luxembourg are not able to follow through on their commitments, on schedule.

The second of these problems is the transparency and openness of the WTO. The President has called on the WTO to open its doors wider to the public. CSI wholly endorses this initiative and urges WTO member governments to take steps to increase the organization's accessibility to an interested public which has much at stake in the outcome of negotiations or the resolution of trade disputes.

IMPORTANCE OF SERVICES TRADE

The growing economic strength of our service industries is the best argument for the continuing U.S. commitment to an open trading system in which the WTO plays a key role. The U.S. service sector is essential to domestic prosperity. In 1997, according to the Bureau of Economic Analysis of the U.S. Department of Commerce, the U.S. service sector comprised 77.2 percent of U.S. gross domestic product, and 78.8 percent of private sector employment (see graphs attached, Appendix A).

In 1998, the U.S. created 2.9 million net new jobs, all in the service sector, slightly less than the 3.2 million service sector jobs created in 1997.

The U.S. is the world's largest exporter and importer of services. In 1998, U.S. services exports were $260.3 billion, while imports were $180.8 billion, producing a trade in services surplus of $79.4 billion. Services comprise nearly 30 percent of U.S. exports.

Those few statistics dramatically depict the value of opening markets abroad for the U.S. service sector.

The U.S. is very competitive in virtually every category of services trade.

• Travel and tourism contributed over $25 billion to the services trade surplus in 1997. This is the largest sectoral contribution to the overall services surplus. In addition, travel and tourism support over seven million direct jobs and generate roughly $71 billion in tax revenues for federal, state and local governments.

• Business, professional and technical services is a largely unrecognized powerhouse in American trade. In 1997, we exported more than $21 billion in these services and we had a $16 billion trade surplus. These data do not include the earnings

from foreign investments and foreign affiliates, which are very substantial. Trade in business, professional and technical services—such as accounting, legal, engineering, architectural and consulting services—is especially important because it frequently paves the way for trade and investment in other service and manufacturing sectors.

• Telecommunications services are an integral component of operations of all businesses, and are essential in promoting domestic and global growth. Telecommunications services provide the necessary infrastructure for the development and continued expansion of the information society and electronic commerce. An estimated $725 billion in revenue was generated in 1997, and projections for the next five years indicate that traded telecommunications services will increase at about 20 percent annually for outbound calls from the U.S. to foreign markets.

• The information technology industry is also dependent on trade and trade expansion. The WTO estimates that over the next five years, sales over the Internet will double each year. To realize this robust growth will require countries to open their markets and allow the provision of cross border services in virtually every sector from financial services to healthcare.

• U.S. law firms, when billing foreign clients, produce exports. Overall U.S. legal services exports approach $1.0 billion.

• Foreign students coming to American schools, net after scholarship and local assistance, spent $8.3 billion in the U.S., which is a U.S. export. We have a surplus in trade in education services of $7.0 billion.

• Medical services rendered in the U.S. to foreign citizens produced an export surplus of $0.5 billion, although few doctors imagine themselves as U.S. exporters.

WTO "Services 2000" Negotiations

These facts help explain our industries' very great interest in the new WTO services trade negotiations scheduled to start in 2000. These will be the first comprehensive services negotiations ever undertaken—negotiations which offer U.S. service industries opportunities to expand market share by reducing barriers to entry and cross border trade, and to deal with new issues, such as regulatory reform, which would ensure our firms' ability to compete fairly in the local marketplace.

But these new services negotiations will not occur in isolation. They will be combined with other issues. How these negotiations will be packaged is a matter of dispute between the United States and the European Union and Japan. They seek a comprehensive negotiation concluded by a "single undertaking," in three years, ending by 2003!

The Uruguay Round produced the General Agreement on Trade in Services (GATS) which states the general principles for freer world trade in services, and creates a very complex format for actual negotiations. In spite of the technical difficulties, the successes in telecommunications and financial services in 1997 showed that most countries now understand how to negotiate within the complicated GATS framework.

Content of the New Trade Round

CSI believes that the United States should continue to advocate a new trade "Round" that permits us to capitalize on the momentum that we believe has been created through successful sectoral services negotiations. Emphatically we do not agree with the concept of an all-inclusive round concluded by a single undertaking. We believe that this formula will almost inevitably result in a protracted negotiation that will impose unnecessary delays in obtaining market access for our companies.

The President in the State of the Union Message called for an ambitious new WTO Round. We believe that his definition of "Round" is close to our own: a focus on market access issues including services, agriculture and goods and certain other issues required by the Uruguay Round agreement. This more constrained negotiation would have a better chance to conclude successfully in 2003. Other, broader issues could be initiated in 2000 but brought to fruition later through a "rolling negotiation" that could conclude after 2003.

We believe it is highly important for the United States to pursue aggressively new negotiations to liberalize services trade. We believe this negotiating framework will lead to faster, better results for agriculture, goods *and* services.

What Does the Services Sector Want from Services 2000 Negotiations?

Previous services negotiations have yielded advances in telecommunications and financial services, but much remains to be done both in those, and a number of other sectors. All industries in the services sector continue to face uneven implemen-

tation of past commitments and continued impediments to free and fair trade, especially through regulatory systems that are used to limit competition.

CSI established last fall a Services 2000 Working Group that produced a detailed initial statement of negotiating objectives for 8 sectors: Distribution, Express Delivery, Financial Services, Health Care Services, Information Technology, Professional and Business-Related Services, Telecommunications, and Travel and Tourism. I ask, Mr. Chairman, that this document be included in the record of this hearing following my statement.

In essence, these requests distill into the following general objectives:

- Expand the scope of commitments countries undertake to liberalize services trade, by limiting the exceptions countries are permitted to take in their national schedules;
- Ensure rights of establishment and ownership for U.S. investors abroad, through wholly owned or other forms of business ownership;
- Ensure national treatment of U.S. companies abroad, so foreign investors have the same access to local and foreign markets as domestic companies;
- Eliminate unnecessary restrictions on cross border transactions;
- Promote pro-competitive regulatory reform focused on adequacy of appropriate and consistent rules, as well as transparency and impartiality of regulatory administration; and
- Remove obstacles to the free movement of critical business personnel.

PRO-COMPETITIVE REGULATORY REFORM

The financial services industry in particular faces formidable barriers in countries with arbitrary and non-transparent regulatory systems. We see the desirability of negotiating "pro-competitive" regulatory principles that will complement market access commitments by providing for well-regulated financial systems. Regulatory requirements and restrictions too often deny foreign companies the opportunity to compete on an equal basis with domestic firms. A lack of transparency in regulations, along with uneven enforcement, undercuts the benefits of market access and often leads to weak and vulnerable financial systems.

What is "pro-competitive regulatory reform?"

Essentially it means abandoning outdated forms of regulation, by which governments limit the number of participants in a market, limit the introduction of new financial services products, restrict use of market-based pricing, and discriminate against foreign firms.

We believe regulators should focus on three goals: ensuring the solvency of financial services firms, promoting the transparency of intra-company transactions, and improving the reliability of economic data that allows customers and investors to make better informed judgements about the soundness of financial institutions themselves and the quality of their investments.

THE JAPAN-U.S. INSURANCE AGREEMENT

Particularly for the insurance sector, pro-competitive regulatory reform should be on the agenda for the GATS 2000 negotiations. We made a start in this by including the 1997 WTO U.S.-Japan bilateral insurance agreement in the WTO Financial Services Agreement. These insurance provisions deal solely with creating a pro-competitive regulatory environment in Japan and were aimed at leveling the playing field for foreign insurers in the Japanese insurance market. Unfortunately, significant aspects of the agreement have not been implemented. On July 1, last year, the USTR expressed its "extreme disappointment" with Japan's implementation of the agreement, but the issue remains unresolved. This is a matter of deep concern to the U.S. insurance sector and we have attempted to give every support to USTR's efforts to achieve compliance by the Japanese with their obligations under the bilateral agreement.

The irony of the situation is the fact that, if these provisions were fully implemented by the Japanese, Japanese insurers, themselves, would eventually be in a far stronger financial and competitive position than they are today.

Regulatory systems that promote competition and solvency will encourage financial services firms to introduce innovative products, reduce prices, achieve efficiencies in operations, improve the quality of services provided, attract capital for long term investments, introduce new technologies, and create new employment opportunities.

By pressing to eliminate restrictions on foreign establishment or ownership and cross border transactions, by removing obstacles to the free movement of persons and by affirmatively promoting national treatment and pro-competitive regulatory

principles, the United States will be helping to shape an agenda at the WTO that will produce genuine global economic liberalization with positive benefits for both U.S. business and consumers, as well as the liberalizing economies.

OTHER TRADE INITIATIVES

I would also like to address briefly some other trade initiatives that complement efforts in the WTO, and that are important in their own right.

China

Our bilateral relationship with China is one of our most important. Over the past decade U.S. exports have increased over 20-fold and those exports are estimated to support more than 200,000 U.S. jobs.

The effort to negotiate market access for U.S. services and goods has been a long-term concern that is now bound up in the effort to negotiate China's membership in the WTO. As the largest emerging economy in the world, China's integration into the rules-based international trading system is essential to ensuring that China undertakes the obligations and responsibilities of the trading system as well as receiving the benefits.

We support the administration's effort to reach a commercially acceptable WTO accession agreement that will enable our companies to participate fully in the Chinese market. We believe that China's participation in the WTO is critically important not only for China, but also for the rest of the world.

As you are aware, U.S. negotiators are now in Beijing in an effort to make progress toward this objective. We urge USTR to continue to insist that China accept that opening its services sector is equally important as reducing tariffs on merchandise. Without meaningful commitments on services, there simply can be no deal with China. And if China agrees to play by WTO rules, then the United States should be prepared to provide permanent extension of normal trade relations status to China.

Free Trade Area of the Americas (FTAA)

In our own hemisphere, regional trade grew 15 percent in 1997—twice the world average. Two-thirds of U.S. export growth has been in the Western Hemisphere. Countries in the region are negotiating with each other and the Europeans to secure the benefits of this trade expansion. The United States must now take the lead in pursuing trade and investment liberalization in our own hemisphere, if we want to receive the full benefits of the trade expansion that is underway, and to prevent our exporters being excluded from important new markets by trade agreements made between other countries in the Hemisphere.

We support efforts to reach a hemispheric free trade area, which would ultimately expand NAFTA and include virtually all of North, South and Central America. FTAA represents an enormously ambitious undertaking that merits the full commitment of the U.S. government.

Asia Pacific Economic Cooperation (APEC)

The APEC economies represent over one-half of total world production and almost one-half of world trade. U.S. bilateral trade with these economies is roughly two-thirds of all U.S. trade. The United States has been an active participant in the APEC effort to achieve free and open trade in the region. We have worked hard to ensure that the momentum generated by APEC's work to date is not derailed by the Asian financial crisis, and that APEC economies move forward to implement previously agreed market opening steps. We strongly support inclusion of pro-competitive financial services regulatory reform in the APEC work program.

TRADE NEGOTIATING AUTHORITY

What will it take to implement a broad and ambitious trade agenda such as the above?

CSI urges Congress to extend broad, multi-year trade negotiating authority to the President. Such congressional trade negotiating authority has come to be expected as a foundation that is necessary to conclude with credibility liberalization agreements with our trading partners.

Another important step is to adopt domestic economic policies, including tax policies, that help create an environment that encourages competition and reduces the costs of competing overseas. Congress' support and leadership in revising and extending the deferral rules for U.S.-based financial services companies last year was a giant step forward in conforming U.S. tax rules to U.S. trade policies. Permitting deferral of active financial services income is essential to maintaining the competi-

tiveness of our financial services firms. We urge you to further extend this provision this year.

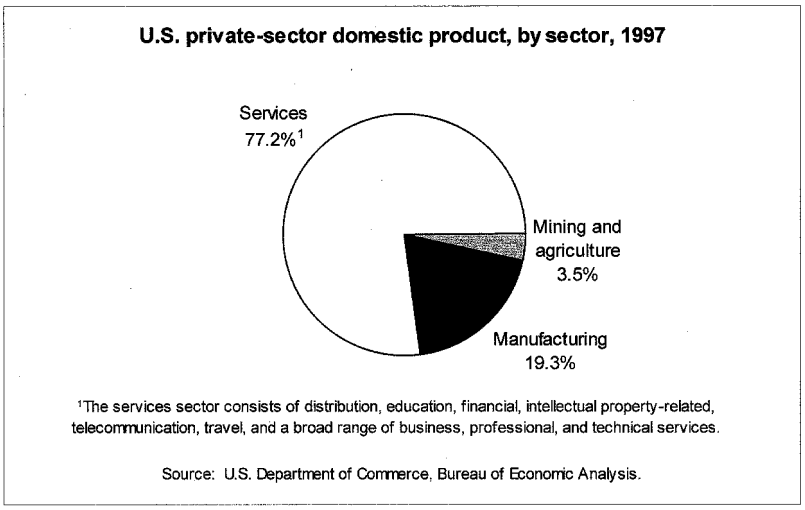
CONCLUSION

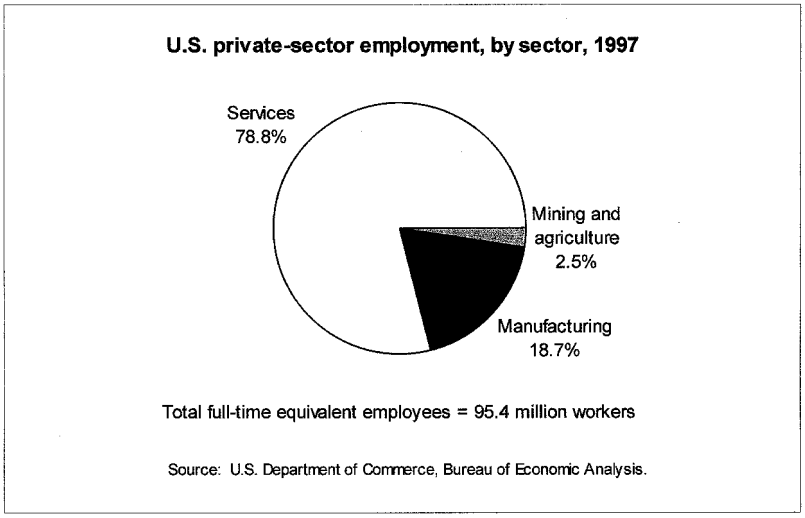
The economic interests of the United States dictate that we must take the lead in multilateral and other efforts to eliminate trade and investment barriers and establish a system of international trading rules buttressed by national pro-competitive regulatory supports. It is time to reinvigorate U.S. trade policy by extending to the President the trade authority he has traditionally been given to conduct negotiations. We must ourselves avoid protectionist trade actions. And we must attempt to create a strong domestic consensus that the benefits of open international trade outweigh the costs of continued engagement.

The Coalition of Service Industries is helping build this consensus by organizing the first World Services Congress that will be held in Atlanta on November 1–4 this year. We hope to attract more than 2000 business and government leaders, academics, and others to help construct a global consensus on the benefits of trade liberalization in services, and to support the launch of an ambitious services trade negotiation at the WTO Ministerial in Seattle at the end of November. We will welcome the participation of members of this Subcommittee and its staff in this important event.

In addition, CSI has helped form a coalition to support the WTO Ministerial. Made up of trade associations and advocacy organizations, the U.S. Alliance for Trade Expansion (USATrade) represents $2 trillion in annual trade and over 150 million American farmers, workers, and consumers, and seeks to promote economic growth, job expansion, and higher living standards in the U.S. by rules-based multilateral trade liberalization through the WTO. We plan to have a strong presence representing our various constituencies at the Ministerial in Seattle.

Our members strongly believe that expanding international trade and investment improves the lives of Americans and that continued U.S. leadership in strengthening the rules-based international trading system is the surest way to sustain our domestic economic strength. These hearings are an important step in developing a consensus on these issues.





Chairman CRANE. Thank you, Mr. O'Hare. Thank you all for your presentations.

For the panel generically, I would like to throw a question out. Ambassador Barshefsky testified last month that the Administration is seeking better coordination between the International Labor Organization, ILO, and the WTO. What, in your views, are the proper relationships between these two international bodies?

Mr. SWIFT. Well, Mr. Chairman, if I could take a first crack at that. In my testimony I said that labor and environmental issues

should be discussed meaningfully amongst the appropriate Members of the Administration and the Congress. The International Labor Organization is an international organization which addresses labor standards, and is the organization to do that, not the WTO. So if they could start talking together in a meaningful way, that is a very positive development, in my view anyway.

Chairman CRANE. Does anyone else have a view?

Mr. MICEK. Yes. I would just like to follow up on Mr. Swift's comments. ECAT supports the use of ILO as the appropriate forum to deal with international labor issues. We are concerned that if we just target only labor and environmental objectives without really dealing with the overall strategic issues that are a part of trade, we could get bogged down and miss a great opportunity.

Chairman CRANE. Any other views on that question?

What is your advice on how labor and environmental issues should be handled in the negotiating authority? Anyone?

Mr. O'HARE. Mr. Chairman, I would just like to comment that I think trade negotiations and certainly labor issues are in many respects independent issues. I think the ILO has been doing an extremely good job for decades. We shouldn't let trade issues overwhelm or overtake the progress that they are making in these areas. I view the two as very independent issues.

Chairman CRANE. Does anyone else have a view on that?

Mr. SWIFT. If I could follow up on what I said earlier, the WTO is a trade organization. It should be a rules-based organization to govern how the international marketplace trades. Labor and environmental issues are not necessarily trade issues. The ILO is a better forum for labor issues than the WTO.

Chairman CRANE. A final question from me, and this is to Mr. Baszile. We hear from many labor union representatives that fast track and active U.S. involvement in trade negotiations are just big business issues that will end up hurting workers in small businesses. Why do you think small businesses should support fast track negotiating authority and active U.S. involvement in breaking down international trade barriers?

Mr. BASZILE. Mr. Chairman, small businesses, since I have been in business for the past 24 years, have been encouraged to export their products as much as they can. More importantly, our customer base is made up of people who export their products. So if we don't do it on a direct basis, we certainly benefit by the exporting activity of customers like Boeing and others. So we think it is very important.

Chairman CRANE. Well you are sitting amongst some giants there.

Mr. BASZILE. Yes, I am.

Chairman CRANE. We had a Trade Subcommittee hearing out in my district about 3 or 4 years ago. I have some big corporate headquarters there, Motorola, Ameritech, United Airlines, Sears, Kemper Insurance, and so forth. We are the fifth largest export State in the Union, Illinois. My district is probably No. 1 in the State. What was most revealing about that hearing is that better than 90 percent of our exports out of Illinois come from companies employing 500 or fewer.

Mr. BASZILE. That's right. One thing that I would just like to emphasize again, if we remember 83 percent of the jobs in this country are supplied by small business. So we are a continuing integral part of the global economy, and of course the strengthening of this economy in our country.

While I might not be able to sell a plane to China, I certainly support Mr. Condit in his efforts. So therefore——

Chairman CRANE. With your component parts.

Mr. BASZILE. Absolutely.

Mr. CONDIT. And without those, we can't do it. So it is very much a cooperative effort with our suppliers.

Chairman CRANE. I couldn't agree with you more.

Mr. Levin.

Mr. LEVIN. Welcome, to all of you. There has been some discussion here, especially in response to Mr. Crane's question about labor, about what I would call labor markets and environmental issues. I regret there is not a more diversified panel in that respect regarding that issue because we are going to have to confront it and do it effectively if we are going to move ahead on a broad-based trade consensus.

I want to turn to other issues, but I would just urge you, Mr. O'Hare, and you, Mr. Micek, to take another look at the ILO and its record on labor market issues. To call it effective I think is totally unrealistic. Its record is not one of effectiveness on these issues. I don't think they are independent of trade issues. I think they are very much a part of them.

Just look at the discussions we are having on Africa, and especially on CBI, where these labor market issues are very central to the debate over these bills, especially CBI. It has been the basis of the difference between the House and the Senate, cutting across party lines. So there is no use of pretending that just ship it to the ILO. That won't resolve it.

I think, Mr. Swift, that your statement on page 4 is something that we all need to take seriously, where you say "We recognize that there will be little progress on this matter" that is trade negotiating authority, "until we address the environmental and labor issues that have been raised. We are prepared to sit down with the Members of this Committee, the Administration, and others, to engage in a meaningful dialog that will move the process forward."

If we do not take seriously your advice, I think we are going to simply reach another dead-end. There is no use in trying to finesse the issues or shove them off to the ILO. They have now a statement of principles. But in terms of embodying these in agreements, the ILO really doesn't have either the authority, and it surely doesn't have the history of doing it.

But if I might, before my time is up, because I didn't want to lose this opportunity to talk about another issue that is really related to this issue of labor market issues, environmental issues. It isn't fast track, but it's China WTO. A number of you have said it has to be on commercially acceptable terms, we shouldn't simply rubber stamp what they want. Their structures on labor market, on capital markets, on environmental issues is so different, we better face up to them.

So I want to zero in, now that I have this opportunity, Mr. Condit, to take one piece of it. That is the issue of transfer of technology. I don't want to ask you specifically about Boeing because some of that may be proprietary. But I would like your views.

One of the issues, it seems to me with China that we haven't really faced adequately in talking about WTO, are their requirements for technology transfer. It seems to me we can't simply stand by idly and have this huge economy, China, place these requirements on American firms and therefore, American workers in terms of technology transfer and other things. Would you comment on that, please?

Mr. CONDIT. All of these issues are very complex. For most of the companies that all of us represent the technology is a key part of our competitiveness. So the protection of that technology is important to us, as well as to the United States overall.

On the other side, I do not perceive that as a defensive strategy. If we don't continue to move the ball forward, don't continue to advance our own technology, in the long term, we will not be winners in the world market. So reasonable limitations on technology transfer are not unreasonable; but if they get out of proportion, they will simply limit all of the action and nothing happens.

So I guess my strongest feeling of all is that we continue as companies to take the initiative to continue to advance our own technologies. Then I am convinced we can continue to lead the world in competitiveness. But it takes good intellectual property rules. I think that is absolutely vital, but we need to avoid excessive technology transfer limitations.

Mr. LEVIN. I think I get your meaning. When we talk about concern of requirements, especially evolving economies, that we transfer technology, I am not suggesting that by being concerned about it, we should drop our efforts to develop and to continue to develop our own technology. I don't see that those are necessarily or at all in conflict. But it seems to me that we better realistically raise these and confront these issues in the WTO China accession negotiations. I don't think your company or any other would say well let China accede and we'll talk about that issue after they are in the WTO.

Mr. CONDIT. But let me argue the other side for just a second. I think it is important that we do move forward. So there is always this balance between getting the best agreement that you can get, and still getting one. I think that is the difficulty of any negotiation. I don't disagree that we need to address that subject. It does need to be there. On the other hand, we won't get a final solution. There will continue to be further negotiations, and will need to be.

Mr. LEVIN. Thank you.

Chairman CRANE. Mr. Ramstad.

Mr. RAMSTAD. Thank you, Mr. Chairman. I want to thank the Distinguished Members of this panel for being here today. We need to hear from you on these very, very critical issues. I was just trying to quantify in my mind how many millions of jobs your respective groups represent and what a chunk of the GDP you five people here today represent. I wasn't able to do it, but suffice to say, obviously when we have the Emergency Committee for American Trade, the Business Roundtable, National Foreign Trade Council,

the Coalition of Service Industries, not to mention small business represented by Baszile Metals, we need to listen closely as you represent many of our constituents. Those points also need to be heard by the White House.

One of my major disappointments, and I think major disappointment of our chairman and most people on this panel, is the failure to pass fast track. We see what is going on. We see how many major regional agreements have been entered into since fast track expired. We also see that we haven't been part of those major regional agreements.

Yet I am still hopeful. By the way, let me also say that not all members of this panel share the Distinguished Ranking Member's views on the ILO. I certainly identify with your remarks, Mr. Micek, and yours Mr. Condit, as far as the ILO is concerned. But I think we have to get beyond that. That is certainly important.

I just hope that a collaborative effort is made on the part of the White House. I, in my earlier years on this panel, worked with them on NAFTA and GATT. We worked together on a bipartisan, pragmatic, collaborative way, and got those done. Lately, however, I have been very disappointed. The Administration has sent signals to this Subcommittee that we have to make changes to last year's fast track legislation. But I am not sure, and I don't think anybody here on this panel is sure, what changes they want. So my question to any of you—and it is certainly good to see my good friend Ernie Micek, a leader on these issues back home in Minnesota—has anybody from the White House told you or your groups what changes need to be made in last year's last track legislation? Have they sat down or asked you to come down there to solicit your advice, your expertise for passing fast track legislation this year? Any of you? Ernie?

Mr. MICEK. Well, I have had some conversation. I think they are concerned about focusing just on fast track. But perhaps it can be part of the broader issue. That is why I think many of us believe that given the opportunity that we have here in this country with the WTO Ministerial being held in the United States, that fast track can be part of a bigger trade issue. Hopefully when we can see or more people can see the value of what WTO negotiations can produce, then they will also understand that to make this happen we do need fast track authority.

I do want to step back for just a minute on the labor issue because my experience, and I have been around for 40 years in corporate America, tells me that we are better off being part of a process. With Boeing involved, ourselves, all the various companies represented here, we are better off and we have a better chance of getting environmental issues advanced, labor issues advanced when we are part of something than when we are excluded. To exclude us really does nothing to advance labor and environmental concerns.

Mr. RAMSTAD. Thank you, Mr. Chairman.

Chairman CRANE. Mr. McNulty. Oh, he's not here.

Mr. Jefferson.

Mr. JEFFERSON. Thank you, Mr. Chairman. I don't want to start off with a defense of the White House on fast track. But I suppose I ought to utter some modicum of defense to say that the President

has expressed his seriousness on this issue. He mentioned it in the State of the Union address. He is not oblivious to what happened last time though. When he attempted to get it done, it was a very difficult matter to get done. Of course it takes a lot of work on both sides of the aisle, and it is not just his sole responsibility to work on this issue.

So as one who has in the past supported fast track issues, I think it is important to not single out the White House and beat them up over this issue as we try and find a way to deal with it.

I want to ask a question in a different vein though. I found the discussion today instructive. I want to ask you about Africa. We have touched on our trade policies and goals in the Americas, in Europe, and in Asia. How important is it to you that the U.S. fashion a trade and investment policy in sub-Saharan Africa? As representatives of the U.S. private sector, what are your thoughts on the importance of increased trade and investment in this region?

Mr. CONDIT. Let me start by saying as a company, Boeing sees real reason to support that trade development. Obviously one of our primary products is providing equipment that moves people back and forth and promotes trade. But we see a very definite need to deal with trade on a global basis, not just a regional basis, but a global basis. That clearly would include sub-Saharan Africa.

So we have been in support of that. The Roundtable is actively looking at that issue in terms of its support, and I suspect it will also be supportive.

Mr. JEFFERSON. Yes, Sir?

