

S. HRG. 104-34

# TRADE POLICY AGENDA AND TRADE AGREEMENTS PROGRAM

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## HEARING

BEFORE THE

COMMITTEE ON FINANCE  
UNITED STATES SENATE  
ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

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APRIL 4, 1995

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## **TRADE POLICY AGENDA AND TRADE AGREEMENTS PROGRAM**

**TUESDAY, APRIL 4, 1995**

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

The hearing was convened, pursuant to notice at 9:30 a.m., in room SD-215, Dirksen Senate office Building, Hon. Bob Packwood (chairman of the committee) presiding.

Also present: Senators Chafee, Grassley, Simpson, D'Amato, Murkowski, Moynihan, Baucus, Breaux, Conrad, Graham, and Moseley-Braun.

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

The CHAIRMAN. The Committee will come to order.

Today we have only one witness, and that is Ambassador Kantor, who has outlined the administration's trade objectives in prepared testimony.

If I have any observation regarding the Administration's trade objectives, it is that they are very expansive. You, Mr. Ambassador, have covered everything, I think, but Antarctica in the proposals made in your testimony. I do not foresee a mince trade with Antarctica in the immediate future, but I would hope that the administration, Mr. Ambassador, would prioritize, and not just say, free trade with Asia by 2010, and free trade with Latin America by a certain date.

In addition, the Administration has other trade objectives, including the Caribbean Basin Initiative and GSP. All of these programs cannot be of the highest priority. In the end, there are priorities, and there are priorities.

To my mind, fast track would be a high priority, if we can get it, because any trade negotiations would be more difficult if you do not have it.

You and I have talked about this many times, and we know the difficulties of attempting to get fast track. I am willing to make the effort to enact fast track legislation. I believe such legislation should be a high high priority.

I also would hope that Chile and Latin America would be high priorities. As a result of the peso problem in Mexico, opposition to the NAFTA treaty is still a problem.

The NAFTA agreement is going to make it difficult but, of all the countries in South America that are relatively market-oriented, Chile is at the top of the list. Chile, in fact, is probably more mar-

ket-oriented than Mexico, and perhaps even as market-oriented as the United States is. They clearly deserve to join NAFTA. And I will do everything I can to help you, Mr. Ambassador, get Chile in. All I ask is that you do not try to digest everything at once, or we might lose everything.

Senator Moynihan?

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

Senator MOYNIHAN. Exactly in that spirit, Mr. Chairman, you have perhaps heard me to the point of tedium on this, but my feeling is that when we entered into the North American Free Trade Agreement with Mexico, we did so with a profound ignorance, if you will—maybe a willful one—of the nature of the political regime we were getting involved with.

Somehow we thought that the fact that Canada to the North was like us, therefore Mexico to the South might be like us or, if not quite like us, was on its way to being like us, but not conceptually profoundly different. And, in fact, it was conceptually profoundly different.

Mexico is a Leninist State. That means something. And we had the nice experience yesterday, sir, of calling down to our embassy in Mexico City and talked with—I will not give any names or rank—a senior official there, and explained that this was our concern.

And we have been getting news from the embassy that, as proof of the reformist tendencies of the new regime, the President had dismissed the 21 members of the Supreme Court, and was going to get even better judges.

And we mentioned our thought of this as a Leninist regime. And the response from our diplomat was, "Oh yes, of course. I served in Moscow in the early 1980's, and I am here now. Yes, it is. It is changing." Well, the regime in Russia has collapsed.

A Leninist regime has two qualities, two variations, on Marxist doctrine. It is the most important political invention of the 20th century, and the most corrupt, but it is real.

We spent most of our century in opposition to one halfway across the world. You would think we could recognize one on our border.

It says twofold. It says that, "Left to their own, a proletariat will seek a trade unionist approach to the world, getting better wages, not transforming society." And, hence, the central conception of Leninism is the conception of the revolutionary party as the vanguard of the proletariat. The Party governs everything, including the government.

Now Stalin was never president of the Soviet Union. He was first secretary of the Communist Party.

And the second Leninist variation was the proposition that the weakest link in the capitalist chain was to be found in underdeveloped regions of the world, which included Russia, as against Germany, France and Great Britain.

And, in that pattern, the Party, in the case of Mexico, the Institutional Revolutionary Party, the PRI, has won every election, with two permitted exceptions, since 1928. They ran industry, owned natural resources, ran the press, expelled the representatives of the

Church, controlled the trade unions, all those things, and with the consequent corruption that takes place.

When you have arguments within the hierarchy, they are settled by murder. When Trotsky fled the Soviet Union, he did not go to Paris, where all good revolutionaries go. He went to Mexico City, where Stalin pursued him and had a Spanish Communist murder him. Trotsky's offices are still a revered museum in Mexico City.

And that is all very well. We can deal with countries like that. We learned to deal with the Soviet Union. But not to know that you are dealing with a Leninist regime, and not expect the currency to be manipulated like everything else was manipulated up to the presidential election, was to not know what you were doing.

And I would say, sir, until we get some inkling at the administration, that they have some idea what this particular argument is about—even if they do not agree with it—I am not sure we are ready for more adventures.

Thank you, sir.

The CHAIRMAN. A Michigan graduate student, 10 or 15 years ago, for his thesis for a doctorate, watched 5,000 movies, as I recall, and selected the 10 worst movies that were ever made, two of which I had seen. One of these movies was the assassination of Leon Trotsky, starring Richard Burton as Leon Trotsky. It was the most miscast movie I think I have ever seen. The graduate student was correct in his assessment of the movie.

Senator Grassley.

#### OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Senator GRASSLEY. I want to thank Ambassador Kantor for coming here today because it is vitally important that we discuss the administration's trade agenda for the coming year, so that we can forge a bipartisan approach to achieve the common objectives that we want for our country.

Those objectives are expanding markets for U.S. exports, the elimination of unfair trade barriers, the protection of our intellectual properties overseas, and the continuing development of emerging markets.

I think, Ambassador Kantor, you are to be commended for pursuing these objectives, and I think you are trying to continue some initiatives that were begun by previous Presidents.

In the last Congress, great strides were made in the passage of NAFTA and GATT, despite the powerful opposition to both trade agreements.

And so it is very important that we maintain bipartisan momentum for increased trade and expanding market opportunities.

The challenge, therefore, is to focus on an agenda to guide trade policy so as to achieve our ultimate objectives. In this regard, I think there are several critical issues that need to be addressed.

The first of these is extending fast track negotiating authority. We are all aware that, as trade agreements have become more controversial, Congressional dissatisfaction with the fast track arrangements has increased.

Some members of Congress have declared outright opposition to further grants of fast track authority, while others want strict con-

trols. Some want certain provisions of future agreements to be amended by Congress.

Certainly, fast track is a major concession of power on the part of Congress to the President. But experience indicates that, without fast track, the task in negotiating free trade agreements would be far more complex and drawn out.

Every administration since the Ford administration, has argued that serious trade negotiations are impossible without grant of fast track authority. I agree with these arguments. I favor granting fast track authority, but only for those provisions absolutely necessary to achieve a free trade agreement.

Allowing environmental and labor disputes to complicate and stall trade negotiations would be a major setback for a global economy.

So if fast track is to have bipartisan support, it will likely need to be a clean bill, that is, a bill closely based upon past fast track extensions, without extraneous provisions.

We have before us now the implementation of the Uruguay Round, particularly our role in the World Trade Organization. The U.S. must insure that commitments are kept by its trading partners, must work on negotiations left incomplete, and must plan future multilateral trade objectives.

The benefits to the U.S. economy of the Uruguay Round will only materialize if the U.S. insists that commitments made are commitments kept.

While some concessions are easy to enforce, many are controversial, and require complicated changes in national policy.

This creates opportunity for opponents of these concessions to block implementation. For example, changes in patent and copyright law will require enforcement efforts whose adequacy may be open to question, but difficult to prove.

Such disputes are certain to be brought before the WTO, and the U.S. will need to work under that system to press its trading partners to open their markets.

This means that WTO decisions will play a more important role in U.S. trade policy, and will require a degree of vigilance.

In this regard, we have S. 16, a bill introduced by Senator Dole, to establish a review commission to examine WTO dispute settlement decisions. It could initiate actions leading to U.S. withdrawal from the WTO if a pattern of decisions unfavorable to the U.S. emerged. I support this bill and hope that we can pass it soon.

In addition, the Uruguay Round left agreements on certain key areas of negotiation incomplete. One important example is the new General Agreement on Trades and Services.

Specific market access schedules remain to be negotiated, and I think are very essential if this agreement is to be meaningful. Other negotiations need to continue on financial services, investment, antitrust, and cultural issues.

Another item on the trade agenda that Congress needs to consider is the opening of markets in East Asia, particularly Japan and China.

With regard to Japan, some agreements have been reached, but it remains a critical trade challenge. Our ongoing efforts to open

up their markets to our autos and auto parts must be pursued vigorously.

As for China, we have a unique opportunity to simultaneously address trade concerns and economic reform objectives, by requiring concessions such as the price of WTO accession. A strong China trade policy should be an important element of trade policy for the Congress.

Other items on the agenda before Congress include the General System of Preferences and the Caribbean Basin Initiative. Both programs are up for renewal. And, while they represent aid more than trade they are an integral part of our trade policy.

We must insure that the countries that benefit from the GSP and CBI program provide fair treatment to U.S. exports.