Mr. MICEK. I think it is very important that we have a trade policy with Africa. I just don't see how the African people can be excluded from being part of the world community as we enter the 21st century. I believe the African trade act, as proposed, would give some opportunity for them to become part of the greater community.

Our company, for example, has just within the last 2 months, and I was there personally for the ground breaking ceremonies, are in the process of building a $50 million cocoa processing plant in Ivory Coast. We were welcomed there as a U.S. firm.

One of the problems is I think in Africa for U.S. companies, so much of Africa historically is tied closely to Europe. U.S. companies really don't know that much about a number of the African nations. So I think any trade bill that gives the opportunity for the United States to become involved I think would be very important.

Mr. SWIFT. If I could just comment on that. Foster Wheeler has ongoing operations in Africa. I would second what Mr. Micek said, that Africa is very much in the realm of the Europeans. I think that U.S. trade with Africa would be significantly enhanced if the kind of trade bill that we are discussing today was, in fact, enacted so that American companies would have better knowledge of the area, better ability to go in and compete against the European companies.

Mr. BASZILE. Mr. Jefferson, I have had some personal experience in trying to develop trade with African countries, most particularly on a smaller business basis. We have entertained several trade missions from Southern Africa and other parts of Africa in Los Angeles.

I think what the small business community can do, and most particularly the minority business can do, is serve as role models as to how business is done. Some of most basic questions that we take for granted in this country are foreign to many of the people in Africa who now, especially Southern Africa, who have the freedom, but they don't have the know-how to make the system work for them.

I personally went to Southern Africa, Swaziland and South Africa, to start an aluminum pots and pans manufacturing company. I was overwhelmingly received. We still work in that area.

So I think the small business community, with the support of U.S. Government, can serve as a role model for many frustrated Africans who really are entrepreneurs, but they just do not have the wherewithal to make it happen.

Mr. O'HARE. Mr. Jefferson, I would agree with all the comments made by the panel. I would point out that a trade policy with Africa is truly an essential part of dealing in a global economy today.

As respect to industries that are near and dear to my heart, the insurance industry, there are still, depending upon what country in Africa you are referring to, some terribly restrictive laws governing the level of ownership that a foreign company can have in an African insurance company. This is also the case in many of the banking pieces of financial service industries. So you know, on that basis I think a trade policy that would encourage the very things that we have talked about this morning would be extremely useful for that part of the world.

Mr. JEFFERSON. I thank you for your comments.

Thank you, Mr. Chairman, for yielding to me.

Chairman CRANE. I would simply add a footnote to what was said. That is that the sub-Saharan African countries included in our bill number 48. There are over 700 million people there. Yet that is only about 2 percent of our current trade. It is a tremendous potential market. But again, getting our African Growth and Opportunity Act passed is one thing, but to start the negotiations requires fast track. So that is an essential component to going forward. I know Mr. Jefferson, I praise his efforts. He has worked very conscientiously on behalf of both.

I would now like to yield to Mr. Condit's representative. I know that she is going to be inviting us all to come out to Seattle. Are we flying Boeing? Is that it, Jennifer?

Mr. CONDIT. You better.

Ms. DUNN. You bet. No other way.

Chairman CRANE. Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman. I am happy to welcome this panel this morning. It has been a fascinating discussion. I think each of us has had a lot of questions we won't be able to ask because there is not much time.

But I am especially pleased that Phil Condit could be here because I have many employees who work for his company and live in my district. So Boeing's success is always a great joy to us. We are particularly happy to be hosting the WTO Ministerial in Seattle, called the Seattle Round. We want to call it that, the Seattle Round, because that will last for a good many years. There is no

more appropriate place, I believe, in this Nation than the bright crescent of the Puget Sound area in which to host the WTO.

I do, Mr. Condit, want to shift things back to China for a moment. There are some in Congress who are very concerned that in its eagerness to bring China to the table at the WTO Ministerial this fall, the Administration will cut a deal with China to bring it into the WTO. Others think that would be a very good thing, that we should move ahead, and it is critically important to have them at the table.

I really want to get your views. You mentioned that a deal should be made only if the agreement were commercially viable. I would like to have your thinking on how important is it to have them with us in Seattle this fall? Ought we to go ahead and do that deal even though they may not be totally prepared for a session now? Should we hold out for more?

Mr. CONDIT. As I said earlier, every negotiation is a balance. To say we want everything in this run I think would be a mistake because you won't get there. To say that accession ought to be there no matter what, would also be a mistake. There is a need for very specific conditions, but it is also important that China be part of the world trading community.

Just by population and long-term economic force, we are much better off having them in the world trading system than outside. So the real issue is what are the key points, how do we make those key points, and then get an agreement. We use the words "commercially meaningful" which indicate this isn't just a giveaway, but it does mean we need to reach an agreement. I think it is very important.

Ms. DUNN. Thank you. Well, we will be sorting that one out in the next few months.

I want to also say, fast track has been touched on. It is vitally important to all of us. I think that you are going to find very strong support for fast track, at least on my side of the aisle in Congress. But the problem is that when we had our last vote on fast track, it was a lopsided vote. We lost that vote by 180 to 243. We are still deciding now how to proceed with fast track, many different approaches on this.

I see, as I said, that there is good support on our side of the aisle. We brought the votes we needed the last time. The business community is obviously interested and engaged. Certainly the U.S. Trade Representative is very eager to have us move ahead with fast track. Other parts of the Administration though talk a lot, but they do not seem to produce the votes that we need when we need them.

I am interested, Mr. Swift, in what you have said because I don't think I have heard it publicly before, that the business community may be willing to sit now and talk about further negotiations on labor and environment. There was some very strong language in the last fast track bill. So I am interested in hearing your point of view on how we would proceed here, and would we require, for example, that foreign nations change their environmental laws, their labor laws, in order to be part of our requirement under fast track? Or would that encourage them to begin to do other deals bilaterally

with countries like the EU, instead of pursuing agreements with us?

Mr. SWIFT. Well, when we made the comment that we think the people should sit down and discuss the labor and environmental issues, that is simply because if we don't sit down and discuss them, they will never be resolved.

As we have said, the WTO is a trade organization. It is not specifically a labor or environmental organization. With respect to the environment, speaking as Foster Wheeler now, I would point out that even the Kyoto Accords recognize the many difference between developing and developed countries. So therefore, it is difficult to see how specific we can be in[to] fast track legislation.

However, I do believe that if we say that we shouldn't discuss these issues, is putting our head in the sand. We think that the quicker that the Administration identifies exactly what it is thinking about, and creates a meaningful dialog, to the point where we can have an omnibus trade bill so that all of the things that are important to U.S. trade are covered, the better off we are.

Everybody has been talking around the issue, speaking for myself, and I think that when people sit down and discuss it and find out exactly what people are really talking about, maybe some common ground could be found. But without that, I don't know how fast track is going to go forward.

Ms. DUNN. Thank you, Mr. Chairman.

Chairman CRANE. Thank you.

Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. Thank you to all of the panelists for being here.

Let me ask a couple of questions if I have time to get through both of them. Before I do, if I could just add a few comments to what was said by Mr. Levin as well.

On the whole labor and environmental debate, I think we are going to have to be a little bit more pragmatic. Mr. Swift, as Mr. Levin quoted some of your written testimony, I think you are accurate that the business community needs to sit down and discuss labor and environmental issues. If we don't come to terms with it, and really Members of Congress don't' come to terms with it, it is going to be very difficult for us ultimately to have a trade agreement that will have broad bipartisan support.

With regard to the ILO, my concern with the ILO is that it has no teeth. There are no enforcement mechanisms in place. What it really does is state principle, but it has no way to engender practice of the standards that are set forth.

If I can give you a real quick example. There are some 180 or so conventions and standards that have been passed by the ILO over its some eight decades of history. Of those, there are seven that are considered core conventions: Two of them are on the prohibition of forced labor; two are on the right to organize and collectively bargain; one is on equal pay; one is on the elimination of discrimination; and one is on the abolition of child labor.

At this stage, there are only 37 countries out of the 174 countries that participate in the ILO who have signed those seven core conventions. The United States, by the way, is not one of those 37

countries. We have only signed on to two of those seven core conventions.

So not only do we not have a mechanism to enforce what the ILO preaches, but we also find that there is very little participation in some of the principal conventions of the ILO. So to rely solely on the ILO to try to get us where we need to be on labor is very difficult. That is why I think Congress will have to grapple with that fact.

The question I would like to ask has to do with a hearing that we had last week on steel. I would like to ask your opinion on something. On a bipartisan basis, we had members coming forward saying we need to do something quickly on steel, even to the degree of saying that we should do things that would violate WTO standards. But on a bipartisan basis we had members saying that. We have one bill that has over 180 signatures, bipartisan, that would require us to do things that would, I believe, clearly ask us to do things that would violate WTO.

I would like to know your impressions on what we should do on steel, given that what we have seen is that there has been a massive introduction of steel by a factor of two to three in some cases from some countries, and the impact it is having on the steel industry.

Mr. MICEK. Well, we are in the steel business. We also trade steel, originate steel. Actually I think this issue is a very complex one. But you have to look at it in the context of what has happened in the last 2 years, which started with the Asian crises, which then spread to Russia, and now to South America.

I think what we have to resist is our instinct to retaliate with some legislation. We are much better off to enforce rules that are in place or to sit down with, whether it is the Russians or the Japanese or the Koreans, in terms of limiting the amount of steel imports that come in. Not too dissimilar from what we did with the Japanese auto industry several years ago.

I think it would be a real mistake, particularly in the light of the upcoming WTO negotiations for the United States to do something that would just really run in the face of trying to negotiate or expand a new round of trade talks by putting in place unilateral trade restrictions. This would just send a very difficult, or really a poor signal to the rest of the world.

Mr. CONDIT. Said another way, I think everybody at this table is a strong supporter of a rule-based system. So we need enforcement; we ought to use those mechanisms and go after them hard. Because without the enforcement, rules don't matter. But to create tools outside of that mechanism calls the fundamental system into question.

Mr. BECERRA. Thank you.

Mr. BASZILE. My experience as a metals processor and distributor, I can recall when the memorandum of understanding was signed with the Russians on aluminum ingot. I am deeply involved in ingot. Ingot is a commodity that is traded on the international market. It is suffering right now. No attempts are being made to curtail the import of ingot. I think it would be inconsistent with our trade policies if we took special measures to curtain the importing of steel.

Further, being from Los Angeles, with two major harbors who are boasting about the revenues that are generated and the jobs that are created by the heavy import of metals like steel, I think it would be very detrimental to that region that we so vitally need.

Mr. BECERRA. Thank you.

Mr. Chairman, thank you. I know my time has expired.

Chairman CRANE. Well, I want to thank all of our panelists.

Mr. LEVIN. Mr. Chairman, let me just say one word or two words, if I might. There was a reference to Kyoto. I think it was 95 to nothing, or whatever the vote was in the Senate, that we should not proceed until the evolving economies were participants.

So I think, and I have said to my friends in the business community, if that is your view of Kyoto, and I agree with it, there ought to be an understanding of the comments in your testimony, Mr. Swift, about tackling these environmental and labor market issues as we consider overall trade legislation.

As you leave, to all of you who commented on a rule-based system and WTO, I hope you will convey that message to people in the minority and the majority who might be tempted to treat lightly this issue of a rule-based system as we consider any issue, including steel. Thank you.

Chairman CRANE. I want to thank you all for your participation, and encourage you all please to get the entire business community focused on communicating to employees now, especially in small business, like Mr. Baszile. Because it is so essential that we advance our own trade interests and it works for big corporations and the little guys, but especially for the little guys. That ultimately works to the benefit of all of us. So please keep up the good work, and stay in touch with us.

With that, I will adjourn this panel and invite our next. Dean Kleckner, Kevin Gardner, Leon Trammell, the Honorable William Pryce, and Michael Ryan.

Ms. DUNN [presiding]. Our welcome to the next panel. We are glad you could join us today. Before you start, Mr. Kleckner, with your testimony, I would like to call on our Member, Ron Lewis from Kentucky, who will say a few words about one of his constituents on this panel.

Mr. Lewis.

Mr. LEWIS of Kentucky. Thank you, Ms. Dunn.

I want to thank you for the opportunity to introduce a young farmer from my district, Kevin Gardner. Kevin, along with his wife Glenna own and operate an 800-acre farm in Barren County, Kentucky, where they grow corn, wheat, soybeans, tobacco, and alfalfa, hay. Kevin is with us today as chairman of the American Farm Bureau Federation, Young Farmer and Rancher Committee. In addition to Farm Bureau, Kevin serves on the IDEA board, Cave City Ag-Expo Task Force, and the Barren County Board of Education Long Range Planning Committee.

It has been my pleasure to know Kevin since 1995. He is a member of my Agriculture Advisory Council Group, and in fact hosted one of our first meetings on his farm. Since then, he has been an outstanding source of information for me as I represent the farmers of the second congressional district.

As Kevin is about to tell you, expanding global markets affect farms and farming communities of all sizes across this country. Their futures depend on their access to these markets and the ability to compete, and especially in this time of some surpluses.

Kevin, thank you for taking your time to be with us today and share your experiences and your expertise in this area. Thank you.

Mr. GARDNER. Thank you.

Ms. DUNN. Thank you very much, Mr. Lewis.

We are delighted to have him as a new member of our Ways and Means Committee.

Let's begin testimony then from Dean Kleckner. We will go in order.

STATEMENT OF DEAN KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, PARK RIDGE, ILLINOIS

Mr. KLECKNER. Thank you, Madam Chair, Members of the Committee. I am Dean Kleckner. I am president of the American Farm Bureau. I am the elected president. I am a farmer from northern Iowa. I grow corn, soybeans, and hogs on my family farm in northern Iowa.

I welcome the opportunity to present this testimony before the Trade Subcommittee of the full Committee on the importance of trade negotiations in fighting foreign protectionism. We stress the need for congressional action on the following trade priorities. I am going to list six very briefly. I think I can do it in 5 minutes.

First point, negotiating authority. The Freedom to Farm Act in 1996 began to phaseout farm price supports. It made us more dependent on the world market. Yet agriculture worldwide remains one of the most protected and subsidized sectors in the world economy. Congress simply must pass trade negotiating authority to enable our negotiators to create new export opportunities for farmers and ranchers. We are going to start 9 months from today, Ms. Dunn, or it is going to end 9 months from today in Seattle, and we are not going to have a negotiating authority if we are not careful for our negotiators. I think they could be the laughing stock if that doesn't happen. In our country, they won't have it. However, I say such authority should not link environmental and labor issues to trade.

Second point, negotiations on agriculture. We support in our organization, expediting the action on agriculture in the next WTO round. We must conclude a negotiation quickly to put U.S. ag producers on a level playing field with the rest of the world. We have four specific objectives in the next WTO round regarding ag. A, binding agreements to resolve sanitary issues based on science. B, provide tariff equalization and increased market access by requiring U.S. trading partners to eliminate trade barriers within specified timeframes. C, completely eliminate export subsidies within specified timeframes. Point D, shorten the dispute resolution procedures and processes.

Third point, regarding enforcing trade agreements. We, the United States has brought more trade dispute settlement cases before the WTO than any other nation. We must take all action necessary to ensure that our trading partners comply, live up to the WTO rulings.

Due to recent developments just 2 days ago in the U.S. case against the EU on bananas, I want to add a few remarks that aren't in the prepared testimony for the record. The U.S. ag community is very disappointed with the delay in the WTO arbitration panel's decision on the U.S. request to retaliate against the EU for not living up to its commitments. The WTO arbitration panel did not issue a final ruling on Tuesday as we had hoped. Our producers are counting on the WTO to make timely decisions on disputes concerning agriculture. We are already disappointed by the usual long process required for WTO disputes. The banana case has serious implications for the U.S. case against the EU on beef. The EU has stated that it will not comply with the WTO ruling on beef in May as required.

We believe that the customs actions taken by STR yesterday regarding the banana case is a necessary first step. We hope that the United States will retaliate in full on the banana case in the near future, and will exercise its right to retaliate against the EU on beef if the May deadline passes.

Fourth point, the area is sanctions. U.S. ag producers are closed off from several export markets due to unilateral sanctions, just us, just the United States. Our competitors relish the opportunity to access these markets without our competition. You know, they just lick their chops when we put on sanctions. U.S. producers, on the other hand, lose important markets and are branded as unreliable suppliers. That is for decades to come.

We support sanctions reform that would exempt food from sanctions except in cases of armed conflict and provide market loss assistance payments for lost sales when sanctions are imposed.

The fifth point, quickly. We have got to increase funding for export credit and market development programs. That is things like EP and M–A–P, MAP.

The last one, Trans-Atlantic Economic Partnership or TEP, T–E–P. Congress and the Administration should closely review elements of the Trans-Atlantic Economic Partnership agreement between the United States and Europe to ensure that U.S. ag interests are adequately represented and that ag exports benefit from the TEP. We have real questions about that today.

Thank you, Mr. Chairman.

[The prepared statement follows:]

Statement of Dean Kleckner, President, American Farm Bureau Federation, Park Ridge, Illinois

Mr. Chairman and members of the Committee, I am Dean Kleckner, President of the American Farm Bureau Federation and a hog and soybean farmer from Iowa. The American Farm Bureau represents more than 4.8 million member families in the United States and Puerto Rico. Our members produce every type of farm commodity grown in America and depend on access to customers around the world for the sale of over one-third of our production. U.S. agriculture is one of the few U.S. industries that consistently runs a trade surplus, posting a surplus every year since 1960.

American farmers truly live and function within a global economy. When our customers face economic and fiscal crisis, as is now occurring in Asia, Russia and Brazil, agriculture is the first to feel the effect as our customers lose purchasing power. Economic crises and devalued currencies result in increased consumer prices, which directly translate into weakened market demand. Lost sales mean lower incomes for our producers and economic pressures on America's rural economies.

The ability of U.S. agriculture to gain and maintain a share of global markets depends on many factors, including obtaining strong trade agreements that are prop-

erly enforced, and enhancing the administration's ability to negotiate increased market access, remedy unfair trading practices, and to adequately fund export credit and market development programs.

We appreciate the opportunity to testify before the House Ways & Means Trade Subcommittee on the importance of trade to agriculture and stress the need for Congressional action on the following trade priorities:

TRADE NEGOTIATING AUTHORITY

When Congress passed the 1996 Freedom to Farm Act, it phased out farm price supports, making U.S. agriculture more dependent on the world market. American farmers and ranchers produce an abundant supply of commodities far in excess of domestic needs and their productivity continues to increase. Exports are agriculture's source of future growth in sales and income.

As you are well aware, U.S. agriculture is reeling from low commodity prices. Given an abundant domestic supply and a stable U.S. population rate, expanding existing market access and opening new export markets for agriculture is more important than ever. Agriculture's longstanding history of a balance of trade surplus will not continue if we are relegated to the sidelines as new negotiations in agriculture commence.

Our negotiators must have negotiating authority to create new export opportunities for U.S. farmers and ranchers. Inaction—or sitting on the sidelines without negotiating authority—is unacceptable. Tremendous resources and efforts have been expended to create new markets during negotiations for the Uruguay Round and the North American Free Trade Agreement (NAFTA). Moreover, total agricultural exports account for nearly a million high paying jobs for U.S. workers—the vast majority of which are off the farm in processing and transportation.

Global food demand is expanding rapidly and more than 95 percent of the world's consumers live outside U.S. borders. Despite significant progress in opening markets, agriculture remains one of the most protected and subsidized sectors of the world economy. In addition, U.S. agricultural producers are placed at a competitive disadvantage due to the growing number of regional trade agreements among our competitors.

Negotiating authority is needed to comprehensively address high tariffs, trade-distorting subsidies, and other restrictive trade practices through further World Trade Organization (WTO) negotiations. Negotiating authority is also needed to pursue promising new opportunities for market opening trade agreements in Latin America, Asia and elsewhere.

U.S. leadership of the global trade liberalization agenda has paid off for American agriculture. If the United States now leaves it to others to form new trade pacts and write future rules for trade, U.S. producers, processors, and exporters will be severely disadvantaged in the competitive marketplace of the 21st century.

Congress must support negotiating authority for the President to ensure a more profitable future for U.S. farmers and ranchers. However, such authority should not link environmental and labor issues to trade. Whereas President Clinton emphasized the importance of trade during his State of the Union address, he also underscored his desire to include labor and environmental issues in trade agreements. We oppose such a linkage and stand united with leaders in Asia and Mexico, and Secretary Ruggiero of the WTO against using the WTO as a forum for resolving non-trade related environmental and labor issues.

WTO MINISTERIAL

The United States will host its first ever WTO trade ministerial in December of this year. This ministerial will serve as the kickoff for the new negotiations on agriculture and other sectors in the WTO. As the host country for this ministerial, the United States and its trade policies will be in the spotlight. Securing negotiating authority before the ministerial commences will demonstrate to the world that we are committed to increasing trade liberalization and opening new markets for agriculture. Given the economic turmoil being experienced in many of our important export markets, the launching of new negotiations to further open markets has never been more important.

WTO NEGOTIATIONS ON AGRICULTURE

The American Farm Bureau supports expediting action on the next round for agriculture in the WTO. Our market is the most open in the world. We cannot sit idly by while our competitors trade openly in our market, but deny us access to their markets on equal terms. We must begin the negotiations and conclude them as

early as possible to put U.S. agricultural producers on a level playing field with the rest of the world.

Regarding specific objectives for the next WTO round, the negotiations must include binding agreements to resolve sanitary and phytosanitary issues based on scientific principles in accordance with the WTO Agreement on Sanitary and Phytosanitary Measures; provide tariff equalization and increased market access by requiring U.S. trading partners to eliminate tariff barriers within specified time frames; and make changes to trading practices that would facilitate and shorten dispute resolution procedures and processes.

FREE TRADE AREA OF THE AMERICAS

The Free Trade Area of the Americas (FTAA) will bring together 34 countries in an agreement designed to boost trade in the Western Hemisphere. Latin America is an important market for U.S. agricultural products. More than one-fifth of U.S. agricultural exports in 1998 went to Latin America, an amount that exceeded $11 billion. However, U.S. agricultural producers are at a competitive disadvantage due to existing preferential agreements in Latin America. We need the FTAA to level the playing field for our exports to the region.

Regarding specific objectives, increased market access and transparency must be the lynch pins for all FTAA negotiations. In addition, all member countries must have fully complied with their international obligations prior to its implementation. The FTAA should cover all production sectors of the member countries' agricultural industries and no signatory should be permitted to protect any sector from meeting the terms of the agreement.

ASIA PACIFIC ECONOMIC COOPERATION

The Asia Pacific Economic Cooperation (APEC) was established in 1989 to promote greater economic and trade cooperation in the Pacific Rim. APEC member countries have agreed to establish free trade and investment in the region by the year 2020, with developed countries reaching for this goal by 2010.

However, there have been several attempts by some APEC member countries to delay or halt the discussions on further liberalizing their agricultural markets. This cannot be allowed to happen. While the economies of many members in the Pacific Rim region have suffered economic downturns, most members recognize the value of liberalized markets and have not altered their APEC commitments. Achieving liberalization in APEC will be extremely important for the upcoming negotiations on agriculture in the WTO wherein we hope to achieve further market openings for agriculture. The United States must be active in APEC discussions and ensure that liberalization in agriculture maintains a high profile.

ENFORCING TRADE AGREEMENTS

The United States has brought more dispute settlement cases before the WTO than any other nation. We must take all action necessary to ensure that our trading partners comply with WTO rulings. The obligation of compliance should not be taken lightly. Our trading partners cannot be allowed to unilaterally weaken the very principles that we negotiated in the Uruguay Round agreement.

American agriculture will not have confidence in the multilateral trading system if WTO members are permitted to disregard dispute settlement findings, as the European Union is now doing in the banana and beef hormone cases.

The United States and the European Union are now embroiled in a dispute regarding the European Union's compliance with the WTO ruling on bananas. This case is important to agriculture for many reasons. It is the first ruling to set limits on the application and administration of agricultural tariff rate quotas. It is the first action against the European Union—American agriculture's largest trading partner. Perhaps most important, it is the first case to test the effectiveness of the WTO when a losing party refuses to come into compliance with a WTO ruling. As such, it sets a crucial precedent for the WTO beef hormone case, in which the European Union has also made known its unwillingness to come into compliance.

We encourage Congress and the Administration to take whatever actions are necessary in the banana and beef hormone cases to ensure successful, WTO-consistent outcomes that will help demonstrate the effectiveness of the system.

We have an obligation to our producers to ensure that every available domestic and international trade remedy will be used to prevent unfair trading practices. To this end, we need Congress and the Administration to give priority to monitoring and enforcing all trade agreements and to working aggressively to end unfair trading practices whenever they are found.

SANCTIONS REFORM

In the last decade, democracy has ascended amidst economic liberation in Taiwan, Korea, Poland, Hungary, Slovenia, the Czech Republic, Chile, Argentina, Bolivia, Peru, Brazil, Uruguay and Ecuador. The opportunities for peaceful American engagement and influence in the world are greater than ever before. Yet, we are closed off from certain markets due to unilateral sanctions. Our competitors relish the opportunity to access these markets without competition from the United States due to sanctions. U.S. producers, on the other hand, lose important markets and are branded as unreliable suppliers for decades to come.

For example, the Soviet grain embargo cost the United States about $2.8 billion in lost U.S. farm exports and U.S. government compensation to American farmers. When the United States cut off sales of wheat to protest the Soviet invasion of Afghanistan, other suppliers—France, Canada, Australia and Argentina—stepped in. They expanded their sales to the Soviet Union, ensuring that U.S. sanctions had virtually no economic impact.

Sanctions and embargoes not only cost us in immediate loss of sales, but also enable our customers to find or develop other suppliers. Once this happens, it is very hard to win them back. A case in point is the growth of soybean production in South America, primarily Brazil, as a result of embargoes in the 1970s and 1980s.

The United States has an unprecedented opportunity to promote its values throughout the world by peaceful engagement. Reaching out, not withdrawing behind sanctions or embargoes, is the best way to achieve change.

The American Farm Bureau supports sanctions reform that would exempt food from sanctions, except in cases of armed conflict, and provide producers with market loss assistance payments for lost agricultural export sales when sanctions are imposed.

We also support the Administration's recent changes to U.S. trade policy that will permit food and agricultural input sales to Cuba. It is imperative that the licensing regulations for this policy be written in such a way as to facilitate meaningful commercial trade.

INCREASED FUNDING FOR EEP/MAP

Freedom to Farm increases the importance of maintaining and expanding access to foreign markets. However, in recent years, spending for export programs has declined, although funding for most programs was maintained at previous levels for fiscal year 1999. We must increase funding for these programs in order to remain competitive in the face of increasing international competition.

We need to adopt a strategic approach to U.S. farm exports that includes increased export promotion and market development funding. Doing so will strengthen our hand as we prepare to launch the next round of agricultural negotiations in the WTO.