As for the GSP program, another issue is that of graduation. One of the main criticisms of the GSP is that the program is dominated by large, relatively advanced developing countries, that have little need for further GSP benefits. So we need to examine and, if necessary, correct that situation.

In conclusion, Mr. Chairman, just let me say that there is a lot on Congress' plate in international trade, including the negotiations of several free trade agreements.

I look forward to working with Ambassador Kantor to make sure that the United States achieves these objectives.

Thank you.

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

The CHAIRMAN. Senator Baucus.

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

Senator BAUCUS. Thank you, Mr. Chairman.

Good morning, Mr. Ambassador.

Ambassador KANTOR. Good morning, Senator.

Senator BAUCUS. Mr. Chairman, I would like to address three issues this morning. First, Korea's nontariff trade barriers to American beef; second, the effect of more open trade on America's working middle class; and, third, the effect of unilaterally cutting our farm program. I think this will have an adverse effect on our American producers in agricultural trade.

Before that, however, I would like to congratulate you, Mr. Kantor, and your staff on the intellectual property rights agreement with China. I am hoping that we will follow through now with an equally good wheat agreement, but I do congratulate you for your good work.

I also commend you on your administration's statement of business principles, and I hope that American firms will adopt principles like the ones the President has proposed. I think they are sound, they are moderate and they are good ideas. They will accrue to the benefit of the Chinese people, and also build good will for our companies with citizens and their governments around the world. I hope you can keep pushing those.

I will start with Korea. As you know, Mr. Ambassador, since you filed the 301 case, Korea restricts U.S. beef through bogus nontariff barriers, like government shelf life requirements with no scientific



basis. Korea also has long customs inspections procedures, and arbitrary testing requirements. Together, they effectively close the Korean market to American beef.

Now those are complicated sounding words, but the problem, as you know, is very simple. It is a big Catch 22. They make you sell in a flash once you get to port, and they hold you up so long at the port that you cannot possibly meet the shelf life requirements.

Korea could become a huge market for U.S. beef. Last year, for example, Koreans, per capita, ate four times more beef than the Japanese. Japan right now is our largest overseas beef market. The National Cattlemen's Association estimates that, if Korea does not open up its markets, we will lose over \$1 billion annually by the end of the century.

So I am behind you, and the Senate is behind you. Two weeks ago, we in the Senate passed a resolution I introduced in support of the 301 case, and the new WTO case. I hope you will be able to tell us this morning how those cases are going and what, if anything, we in the Congress can do to help.

Now, a more general issue. I have been walking across the State of Montana the last couple of months. I stop off in cafes and coffee shops, and people pull their cars off the road and talk to me. I basically hear the same thing from everyone. It used to be that, if you worked hard in your job, you would join the ranks of America's middle class. If you gave your kids a good education, and they worked hard, they could have a better life than yours.

I can tell you that a lot of people think we have lost all that. That is, kids and their kids are not growing up to live better lives than they or their parents.

Parents are struggling to make ends meet, often with no security in the future. And a lot of people attribute some of this to trade. That is, there is an increasing feeling in Montana, anyway, that average Americans are not sharing the benefit of our trade growth and higher exports.

I know that trade is only part of the equation. You have to think about education, R&D, deregulation, tax structure, and so on. But trade is a factor that we cannot ignore.

I, for one, hope that we in the Finance Committee, and you in the administration, will address this as we contemplate the next steps in trade policy.

The third issue is the proposed cuts in our farm program, and their effects on the competitiveness of United States agriculture abroad.

Once again, the United States is unilaterally eliminating or cutting farm programs, while the rest of the world—especially Europe—sits back and watches. We cannot afford to be put at an even further disadvantage with Europe in this area of agriculture.

The Uruguay Round require a reduction in tariffs and tariff equivalents by an average of 36 percent. We have already cut more than that. Nevertheless, the push is on for even deeper American cuts.

Your tenure as the U.S. Trade Representative has, I think, been one of the best. You have sought fair trade on behalf of all America, you have been tough, you have been tenacious, you have been fair. I congratulate you. So, during the farm debate, I hope that

you continue that attitude. It is critical that you serve as a vocal advocate for sound farm programs that keep us competitive in the global marketplace.

I wish you the very best of luck.

Ambassador KANTOR. Thank you, Senator.

The CHAIRMAN. Thank you.

Senator Graham.

#### **OPENING STATEMENT OF HON. BOB GRAHAM, A U.S. SENATOR FROM FLORIDA**

Senator GRAHAM. Thank you, Mr. Chairman.

Mr. Chairman, I would also like to add to the commendation of Ambassador Kantor. He has not only been an effective advocate and negotiator for the United States, but has been a tough enforcer, when that was required in order to see that the goals of those negotiated agreements were fully delivered.

I would like to make two or three comments about where we go from here. First, in December of last year, at the Summit of the Americas in Miami, the United States made a number of commitments to our democratic neighbors in the hemisphere, relative to our future. And it was a future of closer economic cooperation.

It was a significant meeting. Unlike the meeting that had taken place a quarter of a century earlier in Uruguay, which was dominated by relatively few democratic regimes, and many military dictatorships, this was a meeting of all the countries of the hemisphere, except Cuba, and all the countries being represented by democratically elected representatives.

It was also different in that all of the countries were committed to an economic future together, and an economic future in which free trade would be a primary element.

The United States undertook a number of commitments at that meeting, two of which were to meet a goal of the year 2005 in which there would be a formalized closer economic cooperation within the region.

There was also a specific commitment made by the three members of NAFTA towards the Republic of Chile to bring it into that family. I believe those commitments should be a priority of the Congress to see that they are carried out.

Also, as a consequence of some of the actions taken prior to and during the Summit of the Americas, I believe we have a special obligation to the Caribbean Basin countries to achieve a level of parity between themselves and the United States, and those special agreements that we have reached with Mexico.

We had seen, even before the Mexican economic crisis, a major shift of investment from the Caribbean Basin countries toward Mexico, a serious slowing of the economic growth of the Caribbean Basin nations, while there was a commensurate takeoff and acceleration in Mexico.

It is anticipated that those trends will be further exacerbated as a result of the new economic circumstances, and the greater benefits of doing business in Mexico, as a result of things such as the devaluation of the peso.

So I would hope, as Senator Grassley stated in his comments, that one of the priorities of the new Congress will be to bring par-

ity between our traditional neighbors and allies in the Caribbean Basin and Mexico.

Next, I believe it is important that we continue to have effective enforcement mechanisms, relative to existing trade agreements. Many of the agricultural leaders in my State have been concerned about a surge in Mexican agricultural exports, particularly in areas such as tomatoes, which have destabilized the market for that and other agricultural products.

There has been some concern as to whether the range of enforcement mechanisms currently available with the United States are adequate to deal with those sharp changes in circumstances, whether they are adequate to deal with perishable products, and whether they can take into account significant and quick changes in monetary values.

I would hope that one of the things that this Committee, with your assistance, would look at is how to assess and, if necessary, strengthen our enforcement mechanism.

And, finally, to pick up on the comments made by Senator Baucus, I too am concerned about this larger issue of how we maintain the American standard of living in the context of an increasingly globalized economy.

I recently had an experience. I do not walk, but I worked at Port Everglades, which is the seaport serving the Fort Lauderdale area of Florida. I saw the characteristics of the world's seafaring men and women. Those characteristics are very troublesome to an American. The characteristics are no Americans, relatively few from industrialized countries, relatively few from the most destitute countries.

They are primarily men and women from countries such as the Philippines, Indonesia, certain countries in Latin America, which have achieved a sufficient level of economic prosperity to be able to provide for basic education, nutrition and other qualities that will produce a young adult able to master the skills of operating modern oceanraft, and with the physical attributes to do so.

Also, there is a trend to the lowest wage rate available. If Filipinos will work for slightly less than Hondurans, then Filipinos will be the crew. If Indonesians will work for even less than Filipinos, then they will man the crews.

It is, I think, a major challenge to the United States, not just in this area which employs about 1½ million people worldwide, but the implications of this phenomenon, as more and more industries become globally competitive in their wage rates as to how Americans can maintain their working standards while we compete.

Thus, issues such as effective skill training and education, incentives to innovation and technical creativity become central to our ability to be able to transmit to the next generation of this country the standard of living, the quality of life, and the opportunities that have been our heritage.

Mr. Ambassador, I commend you for the challenges that you have already met. I look forward to working with you on the challenges that lie before us.

Ambassador KANTOR. Thank you, Senator.

The CHAIRMAN. Thank you.

And Senator Moseley-Braun.

**OPENING STATEMENT OF HON. CAROL MOSELEY-BRAUN, A  
U.S. SENATOR FROM ILLINOIS**

Senator MOSELEY-BRAUN. Thank you very much, Mr. Chairman.

I would like to thank you for calling this hearing. I know that the testimony of the distinguished Trade Representative, Mr. Kantor, will be of great value to us all.

As has been stated, we live in an era of ever increasing international competition. The world economy and international competition now affects United States economic policy making, and those effects are getting stronger.

Only a few decades ago, the United States dominated the world economy. As late as 1970, we still had a favorable balance of trade. As late as 1989, net U.S. investment overseas was greater than foreign investment here.

Now, however, that has all changed. Instead of being the world's largest creditor nation, the United States is now the world's largest debtor nation. Instead of trade surpluses, annual trade deficits are now well in excess of \$100 billion, \$131 billion in 1993 alone. Net foreign investment in our country is now over \$550 billion.