We cannot place our producers at a competitive disadvantage in the world market. The United States should undertake a review of its existing agricultural export programs, improve their effectiveness and flexibility and fund these programs adequately.

The American Farm Bureau Federation supports the reallocation of unobligated funds from the Export Enhancement Program to other programs such as the P.L. 480 food assistance program, the Food for Progress program, the Market Access Program, the Foreign Market Development program, or one of the section 416 commodity donation programs.

TRANSATLANTIC ECONOMIC PARTNERSHIP (TEP)

The Transatlantic Economic Partnership establishes a regular dialogue between the United States and the European Union to seek to reduce trade barriers and to ensure closer cooperation in preparation for the 1999 WTO Ministerial Conference. Although the concept of the plan is commendable, on close examination, the TEP provides little that is new or substantive for agriculture. Moreover, elements of the plan cover areas of extreme importance to agriculture including food safety, plant and animal health, biotechnology and standardization of certain regulations that directly affect agriculture.

The American Farm Bureau remains very concerned about several provisions of the plan and related dialogues that do not include U.S. agricultural representation. It is critical that Congress and the Administration closely review elements of the TEP to ensure that U.S. agricultural interests are adequately represented and that agricultural exports are not negatively impacted.

RAISING THE PROFILE OF AGRICULTURAL TRADE POLICY

U.S. agriculture is a primary contributor to the nation's gross domestic product and is highly dependent on export markets for the sale of over one-third of its production. Farmers and ranchers need a strong voice in U.S. trade policy to ensure that agriculture's interests are being vigorously pursued.

Creating a permanent position for the Special Agricultural Negotiator in the Office of the United States Trade Representative—with the rank of ambassador—will elevate the importance of agriculture in the upcoming WTO negotiations on farm products and will place agriculture at the highest possible level for resolving trade disputes.

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

Thank you for the opportunity to speak on behalf of American agriculture.

[An attachment is being retain in the Committee files.]

Chairman CRANE [presiding]. Thank you, Mr. Kleckner.

Mr. Gardner.

STATEMENT OF KEVIN GARDNER, FARMER, CAVE CITY, KENTUCKY

Mr. GARDNER. Thank you. Mr. Chairman, and Members of the Committee, my name is Kevin Gardner. I operate a corn, soybean, and burley tobacco farm in Cave City, Kentucky. I bought my farm from my mother nearly 10 years ago when my father passed away. The farm has been owned and operated by my family since 1792, when land was first granted out in our county. It has enjoyed mostly prosperous times during the last 200 years.

I am here before you today to share my farming story with you, and to highlight the growing reliance that my farm and every other farm in the country has on access to foreign markets.

Since I was a young boy, I dreamt of being a farmer. I would watch my dad cultivate the corn, operate the combine, harvest the soybeans and tobacco, and wean the baby pigs. My father was an honorable man. He was dedicated to his family, the farm, and his community. He operated the farm the best way he knew how, and did a good job. But he never had to worry about global financial crises closing down his markets or non-tariff trade barriers shutting him out of the competition for a sale.

Times have certainly changed. Farmers today are focused not only on what they grow and how they grow it, but where their end market is, which is increasingly becoming an international destination. Today's market is much more global in nature than the market my father faced. When I open up the morning newspaper and read about the news of the day, I am well aware that economic troubles in other countries, as well as good market news in faraway lands, affect me directly. We live in a global marketplace, and as farmers we need to be players in the global game.

For example, I sell my corn to a local feed dealership and my soybeans to a local processing plant on the Ohio River. However, I feel the impact of the global corn and soybean prices when I sell these products to the dealership and the plant. A large portion of the soybeans I sell I deliver to the plant are exported to Japan, the Netherlands, Mexico, Taiwan, and Spain. Mexico, incidently, has become

an important market for Kentucky farmers since the North American Free Trade Agreement was implemented.

Take another example. My tobacco is sold at auction at a local warehouse. Five major tobacco companies buy U.S. burley tobacco at auction for processing. About half the tobacco is for use for U.S. consumption and the rest is exported.

I am a strong supporter of free and fair trade. My future depends on it. I supported the Freedom to Farm, but note that we only got part of the deal that we were promised. We got the freedom to farm, but we did not get the freedom to sell. We continue to be shut out of important markets due to a number of factors. In short, U.S. farmers do not have the freedom to trade. I believe that our negotiators should be allowed to return to the negotiating table to level the playing field and to negotiate better access to more international markets.

Would my life be different if our negotiators could knock down those phoney barriers and get rid of the subsidies on my competitors' exports, and open up markets for U.S. farmers? You bet it would. I would relish the opportunity to sell more corn, soybeans, and tobacco in the international marketplace if I knew I was truly squaring off with the competitor that didn't have two legs up on me before we even got out of the gate.

To boil all this down, I am asking you, our elected representatives, to remember America's roots. We started out as an agrarian society and we built a strong Nation, the strongest in the world from very humble beginnings. Remember the farmer like me in the countryside. We are the most productive and efficient farmers in the world. Yet many export doors are closed for us for one reason or another. The President needs negotiating authority to re-open export market doors for U.S. agriculture.

I would like to thank this Committee and especially my Congressman, Ron Lewis, for their efforts in opening U.S. trade. I thank you for this opportunity to testify.

[The prepared statement follows:]

Statement of Kevin Gardner, Farmer Cave City, Kentucky

Mr. Chairman and members of the Committee, my name is Kevin Gardner and I operate a corn, soybean, burley tobacco and alfalfa farm in Cave City, Kentucky. I bought my farm from my mother ten years ago when my father died. This farm has been owned and operated by my family since 1792 when land was first granted out in our county and has enjoyed mostly prosperous times during that 200-year period.

I am here before you today to share my farming story with you and to highlight the growing reliance that my farm, and every other farm in the country, has on access to foreign markets.

Since I was a young boy, I dreamt of being a farmer. I would watch my dad cultivate the corn, operate the combine, harvest the soybeans and tobacco and wean the baby pigs. My father was an honorable man, dedicated to his family, the farm and his community. He operated his farm the best he knew how and he did a good job. But he never had to worry about global financial crises closing down his markets or nontariff trade barriers shutting him out of competition for a sale.

Times have changed. Farmers today are focused not only on what they grow and how they grow it, but also on where their end market is—which is increasingly becoming an international destination. Today's market is much more global in nature than the market my father faced. When I open up the morning newspaper and read the news of the day, I am well aware that economic troubles in other countries—as well as good market news in far away lands—affect me directly. We live in a global marketplace and, as farmers, we need to be players in the global game.

For example, I sell my corn to a local feed dealership and my soybeans to a processing plant on the Ohio River. However, I feel the impact of global corn and soybean prices when I sell these products to the dealership and the plant. A large portion of the soybeans I deliver to the plant are exported to Japan, the Netherlands, Mexico, Taiwan or Spain. Mexico has, incidentally, become an important market for Kentucky farmers since the North American Free Trade Agreement was implemented.

Take another example. My tobacco is sold at an auction to a local warehouse. Five major tobacco companies buy burley tobacco at that auction for processing. About half of the tobacco is used for U.S. consumption, the rest is exported to countries like Germany, Japan, Turkey, the Dominican Republic, Belgium or the Netherlands.

Up until last spring, I raised hogs in a farrow-to-finish operation and even specialized in early weaning pigs for the last two years of my operation. But in May of 1998, I had to close down my hog operation because the market died. The price for hogs fell below my cost of production due largely to excess domestic supply. Imports of Canadian hogs were also a factor.

My point in sharing my hog story with you is not to say that I am trade protectionist. On the contrary. I support free and fair trade. My future depends on it. I supported Freedom to Farm, but note that we only got part of the deal that we were promised. We got freedom to farm, but we didn't get freedom to sell. We continue to be shut out of important markets due to a number of factors. In short, U.S. farmers do not have freedom to trade. I believe that our negotiators should be allowed to return to the negotiating table to level the playing field and negotiate better access to more international markets.

A lot of export market doors have been shut due to high tariffs and nontariff barriers. For example, I grow Bt-corn and Roundup-ready soybeans. These are genetically modified crops—or GMOs. Europe has very limited access for these products and has slammed the import door closed on new varieties of GMO products. We need new rules on biotechnology in the World Trade Organization because Europe is the second largest market for U.S. agriculture. The phony barriers that Europe erects are hurting the average farmer in the countryside—farmers like me. I feel the impact of Europe's anti-trade tactics when I sell my corn and soybeans to the local feed dealership and processing plant.

Would my life be different if our negotiators could knock down these phony barriers, get rid of foreign subsidies on my competitors' exports and open more markets for U.S. farmers? You bet it would.

I have seen first-hand the level of subsidies given to European farmers and supply managed programs for Canadian farmers. I have traveled to both Europe and Canada and have been struck by the amount of government support farmers in Europe enjoy. Farmers in Europe and Canada are my primary competitors. I cannot compete against the mountain of subsidies and supply managed programs that benefit my competitors.

All I am asking for is that we negotiate new agreements that put our farmers on a more level playing field with the rest of the world's farmers. I would relish the opportunity to sell more corn, soybeans and tobacco in the international marketplace if I knew that I was truly squaring off with a competitor that didn't have two legs up on me before we even got out of the gate.

To boil all this down, I am asking you, our elected representatives, to remember America's roots. We started out as an agrarian society. And we built a strong nation—the strongest in the world—from very humble beginnings. Remember the farmer—like me—in the countryside. We are the most productive and efficient farmers in the world. Yet too many export doors are closed to us for one reason or another. The President needs negotiating authority to reopen export market doors for U.S. agriculture.

I would like to thank this Committee, and especially my Congressman, Ron Lewis, for their efforts in opening trade for U.S. farmers.

Thank you for the opportunity to testify before you today.

Chairman CRANE. Thank you, Mr. Gardner.

Mr. Trammel.

STATEMENT OF LEON TRAMMELL, CHAIRMAN AND FOUNDER, TRAMCO, INC., WICHITA, KANSAS

Mr. TRAMMELL. Chairman Crane, Congressman Levin, Members of the Subcommittee on Trade, I am Leon Trammell, chairman and founder or Tramco, Incorporated, in Wichita, Kansas. Tramco creates jobs by selling and manufacturing conveying equipment. Our primary market is the cereal food processors, such as wheat, corn, soybean, and other oil seeds. I appreciate the opportunity to join you in this very important discussion.

I founded Tramco in 1967 with the commitment to quality and customer satisfaction. Almost 25 years ago, Tramco embarked on its first out-of-country job. We were fortunate to be involved in a grain import and transfer facility in Alexandria, Egypt. When the project was completed, we realized that this modern facility halfway around the world had been responsible for 20 percent of our business. That meant 15 new jobs for 1 year.

Today we have installations in over 35 countries. Why are international markets important to Tramco? We could wave the flag and talk about helping the United States balance of payment, but the real reason our international partners are important is that we are an entrepreneurial company. We are always looking for additional sales. Foreign projects offer the greatest opportunities, and we create jobs.

I am the guy who signs the paycheck four times a month for more than 160 families. I am the guy who approves expense reports on trips our employees take to maintain business relationships on four continents. I have employees who can take raw steel and turn it into the finest grain conveyors in the world. Their job depends on my ability to sell.

I spoke at length about China in my written statement because of its great size, great potential, and severe restrictions. But the fact is, we must compete all over the world and we must win. The livelihood of Tramco's 160 families depend on it. Thousands of companies like mine and millions of jobs around the country depend on it. I simply can not understand why our government seems to be more intent on imposing economic sanctions and annual NTR renewals that our competitors don't follow than it is with allying us and our trade negotiators to get the best deal.

I am a member of the U.S. Chamber of Commerce. The Chamber represents tens of thousands of entrepreneurs like myself as well as most large companies, corporations like those represented here today. I might add that two of those people that testified today, I get the waterfall effect from them. That's Cargill and Foster Wheeler. Eighty percent of our business is in grain processing and 20 percent is in general industry. The reason a company the size of Tramco can be in 35 foreign countries is we go in on the coattails of those companies. Once we are there and we are established as a supplier to the Cargills and to the Foster Wheelers, it is easier for us to penetrate the rest of the market.

Let me back up here. The Chamber of Commerce represents tens of thousands of entrepreneurs like myself, as well as most large corporations like those represented here. We all do business in our own way, but we all have a common goal, which are to stay in business and create jobs.

To summarize, the U.S. Congress and Administration should do everything possible to expand the international marketplace. This means renewing fast track and rejoining trade negotiations. These negotiations should be about opening markets and creating jobs, not closing them. Any effort to restrict trade through protectionism should be rejected. We need to end our reliance on unilateral sanctions. This includes giving permanent NTR status to China and stop threatening to end it at the end of each year. Ending China's NTR status would be a major new sanction that would hurt Tramco, as well as those who seek more liberty in China, but it would not cause positive change in China.

We need to maintain trade laws that are not themselves protectionist, but help us to open markets and end protectionism. Again, this is about jobs. This will give our negotiators more credibility, and the American public more confidence. Finally, we need to stay engaged in keep building relationships with our customers, not turn them off and on like a lightswitch at the end of each year.

I will be pleased to answer any questions you might have, and thank you.

[The prepared statement follows:]

Statement of Leon Trammell, Chairman and Founder, Tramco, Inc., Wichita, Kansas

Chairman Crane, Congressman Levin, members of the Subcommittee on Trade. I appreciate this opportunity to join you in this very important discussion.

The following information is provided as a written submission for the United States House of Representatives, Committee on Ways and Means, Subcommittee on Trade.

These materials will provide a record on my thoughts on the importance of expanding trade, and resisting any protectionism in trade negotiations.

As background, I am:

Leon Trammell, Chairman and President, Tramco, Inc.

We are located at 1020 East 19th Street, Wichita, Kansas 67214.

Our 160+ employees are involved in the manufacturing and sale of high-production conveyors and conveying systems. Our primary market is in the "cereal foods" business . . . i.e., corn, soybeans, etc. We have been active in international sales for more than 20 years, and have been most active in the China market for the last 14 years.

With your permission, it may be valuable to know of Tramco's background and introduction to "international" trade.

Almost 25 years ago Tramco embarked on its first job outside of the United States. We were fortunate to be involved in a grain import and transfer facility in Alexandria, Egypt. When the project was completed and brought on-line, we realized that this modern facility—half way around the world—had been responsible for 20% of our business.

As we said, this was "good" business.

This one factor alone can be cited as the reason Tramco's quality products are now known around the world. As a company, we made international relationships and sales one of our primary missions.

We also know that "relationships" must come before any prospect of "sales." As such, we seem to have one of our employees getting their passport stamped on a monthly basis. And, while it is not unexpected to have a $5,000 bill at the end of each trip, we continue to make this investment in pure relationship building.

I would now like to discuss the changes we have seen in the China market (specifically) since our first introduction to this international partner. (I highlight China for this example because, with our bidding, sales and installation activities currently in over 35 countries, China is among the most restrictive.)

• Ten years ago, with roughly 1.3 billion citizens, almost 80% of China's population was involved in farming. Today, after extensive industrialization, this number has dropped to between 65 and 70%. While this drop is significant, the number of farmers—850,000,000—is still more than three times the entire population of the United States. (As a point of reference, 100 years ago, 60% of the United States population was involved in agriculture. Today the number is 1%.)

• When we first went to China, the grain industry's idea of transporting grain was one farmer/gardener, one sack of grain and one bicycle. To be honest, there was no infrastructure. In fact, when grain was loaded on to ships (during the few years when China was an exporter) it was not unexpected for the farmer to carry sacks of grain on to a ship and dump them by hand in to the ship cargo areas.

• Ten years ago saw the beginning of the construction of a system of what we could call country elevators. Their primary purpose was to ship the grain to a centralized storage facility.

• We would like to believe that China is leaving a period of "labor intensity" and entering a period of "brain intensity." Obviously this shows great promise for a manufacturer of "high-quality, labor-saving" equipment.

Why are international markets important to Tramco? While we could "wave the flag" and talk about helping the U.S. balance of payments, the real reason China and our other international partners is important to us is that we are an entrepreneurial company—always looking for sales—and foreign projects offer the most opportunity in the world.

China is finishing up the greatest grain "system" expansion the world has ever known. It should be noted, due to peculiar aspects of the Normal Trading Relation status (NTR), *no* U.S. design and engineering firms have been involved in these projects. Most of the work resides in Canada, England, Australia and the Netherlands. (The major U.S. firms didn't get involved because they did not know if they would be able to operate under NTR from one year to the next.)

Let me speak honestly about our feelings toward international activities in general, and granting permanent NTR status to China specifically:

• Our business is not based upon whim and caprice. The current NTR approach sometimes seems to be based upon whim and caprice.

• Americans understand that we cannot impose our religious, political and social views on China. It would appear as if Congress does not understand this.

• Our company's short-term planning is 12 to 18 months, and our long-term planning is five years. With the current NTR requirements with China, everything ends on December 31.

• Many of our clients realize that changing specifications in the middle of a project might necessitate changes in the product delivery schedule. With the NTR requirements, it doesn't matter how many changes are requested, everything ends on December 31.

• We like to think we are always "in the ballgame" when it comes to designing and delivering equipment. With NTR we have missed jobs because we couldn't deliver materials before the end of the year. This situation is brought about because, as the U.S. Congress threatens to withhold NTR status from China, their government threatens to impose a 40% duty on all equipment delivered from the U.S. While this has never happened, the threat always exists.

• The current NTR activities take away two qualities we expect in a long-term client relationship . . . continuity and consistency.

It should be obvious from my comments to this point that I am a designer and builder of conveyor equipment . . . I am not a politician. While I vote every chance I get, I certainly do not understand the way our government chooses to make laws that hand-cuff our own small businesses who are trying to do businesses with China.

For instance . . . why would the United States want a policy that would restrict our ability to compete? Do they think they are "punishing" China? No. The world's largest potential marketplace will buy from some other country. The people being "punished" are our own manufacturers and engineering experts.

Or, to paraphrase the general focus of this Ways and Means Subcommittee on Trade . . . I would urge you to do everything possible to expand trade, and resist the introduction of any form of protectionism in any trade negotiations.

Who is Leon Trammell:

• I am is the guy who signs paychecks—four times a month—for more than 160 families. I have employees who can take raw steel and turn it into the finest grain conveyors in the world. And, I am the guy who approves the expense reports on those trips to make sure my key people maintain their key relationships on four continents.

The sad thing is that Tramco is not alone. I fully expect that you will receive similar comments from others who are just as frustrated by a restriction on trade through the inclusion of protectionism in trade negotiations.

Let me thank you for the opportunity to express these thoughts and to show how passionate I am when it comes to establishing a "level" playing field. (I honestly do not want for Tramco to ever be given an unfair advantage. We have gained our reputation and success in the toughest arena of all . . . the free marketplace.)

To summarize:

1. The United States Congress should do everything possible to expand the international trade marketplace.
2. Any effort to restrict trade, through protectionism, tariffs or short timetables should be rejected.
3. On the subject of Normal Trade Relations status, I would support all efforts to give permanent NTR status to China.
4. We should be able to continue our relationship-building in any country, while projecting beyond New Year's Eve.
5. While we work well with engineering firms from Europe and Australia, it would be nice once-in-a-while to deal with companies who are a "local" call away.
6. Finally, long-term relationships should not end on the last day of the year, and then restart when someone in Congress says they can recommence.

Thank you for this opportunity to share some thoughts with United States House of Representatives Committee on Ways and Means, Subcommittee on Trade.

Thank you.

Chairman CRANE. Thank you, Mr. Trammell.

Mr. Pryce.

STATEMENT OF HON. WILLIAM T. PRYCE, VICE PRESIDENT, WASHINGTON OPERATIONS, COUNCIL OF THE AMERICAS, AND FORMER AMBASSADOR TO HONDURAS FROM THE UNITED STATES

Mr. PRYCE. Good morning, Mr. Chairman, Congressman Levin, and Members of the Subcommittee. I am Bill Pryce, vice president of the Council of the Americas. The Council appreciates the opportunity to testify before you today. The Council of the Americas is the leading business organization dedicated to promoting regional economic integration, free trade and investment, open markets, and the rule of law throughout the hemisphere. The Council's membership represents the majority of U.S. private investment in Latin America. Members include manufacturing, natural resources, technology, communications, banking, and financial services firms.

The Council was founded on the belief that the future prosperity of the hemisphere depends on the triumph of liberal economic policies such as free trade and open markets. Despite the recent turbulence in the global economy, it is clear over the last decade that the trend in Latin America has been in that direction. The result has been stronger democracies and greater market opportunities for U.S. companies. These are trends we should be encouraging.

Last April, the presidents of the hemisphere's 34 democracies agreed in Chile to open negotiations for a free trade area of the Americas, and to launch new initiatives to promote education, reduce poverty, and strengthen democratic institutions throughout the Americas. The Council believes that the FTAA represents a great opportunity for growth and development of the region. Trade leads to prosperity, and provides an enhanced ability to address the summit's broader social and political agenda.

The Free Trade Area of the Americas represents a potential market of 800 million people. It is a huge market, for everything from cellular telephones to industrial machinery. U.S. trade with Latin America and the Caribbean is already growing faster than with any other part of the world. U.S. exports to Latin America have increased by more than 100 percent since 1990, and are growing about twice as fast as exports to the rest of the world. The United

States sells more to Brazil than to China, more to Central America than to Eastern Europe and the former Soviet Union combined, and more to the 14 million people of Chile than to the 900 million people of India.

Last month, the Council was in Miami at the FTAA negotiations. Mr. Chairman, we heard once again directly from the negotiators that the lack of trade negotiating authority was an impediment to progress. The goal of reaching interim agreements by the year 2000 in order to achieve the concrete progress referred to in the Miami Summit appears increasingly difficult to achieve. While the lack of the President's trade negotiating authority is not the only cause, it certainly impedes our ability to get taken seriously. Although the FTAA process is not scheduled to come into effect until the year 2005, the United States is in danger of losing ground in the region, and ceding opportunity to Canada and the European Union as they negotiate preferential trade agreements with the countries of Latin America.

Mr. Chairman, I want to mention our most recent major trade agreement, the NAFTA. The North American Free Trade Agreement has been a clear success. In January, the Council released its NAFTA at Five Years report, which demonstrates even more strongly than before that this trade agreement has been beneficial for the United States. U.S. trade with our NAFTA partners grew 63 percent from 1993 to 1997, and stands are record levels. Since 1993, U.S. merchandise trade is up 93 percent with Mexico, 51 percent with Canada. In 1997, U.S. trade with Canada totaled $354 billion, and with Mexico, $180 billion. We now export more to our NAFTA partners than we do to the European Union and Japan combined.

Since NAFTA went into effect, the United States has seen the unemployment rate drop to a 28-year low. We clearly have not seen a massive exodus of U.S. jobs to Mexico as some had predicted. In fact, NAFTA has led to more high quality, better-paying jobs for U.S. workers. Without NAFTA, U.S. exporters would face Mexican and Canadian trade barriers they do not now confront. Without NAFTA, U.S. exporters would have been hit much harder by the Asian financial crisis. Just as exports to Asia plummeted, U.S. exports to Canada and Mexico soared. Half the manufactured goods export loss to Asia was made up by increased U.S. exports to Mexico and Canada, which grew by $10 billion over the first 8 months of 1988. NAFTA has fostered growth in cross-border investment that has improved the competitiveness of American companies, and consequently, their ability to keep high-skill, high-wage jobs in the United States.

The Council also believes that there are ways to improve NAFTA. For example, by funding its institutions and further implementing the agreement. By we also believe that NAFTA is unfairly blamed for some of the trends inherent in a changing world economy. Moreover, the agreement cannot be expected to carry all of the facets of a trilateral relationship on its back.

Under NAFTA, U.S. business has benefited from greater efficiency, U.S. workers have benefited from the creation of high-wage, high-skill, export-related jobs, and U.S. consumers have benefited

from lower prices and greater choice. These are trends we should continue to promote and extend throughout the hemisphere.

In closing, the FTAA presents an opportunity to link the 34 democracies in the Western Hemisphere by broadening and deepening relations in ways that benefit the U.S. economy and its citizens, as well as those of our hemispheric neighbors and partners. We need to do all we can to support it.

Thank you very much.

[The prepared statement follows:]

Statement of the Hon. William T. Pryce, Vice President, Washington Operations, Council of the Americas, and former Ambassador to Honduras from the United States

Good morning, Mr. Chairman, Congressman Levin, and Members of the Subcommittee. I am Bill Pryce, Vice President of the Council of the Americas in charge of our Washington operations. The Council of the Americas appreciates the opportunity to testify before you today.

The Council of the Americas is the leading business organization dedicated to promoting regional economic integration, free trade and investment, open markets, and the rule of law throughout the Western Hemisphere. The Council's membership represents the majority of U.S. private investment in Latin America. Members include manufacturing, natural resources, technology, communications, banking, and financial services firms.

The Council was founded on the belief that the future prosperity of the hemisphere depends on the triumph of liberal economic principles such as free trade and open investment. Despite the recent turbulence in the global economy, I think it is clear that over the last decade the trend in Latin America has been in this direction. The result has been stronger democracies and greater market opportunities for U.S. companies.

Mr. Chairman, these are trends that we should be encouraging and that is why I am here to speak to you today. As you know, the Summit of the Americas has begun the process of hemispheric integration. Last April, the Presidents of the hemisphere's 34 democracies met in Santiago, Chile and signed a document to open negotiations for a Free Trade Area of the Americas as well as to launch new initiatives to promote education, reduce poverty, and strengthen democratic institutions throughout the Americas. It is an ambitious agenda that will help to reduce the risks and barriers to investment in the hemisphere as well as create a more politically stable environment. The Council believes that the FTAA represents a great opportunity for growth and development in the region. Trade leads to prosperity and provides market-liberalizing countries an enhanced ability to address the summit's broader social and political agenda.

The Free Trade Area of the Americas presents a potential market of 800 million people to whom we can sell our goods and services. It is a huge market for everything from cellular telephones to industrial machinery. U.S. trade with Latin America and the Caribbean is already growing faster than with any other part of the world. U.S. exports to Latin America have increased by more than 100% since 1990 and are growing about twice as fast as exports to the rest of the world. The U.S. sells more to Brazil than to China; more to Central America than to Eastern Europe and the former Soviet Union combined; more to the 14 million people of Chile than to the 900 million people of India.

The Council believes that expanding this trading relationship is critical to U.S. corporate growth and overall economic health as well as to the development of Latin America. Last month the Council was in Miami at the FTAA negotiations. Although the FTAA process is in its early stages the groundwork is now being laid to create the world's largest free trade zone. However, the U.S. government can only lead successfully in this process if it is given the tools necessary to bargain with strength. Mr. Chairman we heard once again directly from the negotiators last month that the lack of trade negotiating authority was an impediment to progress.