Just last month, the cover of The Economist magazine was entitled "Downhill Racer". I do not know if you saw the magazine.

Ambassador KANTOR. I try to avoid that kind of article every chance I get.

Senator MOSELEY-BRAUN. But, as you know, it is a very important instrument with regard to setting the mindset, and creating a climate of opinion in the world.

But the "downhill racer" that the magazine was referring to was the downhill course of the U.S. dollar. The dollar has slid more than 10 percent against the yen in the market in just the last few months.

And, while that is bad enough, what is really alarming are the long-term trends and the suggestion that the dollar may be no longer as important of a reserve currency as it was previously. And that is pretty frightening.

In 1980, one dollar bought over 226 yen; now it buys about 90. I heard the report on the radio this morning, and they said the dollar was trading at about 86 to the yen, which is a decline of over 60 percent.

In 1980, one dollar bought 1.8 marks; now it buys a lot less than that.

Perhaps most alarming is that the decline of the dollar has not reversed our balance of trade or our balance of payments problem. Despite the dollar's fall, large U.S. trade deficits have not shown any sign of falling, unless you have some news for us this morning. It has not had the effect of improving our trade balance situation.

There are a lot of good things to say. I did not want to just harp on the scary aspects of what is going on, but it seems to me that the recent decline of our dollar really is an indication of how inter-related trade policy and economic policy matters are.

It is another warning sign that we risk future inflation, greater unemployment, higher interest rates and a declining standard of living for American people if we do not deal with the fundamental problems that underlie our balance of trade and our dollar problems.

I know that we have the ability and the people to meet and beat all of the international competition that is out there, but we can only do that if we deal with our economic problems here at home, beginning with our budget deficit. And the Chairman has spoken often about the effect of the deficit.

If we truly want to deal with our trade deficits, and our balance of payment deficits, we have to reduce our budget deficits, in my opinion.

Of course, addressing fiscal policy at home is only one component of a successful U.S. trade strategy, but certainly that has to be a part of it.

I was encouraged to see, 2 years ago now, that the administration undertook initiatives to coordinate trade and export and fiscal policy matters through the TPCC, the Trade Promotion Coordinating Committee. I hope that your report today will touch on the status of the committee's activities and its initiatives, and what you see the successes of that approach as being.

It is clear, in addition, that the globalization of our economy depends not only on what we do, but what others do as well. And I hope, also, that your comments today can touch on what impacts the falling peso has had on the expectations and predictions from the NAFTA trade agreement with Canada and Mexico that we entered into a year ago, whether or not it has effectively derailed the promise that the NAFTA held of increasing jobs here at home.

And, finally, I would like to ask you, Ambassador, if you would touch on the role that investment in human capital plays in all of this, in preparing our people for competition in this global economy.

I think it cannot be overlooked that, unless we have a well-trained work force, unless we have a work force that is educated, unless we focus in on investments in human capital, in our people, we will then be put into a downhill racer course, trying to compete with low-wage countries, as opposed to providing high-wage jobs for Americans, jobs that people can support families on, and that will improve the quality of life and the standard of living here at home.

In the final analysis, it does kind of come back to how well our people are prepared to compete in this global economy, our capacity and ability to address these balance of trade issues, these export issues, these complicated fiscal and monetary policies, the kind of preparation that we allow for our people here at home to compete in these global markets.

So I hope that, in your testimony, you will touch on our human capital investment, and where you see that as being connected to these issues of global trade.

And, again, I want to thank you, Ambassador, for coming today and giving us the benefit of your expertise, your experience and your activities in this very important area, going to the heart of the quality of life in our country.

Thank you.

Ambassador KANTOR. Thank you, Senator.

The CHAIRMAN. Thank you.

And Senator Murkowski.

**OPENING STATEMENT OF HON. FRANK H. MURKOWSKI, A U.S.  
SENATOR FROM ALASKA**

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

Good morning, Mr. Ambassador. You and I had an opportunity to chat, so I will not belabor a long opening statement. I am interested in hearing your prepared statement.

Again, I would hope that you would give more attention to our friends in Taiwan, recognizing the reality that diplomacy and the PRC and areas under the realm of the State Department, but you, sir, are responsible for trade and commerce. And Taiwan is a good trading partner.

I hope you will share with the 50 members of the United States Senate, who have passed a resolution encouraging President Lee to visit the United States, not an official visit, but a recognition that they are an advancing democracy. As a matter of fact, he would like to come to his alma mater, Cornell. He has been invited time and time again. The State Department, time and time again, has turned him down.

Alaska, which is somewhat of a country, has extended an invitation to him to visit this fall, to the USROC economic council in September, which may give the State Department a little broader excuse.

You and I have talked about Vietnam. It is distressing to me to see this administration apparently move, to some extent, more rapidly in establishing a liaison with North Korea than Vietnam.

We started off well. The President made the tough decision. We are getting good cooperation on the MIA accountability issue, but we seem to have slowed down. And I would hope, as you indicated, that you would take a look at that.

Japan—we talk a lot. And I hear my colleagues talk a lot about the balance of payments. I have a chart over here. And I am a bottom line person. Maybe that is because I have made a lot of loans in my life, and had to collect them. They are all good when you make them, but sometimes they are tough when you collect them.

We talk about trade deficit. That trade deficit in 1994 is \$166.3 billion. You know it, and I know it. We generalize and say, well, we have to do something about it. But what do we have to do? We have to do something about Japan. Japan is exactly 39, almost 40 percent, \$66 billion. China is \$29 billion, 17.7 percent.

And petroleum imports, which we can do something about, given a little recognition for American ingenuity, science and technology. Petroleum imports are 27 percent, \$44 billion.

So there you have the trade imbalance. Out of the \$166 billion of our trade deficit, \$140 billion are in those three very simple pieces of the pie.

Japan \$65 million, China \$29 billion, petroleum imports \$44 billion. There is only \$27 billion unaccounted for. So, if we are serious about doing something about our trade deficit, that is where we have to start.

And I would hope, Mr. Ambassador, that you can take care of China and Japan. And I can do something about the oil situation.

Thank you, Mr. Chairman.

The CHAIRMAN. Are you sure you are done?

Ambassador KANTOR. I am not sure, Mr. Chairman, who got the better end of that deal. [Laughter.]

Senator MURKOWSKI. I am not either.

We both have to row uphill a little bit, but that is all right.

The CHAIRMAN. Go ahead, Mr. Ambassador.

# **STATEMENT OF AMBASSADOR MICHAEL KANTOR, U.S. TRADE REPRESENTATIVE, WASHINGTON, DC**

Ambassador KANTOR. Thank you, Mr. Chairman.

May I, with your permission and the Committee's permission, submit my full testimony for the record, and just summarize it, and try to address the particular questions that were raised. I think this will be more productive.

The CHAIRMAN. Before you start, I have a statement from Senator Hatch which I will put in the record. And he has some questions he would like you to answer.

[The prepared statement and questions of Senator Hatch appear in the appendix.]

Ambassador KANTOR. Thank you sir.

First of all, I could not agree more that we have to have priorities, as you started out, Mr. Chairman. I think almost everyone here indicated that priorities were critical.

Obviously, in any of our pursuits, whether it be here in this body, or in the Administration, we must take care to make sure that the priorities are followed, or we will never accomplish anything.

We have tried to be cognizant of that in the area of trade, an area that frankly has exploded over the last number of years, as all of you know, better than I.

In 1993 and 1994, we completed 71 trade agreements. We completed 7 more in the last 60 days. That is 78 trade agreements. And we have done it by trying—not always successfully—to set priorities, and go after those areas that we feel are the greatest impediments either to trade from the United States to our exports, or have the greatest potential for exports from our country to grow, create jobs and raise our standard of living. And I will get back to Senator Murkowski.

Let me just summarize my testimony quickly by saying the following things. There has been a lot accomplished over the last 2 years, but it has not been done alone by the administration.

This Committee, most particularly, Republicans and Democrats alike, have worked together with this administration—and I am personally grateful for all the leadership—in order to reach the largest trade agreement in history, the Uruguay Round, the largest free trade agreement in history, the North American Free Trade Agreement, the follow-up to the Summit of the Americas, as we move into the free trade area of the Americas.

We are working towards Chile's accession, which the Chair raised, Chile's accession to the NAFTA. We are working also to open up Asia, the fastest growing area of the world economically, and one of the more difficult areas, as Senator Murkowski and Senator Baucus have both noted, in terms of trade barriers that we face.

But we have to set our priorities as we go forward. And let me make just six points very quickly, Mr. Chairman.

Number one, trade has become increasingly important to our entire economy. Just a few years ago, trade was only 13 percent of our economy. That is everything—investments, exports, imports, services and goods. Therefore, trade did not have the impact on our economy that it might have had in the past. It is now \$1.8 trillion, 28 percent of our economy. Over 11 million people are directly employed in exporting goods from the United States alone. That is an enormous growth, almost double here in this country in the last 10 years.

And your States, if you look at them, have increased their exports in a dramatic fashion from 1987 through 1994. And so trade has become important to us. And it is also important to recognize that 4 percent of the world's population lives within our borders. Ninety-six percent of our potential consumers, of course, live outside our borders.

It is a zero sum game to continue to pursue a shrinking market here in the United States by numbers. We are almost at zero population growth. We have a slower growing labor force. By the fact we are a mature economy, we will have a slower growing economy, versus the enormous emerging markets in Asia and Latin America.

These numbers frankly stun me, Mr. Chairman. By the year 2010, at the current rate of growth, we will have more trade with Latin America, more exports to Latin America, than Europe and Japan combined.