The goal of reaching interim agreements by 2000 in order to achieve the "concrete progress" referred to in the Miami Summit declaration appears increasingly difficult to achieve. And while the lack of President Clinton's trade negotiating authority is not the only cause, it certainly impairs our ability to reach business facilitation measures. Although the FTAA process is not scheduled to come into effect until the year 2005, the United States is in danger of losing ground in the region and ceding

opportunities to Canada and the European Union as they negotiate preferential trade agreements with countries in Latin America.

Mr. Chairman, while we are discussing the potential impact of ongoing trade negotiations on U.S. jobs, wages, economic opportunity and the future competitiveness of U.S. companies I thought I would mention the most recent major trade agreement that has positively impacted the U.S. economy and its workers—the NAFTA. Mr. Chairman, the North American Free Trade Agreement has been a success. In January, the Council released its "NAFTA at Five Years" report. The figures in this report confirm even more strongly than before that this trade agreement has been beneficial for the United States. Total U.S. trade with our NAFTA partners grew 63 percent between 1993 and 1997 and stands at record levels. Since 1993, U.S. merchandise trade is up 93 percent with Mexico and 51 percent with Canada. In 1997, U.S. trade with Canada totaled $354 billion and with Mexico $180 billion. Since NAFTA went into effect, the United States has seen the unemployment rate drop to a 28-year low. We have clearly not seen a massive exodus of U.S. jobs to Mexico as some had predicted. In fact, NAFTA has led to more high quality, better-paying jobs for U.S. workers.

Simply put, without NAFTA, U.S. exporters would face Mexican and Canadian trade barriers they do not now confront. And without NAFTA, U.S. exporters would have been hit much harder by the Asian financial crisis. Just as exports to Asia plummeted, U.S. exports to Canada and Mexico soared. Half of the manufactured goods export loss to Asia was made up by increased U.S. exports to Mexico and Canada, which grew by over $10 billion in the first eight months of 1998. NAFTA has fostered growth in cross-border investment that has improved the competitiveness of American companies and, consequently, their ability to keep high-skill, high-wage jobs in the United States. Beyond the positive economic impact in the three NAFTA countries, the agreement has also encouraged economic reforms in Mexico.

Mr. Chairman, the Council believes that there are ways to improve NAFTA. We lay out in our report some recommendations such as fully funding NAFTA's institutions and further implementing the agreement. But we also believe that NAFTA is unfairly blamed for some of the trends inherent in a changing world economy. The agreement cannot be expected to carry all facets of a trilateral relationship on its back. From the trade perspective there can be no doubt that NAFTA has been successful.

Under NAFTA U.S. business has benefited from greater efficiency, U.S. workers have benefited from the creation of high-wage, high-skill, export-related jobs, and U.S. consumers have benefited from lower prices and greater choice. These are trends we should continue to promote and extend throughout the hemisphere. The FTAA presents an opportunity to link the 34 democracies of the Western Hemisphere by broadening and deepening relations in ways that benefit the U.S. economy and its citizens. Thank you very much.

Chairman CRANE. Thank you, Mr. Pryce.

Mr. Ryan.

STATEMENT OF MICHAEL D. RYAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, STAFFING INNOVATIONS, INC., ATLANTA, GEORGIA

Mr. RYAN. Yes. Thank you, Mr. Chairman, for inviting my testimony on the importance of expanding trade, to resisting protectionism through active U.S. involvement in trade negotiations. I sit before you today as an example of our Government's commitment to SSMEs, in keeping them involved in the input process of global trade agreements, as well as being a product of the late Secretary Ron Brown's efforts.

I am grateful to you and the Subcommittee as a whole for giving me this opportunity to speak as a small businessman on why it is crucial that the United States continue its ambitious trade agenda. Since over 80 percent of the world's economic consumption is outside of the United States, it is imperative that the U.S. negotiate and enforce agreements worldwide, which will create open and fair

markets for U.S. products and services. This process of engagement will ensure our continued growth and standard of living into the 21st century. My testimony will touch on why an aggressive trade policy to open markets is important to small, medium, and micro businesses.

My commitment and my company's commitment to staying involved in the trade policy process goes back many years. SII focuses on global information technology. Our areas of expertise range from project-based management software development, networking, communications, and technical support services. Issues affecting information technology companies on a global scale that challenge SII include areas which are being negotiated in a number of multilateral, regional, and bilateral agreements. In particular, intellectual property rights, duty free, electronic commerce, expansion of the information technology agreement under the World Trade Organization, continued liberalization under the Asian Pacific Economic Cooperation, and the Trans-Atlantic Business Dialog are very important to SII and other technology companies. Other areas include reduction of barriers in international personnel exchange, customs facilitation. It is imperative that a general consensus is reached regarding further trade liberalization and these other areas.

SII's involvement during the past 4 years in trade policy includes my role as a U.S. delegate to APEC, TABD, and attending meetings and participation in trade mission with the U.S. Government. It is because of my expansion and ambitious efforts into the global marketplace and involvement in being a voice for small, medium, and micro businesses that I am speaking today in support of continued trade liberalization.

A few issues that I wanted to make sure that I brought to the forefront this afternoon. First, being trade negotiation authority. In order for the United States to have credibility as we pursue our aggressive trade agenda, it is mandatory that the President be given negotiating authority to negotiate these trade agreements in good faith. We must get beyond partisan politics and do the right thing by giving our President this authority. If Congress does not like the deal being brought forward, of course they simply have the authority to vote it down. Granting negotiating authority which would allow the United States to be more effective in this process is not a nicety, it is a necessity. I urge Congress to act quickly to grant the President this authority.

Intellectual property rights being the second issue. Since this is a growing line of business for my company with our global expansion, we must work to ensure all WTO members comply with their obligation to introduce full intellectual property protection by the year 2000. Global electronic commerce. Electronic commerce allows small businesses to break into and compete successfully in a global marketplace.

International personnel exchange, which is a new issue that we brought up under the auspices of TABD this year. As a supplier of technical support services, restrictions on personnel exchange have an adverse effect on my ability to grow in many of the worldwide markets.

Customs. The WTO should work to simplify and reduce burdensome customs and trade procedures. Both large and small companies lose money because of unnecessary red tape in the customs procedures worldwide.

I also wanted to make sure that I brought to the forefront the importance of Africa. After several trips to Africa and exposure, SII is now identifying and researching opportunities in North Africa with countries such as Mauritania & Morocco, which has the distinction of having the oldest treaty with the United States in continuous force. The United States therefore should support the U.S.-North African Economic Partnership Initiative. In addition, I encourage Congress to swiftly approve the African Growth and Opportunity Act.

APEC, TABD, and WTO, these forums provide the United States with an opportunity to shape the direction of trade negotiations in the future. The significance of these hearings are especially valuable at this time, recognizing that we are coming into a new millennium.

I, on the way to Washington, coined two words, trying to be a little creative with this discussion. The first word that I coined, and it just kind of dropped in my mouth, was to be "millenniumized". That's kind of a tongue twister. I kind of define that as those individuals and companies and countries that are prepared to embrace and meet the challenges of the next millennium head on.

The next word that I have coined is "millenniumated", those individual companies and countries that are ill-prepared, overwhelmed, and engulfed by those challenges that the next millennium will hold.

It will hold with its emergence, the ability to embrace our next generations with the outcomes of the decisions made today, or it may hold hostage our succeeding generations with restitution to pay for our indecisiveness and inability to reach consensus and establish global democratic economic uniformity. Countries will have to change the way they manage the growth with respect to globalization, and their past approaches to global economic expansion and trade agendas are not as valuable as they used to be. Only their ability to adjust and leverage that experience is.

In conclusion, I recall hearing a story about Nelson Mandela, the president of South Africa. He was once asked how could you have spent 27 years of your life, for what reason would you compromise your existence? He said that when he was a little boy, his mother told him that there were three kinds of people in the world. The first kind comes in and leaves nothing. The second kind comes in and does bad things to people. The third kind comes in and leaves it just a little better than the way they found it. The moral imperative is obvious because we all have mothers.

Thank you very much.

[The prepared statement follows:]

Statement of Michael D. Ryan, President and Chief Executive Officer, Staffing Innovations, Inc., Atlanta, Georgia

Thank you, Mr. Chairman, for inviting my testimony on the importance of expanding trade and resisting protectionism through active U.S. involvement in trade negotiations. I am grateful to you and to the Subcommittee as a whole for giving me this opportunity to speak as a small businessman on why it is crucial that the U.S. continue its ambitious trade agenda. Since over 80% of the world's economic

consumption is outside of the U.S., it is imperative that the U.S. negotiate and enforce agreements worldwide which will create open and fair markets for U.S. products and services. This process of engagement will insure our continued growth and standard of living into the 21st Century. My testimony will touch on why an aggressive trade policy to open markets is important to small, medium and micro businesses.

COMPANY INVOLVEMENT IN TRADE POLICY

Staffing Innovations, Inc. (SII) focuses on global information technology. Our areas of expertise range from project based management, software development, networking, communications and technical support services. Currently, SII is engaged in a concerted global outreach business agenda that includes Asia, Europe, North Africa and the Caribbean. Issues affecting information technology companies on a global scale that challenge SII include areas which are being negotiated in a number of multilateral, regional and bilateral agreements. In particular, intellectual property rights, duty-free electronic commerce, expansion of the information technology agreement under the World Trade Organization (WTO), continued liberation under the Asian Pacific Economic Cooperation (APEC) and Transatlantic Business Dialogue (TABD) are very important to Staffing Innovations, Inc. and other technology companies. Other areas include reduction of barriers to international personnel exchange and customs facilitation. It is imperative that a general consensus is reached regarding further trade liberalization in these and other areas.

SII's involvement during the past 4 years in trade policy includes my role as a U.S. delegate to the APEC conference, Transatlantic Business Dialogue (TABD) meetings and participation in trade missions with the U.S. government. It is because of my expansion into the global marketplace and involvement in being a voice for small, medium and micro businesses that I am speaking today in support of continued trade liberalization.

TRADE EXPANSION AND ITS EFFECT ON SMALL BUSINESSES

Trade Negotiating Authority. In order for the U.S. to have credibility as we pursue our aggressive trade agenda, it is mandatory that the President be given negotiating authority to negotiate these trade agreements in good faith. We must get beyond partisan politics and "do the right thing" by giving our President this authority. If Congress does not like the deal being brought forward, you have the authority to vote it down. Granting negotiating authority which would allow the U.S. to be more effective in this process is not a nicety—it is a necessity. I urge Congress to act quickly to grant the President this authority.

Intellectual Property Rights. As a small business software developer, end-user piracy of software can severely affect my bottom line. Since this is a growing line of business for my company with our global expansion, we must work to ensure that all WTO members comply with their obligation to introduce full intellectual property protection by January 1, 2000.

Global Electronic Commerce. Electronic commerce allows small businesses to break into, and compete successfully in global markets. Too often we have been closed out of these opportunities due to lack of capital to expand overseas. Electronic commerce provides smaller companies with a vehicle to sell their products or services globally without having to make a tremendous investment in capital therefore making the playing field more level. It is imperative that we preserve electronic trade over the Internet as duty free.

International Personnel Exchange. Barriers to international personnel exchange continue to create significant impediments to global business. Issues such as a more efficient process of obtaining work permits for employees and spouses and excessive time in obtaining driver's permits are impediments to the growth of many businesses who rely on the ability to attract and retain qualified employees. As a supplier of technical support services, restrictions on personnel exchange have an adverse effect on my ability to grow in many of the worldwide markets.

Customs. The WTO should work to simplify and reduce burdensome customs and trade procedures. Both large and small companies lose money because of unnecessary red tape in customs procedures worldwide.

Africa. After several trips to Africa, SII is now pursuing opportunities in North Africa with countries such as Morocco, which has the distinction of having the oldest treaty with the United States in continuous force. The United States has not paid enough attention to our economic partnership with countries in North Africa and the rest of the continent. Therefore, I support the U.S.-North African Economic Partnership Initiative. In addition, I urge Congress to swiftly approve the African Growth and Opportunity Act.

APEC, TABD and WTO. These forums provide the United States with an opportunity to shape the direction of trade negotiations in the future. We must enter these discussions with a new consensus on trade. As President Clinton said earlier in the year, we must find the common ground on which business, workers, farmers, environmentalists and government can stand together.

CONCLUSION

In conclusion, we have an obligation as the most competitive economy in the world to continue to push for open and fair trade so that the entire global economy will prosper. Our decisions today will directly affect the next generation of world leaders in business as well as government. This reminds me of what Nelson Mandela once said. When he was a young boy his mother told him that there were three types of people in the world—the first kind comes into the world and leaves nothing; the second kind comes into the world and does bad things to people; and the third kind comes into the world and leaves it just a little better than the way they found it. The moral imperative is obvious. I feel strongly that our future growth and therefore the legacy we leave the next generation is tied to our ability to tap into the opportunities of a global market. Therefore, I urge Congress to work with the Administration to form a bipartisan consensus to support our ambitious trade agenda for the 21st Century.

Thank you very much, Mr. Chairman and Members of the Subcommittee, for the opportunity to speak with you today.

Chairman CRANE. Thank you.

Mr. Lewis.

Mr. LEWIS OF KENTUCKY. Yes. Thank you, Mr. Chairman. I wanted to ask Mr. Gardner to just kind of expand on the Freedom to Farm. You know, we passed the Freedom to Farm. I think that it has been a program that has been successful for the farm community. But you are absolutely right, it depends on opening markets, international markets to relieve some of the pressures that we are facing right now with surpluses.

Could you expand on that just a little bit?

Mr. GARDNER. Yes. You know, as I mentioned, I think every farmer is for the Freedom to Farm. Even today we are still for the Freedom to Farm without the Government help. We want the freedom to be able to raise what we can. But the United States is only 4 percent of the population. The American farmer has become more and more progressive and more and more efficient. We just need an export market, a way to market our commodities. This world trade negotiation is very important for us, hopefully to open up the door for better trade in the future so we can get some of these commodities moving and have a better price.

Mr. LEWIS OF KENTUCKY. It is especially important for the long run and for the short-term. Our surpluses are mounting and we need to get those markets. I agree. Thank you.

Chairman CRANE. I want to thank all of our witnesses for their testimony today. We look forward to working with you. We are down to about 6 minutes on the clock in there for this vote. So with that, the Committee stands adjourned.

[Whereupon, at 11:56 a.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of W. Henson Moore, President & CEO, American Forest & Paper Association

On behalf of its more than 200 member companies and related associations that engage in or represent the manufacturers of pulp, paper, paperboard and wood prod-

ucts, the American Forest & Paper Association (AF&PA) is pleased to provide this statement on the efforts of our industry to open markets and expand worldwide trade in forest products.

• American industry over the past year and a half has had to contend with massive and widespread devaluations of currencies of our trading partners, with a consequent unprecedented expansion of the U.S. trade deficit. For American industry, this gaping deficit is not an abstruse economic concept. It reflects quite simply the simultaneous decline in exports and the loss of domestic customers to foreign competitors—and is not sustainable. For our workers, it means that overseas factories are kept running on the strength of the robust U.S. economy while—taking our industry as an example—U.S. plants are forced to close. Current U.S. trade law harks back to an era of stable exchange rates under a Bretton Woods system which no longer today. We must take a new look at our trade laws to ensure they can address both root causes and effects of currency changes on U.S. markets.

• In recent decades, the U.S. has tolerated, and even encouraged, export led growth strategies by some of our trading partners—both developing and developed—because it served our nation's geo-political purpose. With the emergence of a new world power system, we must now question whether U.S. trade policy should offer up U.S. markets to support overseas economic development and political stability. We must also examine whether U.S. trade law—or the multilateral trading system—is equipped to deal with the export surges which these policies inexorably generate.

• American industries today often compete with first world production facilities located in third world economies. This necessarily requires a reexamination of our approaches to trade as aid, and to the competitive implications of lower labor and environmental standards.

The title of this hearing—the importance of expanding trade and resisting protectionism—could well summarize U.S. trade policy over the past half century. Through successive Administrations, and with the support of both parties in the Congress, the U.S. government has led the multilateral effort to expand global trade and, consistent with our economic preeminence, taken the first step by reducing trade barriers and rooting out protectionist policies in our own economy.

While this approach has served both the U.S. and the global economy well, we are facing competitiveness challenges today that were not contemplated by the visionary architects of the post-war system.

In the testimony which follows, I will offer up the hard experience of the U.S. forest products industry—which entered this era globally preeminent and fiercely committed to free trade—as an object lesson in the need to revise our trade policy approaches to fit the exigencies of the new global economy. We will also take this opportunity to provide the Subcommittee with our recommendations for specific steps which should be taken to make U.S. trade policy—and U.S. trade law—more responsive to the competitive needs of America's basic manufacturing industries, including the U.S. forest products industry.

In the process, I suggest that we handicap ourselves if we rely on old labels and brand as protectionism, even those attempts to restore market function through insistence on balance of benefits in trade agreements. In the new global economy, U.S. trade policy must be recast to emphasize the importance of expanding U.S. opportunities and resisting unequal trading arrangements.

MULTILATERAL TRADE NEGOTIATIONS

With U.S. and foreign sales in excess of $200 billion, our industry ranked earlier in this decade as among the most globally competitive of all U.S. manufacturing industries. Export sales are critical to the future growth and, ultimately, the survival of our industry. However, our experience stands as an unfortunate example of how U.S. acceptance of inequitable trade agreements on the sectoral level can undermine the competitiveness of even the strongest American industries.

Going back to the Kennedy Round—and notwithstanding the best efforts of a generation of U.S. trade negotiators—our industry has been unable to achieve anything close to equivalent market access because our interests have repeatedly gotten lost in the larger dynamics of comprehensive multilateral trade negotiations. For more than two decades, the U.S. forest products industry has had its tariff protection sacrificed to win market concessions for other industrial sectors, while competitor countries in Europe, Asia and Latin America escaped making reciprocal concessions on our products.

At the opening of the Uruguay Round, we decided that traditional approaches would perpetuate this disparity indefinitely, so we originated the zero-for-zero con-

cept. This was an attempt to change the fundamental structure of trade negotiations in two important ways:

- it focused on reciprocal tariff eliminations within specific sectors;
- it moved away from a formulaic approach to an assured, level end point.

Although our negotiators succeeded in getting agreement by a number of countries (U.S., Canada, EU, Japan, New Zealand, South Korea, Hong Kong and Singapore) to eliminate their tariffs on paper by the year 2004, we were still disappointed in the results of the Uruguay Round because of:

- overly long phase out of paper tariffs—ten years instead of the usual five years;
- failure to achieve a zero-for-zero agreement on wood tariffs;
- no participation in the tariff agreement by developing countries—some of which are major competitors in forest products and provide the most attractive growth markets.

Despite these disappointments, *we remain convinced that the achievement of reciprocal market access within individual sectors must be a specific priority objective in future negotiations*. At the same time, we urge the Subcommittee to take steps to ensure that future negotiations work toward a greater overall balance of benefits across our economy. *To achieve this objective, we support Congressional efforts to renew the Administration's traditional negotiating authority.*

REGIONAL NEGOTIATIONS

Regional negotiations have an important role to play in driving the multilateral process. Last November, Ministers from 16 members of the Asia Pacific Economic Cooperation (APEC) forum agreed to move a nine-sector trade liberalization package to the WTO for completion. Ministers further agreed to work constructively to conclude an agreement in the nine APEC priority sectors, including forest products, in time for the World Trade Organization Ministerial (WTO) in Seattle in November 1999.

We strongly endorse the APEC initiative, which includes a proposal to eliminate all tariffs on paper and wood products between the years 2000 and 2004, and we vigorously support Ambassador Charlene Barshefsky's commitment to achieving global participation under WTO auspices. However, European and Japanese resistance to anything short of a comprehensive trade agreement in the WTO could derail early agreement on the APEC package and again put our interests at risk of being traded away during a broad round of negotiations where any economic benefits to our exporters will not come for many years.

The U.S. must not accede to European and Japanese pressure on this point. We must preserve and fortify the concept of sectoral negotiations, and the prospect of "early harvest" as an essential and non-negotiable element of any agreement on negotiating modalities. We strongly encourage the Congress to provide appropriate negotiating authority to implement sectoral agreements.

Part of the effort to ensure that the standard of substantially equivalent market access is met must also focus on eliminating tariff disparities, such as those which have so disadvantaged our exports. *We will aggressively seek to identify the elimination of tariff disparities as a priority negotiating objective*.

FOREST PRODUCTS TRADE WITH JAPAN

The APEC forest products initiative offers U.S. exporters of paper and wood products an opportunity to gain substantial new market access in Asia and elsewhere but, as in the Uruguay Round, Japanese protectionism, particularly relative to wood products, threatens a promising agreement. When President Clinton met with Prime Minister Obuchi last September in New York, the Prime Minister explained that Japan could not take tariff action in the APEC context, but would do so in the WTO. Two months later, in Kuala Lumpur, the Japanese, along with trade ministers from 15 other APEC economies, agreed to refer the APEC trade liberalization package to the WTO. In an all too-familiar pattern, the Japanese government now attempts to deny that any such commitment was ever made and loudly proclaims its victory in resisting U.S. pressure to end its wood tariffs. This backsliding cannot be accepted. *The U.S. must make clear its determination to conclude a WTO agreement covering all nine priority sectors in the APEC package, including forest products. This must be a prelude to the launch of any new round of negotiations on industrial tariffs, and collecting on the Japanese promise at Kuala Lumpur must be a top priority in our bilateral trade relationship.*

Our industry's frustration with Japan is long standing. In 1992, for example, the U.S. signed a market access agreement with Japan regarding paper products. It is a matter of record that there was not one single year in the entire five-year term of this agreement in which the USTR judged Japan to be compliant with its obliga-

tions under this agreement. Nevertheless, in 1997, Japan unilaterally refused to renew the agreement or even discuss its renewal. In the meantime, with an industry that is commonly considered to be a high-cost paper manufacturer, Japan's paper imports have declined and exports have increased.

The lack of credibility which understandably surrounds Japanese trade commitments risks more cynicism regarding an ability to reach negotiated solutions to our market access problems with that country and must be addressed. The President's decision to renew Super 301 is an important step, but we encourage him to hold the Japanese leaders directly accountable for honoring the full range of their commitments—beginning with their APEC commitment.

AN INTEGRATED APPROACH TO THE GLOBAL ECONOMIC CRISIS

The Asian financial crisis has had a significant economic impact on the U.S. forest products industry. In 1998, the Asia-Pacific region accounted for some 28% of our industry's total exports of $18 billion down from a 40% share in 1997. In 1998, U.S. exports of wood products to the region were down a whopping 37%, wood pulp exports went down 26%, and paper and paperboard exports were off 17%. In contrast, U.S. paper and paperboard imports from Asia went up 73% over the same period. At the same time, other major supplying countries have diverted greater amounts of wood and paper products from slumping Asian markets to the virtually tariff-free U.S. market.

Trade must be an integral part of our response to economic turmoil. The U.S. has repeatedly assured countries in crisis that we will take their exports—but fairness for our industry and our workers requires that these countries also open their markets to our products. Trade liberalization, which will introduce economies and industries to the discipline of the marketplace, cannot be a lesser priority than other structural reforms.

NEW GLOBAL ISSUES

Today, our industry faces new competitive realities. Even while we are hopefully nearing the end of our effort to eliminate tariff barriers, the U.S. industry finds itself at a disadvantage in international markets for a number of other reasons.

First and foremost, the industry's raw material costs have been climbing due to domestic policy-imposed constraints on fiber supply. The availability of wood from our national forests has been cut dramatically, down 75% in the past decade. While a large portion of the forest land in the U.S. is privately held (over 60% is owned by farmers and other non-industrial owners), our ability to sustainably manage and harvest private timberland is being curtailed by environmental laws, regulations and legal actions.

Secondly, required investments to meet domestic environmental regulations are increasing production costs and using capital that could otherwise be spent on modernizing the industry's plant and equipment. AF&PA estimates that 13% of the capital spent by the industry over the past 10 years went into environmental requirements, and that number will probably double over the next 5 years—and that does not include any spending for global climate change regulation. At the same time, our companies are having to compete with producers in other countries that do not have high environmental standards or strong enforcement regimes.

Our industry is proud of the role it has played in achieving standards of environmental protection which are among the highest in the world, and we are committed to maintaining our environmental leadership in the future. By the same token, our industry offers some of the highest paying manufacturing jobs in the world, and we take equal pride in the role which our industry payrolls play in sustaining the many communities across the country in which we operate.

For us to continue meeting our obligations to our workers and to the environment, while also maintaining our ability to compete in global markets, our government must work to level the international playing field. *We must ensure that our competitors apply responsible environmental standards and forestry practices. The U.S. must also look at options to institute disciplines to prevent a new generation of trade barriers based on subjective environmental requirements that discriminate against products produced under equally stringent regulatory schemes.*

CONCLUSION

The U.S. paper and forest products industry has consistently supported policies designed to foster free trade, even in the face of past inequitable trade benefits on a sectoral level. *We continue to believe that successful market access negotiations are the best antidote for protectionism. This is why the APEC initiative is so important,*

and why the U.S. must make the achievement of a WTO agreement covering all priority sectors in the APEC package, including forest products, the single most important deliverable out of the WTO Ministerial this November in Seattle. Any less an outcome must be viewed as a failed ministerial.

In the absence of concrete market opening gains and the establishment of a more level playing field for our products, our industry will find it difficult in the future to find an economic rationale for supporting traditional negotiating approaches. When international negotiations result in tariff disparities, or domestic regulatory requirements put our companies at a disadvantage in the global marketplace, we will insist that balance be restored—in the name of economic equity, not protectionism. The very survival of our industry is at stake.

[Attachment is being retained in the Committee files.]

Statement of John Andrews, Mike Murry, and John F. McDermid, American Natural Soda Ash Corporation, Westport, CT

This statement is filed on behalf of the American Natural Soda Ash Corporation ("ANSAC"), headquartered in Westport, CT. ANSAC is an export trading company comprised of six U.S. soda ash producers.

This statement is filed in the context of the March 4, 1999 hearing before the Committee on Ways and Means Subcommittee on Trade regarding the importance of expanding trade and resisting protectionism through active U.S. involvement in trade negotiations.

I. About Soda Ash and the U.S. Industry

Soda ash (disodium carbonate) is the principal raw material for making glass. Mixing six parts sand to one part soda ash and heating it to 2,800 degrees yields molten glass which can be formed into any common application. The United States is blessed with unique natural deposits of trona, a soda ash raw material, in Green River, Wyoming and Trona, California, from which this country could supply world demand for 1,200 years.

U.S. soda ash is the most competitive in the world. Most other countries produce soda ash through a synthetic process at costs many time higher and with major environmental pollution. However, U.S. soda ash exports are restricted in some markets through both tariff and non-tariff barriers. Because soda ash is a basic chemical commodity required to make another basic chemical commodity, glass, even a 0.5 percent premium in price can make a difference between a sale. U.S. soda ash exports have increased from about $120 million in 1981 to over $600 million in 1997, making soda ash this country's largest inorganic chemical export.