Our exports to Asia, outside of Japan, and Latin America, will be over half our exports to the world. Now that is an enormous sea change in our priorities, as well as in our opportunities.

Second, trade has become central to our foreign policy. It used to be, of course, we used trade as a tool to advance political and strategic interests during the Cold War. It was a correct policy; it worked. What we did it for was to make sure we built the economies of Europe and Japan.

In order to do that, of course, we allowed those areas to protect sanctuary markets, export into the United States market virtually unfettered, build a capital base, create industry. And then, of course, we created the tripolar economic world, wherein Europe, Japan and the United States would compete.

Now, of course, they are as strong as we are. Now we compete on an equal basis. The Cold War is over. It is time, of course, that we level the playing field, and made the rules fairer.

And the third major principle, of course, is that we have got to make sure we maintain our strength here at home. That is, maintaining budget discipline, lowering the unemployment rate, education and training, which is absolutely critical if we are going to compete in a modern world, with new technology, a global economy, and interdependence.

Let me make one broad point that I think is virtually unrefutable, although some might try to argue—very few. This world is going to be global and interdependent economically, whether we like it or not.



We all grew up in a different world, a world in which we were self-contained, where we did not need the rest of the world for our economic health and strength. That is no longer the case.

But we can compete, we can win. Americans can compete with anyone in the world. For the first time in a decade now, Mr. Chairman, and Members of the Committee, the United States and its workers are the most productive and competitive in the world, according to the World Economic Forum. That is an enormous change from just 10 years ago.

Now what are we going to do in order to try to set priorities, make sure that we use our resources wisely, and confront the very difficult and challenging issues that have been articulated here.

One is to implement what we have done, and implement it well, and in a way that stands up for the American people.

Whether it is the World Trade Organization, and the commitments that have been made there, the North American Free Trade Agreement, or the other trade agreements that we have reached.

Number two is to enforce the law, enforce our trade agreements, use 301 and Special 301 and Super 301. Use our trade laws wisely, responsibly, and in a fashion that will open up markets, not close ours.

And last, of course, is to expand reasonably on what we have done. That means we will expand on Chile's accession to the NAFTA, which I think makes great sense for many different reasons, not the least of which is building a new confidence in Latin America during a time when confidence needs to be built.

And I want to associate myself with a number of remarks Senator Graham made in that regard. We have an enormous opportunity there, but a great responsibility as well. And Chile's accession to the NAFTA, a country which last year had 10 percent growth, 4 percent unemployment, a trade surplus and a budget surplus, I think is an appropriate country to seek accession to the North American Free Trade Agreement.

In addition to that, we need to follow up on what the President has done so well with the Asian/Pacific Economic Cooperation Forum, not forgetting though our need to bilaterally pursue the various barriers we face in Japan, in China, in Korea and in other Asian nations.

This is not the only area of the world in which we face barriers. We face them in Europe. I can think of the new audio-visual regulations that the Europeans are discussing right now, which frankly are unacceptable. Or they are cutting off bananas from Latin America, which has an enormous impact on U.S. companies who employ thousands of Americans, and have huge capital infusions into our economy. Or we are trying to protect and keep competitive a tomato industry in Florida which, of course, we have reacted to in just the last week, due to Senator Graham's leadership, and people from the State of Florida.

So you are right, Mr. Chairman, we have a large agenda, but we have specific priorities, fast track being number one. And I agree with you. To be frank and fair, I think we are going to have some differences of opinion, but that does not mean we cannot work them out, as we worked our way through NAFTA, the Uruguay Round and other trade agreements.

I believe we have to renew the General System of Preferences program, which involves 140 countries, 4,200 items, which represents a large share of trade for these developing countries. It is trade not aid in an important program, not only for the United States, but for those countries as well.

I think we need to make sure that we implement the Interim Trade Program, which has been introduced in the House, and will be or has been introduced by Senator Graham here in the Senate, in order to make sure that the Caribbean nations are not disadvantaged unfairly by what we have done with Mexico in order to keep investment in those countries, which are beginning to progress and develop, and be able to meet certain criteria and regimes which brings them into a modern trading world. And that is important to us, as well as to them.

And, of course, we need to make sure that these agreements that we have reached, working with the Congress—the Intellectual Property Right Agreement with China, the 14 agreements we have reached with Japan, the agreement on opening up heavy electrical equipment in Europe—all working and working well and to the benefit of the American people.

Let me mention one other thing, which I believe has been referred by two or three of the Members of this Committee this morning. And that is, how does this affect real people? What are we really doing here? Are we talking about the Fortune 500? Are we talking about the Fortune 100? Are we talking about only developing capital to grow big business, and to provide dividends to shareholders?

Not in the least. We are talking about real jobs for real people. Export jobs in our economy pay on average 17 percent more than other jobs in our economy. They are growing faster than other jobs in our economy.

If you put on an index scale starting in 1987, job growth in the U.S. economy, which is about 116 on a scale of 100, it is 164 in terms of exports. In other words, our export jobs are growing at a much faster rate than other jobs in our economy. They pay more money. They are our future. They represent our high technology industries, with represent high-wage, high-skill jobs.

Second, in order to take advantage of that, we have got to have the kind of education and training programs the President has talked about, that Secretary Reich has talked about, that many here in the Congress have talked about on both sides of the aisle, in order to compete in a modern, globalized economy.

Let me end by saying that I have appreciated the cooperation of this Committee, your guidance and, frankly, your leadership over the last 26 months, under both Chairman Packwood and Chairman Moynihan. And I appreciate the advice and the counsel that I have received, both in private and in our executive sessions in public. And I look forward to working with you on these very important priorities.

The CHAIRMAN. Mr. Ambassador, thank you.

Our order of questioning this morning is Senators Moynihan, Grassley, Packwood, Graham, Chafee, Moseley-Braun, and Murkowski.

Senator Moynihan.

Senator MOYNIHAN. Thank you, Mr. Chairman. No, Mr. Chairman, you start.

The CHAIRMAN. All right. Mr. Ambassador, what are you going to do about labor and environment in Chile?

Ambassador KANTOR. First of all, let me avoid any ideological purity here, and talk about practicality.

We have a North American Free Trade Agreement, involving three nations, which have already agreed to not only the basic agreement under the North American Free Trade Agreement, but the supplemental agreements on labor and the environment.

Those secretariats are established. They are working well. We are making progress in those areas. I think they are fully accepted by all three nations. It would be rather strange, and somewhat asymmetrical if Chile acceded to the agreement without having to take on all the obligations the other three nations have undertaken.

Now, some might argue that those supplemental agreements should not have been negotiated, and maybe should not have passed the Congress, but they did. They are part of the law; they are working well; we believe in them, and we think they make a difference.

We think they will make a difference, not only in North America, but in Chile as well. And we believe they are somewhat different in character and in kind than addressing fast track generally.

The CHAIRMAN. Say that again. You have lost me.

Ambassador KANTOR. Well, you have an existing agreement.

The CHAIRMAN. I understand that. You are talking about the NAFTA.

Ambassador KANTOR. And we are acceding to an agreement that already exists. And I think we need to look at the agreement, the NAFTA agreement on one hand, and what it means for Chile's accession in labor and the environment, and then look at broad fast track authority on the other, and what that means for future agreements.

Now we may not agree on the second hand. But, on the first, it seems to me it would be almost impossible to ask Chile to come into the agreement and not take on all the obligations the other three countries have undertaken.

The CHAIRMAN. Who was it that said that, "a foolish consistency is the hobgoblin of little minds?"

Senator MOYNIHAN. Emerson.

The CHAIRMAN. Thank you.

Senator MOYNIHAN. I think. [Laughter.]

Ambassador KANTOR. That is the problem of having an ex-Los Angeles lawyer in front of you, a little mind.

The CHAIRMAN. You talk about practicality, Mr. Ambassador. Just because it is consistent probably makes it impractical. Because I do not think you will get Congress to approve Chile's accession if you have the labor and environment provisions in the agreement, too.

So I think, you may have to make a choice, one way or the other, as to which you want.

There is no point in pursuing this matter further here. You and I have talked about this a lot. You know the practicalities of the

situation. So let me just move on to what success the Administration is having in negotiations with China to eliminate that country's trade barriers to wheat imports.

Ambassador KANTOR. With China and wheat, we have at least made a first step, I think, in the right direction. As you know, this has to do with China's concern over TCK smut.

Those of us who have been farmers in our lives—and that is a joke for those in the press who will not understand it—that TCK smut only occurs of course in the planting, not in wheat itself. In other words, any involvement of TCK smut in wheat itself is of no importance when it is shipped. Therefore, of course, this has been used as a sanitary measure, literally as a protectionist measure to keep U.S. wheat out of China.

When I was in China to sign the intellectual property rights agreement, the space launch agreement, the 8-Point agreement we reached, the dual agreement on agriculture, which I commend the Department of Agriculture for reaching, which will allow cherries and apples and bovine products into China, they agreed to begin a serious discussion or allowing wheat into China, and trying to address this TCK smut problem.

We believe we can do so in a relatively short period of time.

The CHAIRMAN. Do you think we ought to make the possibility of China's entry into the World Trade Organization contingent upon its elimination of these obviously unscientific standards?

Ambassador KANTOR. Part of China's obligations under the Uruguay Round or WTO, of course, are not to maintain non-scientific sanitary standards. That is one of the things the United States insisted upon in the negotiations through three administrations, and we were successful in obtaining that.

We are attending a new round of talks with China next week. We are also doing port visits with the Chinese, in order to demonstrate the appropriateness of our products.

We made some progress there. And I think we have to give some credit to the Chinese for being more open and forthcoming than they have been in the past on a number of these problems.

The CHAIRMAN. I have one last question involving China. Should the accession of Taiwan to the World Trade Organization be related in any way to the admission of China?

Ambassador KANTOR. We believe that the accession of Taiwan ought to be taken on its own merits.

We are working with Taiwan, as we have with China. Taiwan still has a number of items it needs to address. Although, let me say, they have done quite well in addressing, both in their bilateral discussions, as well as their discussions with the accession committee, the number of items that they have been asked to address.

There are a few more to go, and it should be taken on its own merits.

The CHAIRMAN. Good. Taiwan has done a lot better, frankly, than many of the countries that already are in the World Trade Organization, as far as I am concerned.

Senator MOYNIHAN.

Ambassador KANTOR. They have made great progress, Mr. Chairman.

Senator MOYNIHAN. Mr. Chairman, let me go right from your last question to my first, which is the subject of the World Trade Organization.

And I would like to thank the Ambassador for the organizational chart of the main organs of the WTO, the many very complex subjects that their committees will undertake, and the work to go forward.

To take up a question that Senator Grassley raised, how transparent are these proceedings going to be? How accessible will they be to due process and American views?

With that in mind, on March 30, as you know sir, the Chairman and I addressed a joint letter to the President, suggesting—and indeed urging—that the headquarters of the World Trade Organization be here in Washington, where they would be accessible to the other principal international organizations established by Bretton Woods, the International Bank for Reconstruction and Development, known as the World Bank, and the International Monetary Fund.

An international trade organization was specifically contemplated at Bretton Woods, along with the IMF and the World Bank. It died in the Finance Committee. Well it was revived in the Finance Committee last year, and we have the WTO. We have fine properties, such as the Federal Triangle building, for such an organization.

And, as we said in our letter, it seems to us that “the WTO should not be viewed as merely GATT by another name.” It is an organization we set out to create a half century ago.

And the GATT is a very peculiar thing, and I knew it when it consisted of nothing more than Eric Wyndham White and three secretaries in a nice villa overlooking Geneva. It was an ad hoc, constructive response to the fact that we did not get the International Trade Organization. But now we have done it, and yet there is a lot of anxiety about these things in this country.

Would it be a good idea to have the headquarters here, where it would be accessible and open? I will put it to you this way—I have been negotiating in Geneva for 30 years. Geneva, Senators, is Brussels East. In these matters of negotiations, it is a subdivision of the European Community. And, boy, can negotiations go on forever, and rarely to the advantage of the United States. What do you think?

Oh, I said Geneva is Brussels East, when it comes to negotiations on trade matters, it would be a breath of fresh air, and a statement of American leadership. The Uruguay Round is there because we passed it through. And do you think we should let the headquarters of this organization end up in a setting which did not welcome the Uruguay Round, did not welcome the issues we have raised, not the least agricultural issues? What do you think?

Ambassador KANTOR. As usual, your logic is unassailable. [Laughter.]

Senator MOYNIHAN. Oh, oh.

Ambassador KANTOR. Let me start with your first two questions, and come back to that.

First of all, in our negotiations, both prior to Marrakech, in the Round itself at Marrakech, and with the new director general, we

made it absolutely clear, and we have commitments that this organization is going to be more open, transparent and available, not only to governments, but also to nongovernmental organizations as well.

Senator, Mr. Chairman, Members of this Committee, the one thing that stunned me most about this job—and there were many things that stunned me when I came in, most of them within the Beltway, but that is another question—was international organizations who literally operate in secret, and who have no accountability whatsoever to anyone.

And what they do is kill themselves because they do not build any credibility with the American people, or any other people for that matter.

Senator MOYNIHAN. But that is the administrative mode of the European powers, and has been since Louis XIV.

Ambassador KANTOR. And we are beginning to break that down.

And in an executive session, Mr. Chairman, if we have one soon, I would be happy to go into this in detail. We have made great progress over the last few weeks on that matter, and I think we have commitments that will make a great deal of difference in that area.

Second, you asked about moving the WTO here. And then, third, you asked about the Dole Commission, which I frankly think is a good idea, Senator.

I, obviously, would not personally oppose having the World Trade Organization here in Washington. We are the world's largest trading nation, the one that has led in open markets and expanding trade. After 60 years, starting with my fellow-Tennessean, Cordell Hull—

Senator MOYNIHAN. Cordell Hull.

Ambassador KANTOR. [continuing] from Carthage, Tennessee, which is also the home of our Vice President, we have done an amazing job in terms of promoting global growth, by keeping our markets open, and promoting open markets overseas, not altogether successfully.

Senator MOYNIHAN. This is our idea; this is an American idea.

Ambassador KANTOR. And so I have no problem with the idea. We have a bit of a problem in trying to make that unanimous, or coming to a consensus. But I think it is something we ought to begin to work on.

Frankly, the Germans and the Swiss competed for this. The Swiss package was quite lucrative, in terms of the organization itself. They were chosen with our consent. Let me make sure I put that on the record—with our consent. The United States had no bid in for this organization, but I think it is well worth discussing, on two levels. One would be, of course, having the organization here. A second would be that it makes no sense in the world not at least to have an office here to coordinate with things like the World Bank.

Senator MOYNIHAN. I do not want to argue, or overuse my time, but you might ask yourself, why did we not have a bid? I mean, are those restaurants just too good? [Laughter.]

And remember this. We did not have a bid, but that does not mean you cannot have a bid, because "a foolish consistency is the

hobgoblin of little minds, adored by little statesmen, and philosophers and divines. With consistency, a great soul simply has nothing to do." Ralph Waldo Emerson, Self-Reliance.

Ambassador KANTOR. Well, one of the reasons was that our plate was so full, frankly, we did not think about it. And I will admit to that.

Number two, adhering to the mood here, and the mood downtown, we have budget problems all over the place, and I think it might have been difficult to come up here to ask for more money to try to match the Swiss and German package.

Senator MOYNIHAN. We have just invited you, Mr. Ambassador. Thank you.

Ambassador KANTOR. I understand. And I heard you loud and clear, Senator.

Let me just answer your third question very quickly, and that is the idea of whether or not U.S. influence is being felt there.

I think that the fight we went through over the director general, and the incredible events that surrounded the candidate the U.S. supported initially, gives us some sense that the United States has enormous influence—and should have, in a proper way—in this organization.

The fact is that we have a commitment now that the current Director General, Mr. Ruggiero, will serve one term. And the next director general will be a non-European, for the first time. As you know better than anyone, in 48 years there has never been a non-European to head this organization.

It is certainly a step in the right direction. It does not get all the way where you want to get, but at least it is a step in the right direction.

Senator MOYNIHAN. Thank you sir.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. In regard to the reauthorization of fast track, and considering some of the complaints that we had on GATT, the Uruguay Round approval, most of those criticisms came from the budget offsets we had. Every constituency was affected.

How would you feel about permitting Congress to amend those provisions that are inserted to pay for the tariff concessions, understanding that these are not part of the underlying trade agreement?

Ambassador KANTOR. I always said that Mrs. Kantor did not raise any dumb kids.

This is part of the 1990 budget agreement. This is something for the administration and Congress, a much bigger issue than just trade agreements, and how we deal with dynamic versus static scoring.

Senator GRASSLEY. Well, this does not mean that we would not require the offsets. We would still require the offsets, but those would be amendable on the floor of the House and the Senate, as part of the process. But it would not allow the amending of the underlying agreement.

Ambassador KANTOR. It is certainly worth a look. As you know, my view has been that requiring a static analysis of a trade agreement does not make a lot of sense. The fact is that we know trade agreements create a huge amount of economic activity, and we

ought to have more flexibility. And that is what you are talking about.

Senator GRASSLEY. No. That is not the dispute. The dispute would not be static versus dynamic analysis. Whatever revenue measure you take to offset—

Ambassador KANTOR. Yes, I understand.

Senator GRASSLEY [continuing]. Could that be amended and changed, and then substituted with something else?

Ambassador KANTOR. Oh, I see.

Frankly, Mr. Grassley, I am not familiar enough with that procedure to give you what I consider an intelligent answer.

Senator GRASSLEY. Well, you will have a couple of months to think about it, because you will be up discussing this again in the future.

Ambassador KANTOR. Thank you.

Senator GRASSLEY. So, at least it is something that a lot of Members of Congress are concerned about.

What improvements would you recommend to the GSP graduation criteria, to assure that the program benefits the countries that need it most?

Ambassador KANTOR. First of all, I think we ought to make sure that we have a graduation process that makes sense.

Right now, we have a criteria that a country is eligible if the per capita income is, I think, \$11,000. Someone can correct me, but I think that is right. We believe that should be lowered in order to be realistic. That would be number one.

Number two, I think we ought to have a more organized procedure with how we look at the various categories of items either excluded or included, depending on the country involved, and go after that in a much more organized fashion.

Those two changes would make a big difference in terms of the GSP program. The fact is that the program has been enormously successful, and it ought to be continued.

As you know, we would like a longer reauthorization. Part of this has just been the budget process, some of which I was just referring to in terms of having to offset any costs for GSP.