II. U.S. Government Trade Negotiating Priorities for Soda Ash: Seeking a "Zero-for-Zero" Agreement

The Statement of Administrative Action ("SAA") implementing the Uruguay Round Agreement outlined the objectives of zero-for-zero tariff elimination in key sectors, *including soda ash*. According to the SAA, "in some sectors, namely soda ash, complete duty elimination was not achieved. Obtaining further reductions in these sectors is a priority objective for U.S. multilateral, regional, and bilateral negotiations." While both the U.S. Congress and the Administration have identified soda ash as a zero-for-zero priority, under the Chemical Tariff Harmonization Agreement ("CHTA") the soda ash harmonized rate is 5.5%. *It is imperative that the Administration continue to pursue complete tariff elimination of soda ash tariffs in the context of bilateral, regional and multilateral trade negotiations.*

III. *U.S. Soda Ash Exports to APEC Economies*

Over the past decade, U.S. soda ash exports to the 17 other "initial" APEC countries have expanded from $310 million in 1990 to $540 million in 1997, a 75 percent increase.

U.S. exports to APEC countries account for two third of U.S. exports. Though U.S. soda ash is the most competitive in the world, it satisfies only 25 percent of aggregate demand in the 17 other APEC countries.

Soda ash is currently produced in seven of the 18 APEC economies, not including the U.S. A 150,000 MT soda ash plant may be built in Indonesia, and there is a potential for local production in Thailand. The soda ash production in these APEC economies uses the synthetic manufacturing process with higher costs and adverse

environmental effects than natural U.S. soda ash. Thus, to enable a new soda ash manufacturing facility to survive will likely require significant import protection (e.g., high tariffs) to be competitive with U.S. soda ash.

With the exception of China, soda ash tariffs in the 17 other APEC economies are relatively low, ranging from duty-free in Malaysia, New Zealand, and Singapore to 12 percent in China. The U.S. rate is 1.2 percent *ad valorem*. Generally, the Uruguay Round was disappointing to the U.S. soda ash industry in that improved market access to APEC markets was not achieved.

Among the 18 "initial" APEC countries, 1998 applied tariff rates are *above* the 5.5 percent CTHA rate in (1) Chile, (2) China, (3) Korea and (4) Taiwan.

ANSAC continues to be concerned over the possibility that Indonesia will increase its current 5 percent tariff to the WTO bound rate of 40 percent. Without such protection it is doubtful that the local producer can operate at a profit.

IV. China's Import Substitution and Predatory Pricing Policies Severely Reduce U.S. Soda Ash Exports to China and Other Markets

A. *Summary*

For over a decade, China, the largest synthetic soda ash producer in the world, has maintained an array of barriers (including discriminatory and prohibitively high net effect import fees as well as customs and distribution impediments) aimed at promoting its domestic soda ash industry at the expense of highly competitive U.S. soda ash. In 1997, U.S. imports accounted for only 1.4% of Chinese domestic consumption, down from nearly 30% in 1989 and by far the lowest in Asia. Between 1990 and 1997, as demand for soda ash increased significantly, China's production increased 239% while U.S. exports declined by nearly 80%, from 503,000 MT valued at $76 million to 105,000 MT valued at $16 million. In 1998, U.S. exports to China were only about $7 million. The combination and effect of China's policies amount to an import substitution program which it agreed to eliminate in the 1992 U.S.-China Memorandum of Understanding ("MOU").

A reduction of China's 12% applied tariff to the 5.5% Chemical Harmonization Agreement level and elimination of distribution barriers would increase U.S. exports by roughly $55 million annually.

While not specifically addressed in the Commission's report, an integral part of China's campaign to foster its state-owned soda ash industry has been an export drive achieved through sales at below the cost of production. China's 820% increase in exports between 1993–1997 has been met with predatory pricing based trade remedy actions in countries which produce soda ash, such as Korea and India. In other important U.S. export markets which do not produce soda ash, China's predatory pricing has been keyed to increasing market share at the expense of U.S. soda ash. Even in the face of Asia's economic crisis, Chinese exports increased to Indonesia, Thailand, Malaysia, and the Philippines while U.S. exports to these key markets declined. China's predatory export pricing practices have a real and direct effect on U.S. exports to third markets and should, therefore, be addressed by the Commission.

B. *China's Soda Ash Industry is Targeted by the Government*

At 7.3 million tons, China is the second largest soda ash producer in the world (behind only the U.S.) and the largest synthetic soda ash producing economy. Synthetically produced soda ash is very energy-intensive and energy inputs in China have been subsidized for years. Ninety-five percent of China's soda ash producers are state-owned enterprises.

The Chinese government (specifically the Chinese Ministry of Chemical Industry) continues to be actively engaged in regulating its soda ash industry at all levels, from pricing to production. For approximately 15 years China has implemented a broad campaign targeting its soda ash industry for development and "by the mid–1980's the [Chinese] government had invested more than $1 billion in soda ash production." (Chemical Week, October 29, 1998. "China Seeks Bigger Share of the Export Market" p 37.) Even though its industry had been well established, in 1994 China's Vice Minister of Chemical Industry Siwei Cheng emphasized that the government would continue limiting import competition in this sector. More recently, in announcing China's ninth Five-Year Plan (1996–2000), which sets forth a comprehensive chemical industry policy, Cheng indicated that improvement in the domestic soda ash industry would be among the country's major chemical sector priorities.

In 1998, there are more than 60 soda ash producers in China, with a combined annual capacity of 7.3 million tons. Ten of these plants account for 63% of total pro-

duction. Only six of the over 60 plants are producing quantities significant enough to be competitive on a world scale. All of China's plants have operating costs in excess of current returns. Further, Chinese producers have increased their densification capacity while at the same time seeking to lower chloride content. These quality improvements have increased domestic production costs, increases which are clearly not reflected in the prices they charge their customers either domestically or in export markets. Between 1989 and 1997 China's soda ash production increased by 239%.

In 1998 the Chinese government realized it had overstimulated its soda ash industry and caused "overproduction and disorderly competition" which depressed local and export market prices by 20% between January and August, 1998. (China Economic News (Beijing). August 31, 1998. p 6. "If this continues, the industry will lose RMB 700–800 million (U.S. $85–96 million) domestically and U.S. $12 million in export earnings this year.") Clearly the prices charged by the producers to the customers locally and in export markets bear no relation to prices that would be set by enterprises in a market/price-oriented economy. Since January 1998 the government response to this has been to control production and dictate to its soda ash producers a minimum sales price of $130/MT FOB (RMB 1080) for domestic sales and $101/MT FOB (RMB 838) for export sales.

More specifically, the China National Petroleum and Chemical Corps. and the China Soda Ash Industry association established a minimum FOB factory price of U.S. $130 MT (RMB 1080 MT) inclusive of the 17% VAT and U.S. $101 MT (RMB 838) FOB China port for export sales. It costs approximately U.S. $130 MT to produce soda ash in China. If the VAT tax were indeed factored into the local sales price, Chinese soda ash producers would be selling below their cost of production. Clearly the minimum export price is below China's cost of producing soda ash.

While the minimum price would appear to counter the decline of prices, Chinese producers are circumventing the decree by quoting customers a factory delivered price (U.S. $125–U.S. $132.5) rather than an FOB factory price.

C. *China's Soda Ash Tariff and Additional Import Taxes the Highest in Asia Pacific and Highest Chinese Inorganic Chemical Tariff*

China's Tariff Barrier (HTS 2836.20). Prior to 1990, U.S. soda ash entered China duty-free since the product was required by state-owned industries. Today, in its ongoing effort to promote its industry, China requires distributors to pay the so-called "normal" (as opposed to "special") 35% *ad valorem* tariff on imports which, combined with the 17% VAT, results in a 58% net effective import fee. End users such as China's glass companies pay the "special" 12% tariff, which results in a 31.04% net effective import fee. Since nearly all of China's 60 soda ash producers are state-owned, the 17% VAT is not applied to the prices quoted to their customers and is simply an additional tax aimed at curtailing imports.

Both the 58% and 31.04% net effective import fees applied to soda ash imports give local producers a significant price advantage, particularly for a basic chemical commodity such as soda ash. For example, factoring in the 31.04% net import fee, in order to compete with the $130 MT FOB factory minimum price U.S. soda ash would have to enter China at $99 MT CIF, a price that would be by far the lowest in the world. The U.S. has had to slash its prices in China's market to stand any chance of attracting customers. The 58% net effective import fee bars distributors from selling directly to customers, particularly small and medium-sized ones. *The 31.04% and 58% net effective import fees are the most significant Chinese government barriers facing U.S. soda ash exports since they limit the market to exporting end-users such as glass companies who receive a tariff and VAT refund.*

China's 35% tariff applied to distributors is the highest in the world. The 12% "special" tariff applied to non-distributors is among the highest in the world and are the highest in the Asia Pacific.

Five of the above Asia Pacific countries produce soda ash (Australia, China, Japan, Korea, and Taiwan). Among the soda ash producing economies only China maintains a high tariff compounded by a high VAT which must be factored into the price ANSAC's distributors must charge their Chinese customers.

As a result of China's tariff, VAT and distribution impediments, U.S. exports to China declined by $60 million between 1989 and 1997 and in the most recent 1998 calendar year declined to only about $7 million. In contrast, 1998 U.S. exports to Brazil, a country which imposes an effective 13% tariff (10% applied tariff and 3% across-the-board import fee) and consumes 92% less soda ash than China, were $36 million.

Soda Ash Tariff Highest Among China's Other Inorganic Chemicals. China's tariff levels applied to other inorganic chemical imports average 8–10%. It is clear China has singled out soda ash for special protection from imports.

D. *Non-Tariff Trade Measures*

Distribution and Customs Barriers. In addition to the high tariff and VAT fee on imports, since 1990 China has introduced additional policies aimed at discouraging soda ash imports. Between 1990 and 1992, all imports of soda ash were subject to import licensing procedures and administrative review and approval by the Chinese government. Moreover, U.S. soda ash could only be distributed by the sole government designated distributor, Sino-Chem, which is part of the Ministry of Economic Relations and Trade.

Currently, China maintains a complex and unpredictable web of import restrictions which are heavily dependent upon "relationships" ("guangsi"). These restrictions severely limit the level of imports as well as their distribution in China.

Chinese customers who import soda ash and export the finished product (i.e. glass companies) are eligible to receive a waiver of the tariff and VAT. In order to receive this, they must have a "Handbook" stamped (i.e. approved); however, there is no guarantee approval will be given. For example, one end-user of U.S. soda ash which exports its finished product has still been unable to receive a refund on imports received in 1997. Overall, the exorbitantly high tariff and VAT effectively limit the purchase of imported soda ash to Chinese customers eligible to have the tariff and VAT fees waived.

All soda ash imports take between 30 and 45 days to clear Chinese customs due to layers of "red tape" and bureaucratic delays at the ports. The delays are particularly acute when they involve imports eligible for duty and VAT waivers which are destined to customers outside of the port province. By comparison, in other Asia Pacific countries it takes only a few days to clear soda ash through customs.

Finally, soda ash distributors are unable to store the product in bonded warehouses. This forces local distributors to pay the duty and VAT upon entering customs and absorb these costs until customers are found. This is yet another disincentive facing local distributors.

Delay in Implementation of an Export Subsidy to Glass Companies Contingent Upon Purchasing Locally Produced Soda Ash. In mid-December, 1998, China announced it will delay until December 31, 2000 a policy of granting a 9% tax refund (i.e. an export subsidy) to joint venture glass companies who purchase locally produced soda ash. Of the estimated 54,000 MT U.S. soda ash imported into China in 1998, roughly 90% was purchased by China's glass industry. If the trade-distorting export subsidy for the glass industry is implemented, it will have a significant effect on U.S. exports to China.

E. *U.S. Soda Ash Market Share in China is the Lowest in Asia*

In 1998, the U.S. share of China's soda ash was about 1.4% (by volume). This represented a 51,000 MT decline (valued at $9 million) in U.S. exports between 1997 and 1998. In 1989, prior to the time China targeted its soda ash industry for special protection, U.S. imports accounted for nearly 30% of Chinese domestic consumption. As a result of the import substitution policies pursued by the Chinese government for its soda ash industry, the U.S. 1.4% market share in China is significantly lower than in other Asian countries, even those which produce soda ash such as Japan, Korea and Taiwan.

F. *China's Soda Ash Export Campaign*

An integral part of China's targeting of its soda ash industry has been to stimulate exports. As recently stated by Li Yongwu, China's Director of the State Bureau of Petroleum and Chemical Industry, "increasing exports is an important way to safeguard the sustainable growth of China's chemical industry." (Chemical Week, October 28, 1998. "China Seeks Bigger Share of the Export Market" p. 37.)

On January 1, 1996, "in order to promote the exportation of products of certain industries," China's State Council introduced a 9% direct tax refund calculated at the FOB price for China's soda ash exports. Thus, if Chinese soda ash producers export $100 FOB of soda ash, they receive from the Chinese government a $9 tax refund. This is an undisguised and transparent policy aimed at increasing Chinese exports of certain favored industries such as soda ash.

As a result, domestic soda ash producers do not have to pay the 35% or 12% tariff or factor into their price the 17% VAT. Further, they also receive an additional 9% tax incentive for export. The net effect of the tax advantages afforded China's state-owned producers has been to severely erode the pricing of soda ash in third markets at the expense of U.S. exports. The $101/MT FOB China port minimum export price translates into $118/MT CIF price at Asian ports. Since it costs FOB $138/MT to produce soda ash in China, the minimum export price is $35/MT below the cost of producing soda ash in China.

As could be expected, the government's policies have been enormously successful (principally through below cost of production prices aimed at increasing market share) as seen by the more than 800% increase in exports between 1990 and 1997 (from 76,000 MTs in 1990 to 623,000 MTs in 1997).

The government's export drive has in some countries (e.g. India and Korea) been met with trade remedy actions. (Both Korea and India, which have their own soda ash industry, have successfully accused Chinese suppliers of predatory dumping. In the case of Korea, additional dumping duties of over 68% were initially imposed on Chinese imports exceeding specified levels. More recently, Korea has levied dumping duties on Chinese imports (ranging from 22–25%) below an established price (CIF $185 MT). In the case of India, in the spring of 1998, India's Monopolies and Restrictive Trade Practices Commission issued an order temporarily barring Sino-Chem from selling soda ash at predatory pricing levels.) In the past several years China has targeted markets which traditionally have been key to the United States. While China exports to over 30 countries, four of its priority markets have been Indonesia, Thailand, Malaysia and the Philippines, all of which have historically been growth markets for the United States.

Indonesia. In 1996 and 1997, Indonesia—which does not produce soda ash)—was China's largest and this country's third largest (behind Mexico and Japan) export market. In 1998, China began an aggressive predatory pricing export campaign aimed at displacing U.S. exports. In January, 1998 the U.S. soda ash CIF price range in Indonesia was $155–$170 MT. At that time, the quoting price of Chinese suppliers was CIF $150 MT. Chinese prices declined below the $130 MT cost of production in October, 1998 and below $120 MT in November, 1998. China's export drive has already yielded results, as China's exports to Indonesia for the first eight months of 1998 have exceeded total 1997 exports.

Thailand. Similarly, in Thailand the U.S. CIF price range in January 1998 was $153–$173 MT. While in January China's average price was only marginally lower at $152 MT, by November its price dropped in excess of $30 MT, to $122 MT.

G. *Lost U.S. Exports Attributed To China's Predatory Pricing.*

U.S. exports to Indonesia, Thailand, Malaysia and the Philippines have declined 10% to 45% since late 1996. While Asia's financial crisis has resulted in reduced demand for soda ash, China's predatory export pricing displaced U.S. soda ash. In 1997 and 1998 China's predatory pricing resulted in an actual increase in exports to these countries at the direct expense of U.S. exports. The presence of other competitors in these markets is negligible.

The United States currently suffers a massive trade deficit with China, totaling an expected $60 billion in 1998. If that deficit is to be significantly reduced, it is essential that competitive U.S. exports not be foreclosed from the Chinese market by artificial barriers.

The U.S. soda ash industry's problem is an important one not only because of the concern over China's efforts to limit U.S. exports that enjoy clear competitive advantages but because of the serious additional threat to key third markets.

In addition, China will benefit from the elimination of its tariff and non-tariff measures. For many years Chinese consumers of soda ash have been eager to purchase U.S. soda ash because it would improve the quality of their product and increase the life of capital equipment since U.S. ash contains less corrosive impurities. These consumers—representing the Chinese glass, detergent, paper, and chemicals industries—will benefit from the elimination of trade barriers. The competitive pricing of soda ash will not only benefit these industries in international competition, but will benefit individual Chinese consumers who will be provided alternative choices for higher quality products.

V. *India's Embargo of U.S. Soda Ash*

Since 1985 ANSAC has protested with the U.S. government India's market access barriers facing U.S. soda ash exports. These efforts have included nearly the entire range of market access trade remedy actions such as the GSP, "Super 301," and USTR National Trade Estimate Report submissions.

In 1993, due undoubtedly more to a general trade liberalization trend than to any specific interest in soda ash, the 1993/94 Indian Budget reduced the net effective soda ash import fee from 135.75 percent to 112.75 percent. Concurrently, the India Glass Manufacturers Federation ("Glass Federation") began to be squeezed by India's local soda ash producers, three of whom now control nearly 90 percent of the market. According to the Glass Federation, due principally to the closed import market, local soda ash prices increased about 40 percent between April 1991 and April 1993. The monopoly prices extracted by the local producers have been at the ex-

pense of India's glass manufacturing industry, which is responsible for 70,000 in glass plants and tens of thousands more in other sectors of the economy. With this, Indian glass companies began a campaign to convince their own government that the market should be opened to imports so that the three local soda ash producers would face price competition. As a result, the 1995/96 annual budget reduced India's applied tariff from 65 percent to 40 percent. While this was clearly a step in the right direction and enabled ANSAC to make a single shipment, the tariff was still among the highest in the world (only Pakistan's was higher). In fact, the 40% tariff, combined with other import fees, meant that a *de facto* embargo remained in place and India's average price for soda ash remained among the world's highest. The Central government's final tariff reduction was made in the 1996/97 Budget when the tariff went from 40 percent to 30 percent *ad valorem*.

India's local soda ash producers, known collectively as the Alkali Manufacturers Association of India ("AMAI"), were frustrated by their inability to convince India's Central Government to increase or maintain the soda ash tariff. When the 30 percent tariff was implemented in early 1996, ANSAC received an order for a 23,000 MT shipment which represented less than 2 percent of the total Indian soda ash market. In early September 1996, AMAI petition the Monopolies and Restrictive Trade Practices Commission ("MRTPC") and obtained an *ex parte* order which prohibited ANSAC from exporting to India.

AMAI's complaint before the MRTPC essentially alleges that ANSAC is attempting to sell at predatory prices below cost for the purpose of eliminating competition in the Indian market. However, the complaint contains no evidence on U.S. costs, which are actually the lowest in the world. Further, no evidence has been provided to the MRTPC as to how ANSAC's single sale is likely to drive local soda ash producers from the market.

The complaint before the MRTPC is clearly unfounded and is a transparent attempt by the local producers to circumvent the Central Government's trade liberalization initiatives that have been taken since 1991. AMAI has also used the MRTPC as a vehicle for bypassing international trade rules embodied in the WTO's Antidumping Rules and to maintain their stranglehold on the market so as to keep soda ash prices high and continue their monopoly profits. It is particularly ironic that the very companies seeking to use the MRTPC as a venue for countering alleged anticompetitive practices are themselves seeking to perpetuate their own monopolistic behavior.

The complaint includes certain baseless and unfounded allegations of dumping of soda ash. However, under Indian law, which closely follows the WTO model, the only competent authority to address a complain of this nature is the Designated Authority appointed by the Government of India under the country's Antidumping Rules. These Rules afford a fair opportunity to the complainant and to the party against whom the charge of dumping has been made to address the issues raised under the Antidumping Rules. They also include a provision requiring the Designated Authority to give notice to the government of the exporting company—in this case the Government of the United States. Since the complaint has been filed in the wrong forum, the United States Government has been denied the opportunity of refuting the false charges of dumping.

AMAI fully realized that it could not prove material injury as required under the antidumping rules. Instead, fearful of legal competition, AMAI convinced the MRTPC to issue the injunction on the specious claim that ANSAC priced its 23,000 MT order at such a low price that it was clearly intended to monopolize the Indian market by driving out local producers. In point of fact, ANSAC's price was just barely competitive with prevailing prices charged by local producers.

The U.S. soda ash industry is taking all lawful steps to have the MRTPC's Order vacated as soon as possible. But the wheels of justice are slow. In the meantime the Indian soda ash industry's abuse of process and the order they have secured stand contrary to Indian Government's trade liberalization initiatives, the government's obligations under the WTO's Antidumping Rules, and the interest of local glass and other industrial consumers whose competitive future depends upon access to high quality and reasonably priced soda ash.

Approximately one year after the Commission issued its preliminary injunction against ANSAC, petitioner discovered that *since June 1995* the MRPTC Director-General of Investigation had been investigating the three dominant soda ash producers for cartel activity. In fact, in April 1997, the Director General concluded that there was substantial evidence that the three dominant producers are a cartel. A formal inquiry was opened before the MRTPC on August 7, 1997, two weeks before India's Supreme Court summarily rejected ANSAC's petition to vacate the injunction.

In the three years since September 1996, ANSAC has lost a projected $25 million in U.S. exports. What ANSAC is asking for is not unreasonable, namely, that the preliminary injunction be lifted as soon as possible and that the Commission expeditiously and objectively review the facts in accordance with recognized principles of law.

Statement of James W. Johnson, Jr., Chairman, American Sugar Alliance

INTRODUCTION

Thank you for the opportunity to submit testimony for this important hearing. I am James W. Johnson, Jr., president of the United States Beet Sugar Association. I also serve as chairman of the American Sugar Alliance (ASA), of which my association is a member. The ASA is the national coalition of growers, processors, and refiners of sugarbeets, sugarcane, and corn for sweetener.

The ASA has long endorsed the goal of global free trade because U.S. sugar and corn sweetener producers are efficient by world standards and would welcome the opportunity to compete on a genuine level playing field. Until that free trade goal is achieved, however, the United States must retain at least the minimal sugar policy now in place to prevent foreign subsidized, dump market sugar from unfairly displacing efficient American producers. This policy was substantially modified by Congress in the 1996 Farm Bill, but remains highly beneficial to American taxpayers and consumers.

We note, Mr. Chairman, that you recently held a timely hearing on the plight of the U.S. steel industry. Our concerns are the same. We are efficient producers, but risk losing American jobs to the predatory trade practices of subsidized foreign producers. Like steel, American sugar farmers can compete directly against foreign producers. We cannot compete against foreign treasuries.

While the ASA supports the goal of free trade, we have serious concerns about past agreements and about the structure of future multilateral or regional trade agreements. Listed below are our specific recommendations, followed by some background on the United States' role and standing in the world sugar economy and our evaluation of the effects of past multilateral and regional trade agreements on the world sugar market and on our industry. U.S. agriculture is extremely vulnerable as we approach the next trade round. If we are reckless, we risk converting American agriculture into a Rust Belt. If we negotiate carefully and rationally, however, there is enormous potential for responsible American producers to compete and prosper in a genuine free trade environment, free from the need for government intervention.

RECOMMENDATIONS FOR FUTURE WTO NEGOTIATIONS

The 1999 World Trade Organization (WTO) Ministerial will play a pivotal role in establishing the scope, parameters, and goal of the next multilateral trade round. Shaped by our experience and by the specific failures of past agreements, described later in this paper, the following are the ASA's recommendations for the Ministerial.

1. Compliance with past agreements, in particular, the Uruguay Round Agreement (URA) of the WTO and the North American Free Trade Agreement (NAFTA), must be achieved before the United States forges any new agreements. The United States, and any other country that has surpassed its URA commitments, should be given credit for doing so before being required to make further cuts in the next trade round.

2. The United States must not reduce its support for agricultural programs, particularly for import-sensitive crops such as sugar, any further until other countries have reduced their support to our level.

3. Elimination of export subsidies, the most trade distorting of all practices, and of state trading enterprises (STE's), which were ignored previously, must be given top priority in the next trade round.

4. The wide gap in labor and environmental standards between developed and developing countries must be taken into account in the next trade round, to provide both incentives and penalties that ensure global standards rise to developed-country levels, rather than fall to developing-country levels.

5. A flexible, request/offer type of negotiating strategy must be followed in the next trade round, rather than a rigid, across-the-board, formula approach. Only in this manner can we address the huge disparities in supports among nations and turn the United States' unilateral concessions to our advantage. We must provide

foreign countries the incentive to reduce their government programs by promising to reduce ours further when, and only when, they have eliminated their export subsidies and STE's, and reduced their internal support and import tariffs to our levels.

BACKGROUND ON U.S. SUGAR INDUSTRY, POLICY

Size and Competitiveness. Sugar is grown and processed in 17 states and 420,000 American jobs, in 40 states, are dependent, directly or indirectly, on the production of sugar and corn sweeteners. The industry generates an estimated $26.2 billion in economic activity annually. A little more than half our sugar is produced from sugarbeets, the remainder from sugarcane. More than half our caloric sweetener consumption is in the form of corn sweeteners.

The United States is the world's fourth largest sugar producer, trailing only Brazil, India, and China. The European Union (EU), taken collectively, is by far the world's largest producing region. It benefits from massive production and export subsidy programs.

Sugar is an essential food ingredient and the U.S. sugar producing industry is highly efficient, highly capitalized, and technologically advanced. It provides 260 million Americans most of sugar they demand, in 45 different product specifications and with "just-in-time" delivery that saves grocers and manufacturers storage costs.

Roughly 15–20% of U.S. sugar demand is fulfilled by duty-free imports from foreign countries, making the U.S. one of the world's largest sugar importers. Many of the 41 countries supplying our sugar are developing economies with fragile democracies and they depend heavily on sales to the United States, at prevailing U.S. prices, to cover their costs of production and generate foreign exchange revenues.

Despite some of the world's highest government-imposed costs for labor and environmental protections, U.S. sugar producers are among the world's most efficient. According to a study released in 1997 by LMC International, of England, and covering the 6-year period ending in 1994/95, American sugar producers rank 19th lowest in cost among 96 producing countries, most of which are developing countries. According to LMC, fully two-thirds of the world's sugar is produced at a higher cost per pound than in the United States.

During the last three years studied, 1992/93–94/95, the United States became the lowest cost beet sugar producer in the world. American corn sweetener producers are also the lowest cost of all caloric sweeteners in the world, and always have been the lowest cost producer of corn sweetener.

Because of their efficiency, American sugar farmers would welcome the opportunity to compete against foreign farmers on a level playing field, free of government subsidies and market intervention. Unfortunately, the extreme distortion of the world sugar market makes any such free trade competition impossible today.