I think the costs, in terms of loss of tariffs are far outweighed by the economic activity that is created in the countries that are part of this program and, frankly, in the substitution of trade for aid for those countries. I think it is a much better way to proceed for this country, in terms of policy.

Senator GRASSLEY. In regard to the negative impact of our trade with Austria, Finland and Sweden, particularly in semiconductors, they are going into the EU, or they are in the EU now.

Under those arrangements with the EU, they are going to have to put 14 percent external tariff on these semiconductors. Now that is going to be detrimental to our trade with those countries.

It is my understanding, under GATT, the EU must negotiate permanent compensation for the increased tariffs that will be imposed on U.S. exports to the three acceding countries.

Is USTR currently negotiating compensation for these tariff increases? And, if we are, what is the status of those efforts?

Ambassador KANTOR. Number one, we are. We are in the middle of it. We have an interim agreement which was helpful to the semi-



conductor industry. We are also having problems in the agricultural sector. We are seeking further tariff cuts on semiconductors. We have worked closely with the industry, as you probably know, in that.

What we would like to do, of course, is work with our trading partners to achieve a broad elimination of tariffs in the computer and semiconductor industry. That would be in our interest.

We are also going to have to address the agricultural issues. That is also a problem. In the interim agreement, it was the most difficult problem to meet. But we are in current discussions—in fact, I think discussions were yesterday and today—in our offices with our European counterparts on what we call enlargement in those increases in tariffs.

Senator GRASSLEY. In Argentina, with regard to intellectual property rights, we have been pushing them to get a law as good as what Mexico passed.

They have not passed a very good law. It is on President Menem's desk right now. What are we going to do if he signs that. And that is their law, and it is inadequate as far as we are concerned, using Mexico's intellectual property rights, not just the basic law, but the enforcement of that law, as a standard.

Ambassador KANTOR. Number one, it is unacceptable. It does not even rise to TRIPs, or the TRIP standards in the Uruguay Round, as you know.

We have had a number of conversations, meetings, negotiations with our Argentinean counterparts. The last was one where I had a long conversation with Foreign Minister Datella when he was here in Washington. We made it absolutely clear that Special 301 is coming up at the end of April.

We will announce the results of our review on April 29. And, without indicating what our decision would be, we have made it abundantly clear to the foreign minister, the finance minister, frankly to President Menem himself, that the law will not stand. It has a pernicious effect on a number of our industries, most importantly the pharmaceutical industry.

We have some indication that the Argentine government at the highest level is deeply concerned, and is trying to work with this problem.

One of the interesting situations is that they have passed the Uruguay Round with the TRIPs requirements. That is a much higher standard than the law that was just passed by their legislature.

The question becomes, which goes into effect?

The CHAIRMAN. Senator Graham.

Senator GRAHAM. Thank you, Mr. Chairman.

Mr. Ambassador, last week the House Ways and Means Committee took up the Interim Trade Agreement, or the CBI's parity bill, and adopted an amendment which modified it by extending it from 6 to 10 years, and also providing for some milestones in terms of movement by those countries, on issues such as intellectual property.

As modified in the Ways and Means Trade Subcommittee, what is the USTR's position on this legislation?

Ambassador KANTOR. We have provided our detailed views on H.R. 553, which grants the benefits to which you were referring. We supported the thrust of the bill, which is similar in its intention to the interim trade program.

Our concerns focused on the need to encourage countries to adopt higher standards in key areas, such as investment, intellectual property rights and market access, all three of which are obviously important.

We believe, as a matter of trade policy, countries should undertake additional commitments when they receive trade benefits.

Extending to 10 years, we believe, is a length of time that gives us some concern. We believed in the 6 years. And we believe that we should review that very carefully.

Senator GRAHAM. Could your office provide us with an analysis of the legislation in its current form in the House of Representatives?

It is my hope that this Committee will soon be turning to it for our judgment.

Ambassador KANTOR. Absolutely.

[The information appears with Mr. Kantor's prepared statement in the appendix.]

Senator GRAHAM. Next, I would like to ask two questions relative to enforcement, one relative to China. We have been receiving increasing numbers of complaints that the provisions which are typical in a joint venture involving a U.S. firm and a Chinese entity require arbitration, using an international standard of arbitration.

When that provision is utilized, and an arbitration award is granted which is adverse to the Chinese interests, there has been a pattern of inability to secure enforcement of those arbitration awards. Is our experience aboriginal, or is this a consistent pattern and, if so, does your office have any recommendations as to what can be done to secure enforcement of arbitration awards?

Ambassador KANTOR. First of all, the Chinese have an obligation under the convention, of course, to honor these arbitration awards. Our recommendation is that the Chinese, as they have done, or at least committed themselves to do in the IPR agreement, to respect the law, and to respect the rule of law, is to do the same with respecting these conventions they have entered into.

As you know, we are trying to work with your staff on a solution to this problem. We believe the Chinese must honor their obligations. And, frankly, as we reengage our discussions in Geneva, over China's accession to the WTO, the Chinese have to understand that, if they are going to join a world trading system, their opportunities also become responsibilities as well.

That was part of the major discussion over protection of intellectual property rights. It is a discussion in this question, of course, of adhering to these conventions and honoring arbitration agreements. And we will make sure, as we proceed, that they are made well aware that we are committed to this, and we expect them to fulfill their obligations.

Senator GRAHAM. That is a very encouraging statement, Mr. Ambassador. I, for one, look forward to your continued efforts to see that it is realized.

On a second issue of enforcement, relative to NAFTA, is the issue of the availability of options for enforcement, relative to perishable agricultural products, where there is a surge of exports from Mexico to this country, such as has been occurring since January relative to tomatoes, do you believe there are adequate enforcement provisions within the existing NAFTA agreement?

If not, would you recommend any actions, either administratively, through negotiations, or through Congressional action, in order to provide effective enforcement mechanisms?

Ambassador KANTOR. This is really our first test under NAFTA to see if these enforcement mechanisms work. In some ways, as you know, as we have talked over the last year and a half or 2 years, we thought tomatoes would be an item which would be one of the first ones. Given your great experience and my somewhat experience as a member of the Florida Bar, and working in Mockley, Florida, I know something about tomatoes.

Tomato growers, as you know, have submitted a 201 petition. That is an emergency petition to the International Trade Commission. And, on April 19, if the petition is upheld, they will go to the President. The President has 7 days in which to deal with that, to review the recommendation, and make a decision on appropriate action.

We also are examining the question of a TRQ on a weekly basis in our office. We have also asked for transparency—in other words, the providing of information by Mexico. In fact, we made this request the day after you were in our offices, in order to try to react as quickly as possible to this problem.

We are also exploring potential solutions to the packaging problems Florida growers are facing with Mexico. And I look forward to working with the Congress on that.

I think we have to see if this works during this next growing season. We are hopeful that it will. We think that this is a three- or four-part approach that will make a difference for Florida growers, and may make a difference in other areas as well.

Let me mention one other item—grapefruits in Korea. Senator Baucus raised the issue of these grapefruits sitting on the dock, and limited shelf life, and literally rotting.

I have talked to folks down in Florida, Bobby McGowan in fact. He called me, and we are trying to deal directly with Korea right now. We just sent a letter yesterday, asking the Koreans to work with their health ministry to get these grapefruits off the dock.

In fact, it has to do with everything from grapefruits from Florida to popcorn from Iowa, to Mars bars, all being held up. They are rotting. A small purveyor of popcorn in Iowa has gone out of business because of the Koreans not allowing the product in. The problems extend to the very large growers of grapefruit in Florida, the very large purveyors of candy bars from the United States.

So we have problems, not only with Mexico, but with Korea and others as well.

Ambassador Kantor, as you gain more experience with these issues, could you provide the Committee with any recommendations, particularly those that might require Congressional action?

Ambassador KANTOR. Yes.

Senator GRAHAM. Thank you.

Ambassador KANTOR. Thank you, Senator.

[The information appears with Mr. Kantor's prepared statement in the appendix.]

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

I think it is important to remember that not all exports come from the Fortune 500 companies. U.S. exporters are not all Boeings and Hewlett Packards.

My State is a small business State, and we currently have about \$1 billion of exports a year. And that is growing at 20 percent. We started with a low base, so growing at 20 percent is a big step forward.

You might be interested in one small Rhode Island business that is very enthusiastic about free trade with Mexico, and extending it further into South America. And that is a business that employs 50 people and makes communion wafers.

Now we see a big market in South America. [Laughter.] So I am enthusiastically supporting all efforts to broaden or trade with South America.

Second, I would like to just briefly touch on Senator Moynihan's points about the World Trade Organization, and having it based here in the United States.

I do not know how location balances out among all world trade entities, not necessarily just the World Trade Organization. For example, we have the World Bank here in Washington, DC. I just would put up a little warning sign, if I might, that Americans cannot have it all.

I do not know how it balances out with the international labor organizations in Geneva and, I suppose, a whole host of other organizations. But, nonetheless, we have some entities here in the U.S. and, of course, we have the UN based here, which probably might count.

Finally, on another subject, Mr. Ambassador, I think that our international trade problems are increasingly going to stem from our legitimate attempts to protect our intellectual property.

I would ask you to comment on how we are doing in India, against whom we initiated that Special 301 action in 1991. Then we have China, where we have just entered into the recent I.P.R. agreement. Is it going to do much? We have these I.P.R. problems with India, China and I would also make a point of emphasizing Brazil. I think probably these three countries currently represent our biggest intellectual property pitfalls.

Could you comment on each of those briefly? Why don't you start with India?