World Dump Market. More than 100 countries produce sugar and the governments of all these countries intervene in their sugar markets and industries in some way. The most egregious, and most trade distorting, example is the EU. The Europeans are higher cost sugar producers than the United States, but they enjoy price supports that are 40% higher than U.S. levels—high enough to generate huge surpluses that are dumped on the world sugar market, for whatever price they will bring, through an elaborate system of export subsidies.

World trade in sugar has always been riddled with unfair trading practices. These practices have led to the distortion in the so-called "world market" for sugar. These distortions have led to a disconnect between the cost of production and prices on the world sugar market, more aptly called a "dump market." Indeed, for the period of 1984/85 through 1994/95, the most recent period for which cost of production data are available, the world average cost of producing sugar is over 18 cents, while the world dump market price averaged barely half that—just a little more than 9 cents per pound raw value. (See Attachment A.)

Furthermore, its dump nature makes sugar the world's most volatile commodity market. Just in the past two decades, world sugar prices have soared above 60 cents per pound and plummeted below 3 cents per pound. Because it is a relatively thinly traded market, small shifts in supply or demand can cause huge changes in price.

As long as foreign subsidies drive prices on the world market well below the global cost of production, the United States must retain some border control. This is a necessary and effective response to the foreign predatory pricing practices that threaten the more efficient American sugar farmers.

Uniqueness of Sugar Market. Aside from the highly residual and volatile nature of the world sugar price, there are a number of factors that set sugar apart from other program commodities. These unique characteristics should be taken into account before sugar is lumped in with other commodities for across-the-board policy reforms.

• *Grower/Processor Interdependence.* Grain, oilseed, and most other field-crop farmers harvest a product that can be sold for commercial use or stored. Sugarbeet and sugarcane farmers harvest a product that is highly perishable and of no commercial value until the sugar has been extracted. Farmers cannot, therefore, grow beets or cane unless they either own, or have contracted with, a processing plant. Likewise, processors cannot function economically unless they have an optimal supply of beets or cane. This interdependence leaves the sugar industry far less flexible in responding to changes in the price of sugar or of competing crops.

• *Multi-Year Investment.* The multimillion-dollar cost of constructing a beet or cane processing plant (approximately $300 million), the need for planting, cultivating, and harvesting machinery that is unique to sugar, and the practice of extracting several harvests from one planting of sugarcane, make beet or cane planting an expensive, multiyear investment. These huge, long-term investments further reduce the sugar industry's ability to make short-term adjustments to sudden economic changes.

• *High-Value Product.* While the gross returns per acre of beets or cane tend to be significantly higher than for other crops, critics often ignore the high cost associated with growing these crops. Compared with growing wheat, for example, USDA statistics reveal the total economic cost of growing cane is nearly seven times higher, and beet is more than five times higher. With the additional cost for processing the beets and cane, sugar is really more of a high-value product than a field crop.

• *Inability to Hedge.* The 1996 Freedom to Farm Bill made American farmers far more dependent on the marketplace. Growers of grains, oilseeds, cotton, and rice can reduce their vulnerability to market swings by hedging or forward contracting on a variety of futures markets for their commodities. There is no futures market for beets or cane. Farmers do not market their crop and cannot take delivery of beet or cane sugar. The hedging or forward contracting opportunities exist only for the processors—the sellers of the sugar derived from the beets and cane. These marketing limitations make beet and cane farmers more vulnerable to market swings.

U.S. Sugar Policy Reforms. U.S. sugar policy was unilaterally and substantially reformed in the 1996 Farm Bill, far in excess of URA commitments. The key reforms: (1) Production controls ("marketing allotments") were eliminated. (2) Government-provided non-recourse loans, or a government-guaranteed minimum price, are conditional and no longer guaranteed—unlike all other U.S. program commodities. This ensures long-standing Congressional intent that U.S. sugar policy be run at no cost to the U.S. Treasury. (3) The minimum import level, already about four times the minimum required by the URA, was effectively raised another 20%. (4) Sugar producers' burdensome and discriminatory marketing assessment tax was raised 25%, increasing expected annual revenues to the U.S. Treasury from U.S. sugar policy to about $40 million. (5) A 1-cent per pound penalty was established to discourage government loan forfeitures. (6) The U.S. committed to further support price reductions when other countries surpass their URA requirements, as the U.S. has done, and achieve levels equal to ours.

The reformed sugar policy of the 1996 Farm Bill does retain the Secretary of Agriculture's ability to limit imports, and also provides a price support mechanism, though only when imports exceed 1.5 million short tons. The 1998/99 sugar import quota is only some 300,000 tons above that critical trigger level.

U.S. Sugar Industry's Free Trade Goal

Because of our competitiveness, with costs of production well below the world average, the American Sugar Alliance supports the goal of genuine, global free trade in sugar. We cannot compete with foreign governments, but we are perfectly willing to compete with foreign farmers in a truly free trade environment.

We were the first U.S. commodity group to endorse the goal of completely eliminating government barriers to trade at the outset of the Uruguay Round, in 1986. We understand we are the first group to endorse this same goal prior to the start of the 1999 multilateral trade round. We described our goals and concerns to the Administration in a letter in May 1997 to Trade Representative Barshefsky and Agriculture Secretary Glickman. A copy of that letter is attached (Attachment B).

The ASA does not endorse the notion of free trade at any cost. The movement toward free trade must be made deliberately and rationally, to ensure fairness and to ensure that those of us who have a global comparative advantage in sugar production are not disadvantaged by allowing distortions, exemptions, or delays for our foreign competitors, as we are experiencing under the current agreement.

To achieve a free trade transition process that is rational and fair, we offer the following thoughts on past agreements, and our concerns and recommendations regarding future negotiations.

SUGAR AND THE URUGUAY ROUND AGREEMENT

Little Effect on World Sugar Policies. More than 100 countries produce sugar and all have some form of government intervention. Unfortunately, these policies were not significantly changed in the Uruguay Round Agreement of the WTO.

The URA inadequately addressed, or ignored:

• *Compliance.* Many countries have evaded or not yet even complied with their URA agricultural commitments. In sugar, for example, the EU has managed to isolate most of its sugar export subsidy program from URA disciplines. The Philippines has yet to meet its requirements for increasing minimum access levels to its sugar market.

It was revealed at a WTO Analysis and Information Exchange Group meeting Geneva in September 1998, nearly four years since the inception of the URA, that a mere 17 of the 132 member nations have fulfilled all their notification requirements on domestic support, export subsidies, and market access. One must wonder how we can monitor compliance with WTO-mandated reductions in agricultural policies when the vast majority of countries will not even acknowledge which policies they have in place.

• *Export Subsidies.* The most distorting practice in world agricultural trade is the export subsidy. Export subsidies provide countries the mechanism to dispose of surpluses generated by high internal production subsidies. In the absence of export subsidies as a surplus-removal vehicle, countries would have to reduce their production supports. With export subsidies in place, countries can move surpluses into markets where they do not belong and depress market prices. Other countries are forced to respond with import barriers. In the world sugar market, subsidized exports by the EU alone amount to about a fifth of all the sugar traded each year.

The URA did not significantly reduce the amount of sugar sold globally with export subsidies. The agreement failed to reduce the European Union's generous price support level and requires only a tiny potential drop in its substantial export subsidies.

• *State Trading Enterprises (STE's).* STE's are quasi-governmental, or government-tolerated organizations that support domestic producers through a variety of monopolistic buyer or seller arrangements, marketing quotas, dual-pricing arrangements, and other strategies. These practices were ignored in the Uruguay Round, but are, unfortunately, common in the world sugar industry. Major producers such as Australia, Brazil, China, Cuba, and India have sugar STE's, but were not required to make any changes in the URA.

• *Developing-Country Producers.* Developing countries, which represent about 60% of world sugar production and trade, have little or no labor and environmental standards for sugar farmers, have no minimum import access requirements, and often have high import tariffs. Nonetheless, developing countries were put on a much slower track for reductions, or, in the case of the least developed countries, were exempted altogether from URA disciplines.

• *WTO Non-Members.* Important sugar-producing and importing countries such as China and the former Soviet republics are not WTO members, and need to do nothing under the URA. Yet, these countries represent some 40% of global sugar imports and 20% of production.

• *Labor and Environmental Standards.* The gap in government standards—and resulting producer costs—between developed and developing countries is well documented and immense, but was ignored in the URA. In sugar, the gap is particularly pronounced because, while the EU and the U.S. are major players, production and exports are highly dominated by developing countries, especially in the cane sector.

Social Standards Gap. The differences in labor and environmental standards between developed and developing countries are wide.

American sugar producers operate with the highest possible regard for workers and the environment. But we should not be penalized in multilateral trade negotiations for providing these costly protections. Foreign countries that do not provide such protections should not be rewarded. If we are attempting to globalize our economy, we should also globalize our worker and environmental protection responsibilities. If markets are to be liberalized, standards must be harmonized.

In the next trade round, access to developed countries should be conditioned on developing countries' achievement and enforcement of higher labor and environmental standards. Such an incentive system could help ensure that the next trade round results in a race to the top, in protection of workers and the environment, rather than a race to the bottom. Attached is a press release issued by the ASA in support of President Clinton's remarks at the WTO in this regard last May (Attachment C).

Widely Varying Levels of Support. Unilateral reforms to U.S. agriculture policy in the 1996 Farm Bill far exceeded U.S. commitments made the year before in the Uruguay Round. Furthermore, developing countries, which dominate world agricultural trade and particularly sugar trade, were subject to a slower pace of reductions, if any.

As a result, the United States is way out in front of the rest of the world in removing its government from agriculture and has placed its farmers in a domestic free market situation. This gap makes American farmers uniquely vulnerable to continued subsidies by foreign competitors.

It is key that American farmers not be penalized for attempting to lead the rest of the world toward free agricultural trade. American farmers must be given credit for the reforms they have endured.

U.S. Sugar Surpasses URA Requirements. The United States is one of only about 25 countries that guarantees a portion of its sugar market to foreign producers and it has far surpassed its URA commitment on import access. The URA required a minimum access of 3–5% of domestic consumption. The United States accepted a sugar-import minimum that amounts to about 12% of consumption. In practice, U.S. imports in 1994/95 and 1995/96 averaged 24%—double the promise we made in the URA, and about six times the global URA minimum.

All this sugar imported from 41 countries under the tariff-rate quota (TRQ) enters the United States at the U.S. price, and not at the world dump price. Virtually all this sugar enters duty free. Just five countries (Argentina, Australia, Brazil, Gabon, and Taiwan) that lack Generalized System of Preferences status pay a minuscule duty of 0.625 cents per pound.

The United States calculated its above-quota tariff rate in the manner dictated by the URA. These tariff levels are totally WTO consistent, and are dropping by 15% over the 6-year transition period, as we promised they would in the Uruguay Round. This duty is frozen in the year 2000 and must not be reduced further until foreign countries have complied with their URA requirements, as the U.S. has done.

Playing Field Lower, But Not More Level. The URA's formula-based approach called for across-the-board percentage reductions, regardless of the original level of price support, import barrier, or export subsidy. Countries with the most egregious barriers can maintain their advantage throughout the transition process. For example, if one country's price support were 40% higher than another's, and both reduced by the URA-mandated 20%, the 40% advantage would remain in place—the playing field has been lowered, but not leveled.

Furthermore, the United States far surpassed its URA commitments, unilaterally dismantling its already minimal commodity program in the 1996 Farm Bill, while many other nations with higher levels of government intervention have yet to even minimally comply. This has tilted the playing field even further to the disadvantage of efficient American farmers.

Formula Driven Trade Strategy. For the many reasons outlined above, the rigid, formula-driven, or "one-size-fits-all," approach for trade concessions does not work for agriculture in general, or for sugar in particular. Pursuing this approach would: (1) Fail to reduce the gap in supports between countries—lowering the playing field, but not leveling it; (2) Again give developing countries virtually a free ride; (3) Further diminish U.S. negotiating leverage, which was severely reduced through our unilateral concessions in the 1996 Farm Bill.

To date, U.S. agriculture has led the world in trade barrier reductions and we are disadvantaged as long as the rest of the world fails to follow our example.

SUGAR AND THE NAFTA

The ASA is concerned that before the United States embarks on another multilateral trade round we must be cognizant of serious problems that remain with our primary regional trade agreement, the North American Free Trade Agreement (NAFTA). Evasion of NAFTA rules and violation of international trade rules by our North American trading partners have left many American sugar producers with a distrust of trade agreements and a serious reticence about entering into new ones.

Canada. Sugar trade between the United States and Canada, which imports about 90% of its sugar needs, was essentially excluded from the NAFTA. U.S.-Canadian sugar trade is governed mainly by the U.S.-Canada Free Trade Agreement and by the WTO.

Currently, Canada is threatening the integrity of U.S. sugar policy by circumventing the tariff-rate quota with a new product referred to in the trade as "stuffed molasses"—a high-sugar product not currently included in U.S. sugar TRQ classifications. USDA has estimated imports of this product could add about 100,000 tons of non-quota sugar to the U.S. market per year. That amount could grow if this

loophole is not closed, further harming U.S. sellers of refined sugar and possibly threatening the no-cost operation of U.S. policy.

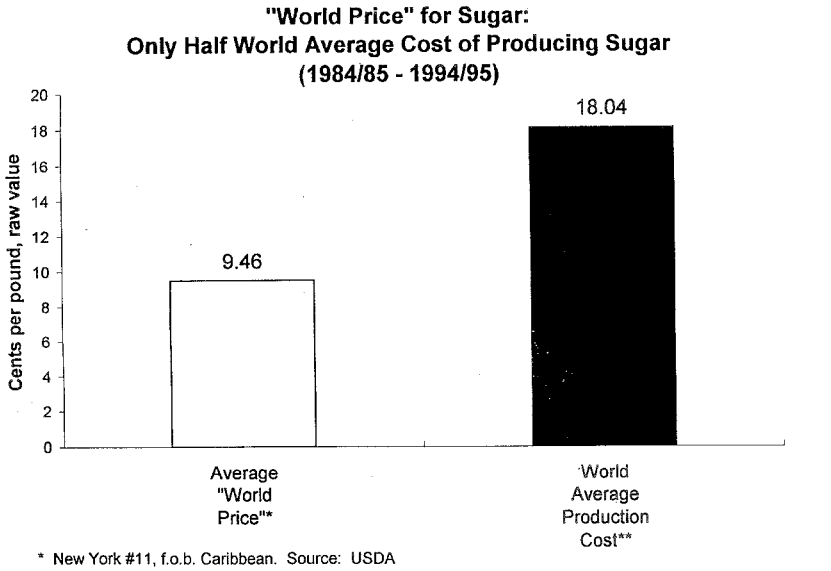
Mexico. Mexico had been a net importer of sugar for a number of years prior to the inception of the NAFTA. Nonetheless, the NAFTA provided Mexico with more than three times its traditional access to the U.S. sugar market during the first six years, 35 times its traditional access in years 7–14, and virtually unlimited access thereafter. The NAFTA sugar provisions are summarized on the attached table (Attachment D).

These provisions were negotiated by the U.S. and Mexican governments and contained in President Clinton's NAFTA submission to the U.S. Congress, which Congress approved in November 1993. The sugar provisions, as altered from the original NAFTA text, were critical to the narrow Congressional passage of the NAFTA.

Nonetheless, Mexico is now undermining the integrity of the NAFTA by claiming the sugar provisions are somehow invalid. This questioning by Mexico has bred deep feelings of distrust in trade agreements among many American sugar producers.

In addition, Mexico has not complied with a NAFTA requirement to phase out its tariffs on U.S. high-fructose corn syrup (HFCS). Instead, Mexico raised its tariffs on HFCS imports to levels approaching 100%. Mexico may also be violating international trade rules by sanctioning a restraint of trade agreement among Mexican sugar producers and soft drink bottlers to slow the pace of substitution of HFCS for sugar in Mexican soft drinks. (The ASA has filed a paper with USTR on this subject, "Initiation of Section 302 Investigation on Mexican Practices Affecting High Fructose Corn Syrup," June 19, 1998.)

ATTACHMENT A



* New York #11, f.o.b. Caribbean. Source: USDA

** "A World Survey of Sugar and HFCS Field, Factory and Freight Production Costs: 1997 Report" LMC International Ltd., Oxford, England

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BACKING AMERICA'S BEET, CANE AND CORN FARMERS

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May 21, 1997

The Honorable Charlene Barshefsky
U.S. Trade Representative
Office of United States Trade Representative
Winder Building, 600 17th Street N.W.
Washington, D.C. 20506

The Honorable Dan Glickman
Secretary of Agriculture
U.S. Department of Agriculture
Whitten Building, Room 200-A
Washington, D.C. 20250

Dear Ambassador, Dear Mr. Secretary:

With the start of the new round of multilateral agricultural negotiations growing closer, and with the beginning of the Geneva process of analysis and exchange of information, we thought this would be an appropriate time to share with you our views on U.S. objectives for this next round of negotiations.

The American Sugar Alliance is a coalition of U.S. growers and processors of sugarbeets, sugarcane, and corn for sweeteners. We are efficient, with costs of production below the world average. We have long supported the goal of genuine, multilateral elimination of all barriers to agricultural trade.

The world sugar market is one of the most highly distorted and most volatile markets in agricultural trade. All of the more than 100 countries that produce sugar exhibit some form of government intervention, including internal supports; import barriers; massive export subsidies, such as those by the European Union; state trading enterprises; and two-price systems.

These practices literally make the world sugar market a dumping ground, to the extent that the so-called "world price" has averaged only about half the world average cost of producing sugar over the past 15 years. It is only the continuation of tariff protection in the United States that prevents these enormous distortions from undermining the efforts of our efficient and non-subsidized producers.

We are fully committed to working toward an open trading system, but not at any price. As the Administration has said on many occasions regarding China's bid to accede to the World Trade Organization, trade must take place on a commercially viable basis. That is clearly not the case now in world sugar trade.

With this background in mind, we offer the following suggestions on objectives for the next round of negotiations:

* The United States should continue to insist on the elimination of all export subsidies. This objective should encompass appropriate disciplines on policies which essentially circumvent export subsidy commitments, such as pooling arrangements and dual pricing systems.

* State trading enterprises, which allow countries to control all facets of trade and extend monopolistic pricing practices to world markets, need strongly enhanced disciplines to provide price transparency and prevent predatory and discriminatory pricing.

* The passage of the FAIR Act has reduced U.S. agricultural support by far more than the Uruguay Round required. Other countries should match this reduction in terms of an aggregate measure of support before any additional reduction would be required in the United States.

* Countries which have not fulfilled their Uruguay Round commitments, or which have used various means to avoid or diminish these commitments, must be brought into full compliance with their obligations. This effort should also include arbitrary and capricious sanitary and phytosanitary restrictions which are not based on sound scientific principles. We urge that you aggressively pursue countries that have not complied and that no further concessions be negotiated with these countries until full and complete compliance is achieved.

  We point out in this regard that sugar imports into the United States have far exceeded – in fact, nearly doubled – our Uruguay Round commitment. Very few, if any, other commodities in the world can make this statement, a fact that needs to be taken into account in the negotiations.

* On market access, the United States should pursue a request/offer strategy to maximize our negotiating leverage to achieve these objectives. Developing countries do not have to make any further concessions until after the year 2004. Therefore, a formula-driven approach, such as was followed in the Uruguay Round, would give developing countries a free ride and would minimize our negotiating strength.

We hope you will seriously consider these suggestions, as you begin your preparations for the next round of trade negotiations. We would be happy to meet with you, at your convenience, to discuss these objectives in more detail.

Sincerely,

Carolyn Cheney, Chairman

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ATTACHMENT C

BACKING AMERICA'S BEET, CANE AND CORN FARMERS

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FOR IMMEDIATE RELEASE
May 19, 1998

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AMERICAN SUGAR PRODUCERS ENDORSE
PRESIDENT CLINTON'S CALL FOR FREE TRADE

GENEVA, Switzerland -- Representatives of American sugar producers, in Geneva this week for the ministerial meeting of the World Trade Organization (WTO), today endorsed President Clinton's call for "tearing down barriers to global trade" in agriculture. Clinton make the remarks in Geneva at last evening's commemoration of the 50th anniversary of the WTO.

Carolyn Cheney, chairman of the American Sugar Alliance (ASA), said, "Because we are efficient by world standards, with costs of production well below the world average, American sugar farmers have long supported the goal of global free trade in sugar. We can compete on a level playing field with foreign farmers. We cannot compete with foreign government treasuries."

The ASA is a national coalition of the growers, processors, and refiners of sugarbeets, sugarcane, and corn for sweeteners.

"For these reasons," Cheney said, "we are pleased with the President's free trade message, and with his thoughts on how to achieve that goal. In particular, we applaud the President's emphasis on raising foreign labor and environmental standards."

In his statement, Clinton said, "We must do more to ensure that spirited economic competition among nations never becomes a race to the bottom -- in environmental protections, consumer protections, or labor standards. We should be leveling up, not leveling down."

Cheney said, "This is particularly important in sugar. Two-thirds of the world's sugar is produced in developing countries with little or no protections for the environment, consumers, and workers, while American sugar farmers uphold the

(more)

highest, and most costly, standards in the world. Future trade negotiations must be aimed at raising foreign standards, not reducing ours."

Cheney added, "We also strongly endorse the President's call for a more open process, as he did when he stated 'we must modernize the WTO by opening its doors to scrutiny and participation by the public.'"

She said, "We commend Trade Representative Barshefsky and Agriculture Secretary Glickman and their staffs who are making every effort to consult with and inform the many agricultural representatives who are present in Geneva this week for these important talks."

"Furthermore," Cheney said, "we applaud the effort made by the United States Congress to be involved with this process. We are grateful to the large delegation of House and Senate Agriculture Committee staff, led by Congressman Tom Ewing (R-IL) for attending the meeting this week."

Cheney said, "American sugar farmers, like all American farmers, went far beyond their commitments in the last trade round when the Congress adopted the Freedom to Farm Bill. These trade negotiations are crucial. They present the only way we can force foreign countries, which have retained far more elaborate commodity programs, to reduce those programs to U.S. levels. When they do, American sugar farmers will reduce their program further, so that genuine free trade can be achieved in a rational and fair manner."

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ATTACHMENT D

ACCESS	**ORIGINAL NAFTA**	**SIDE LETTER**
Years 1 - 6 (1994-99)		
Mexico *not* surplus producer	Greater of 7,258 mt or "other country" share of TRQ	Same
Mexico surplus producer	25,000 mt	Same
Years 7 - 14 (2000-07)		
Mexico *not* surplus producer	Greater of 7,258 mt or "other country" share of TRQ	Same
Mexico surplus producer *one* year	Year 7: 150,000 mt; Years 8-14: 110% of prev. year	Mexican surplus production, *up to 250,000 mt,* each year
Mexico surplus producer *two consecutive* years	*All* Mexican surplus production	This provision deleted
Year 15 (2008)	U.S. - Mexican common market; same internal supports, external tariffs; rules of origin remain	Same
Surplus Producer Definition	Sugar production minus sugar consumption	Sugar production minus the sum of sugar consumption *and* HFCS consumption

ASA-natlcom12-7/97

Statement of David Kaehler, President, Gilbarco, Inc., Greensboro, NC

Mr. Chairman and members of the Subcommittee, I am David Kaehler, President of Gilbarco North America, the leading producer of gasoline pumps and related equipment in the United States. Today, we would like to thank you, Mr. Chairman and the Subcommittee on Trade for the opportunity to present our views on the importance of the extension of trade negotiating authority and the impact that trade negotiations may have on our U.S. operations. Through this statement, we want to illustrate one particular area of great concern to Gilbarco, which we believe underlines the importance for U.S. companies and U.S. workers to have access to world markets.

Gilbarco, Inc., is headquartered in Greensboro, NC, where we employ 1,500 people who design, produce and ship gasoline dispensers and related equipment for the world. Indeed, we believe that our Greensboro factory is the largest of its kind anywhere in the World. About 20% of our U.S. production is shipped to 85 different countries, including South America.

For several years our company has, through hard work and good fortune, been the leading supplier of gasoline dispensing equipment in South America. In response to our success, competitors have established manufacturing facilities within the Mercosur region of South America, thereby taking advantage of preferential tariff treatment offered in that trading bloc. In fact, the absence of a free trade relationship between the United States and the Mercosur countries today results in Gilbarco having to pay duties, ranging from 17% to 30%, on the products we export to these countries. As a result, we find ourselves at a serious price disadvantage.

In order to maintain our number one market position in South America, we are currently alleviating the situation by cutting costs and sacrificing profits. However, this is clearly not a tenable long-term solution. In the future, the problem could be solved by eliminating existing tariffs on U.S. exports through the successful negotiation of the Free Trade Area of the Americas (FTAA).

Should free trade negotiations fail or extend too far into the future, we would have no alternative but to establish a manufacturing presence in South America. In this case, however, job opportunities would be shifted away from the U.S. and on to a foreign market. In fact, a new facility in South America could potentially impact about 10% of our highly skilled, highly paid U.S. production workers in North Carolina. In addition, the domestic content of our products is greater than 80%. Our several suppliers throughout our region and the country would also suffer the loss of business as components for South American built gas pumps would be sourced in that region.

The extension of trade negotiating authority will enable U.S. trade representatives to effectively negotiate "final" trade agreements; authority they must have in order to maintain a leadership role in the negotiations. The current situation places American companies, our products, and our workers at a competitive disadvantage. Indeed, while our trade negotiating authority has lapsed, competitor countries have engaged in negotiations and are concluding trade agreements without us.

We urge the Congress to grant the Administration trade negotiating authority so that the United States can be a credible and effective partner in negotiating the FTAA to a successful conclusion. We also ask the Administration to exercise its leadership and to work with the Congress so that trade negotiating authority can be extended as soon as possible. Gilbarco, like most other manufacturers, looks forward to competing on a level-playing field with other global manufacturers because we believe that our workers are the most productive in the world, and our products of the highest quality.

Statement of R. Thomas Buffenbarger, International Association of Machinists and Aerospace Workers, Upper Marlboro, MD

The International Association of Machinists and Aerospace Workers respectfully submits this testimony to the United States House of Representatives Ways and Means Committee's Subcommittee on Trade. On behalf of our members and the tens of thousands of wood, pulp, paper and other timber-dependent workers nationwide, we wish to express our concerns for international trade policy in the global economy.

The International Association of Machinists and Aerospace Workers represents over 700,000 workers nationwide including 20,000 woodworkers in the forest products industry. Our members are increasingly concerned with international trade

agreements and the potential impacts to American industries, including forest products.

The IAMAW supports global trade that promotes fair and equitable agreements between the U.S. and competing nations. The forest products industry is facing increased competitiveness from foreign countries. Restraints on fiber supply, environmental regulations and restrictions on market access, are all hampering our performance in the global community. Now more than ever, it is crucial that U.S. trade policies reflect the competitive needs of American industries.

Forest product jobs are being threatened by a flood of foreign wood being dumped into American markets. Over the last year, we have witnessed similar threats in the steel industry. The crisis originated from illegal dumping, ineffective trade laws and the fact that U.S. trade policy does nothing to preserve our nation's industrial manufacturing base. Today, our brothers and sisters in the steel industry are struggling to survive, companies are being forced into bankruptcy and tens of thousands of workers are losing their jobs. The IAMAW wants to prevent a similar crisis in the forest products industry.

The U.S. forest products industry is the largest producer of wood and paper products in the world and accounts for 8 percent of the U.S. manufacturing output. Our workers produce the raw materials and products that are used by consumers throughout the world, and we need trade agreements that promote our continued prosperity. Our concern lies with imbalanced trade agreements that provide our competitors with unfair advantages.

Specifically, the IAMAW is concerned with the APEC negotiations and the proposals to eliminate all tariffs on wood products. We commend the Clinton Administration and the U.S. Trade Representative for their significant progress during the APEC negotiations, but are alarmed at Japan's continued refusal to open its doors to U.S. wood products. The United States cannot back down from these negotiations and must hold Japan accountable.

While Japan has failed to meet its commitment, forest products workers in the United States continue to witness disastrous impacts to our industry. Asian tariffs on wood products are as high as 45 percent, whereas U.S. tariffs are at or near zero. Fair and open access to Asian markets is crucial to preserve the livelihoods of woodworkers across the nation. While Asian imports to the U.S. skyrocket, our exports to the region have fallen drastically, a 40 percent decrease of our industry's total exports of $21 billion. These trade barriers make it impossible to sell forest products abroad.

Fairness to American workers requires the pursuit of accelerated market openings. Failure to eliminate Japanese trade barriers will exacerbate the increased flow of exports to this country as Asian economies attempt to export their way out of the region's financial crisis. Immediate steps must be taken to address the flood of under-priced imported wood products coming into our market. U.S. workers must not be the victims of international financial collapse.

U.S. negotiators and government officials must provide a level playing field for American industries as we compete in the global economy. Trade reform is crucial. Working Americans will support free trade agreements that are fair and equitable and provide us with the opportunity to prosper. As we move into the next century and a new global economy, we cannot leave American industry and our workers behind. We must negotiate sound trade policies that will provide the next generation, and many more to come, with the opportunity to achieve the American Dream.

Statement of Mitchell J. Cooper, Counsel to the 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 are attached hereto.

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 more than ninety percent of the U.S. market and imports of waterproof footwear take close to fifty percent. These imports come from countries where wages are from one-fifteenth to one-twentieth of the level in the domestic industry.

Two years ago the Trade Subcommittee conducted a similar examination of U.S. trade policy objectives and initiatives, and the RPFMA submitted its views. Little has changed since then, other than the fact that the position of the domestic rubber footwear industry vis-a-vis imports has worsened. This fact is demonstrated by Tables 1, 2, 3, and 4 attached hereto, which show the year-to-year increase of imports of fabric upper and of protective footwear as a percentage of total consumption and also the decline in domestic production employment of rubber and plastic footwear producers and slipper producers.

The remaining companies in this industry represent the survival of the fittest. They are convinced that their state of the art production facilities, the quality of their products, and their name brand recognition will permit them to continue manufacturing in this country provided that there is no further tampering with the current level of tariffs on competing imports.

The rubber footwear industry recognizes that the health of our economy depends to a considerable degree on America's ability to export its products to other countries. Unhappily, the ability of low-wage foreign producers to compete in the labor-intensive industry which produces rubber footwear presents an enormous obstacle in the path of this industry's efforts to export its products. Accordingly, while we understand the desirability of ongoing and anticipated trade negotiations for the purpose of reducing barriers to trade, we urge that there be greater recognition that exceptions must be made for those few industries, such as rubber footwear and slippers, where a reduction in duties would clearly threaten the continued existence of what is left of domestic production.

A major concern of this industry with respect to trade objectives and initiatives is the distinction between our Government's approach to such multilateral negotiations as the Kennedy, Tokyo, and Uruguay Rounds and its approach to such bilateral free-trade agreements as NAFTA. The rules for multilateral negotiations have permitted careful scrutiny of whether cuts in tariffs on specific Harmonized System items are warranted, whereas in bilateral negotiations the only flexibility has been in the length of time over which all duties would go to zero. Thus, in recognition of the unique import sensitivity of rubber footwear and slippers, the duties on the core items of this industry remained untouched in the Kennedy, Tokyo, and Uruguay Rounds. On the other hand, under NAFTA rubber footwear and slipper duties are being phased out over a period of 15 years (a period longer than that for virtually every other American industry, but at the end of which duties on imports from Mexico will have been eliminated).

Unless current policy is modified so as to permit limited exceptions to duty-free treatment in bilateral negotiations, what is left of this domestic industry cannot realistically expect to survive. The validity of this statement is evidenced by our experience under the Caribbean Basin Initiative. CBI II removed the exemption from duty-free treatment which had previously existed for footwear from the Caribbean. The direct consequence of this change in the law has been that rubber footwear imports from the Dominican Republic increased from 200,000 pair a year in 1990 to more than 12 million pair in 1997. Most of these imports are accounted for by American companies which closed plants in such states as Maine, Pennsylvania, West Virginia, and Georgia and shifted their production to the Dominican Republic.

It is important to bear in mind that the duty-free treatment of rubber footwear from the Caribbean is currently limited to footwear whose components are manufactured in the United States. The dramatic surge in Caribbean shipments which has occurred despite the requirements of using domestic components more than justifies our concern about the enactment of any so-called CBI parity legislation which would extend duty free treatment to Caribbean footwear made with components from any other country.

In previous bilateral trade negotiations the United States has relied on Article XXIV of the GATT in justification of its no-exception rule. The fact is however, that Paragraph eight of that Article defines a free trade agreement as one where "the duties and other restrictive regulations of commerce . . . are eliminated on *substantially* all the trade between the constituent territories or products originating in such territories" (emphasis added). If new bilateral negotiations would adhere to the "substantially all the trade" language in the GATT, the rules of engagement would be closer to those in multilateral negotiations where the unique needs of particular import sensitive industries can be taken into account. Our hope is that if and when this Congress grants the President fast-track authority, it will note the need for exceptions to total free trade.

The history of past negotiations demonstrates that there are very few domestic industries whose survival is as threatened by imports as rubber footwear and slippers. Surely, the benefits that would otherwise accrue from a free trade agreement would not be diminished by excluding this minuscule fraction of one percent of this country's trade from duty free treatment. Accordingly, we urge that any structuring of policy objectives in upcoming trade negotiations should contain sufficient flexibility to permit the survival of an otherwise endangered domestic industry.

In short, while we cannot quarrel with the Administration's objective of opening markets to American goods, we can and do quarrel with trade policy which does not take into account the legitimate needs of an industry, such as rubber footwear and slippers, which is faced with limited export opportunities and virtually unlimited imports.

APPENDIX 1

RUBBER AND PLASTIC FOOTWEAR MANUFACTURERS ASSOCIATION

American Steel Toe Co.
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., Inc.
28 Draper Lane
Canton, MA 02021–1598

Frank C. Meyer, Co.
585 South Union Street
Lawrence, MA 01843
(with plants also in New Jersey, Missouri, Maine, Mississippi, and Puerto Rico)

Genfoot, Inc.
Littleton, NH

Hudson Machinery Worldwide
Hudson Industrial Park
P.O. Box 831
Haverhill, MA 01831

Kaufman Footwear Corp.
Batavia, NY

LaCrosse Footwear Inc.
P.O. Box 1328
LaCrosse, WI 54602
(with plants also in New Hampshire and Oregon)

New Balance Athletic Shoes, Inc.
38 Everett Street
Allston, MA 02134
(with plants in Maine)

Norcross Safety Products
1136 2nd Street
P.O. Box 7208
Rock Island, IL 61204–7208

S. Goldberg & Co., Inc.
20 East Broadway
Hackensack, NJ 07601–6892

Tingley Rubber Corporation
200 South Avenue
P.O. Box 100
S. Plainfield, NJ 07080

Table 1.—Shoes with Rubber or Plastic Soles/Fabric Uppers (SIC 30210 10)

[Figures in Thousands of Pairs]

	Production	Exports	Imports	Consumption	% Imports
1998*	31,300	8,500	286,600	309,400	93.0
1997	49,200	7,600	273,200	314,800	87.0
1996	51,400	6,600	266,100	310,900	86.0
1995	56,000	12,600	309,300	352,700	88.0
1994	59,300	8,200	300,500	351,600	85.0
1993	62,500	9,200	260,000	313,300	83.0
1992	92,700	9,500	257,000	340,200	76.0
1991	97,500	9,700	213,400	301,200	71.0
1990	89,700	8,700	199,200	280,300	71.0
1989	76,800	10,000	190,100	256,900	74.0
1988	76,700	900	157,700	233,500	68.0

Table 1.—Shoes with Rubber or Plastic Soles/Fabric Uppers (SIC 30210 10)—Continued

[Figures in Thousands of Pairs]

	Production	Exports	Imports	Consumption	% Imports
1987	71,000	800	119,500	189,700	63.0
1986	57,900	1,000	99,100	156,000	64.0
1985	54,900	800	84,800	138,900	61.0
1984	64,516	1,120	107,685	171,865	62.7
1983	78,054	1,203	102,662	180,019	57.0
1982	92,896	1,367	99,032	194,398	50.9
1981	95,399	1,564	137,632	231,003	59.6
1980	97,516	1,694	120,746	216,207	55.8
1979	78,130	1,223	111,390	193,381	57.6
1978	79,278	644	172,700	253,683	68.1
1977	90,417	800	106,000	196,587	53.9
1976	115,354	700	115,400	234,471	49.2
1975	131,155	600	74,100	206,376	35.9
1974	146,500	1,010	67,352	210,838	31.9
1973	143,077	29	66,291	214,837	30.9
1972	159,399	105	58,020	217,314	26.7
1971	156,489	112	62,872	219,249	28.7
1970	144,276	129	49,726	193,873	25.6
1969	142,295	195	44,463	186,563	23.8
1968	152,257	239	49,200	201,218	24.5
1967	153,656	211	44,659	198,104	22.5
1966	157,491	167	35,060	192,384	18.2
1965	165,741	195	33,363	198,909	16.8
1964	162,151	225	29,063	190,989	15.2

*Preliminary
Source: Compiled from official statistics of the U.S. Department of Commerce

Table 2.—Rubber & Plastic Protective Footware (SIC 30210 20)

[Figures in Thousands of Pairs]

	Production	Exports	Imports	Consumption	% Imports
1998*	11,600	1,000	9,800	20,400	48.0
1997	15,500	1,000	11,000	25,500	43.0
1996	16,600	1,100	9,600	25,100	38.0
1995	17,400	1,300	9,900	26,000	38.0
1994	20,200	1,000	11,200	30,500	37.0
1993	17,800	700	9,700	26,700	36.0
1992	17,800	800	7,700	24,800	31.0
1991	15,600	900	8,000	22,700	35.0
1990	16,000	800	8,700	23,900	37.0
1989	13,700	600	8,200	21,300	38.0
1988	13,800	700	8,900	22,000	40.0
1987	11,100	800	9,600	19,900	48.0
1986	12,200	500	10,700	22,400	48.0
1985	16,500	400	12,800	28,900	44.0
1984	17,734	296	16,010	32,830	48.8
1983	15,459	305	13,373	26,562	50.3
1982	13,920	386	11,103	24,611	45.1
1981	10,652	551	7,485	18,028	41.5
1980	14,473	653	7,548	21,552	35.0
1979	23,531	645	12,544	36,517	34.4
1978	28,893	514	13,444	36,130	37.2
1977	23,380	400	10,700	34,402	31.1
1976	17,261	400	9,600	26,800	35.8
1975	16,135	300	4,100	20,600	19.9

*Preliminary
Official government figures on rubber and plastic protective footwear were not compiled for years earlier than 1975.
Source: Compiled from official statistics of the U.S. Department of Commerce

Table 3.—Production Employment

[in thousands]

Rubber and Plastic Footware (sic 302)			
1973	26.3	1986	9.2
1974	25.3	1987	9.3
1975	22.3	1988	9.7
1976	21.6	1989	9.2
1977	20.9	1990	8.9
1978	21.0	1991	8.8
1979	19.9	1992	8.9
1980	19.8	1993	8.9
1981	19.0	1994	8.9
1982	16.2	1995	6.4
1983	14.1	1996	4.5
1984	14.0	1997	5.5
1985	10.9	1998	4.8*

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
January	9.2	9.0	8.4	9.2	8.7	8.3	7.8	4.9	5.3	5.6
February	9.3	9.1	8.7	9.4	8.9	8.8	7.8	4.7	5.3	5.3
March	9.3	9.2	8.7	9.4	9.1	8.9	7.5	4.6	5.6	5.3
April	9.2	9.1	8.7	9.4	9.4	9.2	7.2	4.6	5.5	5.2
May	9.1	8.9	8.8	9.2	9.6	9.4	6.8	4.7	5.6	5.1
June	9.2	9.0	8.8	9.1	9.6	9.5	7.1	4.8	5.9	5.2
July	8.8	8.6	7.6	8.8	9.2	8.8	5.8	3.7	5.1	3.8
August	8.3	9.0	9.0	8.1	8.7	9.5	5.6	4.6	4.7	4.8
September	9.5	8.9	9.2	8.2	8.4	9.0	5.4	4.5	5.9	4.5
October	9.6	8.8	9.3	8.8	8.3	8.9	5.2	4.5	5.8	4.3
November	9.4	8.9	8.8	8.8	8.4	8.1	5.1	4.4	5.8	4.3
December	9.1	8.6	9.3	8.7	8.4	8.1	5.1	4.3	5.7	4.4*

*Peliminary figure
Source: Bureau of Labor Statistics, U.S. Department of Labor

Table 4.—Production Employment

[in thousands]

Slippers (sic 3142)			
1973	10.2	1986	4.4
1974	9.7	1987	4.7
1975	7.8	1988	4.6
1976	7.2	1989	4.2
1977	7.2	1990	3.7
1978	7.5	1991	3.5
1979	7.1	1992	3.2
1980	7.5	1993	2.6
1981	8.2	1994	3.0
1982	7.5	1995	2.9
1983	6.5	1996	2.1
1984	6.0	1997	2.1
1985	5.1	.....	.....

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
January	3.6	3.0	2.7	2.5	2.1	2.4	2.5	1.8	2.2	1.3
February	4.3	3.7	3.4	2.8	2.4	2.7	3.0	2.3	2.1	1.6
March	4.4	3.7	3.3	3.0	2.4	2.7	3.0	2.1	1.9	1.6
April	4.4	3.8	3.6	3.1	2.6	2.9	2.8	2.0	1.9	1.7

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
May	4.4	3.9	3.7	3.1	2.7	3.1	2.9	2.0	2.2	1.7
June	4.4	3.8	3.8	3.3	2.8	3.2	3.0	2.0	2.3	1.7
July	4.3	3.5	3.4	3.0	2.6	3.2	3.0	2.0	2.3	1.8
August	4.6	3.8	4.0	3.7	2.9	3.3	3.1	2.1	2.3	1.7
September ..	4.3	4.1	4.0	3.8	3.0	3.5	3.1	2.3	2.3	1.8
October	4.5	4.2	4.0	3.8	3.0	3.5	3.0	2.3	2.2	1.8
November ...	4.1	3.7	3.5	3.3	2.8	3.2	2.8	2.2	2.1	1.6
December	3.6	2.8	2.6	2.4	2.3	2.7	2.2	2.0	1.5	

Source: Bureau of Labor Statistics, U.S. Department of Labor
The above data is "Unpublished Data" compiled from the Bureau of Labor Statistics, and are not official Bureau Statistics. This data is for internal analysis only and should not be reproduced or published.

Statement of George Scalise, President, Semiconductor Industry Association

I appreciate the opportunity to present to the Subcommittee on Trade of the Committee on Ways and Means the views of the Semiconductor Industry Association (SIA) on the importance of active U.S. involvement in trade negotiations. I would like to focus my comments on three issues: (1) the agenda for the new round of multilateral trade negotiations under the auspices of the World Trade Organization (WTO) to be launched at this year's WTO Ministerial meeting in Seattle; (2) priorities for the ongoing negotiations on China's accession to the WTO; and (3) the importance of seeking early progress in eliminating tariffs in connection with the negotiations to create a Free Trade Area of the Americas (FTAA).

Before discussing the SIA's position on these important issues, however, I would like to give some background on the U.S. semiconductor industry.

I. The U.S. Semiconductor Industry

U.S. semiconductor makers employ 260,000 people nationwide, and the presence of the industry is widespread—35 states have direct semiconductor industry employment. And these are high paying jobs. The average wage in the semiconductor industry is approximately $55,000, nearly twice the average of private industry overall.

Semiconductors are an increasingly pervasive aspect of everyday life, enabling everything from computers to automobiles to modern defense systems to the Internet which is, in fact, a world wide web of silicon chips. They have sparked the growth of the U.S. electronics industry, which provides employment for 4.2 million Americans in all 50 states.

According to Department of Commerce data, the chip industry contributes more to this country's GDP in terms of value added than any other manufacturing industry. The industry is both capital intensive and R&D intensive: indeed, our members must spend a third of their revenues on research and capital equipment, among the highest percentage of any industry in the world.

These tremendous investments in R&D and capital equipment have yielded a direct benefit to consumers everywhere: the cost of our products continues to decline, and the functionality continues to increase. The increase in computing power has allowed the spread of PCs to homes, schools and small businesses, and it has enabled the explosion of the Internet and e-commerce. The Economic Report to the President last year pointed out that without the faster-than-average recent rate of decline in computer prices, overall inflation would have risen steadily since early 1994: instead, because of the fall in computer prices, inflation has actually decreased.

While investing heavily in the industry's future competitiveness and technological capabilities, SIA members also have always actively sought to secure foreign market access for U.S. products. Because the semiconductor industry is so global in nature—roughly half of the U.S. industry's revenues are derived from overseas sales—the SIA has been dedicated since its inception to promoting free trade and opening world markets.

For example, the U.S. industry has been at the forefront of efforts to eliminate tariffs on semiconductors and related products worldwide. At SIA's urging, the United States, Japan and Canada eliminated their semiconductor tariffs in the mid–1980s. Similarly, in the 1990s, SIA strongly supported the negotiation of the Infor-

mation Technology Agreement (ITA), through which a total of 44 countries agreed to eliminate their tariffs on semiconductors and other information technology products.

II. The New Round of WTO Negotiations

The SIA favors continued efforts in the WTO to promote greater trade liberalization, including in the areas of tariff elimination, duty-free and tax-free treatment of electronic commerce, services and investment. However, any new initiatives at the WTO should be consistent with and build upon the agreements reached in the Uruguay Round, rather than a renegotiation of the hard-won resolutions reached in those recent negotiations.

A. Recommended Areas for New WTO Negotiations

1. *Industrial Market Access.* The SIA believes continued attention should be given to tariff elimination by WTO members. As noted above, 44 countries and customs territories currently are signatories to the Information Technology Agreement (ITA), which provides for the elimination of tariffs on semiconductors and other information technology products. But a significant number of WTO member countries have yet to join this important agreement. The United States should encourage all WTO member countries to join the ITA as soon as possible and thereby permanently eliminate tariffs on semiconductors, semiconductor manufacturing equipment and related information technology products.

In addition, the United States should urge countries negotiating for accession to the WTO to follow the lead of Taiwan and to join the ITA as an interim measure. China, for example—despite President Jiang Zemin's announcement last year that it would join the ITA "as soon as possible"—has made little progress toward implementation. Every effort should be made to encourage China to fulfill its commitment.

Continued attention should also be placed on the current ongoing review of the ITA to expand the product coverage of the agreement (ITA II). Every effort should be made to reach agreement among the existing ITA signatories to expand the product coverage of the agreement as soon as possible. For those countries that have yet to join the original ITA, it should also be pointed out that joining the original ITA would permit them to play an active role in determining the future direction of international efforts to expand the product coverage of the ITA.

Expansion of the ITA to include additional products and signatories should be maintained as a separate process during the course of broader WTO multilateral negotiations. A clear goal for the end of any new multilateral negotiations, however, should be to make ITA participation mandatory for all WTO member countries.

2. Duty-Free Treatment for Electronic Commerce. SIA supports U.S. efforts to urge WTO members to continue the current practice with respect to tariff treatment of electronic commerce. Currently, no WTO member considers electronic transmissions as importations and, consequently, no member imposes customs duties on those transmissions.

Given the increasing importance of electronic commerce over the Internet, SIA believes that the United States should continue its leadership in this area, and—in addition to encouraging permanent implementation of duty-free treatment—should urge WTO members to commit to tax-free treatment of electronic transactions.

3. Services: Distribution. The ability of U.S. firms to import, export and distribute goods in foreign markets is essential for ensuring true market access. Foreign government measures that force U.S. producers to sell through local distributors can add significant cost and adversely affect service, inventory, and delivery. The inability to deal directly with end-users is a particular problem in the semiconductor industry, where the design and development of application-specific chips requires extensive contact between semiconductor producers and the ultimate end-users of the chips.

Therefore, as part of any new negotiations relating to services, the United States should seek commitments from all WTO members to permit companies of other WTO members to engage in distribution services without restriction. Especially in countries in the process of transitioning from centrally-planned to market-oriented economies, numerous restrictions on the ability of U.S. semiconductor firms exist. Similar commitments should be insisted upon with respect to all newly-acceding WTO members. In fact, such commitments should be considered to be a fundamental obligation of WTO membership.

4. Investment Rules. The freedom to engage in direct investment is critical to market access in many sectors and particularly for the semiconductor industry. Unfortunately, existing rules on Trade-Related Investment Measures (TRIMs) do not ade-

quately discipline many of the restrictions placed on investment in various countries. U.S. semiconductor manufacturers frequently must grapple with policies (both official and unpublished "administrative guidance") restricting foreign ownership, including pressure to enter into joint venture agreements with local firms. These restrictions may be imposed not only as strict legal obligations, but also as quid-pro-quos for decisions by government officials at both the national and sub-national level. Regardless of their form, these measures are often used as levers to obtain transfer of technology from foreign firms.

These measures can have a real and significant competitive impact on U.S. electronics firms, as advanced technology is often the key to competitive success. To the extent that our trading partners can maintain such measures, U.S. exports in the electronics sector, such as semiconductors, may be restricted. Moreover, such investment restrictions have a negative effect on the country imposing them, as they discourage the investment necessary to develop a local electronics industry on a commercially sound basis.

Improving and expanding WTO rules on TRIMs therefore should be a part of any ongoing WTO negotiations, and should include strengthened provisions prohibiting WTO members from imposing investment restrictions—especially those which require a foreign enterprise to invest, enter into any form of joint venture arrangement with a domestic entity or to transfer any technology or intellectual property to a domestic entity. These strengthened provisions should also encompass measures which are mandatory or enforceable under domestic law or under administrative rulings, or compliance with which is necessary to obtain any approval or advantage.

5. Trade and Competition Policy. Any ongoing work in the WTO on trade and competition policy should be focused on discouraging anticompetitive practices by and among firms, rather than—as some other WTO members have suggested—on reopening the WTO Agreement on Antidumping. If the WTO determines to continue work in this area—and it is properly focused on disciplining anticompetitive practices—SIA believes that attention should be given to the potential for anticompetitive purchasing arrangements by state-invested enterprises.

State-invested enterprises—enterprises wholly or partially owned by central, provincial or local governments—can seriously interfere with competition in the markets in which they operate. Unfortunately, current WTO rules in this area are inadequate. The WTO's principal tool for addressing distortions in trade that arise from state-invested enterprises—Article XVII of the General Agreement on Tariffs and Trade—does not effectively cover the purchasing decisions of state-invested commercial enterprises. In addition, such enterprises are not covered by the WTO Government Procurement Code because their purchases are for the purpose of manufacturing commercial goods rather than for government use.

State-invested enterprises are particularly active in the electronics sector in many countries, and frequently control a significant share of the imports and exports of electronics goods. As a result, there is a significant risk that other state-invested enterprises will be encouraged by government officials to purchase semiconductors from other state-invested or domestic suppliers. Such discrimination could obviously have a very negative effect on U.S. semiconductor sales.

Given the development of potentially strong state-invested electronics sectors—containing both semiconductor producers and consumers—and the inadequacy of Article XVII, the SIA urges stronger WTO rules that include affirmative obligations on the part of all WTO members to:

(1) ensure that state-invested enterprises (including partially state-invested and recently privatized enterprises that were formerly state-invested) make purchases on the basis of commercial considerations; and

(2) afford the enterprises of other WTO members adequate opportunity, in accordance with customary business practices in market economies, to compete for sales to state-invested enterprises.

The SIA also believes that WTO members should be required to refrain from taking any measure, including administrative guidance, to influence or direct state-invested enterprises as to the quantity, value, or country of origin of goods purchased or sold, or otherwise impair the purchase or sale of goods. In addition, the WTO should review on a regular basis whether state-invested enterprises are in fact making purchases on the basis of commercial considerations.

6. Rules of Origin Harmonization. In the Uruguay Round, WTO members agreed to pursue international harmonization of rules of origin based on the substantial transformation standard. The WTO Agreement on Rules of Origin (ARO) applies to all origin rules used in non-preferential trade applications, from collection of trade statistics to product marking to antidumping and countervailing duty measures. SIA believes this work program should be reviewed to ensure that it does not undermine the effectiveness of the U.S. antidumping law.

Under existing U.S. practice for determining origin, semiconductors that are fabricated in one country but assembled in another country are treated differently for general trade purposes (such as for customs purposes) than they are for purposes of administering antidumping measures. The treatment of semiconductors in a general trade context is determined by rules of origin, which base a semiconductor's origin on the country where final assembly takes place. Antidumping investigations, on the other hand, employ fact-specific criteria to determine that a semiconductor is "from" the country of wafer fabrication (also known as diffusion). This is because a final assembly standard would allow exporters subject to antidumping orders to evade those orders by simply changing the country of final assembly—a relatively simple and inexpensive change in the semiconductor industry.

Ongoing WTO efforts to harmonize rules of origin, however, may require the U.S. Government to change its current practice, so that it would no longer be able to employ these differing approaches. This requires the establishment of new rules of origin for semiconductors that will ensure that antidumping orders on semiconductors can continue to be effectively enforced. In the absence of "decoupling" as proposed below, only a rule of origin based on diffusion would ensure that antidumping orders on semiconductors can continue to be effectively enforced.

SIA believes that fact-based scope determinations for antidumping purposes should be decoupled from general purpose rules of origin. While the WTO origin harmonization exercise must result in origin rules that facilitate international trade through easy-to-administer and consistently-applied criteria—it is equally important that the origin harmonization exercise not disrupt the existing ability of governments to administer antidumping and countervailing duty orders.