Ambassador KANTOR. First of all, the Indian Government—

Senator CHAFEE. And let me ask: do you agree with me that this intellectual property question is going to become an increasingly important problem for us? We know about export problems with automobiles and other tangible, visible products that we can see. But it is the U.S. creativity and intellectual property that I worry more and more about. Are my worries well-founded?

Ambassador KANTOR. Absolutely. We lose \$40 billion a year because of intellectual property piracy, or other invasion of intellectual property rights around the world.

Intellectual-property-right-protected industries represent our fastest growing industries. We are the leaders in the world with everything from agricultural chemicals to pharmaceuticals, to compact discs, to computer software, to computer games, to computers themselves, everything to the Chinese making knock-offs of Jeeps in China. So this is a major problem.

Let me take each of your questions, starting with India.

India is doing better. In the patent area, India has made every good improvements in the IPR regime. They were on the priority foreign country lists, as you know, from 1991 to 1993. We have lowered them to the priority watch list. Prime Minister Rao is deeply committed to trying to make changes there, and we are trying to move not only patents now, but in copyrights as well. Progress in India.

In China, you are very well aware of the intellectual property rights agreement we just reached with China. It is everything from market access, which is critical, to enforcement, to a special enforcement period, both at the central and sub-central level. Nothing could be more important than the sub-central level in China. Those provinces are very powerful, and they are part of this agreement.

They have also accepted technical assistance from the Federal Bureau of Investigation, from our Customs Office, from the Patent and Trademark Office, from the Department of Commerce. They received a \$500,000 grant from the Asian Development Bank to begin to implement a customs system modeled after the U.S. customs systems.

They have already closed 7 of their 29 pirate CD plants in Southern China. They have destroyed over 2 million copies. They have allowed the right of establishment of U.S. companies in China, whether it be music or movie companies or computer companies. They have allowed for joint ventures, the sharing of royalties in joint ventures. This is a very good agreement.

Now we have to make sure it works, but we have taken a giant step forward with China. We have to make sure now that it is enforced, and that it works properly.

Brazil is quite another problem. We have been waiting patiently for Brazil to pass the intellectual property rights protection laws through their legislature for a number of months now, and it has not happened.

We have been in close touch with President Cardoso and his people. I would note that he is here April 20 to meet with the President. They are very well aware of our concerns in this regard.

The bill that is pending, unlike the bill that passed in Argentina, is a good bill. And it would be helpful. But it has not passed; it has been languishing in their Senate for a long time. Let me note, though, that President Cardoso has pushed very hard to get it passed, but it has not done so yet.

I would also add to your list, without going on too long, Bulgaria, Turkey are also problems in this regard, in terms of protecting intellectual property.

And now, let me add Japan. I know Senator Murkowski wants to talk about this. Japan has what I would call a very narrow patent law. Because it is so narrow, it allows people to file patents which do not offend other patents but, under our law, they would.

It is not a violation, frankly, of the Uruguay Round or the WTO. But it is an enormous trade barrier. And we have got to address that problem.

It is now becoming more and more of a problem. It has been raised by our biotechnology companies. As you know, they represent one of our fastest growing industries, and the industry of the future. It is a real challenge for us. And I would add Japan to that list.

Senator CHAFEE. Thank you, Mr. Chairman.

I just want to say that implementing these agreements involves very sophisticated efforts with other nations' patent and judicial systems. I think this I.P.R. problem is going to take the continued effort of Ambassador Kantor and his staff.

Thank you.

The CHAIRMAN. Senator Murkowski.

Senator MURKOWSKI. Thank you, Mr. Chairman.

Ambassador, how do you see your responsibility as our trade emissary? And, if it is not your responsibility to do something about the trade deficit, whose is it? Do you see it as your charge?

Ambassador KANTOR. Of course, First of all, let us agree on what the basis is.

Senator MURKOWSKI. I am looking for accountability here. Have I come to the right place?

Ambassador KANTOR. I am more than happy to take accountability for this. Maybe I should not say I am happy; I am willing to be accountable.

Senator MURKOWSKI. I have 5 minutes here. Would you tell me, in 1½ minutes, what you are doing about each of these major contributors to our trade deficit—Japan, petroleum imports and China, which make up 84 percent.

Take 1½ minutes, and specifically address what you are doing to each one of these to reduce it dramatically.

Ambassador KANTOR. First of all, on petroleum imports, as you know, I do not have jurisdiction. But, if we did, we are very active with you in supporting your bill, in terms of opening up Alaska oil going to Japan, for instance, and that would open up more production in California and other places. That would be helpful, but let me say that is not an area that the trade office is directly involved with.

Senator MURKOWSKI. You really should have a voice in it because it is nearly one-third of the trade deficit.

Ambassador KANTOR. Yes, it is fascinating how trade has grown like Topsy. It is a longer discussion. If you look at transportation routes and other things, the trade area has grown like Topsy, and it is a part of a longer discussion someday.

Senator MURKOWSKI. Yes, but I want to address the three of them here.

Ambassador KANTOR. All right. Let me go very quickly here. Japan, in the last 26 months, we have had 14 agreements in critical areas from telecom to medical technology, to insurance, to apples, to rice, to chemical harmonization, to copper—the most agreements with Japan in American history—in just 26 months. That helps; that is breaking down barriers.

We have a major area to address—a \$36 billion auto and auto parts trade deficit. It is 60 percent of our deficit with Japan. It is 24 percent of our overall trade deficit. We have got to address it. It is a product of three things: one, failure to legitimately grant quality dealerships to American automobile manufacturers. We have 16 new right-hand vehicle models, they have finally invested in this.

Senator MURKOWSKI. What are we going to do about it though?

Ambassador KANTOR. Well, we are in negotiations right now.

Senator MURKOWSKI. Are we going to have to initiate sanctions?

Ambassador KANTOR. We have a Section 310 already pending on the after market in auto parts. We made it clear in the original equipment market, that we want that market opened up and the Keiretsu system broken up, allowing foreign competitive parts into their auto plants, in order that we can compete fairly.

Senator MURKOWSKI. And this is something we have always wanted. It has been under previous administrations. We have come to the threshold of sanctions, but we have never really instigated them. We have always threatened, and then there is a new administration in Japan, or another crisis, and away we go.

What are we going to do?

Ambassador KANTOR. Well, there is always a tendency to overstate the case. Let me try to be somewhat controlled, responsible and careful here.

We have a 301 pending. We are not going to wait forever. I think this administration has proven something. With bipartisan support, I think we will, as you say, jump over the precipice. We have done it in the last year 7 times on 301.

We have opened up construction in Japan because of a 301 action. We have opened up cellular telephones in Japan because of a 301 action. We opened up heavy equipment in Europe because of a title VII action, the first administration ever to use title VII in that regard.

We have used title VII in other regards as well, to open up markets that were previously closed to us.

Let me just say that we will not wait forever. It is a critical problem; it is costing us jobs. We can compete and compete well, if we are allowed to do so. And it would have a salutary effect on that trade deficit.

It will not get rid of it; let me not overstate the case. If we could open up Japanese markets in autos, auto parts with original equipment and after market, it would help tremendously.

Now, China.

Now remember, we have the action plan coming out in construction. It was supposed to be due in April; it is out in May. And I think you are going to find zero progress, relative to our ability to break into those construction markets.

Ambassador KANTOR. The Commerce Department is sending a team there in April, or early May, to review progress, not only at the central government level but, as you know better than anyone, at the local level as well, which is really where we are not allowed to compete fairly.

We are trying to get rid of a system that literally was locking us out. We had an agreement reached after we invoked sanctions in

January of 1994. After a year, we are hopeful progress has been made. We are concerned that you may be correct, and not enough progress has been made.

Now, China. I am a little over my 1½ minutes, and I apologize. On China we have a memorandum of understanding that is working. We have opened up 800 tariff lines in industrial goods that are now allowed into China, but it is not enough.

In agriculture, in certain industrial items, in the failure to protect intellectual property, we have not done as well in China as we should. Our markets have remained open to China. We are 40 percent of their export market. It is time that China opened their markets to U.S. goods. And we are working with that, both in terms of our bilateral pressure we have brought to bear, resulting in the intellectual property rights agreement I referred to earlier, and also in Geneva, as they try to gain accession to the World Trade Organization.

Senator MURKOWSKI. And oil? Again, it is not your bag, but it should be.

Ambassador KANTOR. Well, I will leave that up to—

Senator MURKOWSKI. If you have the responsibility for the whole pie, and a third of it is the price of imported oil, you ought to have something to say about the administration's policy to relieve our dependence on imported oil.

Ambassador KANTOR. Mr. Chairman, if I could make just one more comment. Part of the trade deficit problem—and it happened in the 1980's as well, when our economy and employment is growing so fast—and our trading partners are not, we tend to import goods, and not export as much because they have stagnant economies.

It is interesting to note that we went from 1981 to 1994, there is a direct inverse correlation. The larger the trade deficit, the greater growth in employment in the United States, because the strength of our economy has so much to do with that balance between imports and exports.

Senator MURKOWSKI. But that is not applicable to the energy industry though.

Ambassador KANTOR. No, it is not. But I just wanted to make that point, rather than failing to recognize it.

Senator MURKOWSKI. Thank you, Ambassador.

The CHAIRMAN. Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman, and welcome, Ambassador Kantor.

Let me just say, right on the front end, from my observation, you have done more as trade Ambassador than all of the other trade ambassadors all the time I have been in Washington put together. I just think that is the record. And I think it is a record you can be proud of.