To address this potential problem, some countries have proposed content-based origin rules for electronics products to ensure that their ability to impose antidumping or countervailing duty measures is not restricted. The European Union, for example, has proposed a 45 percent value-add origin rule for all electronics products, even through such a rule could pose an obstacle to the free flow of trade in electronics goods.

To prevent WTO adoption of onerous origin rules while at the same time ensuring the effective administration of antidumping and countervailing duty measures, SIA believes that WTO negotiators must pursue a "decoupling" approach that would allow administering authorities in antidumping and countervailing duty cases to use fact-based criteria other than rules of origin in determining the scope of antidumping and countervailing duty measures. In turn, this would permit the WTO to adopt internationally harmonized rules for general trade that are different from, and not based upon, the standards used to administer antidumping and countervailing duty measures. This would also allow the harmonization of general purpose rules of origin in a manner that will facilitate, rather than encumber, trade, while also preserving an effective antidumping and countervailing duty remedy for all products.

B. Issues that Should Not be on the Agenda for the New Round: The WTO Antidumping Agreement

SIA supports the maintenance of a strong and effective antidumping remedy as a critical component of the international trading system. The antidumping remedy is especially important with respect to the semiconductor industry given the history of injurious dumping in our sector.

The WTO Antidumping Agreement permits WTO members to take remedial action against dumped imports, and prescribes international rules for the conduct of antidumping actions. These international antidumping rules were substantially revised in the Uruguay Round negotiations, which concluded in 1994. These revisions in the WTO rules required implementation in national legislation and regulations, which were only fully adopted in the United States last year.

The Uruguay Round changes in the antidumping rules resulted in a number of new requirements, including special adjustments for calculating costs of products in the "start-up" phase of production, a review of antidumping measures after five years of being in effect, and higher *de minimis* thresholds for margins in antidumping investigations. All of these changes have made it more difficult for injured industries to obtain relief under the antidumping law, and the full consequences of these revisions have not yet been fully assessed.

Given the relatively short amount of time that has passed since these recent substantial changes to antidumping rules in the Uruguay Round, it would be inappropriate at this time to launch a new international negotiation of an antidumping agreement. SIA therefore would strongly oppose new negotiations in this area as part of the WTO agenda.

III. China WTO Accession Negotiations

SIA strongly supports China's bid to join the World Trade Organization (WTO), but only if that accession is accomplished on a commercially viable basis. The WTO accession negotiations provide the best means to obtain the fundamental structural reforms in China's economic and trade system necessary to ensure effective market access for foreign goods in China. In this regard, SIA has a number of specific concerns about trade and investment in China which we believe should be addressed in any agreement to admit China to WTO membership:

Elimination of Tariffs. China currently imposes tariffs of 6–10% on imported semiconductors. These tariffs present a significant obstacle to U.S. exports to China. President Jiang Zemin pledged last October that China would join the Information Technology Agreement (ITA) "as soon as possible." Unfortunately, to date there has been little progress on negotiating a specific Chinese tariff phase-out schedule to implement this commitment. Semiconductor tariff elimination is in China's interest because it would permit admission of the Chinese semiconductor industry into the World Semiconductor Council (WSC). The WSC was created by the 1996 U.S.-Japan Semiconductor Agreement, and is open to semiconductor industry associations from countries and regions that have eliminated, or agreed to eliminate expeditiously, tariffs on semiconductors.

Purchasing by State-Invested Enterprises. State-invested enterprises control a significant share of the trade in electronics goods into and out of China. As a result of this active government role in the electronics sector, there is a significant risk that, as Chinese semiconductor production increases both in volume and quality, other state-invested enterprises will be encouraged by Chinese officials to purchase from domestic suppliers. Such discrimination could significantly burden or restrict U.S. semiconductor sales in China in the future. Given the potential long-term significance of state-invested enterprises in the Chinese electronics sector, China's protocol of accession should include an affirmative obligation on the part of the Chinese Government to ensure that its state-invested enterprises make purchases on the basis of commercial considerations.

Elimination of Investment Restrictions. Chinese foreign investment restrictions, including restrictions on 100 percent foreign ownership, export targets and local content requirements are often imposed as quid-pro-quos for decisions by government officials at both the national and sub-national level. For high tech industries like semiconductors, these measures are often used as levers to obtain transfer of technology from foreign firms. China's protocol of accession should include an explicit provision requiring China to refrain from taking any measure which requires a foreign enterprise to invest, enter into any form of joint venture arrangement with a Chinese entity, or to transfer any technology or intellectual property to a domestic entity, except in accordance with WTO rules.

Trading and Distribution Rights. Chinese restrictions on "trading rights" (the ability to import and export from China) are significant impediments to U.S. semiconductor firms' ability to access the Chinese market, and, if not eliminated, may undermine the benefit of other trade liberalization measures agreed to by China. Equally important as the right to import is the right to distribute goods within China and provide after-sales service for those goods. The current system forces U.S. producers to sell through Chinese distributors and provide after-sales service through a domestic Chinese entity. The inability to deal directly with end-users is a particular problem in the semiconductor industry, where the design and development of application specific chips requires extensive contact between semiconductor producers and the ultimate end-users of the chips.

Protection of Intellectual Property Rights. China has enacted patent, copyright, and trademark laws, but their credibility requires strengthened enforcement. While there has been no piracy of semiconductor intellectual property to date, China's level of technological development does not yet permit it to manufacture advanced U.S. products or misappropriate U.S. chip designs. However, China's capabilities in the semiconductor sector are rapidly advancing. Therefore, China's protocol of accession to the WTO should commit China to abide by the obligations of the WTO Agreement on Trade-Related Intellectual Property Rights, without any transition period before the obligations are enforceable.

Non-Market Economy Antidumping Rules. Chinese officials have cited the use of the U.S. antidumping law against Chinese exports as a "trade barrier" they wish to see removed in the WTO accession negotiations. In particular, China is seeking to eliminate application of the non-market economy (NME) provisions of the U.S. antidumping law to Chinese exports, on the grounds that China is now a market economy. Without the NME provisions of the antidumping law in effect, Chinese state-invested enterprises could in the future make significant below-cost sales of

semiconductors in international trade, adversely affecting the U.S. semiconductor industry. A provision therefore should be included in China's WTO protocol of accession to permit the United States to continue to apply the NME provisions of the antidumping law to China. The current draft protocol includes proposed text to this effect, but it has not been agreed to by China.

IV. Negotiations on the Free Trade Area of the Americas (FTAA)

As noted above, one of the significant successes of U.S. trade policy in recent years is the Information Technology Agreement (ITA). At the urging of the worldwide information technology industry, the United States and 43 other countries have agreed through the ITA to eliminate tariffs on semiconductors and other information technology products in these countries by the year 2000. The ITA, which was negotiated under the auspices of the World Trade Organization, represents a landmark achievement in the development of global free trade. It has dramatically sped-up the process of eliminating tariffs on information technology products by scheduling complete elimination for over 92 percent of world information technology trade by 2000 and establishing procedures for eliminating tariffs on additional products.

Despite its tremendous accomplishments, the ITA has some weaknesses—for example, only two countries in Latin America have signed onto this important agreement: Panama and Costa Rica. Thus, elimination of Latin American tariffs on semiconductors remains an important item of unfinished business for U.S. trade policy.

Currently, tariffs on semiconductors in such key markets as Brazil, Argentina, and Venezuela, remain very high—with bound rates generally around 35 percent. Such high tariffs pose a significant barrier to U.S. semiconductor exports and also inhibit the development of information technology industries in these countries. Elimination of these tariffs will spur development of competitive electronics industries in Latin America, as it has in other nations. It will allow U.S. producers to sell advanced semiconductors to their Latin American customers at the lowest possible price, thereby both increasing U.S. exports and strengthening developing Latin American electronics industries.

The benefit to Latin American countries of semiconductor tariff elimination is aptly illustrated by comparing developing countries that have pursued a high tariff strategy with those that have pursued a low tariff strategy for electronics. Looking around the world, those developing areas with low or no duties on electronics components and systems over the past two decades (Hong Kong, Taiwan, Singapore) have been successful in developing strong, dynamic information technology industries. Meanwhile, those developing areas with high duties (Latin America, India) have not been successful in developing their domestic electronics industries.

Elimination of Latin American tariffs in semiconductors and other electronics goods would go a long way assisting the countries of Latin America in developing their own competitive industries. Joining the ITA would be the quickest way to accomplish this important reform. The FTAA provides another effective mechanism for reducing Latin American tariffs. While scheduled to be concluded no later than 2005, the FTAA calls for, among other things, the progressive elimination of tariffs and concrete progress toward achieving the agreement's objectives by 2000.

The SIA believes that one important way to demonstrate "concrete progress" in the information technology sector is for the countries of Latin America to join the ITA now, and agree to eliminate their information technology tariffs by 2000. Joining the ITA would not only allow the countries of Latin America to demonstrate their commitment to the FTAA process and enjoy the benefits of free trade more quickly, but would also demonstrate how the FTAA can support the WTO system, ensuring that regional trade liberalization would not proceed at the expense of cooperation with the broader world trading system. In fact, the business forum that preceded the most recent FTAA Ministerial meeting in San Jose, Costa Rica, explicitly endorsed immediate adoption of the ITA by Latin American countries. In addition, APEC's adoption of the ITA provides a precedent for immediate adoption of the ITA as a means to build momentum for a larger free trade region.

The SIA believes that the United States should make near-term Latin American participation in the ITA a key element of its overall negotiating strategy for the FTAA. In addition, as the FTAA negotiations go forward, we urge that the United States press for strong provisions in the FTAA on protection of intellectual property rights, removal of barriers to foreign direct investment (including forced technology transfer requirements) and maintenance of strong and effective antidumping remedies.

V. FAST TRACK

In addition, I would like to emphasize in the context of both the new WTO Round and the FTAA negotiations that the SIA strongly believes that fast track negotiating authority is crucial to reducing trade barriers that impede the development and growth of high-value-added U.S. industries such as the semiconductor industry. In addition to reducing tariffs around the world, U.S. trade policy must continue to be focused on eliminating non-tariff barriers. Fast track legislation is essential to U.S. efforts to reduce complex non-tariff barriers that remain as significant obstacles to our exports in many countries around the world. We therefore urge the Congress and the Administration to work together to enact bipartisan fast track legislation at the earliest possible opportunity.

VI. CONCLUSION

The SIA welcomes this opportunity to present its views on the importance of active U.S. involvement in upcoming trade negotiations at the WTO and in the context of the proposed FTAA. U.S. leadership on the trade issues discussed above is critical to the continued health and growth of the U.S. semiconductor industry.

Statement of Michael V. Draper, Regional Vice-President, United Brotherhood of Carpenters and Joiners of America, Portland, OR

On behalf of the United Brotherhood of Carpenters and Joiners of America, I would like to thank the U.S. House of Representatives Ways and Means Committee's Subcommittee on Trade for the opportunity to share our thoughts on international trade policy in the global market.

As a Regional Vice-President, I represent carpenters, lumber and sawmill workers, and pulp and paperworkers in the western United States. As construction workers, we literally build America, from skyscrapers to office buildings, from schools to the homes where our families reside. As forest product workers, we produce the raw materials and paper products offices around the globe used daily. While our industry adjusts to the grim reality of foreign competitiveness, our members are increasingly concerned with our ability to compete in international markets.

Over the last several decades, the U.S. economy has experienced rapidly increasing flows of international capital, goods and services. While trade and the movement of capital across borders can bring many economic and social benefits, American workers are the first to feel the adverse effects from unfair trade policies. In recent years, United States' trade agreements have been accompanied by rising trade deficits, the loss of good jobs in the manufacturing sector, stagnating or falling wages for the majority of the workforce and decreasing job security. While working Americans support free trade and the global economy, international agreements must be drafted in a fair and equitable manner and include provisions that will protect our industries and our jobs.

Today, our industry has found itself at a competitive disadvantage in international markets due to restraints on timber supply, environmental regulations and restrictions on market access around the globe. The Carpenters Union is increasingly concerned with bilateral trade imbalances and the ongoing cooperative agreements between the United States and Asia, including the Asia-Pacific Economic Cooperation negotiations. Asian companies rank among our largest competitors in the forest products industry. Many of these companies are growing vigorously. Much of that growth is occurring right here in the U.S. market, while our own exports to Asia are shrinking dramatically. As America's trade deficit reaches all time highs, and Asia's steep recessions cut into American exports, the weaker currencies have made Asian goods more attractive to U.S. buyers.

Our industry is facing a barrage of foreign imports from competitors who are "dumping" resources into American markets in order to ease their economic woes. A flood of foreign wood, much of which has been illegally dumped into the American market, is threatening the jobs of hundreds of thousands of forest product workers.

A formidable arsenal of trade barriers including tariffs, restrict U.S. companies from fair competition in Asian markets. While some Asian nations place tariffs as high as 40% on paper products and 45% on wood products, U.S. tariffs on those goods are at or near zero. Trade reform is crucial. Fair and open access to Asian markets is vital to preserve the livelihoods of the 1.6 million men and women working in the wood and paper products industry throughout the United States.

Forest product exports have fallen drastically due to Japan's refusal to lift the barriers. Asian countries have been some of our best importers and constitute the

world's fastest-growing markets for wood and paper products. In 1997, the region accounted for 40% of U.S. exports of wood and paper products. In the first ten months of 1998, the value of U.S. wood product exports to the Far East were down 40% from 1997. Paper and paperboard exports were off by 19%, while imports increased 74%. And during the first quarter of 1998, newsprint exports were down 25%, with imports skyrocketing by an alarming 700%. These imbalances are among the chief reasons why America's forest products industry has lost 80,000 jobs over the last decade.

The Carpenter's Union applauds the Clinton Administration's efforts during APEC negotiations to eliminate wood tariffs, but Japanese negotiators still refuse to cooperate. The United States must stand firm and continue to demand tariff reductions. We cannot afford to trade our interests away. The livelihoods of American workers are non-negotiable.

The Carpenters Union is increasingly concerned with the direction of the APEC treaty and future tariff initatives. We need to construct and enforce international rules that encourage the best kind of competition. Americans cannot compete if the rules of international trade are unfair or if our trade laws are being violated without sanctions. We need to outline our priorities during trade negotiations and elevate the importance of U.S. industry and our workers.

Working Americans built this country into what it is today. We are highly competitive and want to compete in the global market, but the same rules must apply to all players. Our economy is strong and the demand for our products, high. Let's create an even playing field for Americans, so we can sell our products around the globe and bring home the benefits to our nation, our home town communities and our workers.

Statement of the U.S. Chamber of Commerce

The U.S. Chamber of Commerce appreciates this opportunity to present its views on the importance of trade negotiations in fighting foreign protectionism. Our country has made fighting foreign protectionism a priority for decades. Ever since the Great Depression, presidents of both parties have made it our business to try to remove foreign trade barriers so companies and workers like ours would have a better shot at success.

But congressional defeat of fast-track legislation last September represented a significant setback. It served to underscore the fact that, in recent years, the principal U.S. tendency on foreign economic policy has been to restrain or resist U.S. participation and integration into international commerce. For example, in its August 1998 report on unilateral economic sanctions, the U.S. International Trade Commission noted forty-two separate U.S. laws that authorize economic sanctions for various purposes. But by rejecting renewal of fast-track for the first time since its inception in 1974, Congress deprived our trade negotiators of the single most important tool they need to continue their market-opening efforts.

Maintenance of normal trade relations with China—the world's largest nation and one of its fastest growing economies—remains on a year-to-year footing. And in the face of continuing economic and financial crises that have already begun to spread from Asia to other regions, the U.S. remains reluctant—at best—to exercise the leadership that is expected of it in the International Monetary Fund and other international institutions.

As the world changes, continuing U.S. engagement is becoming more important to the national interest, not less. New players are emerging on economic and political fronts. Economic issues are increasingly recognized as important at home and abroad as trade's share of national output grows. Economic and trade "blocs" such as the North American Free Trade Agreement (NAFTA), the European Union, the Asia-Pacific Economic Cooperation area (APEC), Mercosur, and others continue to gain prominence.

The United States must either resume its leadership soon or abdicate to others. Trade's importance to the U.S. economy has grown enormously since 1959. The share of U.S. output purchased by foreigners has grown almost three-fold since then—as has the share of U.S. income used to purchase foreign goods and services. Over 95% of the world's population live outside of the United States. It should make common sense not only to trade with them, but also to work with other nations to solve international crises and promote expanding trade and sustained economic growth.

Accordingly, our continuing struggle against foreign protectionism requires that we pursue both a regional and multilateral agenda for commerce abroad and a legis-

lative agenda in the U.S. Congress which advances our interests in all of the world's major trading regions. But such leadership can be resumed only if certain fundamentals are attended to:

• The United States must *resume its place at the trade agreement negotiating table* so that markets can be further opened to U.S. business. This means providing U.S. negotiators with the tools they need to close deals and bring them home for expedited consideration by the Congress. Without such tools, other nations will continue to initiate negotiations and conclude agreements which establish preferential terms for our competitors, to the disadvantage of U.S. interests. For this reason, approval of "fast track" trade negotiating authority should rank at the top of the nation's international economic and business agenda for 1999.

• The United States must *cease its continuing reliance on unilateral economic sanctions and Cold War-era controls on exports* of widely available goods as foreign policy tools. History demonstrates that the primary result of such sanctions and export controls is to inflict economic injury on U.S. businesses and their workers while at the same time strengthening—rather than weakening—the intended targets of the sanctions and controls. But even more damaging in the long run, such sanctions and controls cast a lingering pall of unreliability over U.S. companies whose competitiveness is subordinated to often vague and counterproductive U.S. policy proclamations.

• The United States must *meet fully its obligations to international financial institutions* (IFIs) on which it must depend for stabilizing and growth-enhancing influence in the global economy. IFIs such as the International Monetary Fund are the only mechanisms through which global financial and economic crises can be effectively managed by several nations in a coordinated, complementary fashion. Similarly, the United States must provide sufficient financial resources for domestic U.S. trade development institutions (e.g., Eximbank, OPIC, Trade and Development Agency) that meet financing, insurance and other needs that are not fulfilled by the U.S. private sector. At the same time, the U.S. must work to ensure that these institutions are structured and directed to meet carefully defined objectives that are consistent with their overall missions. Care should be taken to prevent enactment or implementation of policies that might undermine, distract from or conflict with these institutions' missions.

• The United States must *recognize the importance of maintaining viable trade remedy laws* that are designed to eliminate, offset or obtain compensation for unfair trade practices or violations of international trade agreements by our competitors. Such remedies are necessary to enhance U.S. negotiators' leverage and credibility. They will also help instill public confidence in the system, so that a political mandate for future trade negotiations can develop. This will be easier to accomplish if appropriate checks and balances are effective.

• The United States must *find a basis for addressing substantive labor and environmental concerns without holding U.S. competitiveness hostage* to special interest efforts to achieve extraterritorial application of policy objectives that are not relevant to international commerce.

U.S. Regional Interests And Objectives

Fighting foreign protectionism requires that the United States adopt and pursue clear objectives. Our stake in the world economy and in more open commerce is unmistakable. Reflecting this reality, the United States has properly and wisely engaged in major trade-liberalizing negotiations in at least three major trading areas:

In the Asia-Pacific region, the 18 member economies of the Asia-Pacific Economic Cooperation (APEC) area represent over half of total world production and almost half of global trade. Two-thirds of U.S. bilateral trade last year was with APEC economies, whereas in 1980, APEC accounted for less than half of U.S. trade. In November 1994, leaders of APEC nations declared their commitment to achieving "free and open trade" in the region by the year 2020 in the case of developing countries and 2010 in the case of developed countries.

The European Union (EU) and the United States are each other's single largest trading partner: in 1997 they traded goods worth ECU 277.000 million—around 20% of world trade in goods. Last September, U.S. and EU negotiators agreed to a draft action plan on a Transatlantic Economic Partnership (TEP) which envisions negotiations and other forms of cooperation with the United States in many areas of mutual concern. The EU and U.S. have by far the world's most important bilateral investment relationship, and are each other's most important source and destination for foreign direct investment (FDI). The EU is the biggest investor in the U.S., accounting for 59% of total incoming foreign direct investment stock by 1996. At the

same time, over half of the foreign direct investment stock in the EU originates in the United States.

In the Western Hemisphere, regional trade grew 15% in 1997—twice the world average. Two-thirds of the growth in U.S. exports has been in the Western Hemisphere region. Recognizing this potential, nations throughout the hemisphere are negotiating with each other and with competitors from Europe and elsewhere to maximize their potential to capitalize on this trend. In 1994, with U.S. leadership, most Western Hemisphere nations agreed to pursue a Free Trade Area of the Americas (FTAA) by 2005. But absent effective U.S. participation in FTAA and other regional negotiations, other nations are likely to continue gaining at our expense as the trade benefits they negotiate with each other are not extended to U.S. products and services.

NEGOTIATING OBJECTIVES

The United States must continue to promote its economic interests regionally and worldwide through an aggressive negotiating agenda worldwide that can be summarized as follows:

- Faster elimination of tariff and nontariff restrictions on trade in manufactured goods, agriculture and services,
- Fewer investment restrictions,
- Improved intellectual property protection,
- More transparent and consistent regulations, standards and government procurement policies and practices,
- Modernized and simplified customs networks and procedures,
- Facilitation of electronic commerce, and
- Elimination of corrupt business practices.

NEGOTIATING "RULES OF THUMB"

While specific details will vary from region to region, certain generic rules of thumb should apply to our trade-liberalizing efforts:

- As noted above, negotiators must *target specific barriers* and obtain remedies which will bring concrete benefits to business and consumers.
- Agreements in each area should be *announced and implemented "as concluded"* and not be held hostage to completion of all other agreements.
- U.S. and other negotiators should cooperate closely whenever possible to *extend bilateral agreements to the multilateral trading system*.

As U.S. negotiators prepare for a third World Trade Organization (WTO) ministerial meeting in Seattle in November and December, they will need to focus on:

- *implementation of existing agreements* and work plans as formulated in the Uruguay Round Agreements.
- *negotiation of new agreements* in areas not fully addressed in the Uruguay Round Agreements, e.g., services, government procurement, subsidies, agriculture, competition policy and intellectual property.
- criteria for *integration of the least-developed (especially poor) countries*, taking into account special trade treatment their economic circumstances may justify.

U.S. CONGRESSIONAL OBJECTIVES

In November 1998, the U.S. Chamber's Board of Directors promulgated a detailed set of legislative recommendations that it believes would bolster our ability to fight protectionism and otherwise achieve our objectives in world markets. All of them are important for various reasons. But Congress can assist our trade negotiators most directly in our battle against protectionism by taking positive action to:

Renew fast-track trade negotiating authority along the lines of legislation approved in 1997 by the House Ways and Means Committee (H.R. 2621) or the Senate Finance Committee (S. 1269). Congressional defeat of fast track in September 1998 will result primarily in the continuing surrender of U.S. business and jobs to our competitors in global markets. While those competitors are continuing to negotiate mutually beneficial agreements unburdened by unilateral efforts to impose a social agenda, U.S. trade negotiators are unable to participate meaningfully without fast track. U.S. absence from the negotiating tables will result in growing disadvantages for U.S. firms and their workers arising from trade preferences obtained by our competitors.

Renew China's "normal trade relations" (NTR) status by June 1999. The United States provides such treatment (previously mis-labeled "most-favored-nation") to virtually every other trading nation. Indeed, the "normalcy" of this relationship is tautological, as it is characteristic of trade relations between virtually all trading na-

tions. Ending normal trade relations with China would result in a several-fold increase in tariffs on Chinese products, almost certain retaliation against U.S. products, and new market advantages for our Asian and European competitors.

Make China's normal trade relations (NTR) status permanent. The annual NTR (previously known as "most-favored-nation" or MFN) renewal process itself casts a continuing pall over China-U.S. commercial relations—without regard to the actual outcome. Historically, pending China-U.S. deals were in effect held up or suspended for weeks before each MFN vote until it could be confirmed that the vote would be "positive." U.S. firms' reputations continue to suffer vis-a-vis their competition. It is time to enact such legislation as may be necessary to make permanent that status.

Ensure provision of sufficient financial resources for U.S. trade development programs (e.g., Eximbank, OPIC, Trade and Development Agency) that meet financing, insurance and other needs that are not fulfilled by the U.S. private sector. Foreign subsidization of their "national champions" and other trade interests via preferential financing and government "guidance" challenges U.S. interests as much as traditional trade barriers and restrictions. In a perfect world there would be no such subsidies. But in the real world, such subsidies abound. Until meaningful, verifiable action to end such subsidies is taken, we must be prepared to lead the playing field. Accordingly, the U.S. should (1) provide sufficient funding to these entities to ensure that they can carry out their missions, (2) ensure that these institutions are structured and directed to meet their defined objectives but not others, and (3) prevent implementation of policies that might undermine or conflict with the trade development missions of these programs.

Prospectively mandate the application of a series of "cost-benefit" measurements and evaluations that must be considered in the economic sanctions decision-making phase and before implementation of such sanctions. How can we persuade our trading partners to open their markets when we impose non-trade-related unilateral sanctions against them? Such criteria should include: (a) will the sanctions work; (b) what are the resultant economic costs to U.S. industry and agriculture; (c) will the sanctions result in a serious backlash against other U.S. humanitarian, security, and foreign policy objectives; and (d) have other policy alternatives such as multilateral initiatives or diplomacy been tried and failed? In the 105th Congress, H.R. 2708 (Hamilton et al.) and S. 1413 (Lugar et al.), the "Enhancement of Trade, Security, and Human Rights through Sanctions Reform Act," were models for legislation that would achieve these objectives. We expect similar legislation to be re-introduced in this Congress very soon, if that has not already happened.

Re-establish tariff benefits of the original Caribbean Basin Initiative and provide Caribbean countries trade benefits similar to those provided Mexico under NAFTA. Failure to provide those benefits—such as proposed in the last Congress in H.R. 2644 (Crane et al.), the "United States-Caribbean Trade Partnership Act"—will encourage new competitive challenges from Far Eastern textile manufacturers, whose products are subject to far less North American value-added, e.g., cutting, distribution and marketing, than those produced by Caribbean manufacturers.

Enact long-term Generalized System of Preferences (GSP) reauthorization legislation and strictly enforce GSP eligibility criteria. GSP was first enacted in 1974 as a means to assist developing countries grow through expanded trade as opposed to aid. In recent years, the consensus for income-based preferential trade treatment has given way to concerns over the competitive impact in the U.S. market of such preferences, and GSP has been renewed only for short-term periods and with lapses in its application that destabilize commercial relationships that depend on the program. While such concerns are legitimate, as long as GSP is an instrument of U.S. foreign economic policy, the competitiveness of U.S. companies should not be undercut by the lack of clarity and certainty that has already resulted from lapses in the GSP program.

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