But, nationally, we have a very serious problem on our hands. In the last 10 years, we have seen our currency decline by some two-thirds against the Japanese currency, and against the German currency. And that is something that I think all of us have to take very seriously.

Most economists would attribute the decline in the value of our currency, vis-a-vis the Japanese and the German currencies, to our



budget and trade deficits, the two of those. Ongoing and persistent budget and trade deficits have weakened our currency against the currencies of these other countries.

Obviously, the budget deficit is not in your bailiwick. That is not in the jurisdiction of the Trade Ambassador. The trade deficit, at least in part, is in your area, although there are many elements to it that you do not control.

Probably nobody observes more closely than you what is occurring with respect to the trade deficit. And I would ask you, in your judgment, what are the steps we need to take as a nation to deal with this persistent problem?

We got the latest trade numbers, which were a cause for concern, and I think a cause for what has happened to our currency in the last few weeks.

I am not talking about just in your jurisdiction, because a lot of this is outside your jurisdiction. But, as an intelligent observer of what is happening, what should this country do to address these trade deficits?

Ambassador KANTOR. First of all, I appreciate your kind remarks.

Let me address directly, without talking about the dollar or exchange rates—which I will leave to Secretary Rubin, who is more than competent to do that—let me speak about the trade deficit. The trade deficit is a function of a number of items which come together.

Number one is the strength of our economy, vis-a-vis the strength of our trading partners' economies. We just spoke about that with Senator Murkowski.

The second is savings rate. The savings rate has two parts. There is personal savings which, of course, is around 4 percent in the United States, very low compared to other countries. And the second is the deficit.

Let me speak about the deficit for a second. This administration has tried mightily to be responsible and disciplined about the deficit. For three straight years, the deficit has been lowered. That is the first time that has happened since Harry Truman was President of the United States.

We are making progress in that area, on a bipartisan basis. We must continue to do it. We cannot forget how important that is, not just in terms of the trade deficit, but the health of the country and the credibility that we have with the American people, and our ability to progress in the future.

Third, we are going to have a globalized economy and a higher technological society and interdependence, whether we like it or not. We have got to educate our people, provide training programs, and make sure we provide the proper resources, at the proper and appropriate levels, to make sure we train our folks for the future.

There is nothing more important than that. I probably should have started there. If our people are trained and can compete, then I think a lot of what we are talking about can be addressed.

Four, we have got to get rid of these trade barriers, which have hurt us for so many years, for so long, Democrats and Republicans alike. This has nothing to do with party. We allowed our markets

to stay open, as we should have, an appropriate policy, without calling on other countries to act comparably.

When you do that, and they act in ways that are asymmetrical, they hurt our country, they hurt employment, they lower our standards of living. They create, in fact, a lack of credibility among the American public, and we lose the kind of political support we need for a positive trade policy. And it is a major trade problem that we have, and we need to work on it.

I think the President has done a very good job of articulating a trade policy that works, and trying to grow confidence among the American people.

Just in November last year, for the first time, the Gallup Poll indicated that the American people believed trade was more in their interest than to their detriment. That is the first time that has ever happened, since Gallup has begun polling. Now that is a big step forward. We have a long way to go.

So I would say those four things immediately. It would be savings rate, or the deficit, train our people, get rid of trade barriers, make sure we build credibility among the American people.

Let me add one other thing. We have got to continue to move forward to open up these markets with trade agreements—Latin America, Asia, and other areas of the world.

That is part of being able to build an economy where we have nearly reached zero population growth, we have a lower growing labor force, we have a slower growing economy, we are only 4 percent of the world's population.

We are going to have to make sure we open new markets for our products, or, as we become more competitive and productive, we will inevitably lose jobs. So all of that—all five points—should be the outline of a policy that you have asked me if I would personally to believe in. And I think this administration has supported all of that. And finally we have had a bipartisan coalition supporting that in the Congress since we have been here.

The CHAIRMAN. Senator D'Amato.

Senator D'AMATO. Thank you, Mr. Chairman.

I want to apologize to Senator Conrad because when he was trying to make a point, I was speaking. And I did not mean to interrupt.

But I want to say that both my colleagues and I were talking about the fact that Mr. Kantor has done an outstanding job. You have energized this area. You have really fought to bring some kind of discipline to the implementation of the laws we have. And you have pointed out very cogently today to a number of my colleagues the barriers that still exist. I commend you for that. And I am not going to drop now, and say but—[Laughter.]

Senator D'AMATO [continuing]. They are there. We have touched on them. Senator Murkowski has touched on them very poignantly with his graph about petroleum making up X percentage, and then Japan and China, and the imbalances of trade there.

I have to tell you, I would do just about anything to support you and this administration to really put some teeth, and let you and the President know that we will back you up. And I am not specifically going to bash anyone in particular. People know where the problem is. Whether it is 301 sanctions, at least you are putting

it out on the table. At least you are out there working and pointing out these incredible things, these artificial barriers, whether it be auto parts and so on.

But I just think it is terribly important that you continue this, that you be as aggressive as you possibly can be. And I am certain that you will have a very strong bipartisan effort to support your recommendations in getting tough—not tough for the sake of getting tough, but because it is the right thing.

At some point in time, you have got to really put teeth behind your bark. And we have been like the barking dog at night; when you come up to him, he runs away.

Whether it is an artificial crisis that is manufactured, whether it is if we do one thing, they will not buy our debt. I have heard all these kinds of arguments for 14 or 15 years.

So I just want to commend you, and urge you to be strong on this because I think it is the right thing to do, to insist on fairness, as it relates to the issue of trade.

Thank you, Mr. Chairman.

Ambassador KANTOR. Thank you, Senator. I appreciate it. It is very kind of you.

One of the most important things that we have done—and let me say we have, three administrations, not just the Clinton administration but Reagan, Bush and now President Clinton, and my predecessors—is insist the Uruguay Round is a single undertaking; that, after 5 years of phase-in, everyone will play by the same rules. Nothing could be more important than that concept.

Second, we insisted in NAFTA that, after a phase-in—some think too slow in some areas, some think too fast—we insist everyone play by the same rules eventually. In most cases that is 5 years. It could run up in some tariff acceleration or decelerations to 10 years. But level the playing field; make it fair.

Third, we hope that we have backed up our bark, so to speak, with our bite. And we are going to continue to do so. We have tried not to ever threaten unless we are willing to do it.

And let me say that I appreciate this Committee, both Republicans and Democrats, who have supported us in that, and this body, as well as the other body, as well as the President, who has remained steadfast.

It is not easy sometimes to bring a trade action in a world that is increasingly reliant upon international trade. There is a lot of pressure brought to bear, and a lot of gnashing of teeth over other issues, strategic and political. But we have all stuck together on this, and I will continue to be what some say is too aggressive, but I think that you can never be too aggressive standing up for the American people, and that is what I am going to do. And I appreciate your support.

The CHAIRMAN. Senator Simpson.

Senator SIMPSON. Ambassador Kantor, it is good to see you.

Ambassador KANTOR. Thank you Senator. It is nice to see you sir.

Senator SIMPSON. I would add to what my friend from North Dakota, Senator Conrad, and Senator Alfonse D'Amato has said. I have watched you during my entire time here, and yours. And I have seen you handle the most difficult issues with tremendous pa-

tience and rare good humor, which I have personally come to see, and have had personal times with you to enjoy that. And I have a high respect and rich regard for you.

Your hard work is evident in NAFTA and GATT and you have dealt with us all on our provincial matters, you know, when we are whacking on you about wheat or beef or trona. You have heard me speak of trona, have you not?

Ambassador KANTOR. Yes, sir. I am well aware of the trona problem.

Senator SIMPSON. A provincial thing, but we are the largest producer of trona in the world.

Senator MOYNIHAN. Come on now.

Senator SIMPSON. Oh, yes. I am sorry I did forget that. I will never do it again.

Ambassador KANTOR. Senator, we must remain competitive to maintain that market, or the Europeans will take over. I am very well aware of that.

Senator SIMPSON. And with China, you are going to be watching their synthetic product, are you not?

Ambassador KANTOR. Yes, sir.

Senator SIMPSON. Diligently.

Senator MOYNIHAN. Come on.

Senator SIMPSON. Well, every single bit of glass is soda ash. It is in every bit of glass on earth and the largest natural source of it is in Southwest Wyoming. About 90 percent of the world's natural known soda ash reserves are there in Wyoming. I am glad to tell you that. You cannot drink a drop out of your glass without thinking of Wyoming. [Laughter.]

Any further questions about trona?

And then, we are the largest producer of coal in the United States. And then we have our cattle, sheep and wool, MTBE and chemicals.

Without what you have done to expand trade in the world, we would be in difficult conditions Without exports our State would wither and die..

But you have taken it from all talk and no action to finally taking them to the table, and making them come to decisions. And I do admire that very very much.

And I guess the only thing I see—and it is a theme we are going to have to continue to return to here—you talk about the deficit and what we have done.

I figure what we have in front of us for the next 30 years are the most daunting things you have ever seen. We know it, America knows it, senior citizens know it, health care providers know it.

And, even though the deficit may have been restrained for this interim period, it is still \$200 billion bucks a year, and headed for \$300 billion bucks. That is in the President's report too. In the year 1997 and 1998, it is headed for \$250 billion and \$300 billion, and we will be voting on a debt limit of \$5 trillion bucks within the next few weeks.

And the Social Security system and the advisory group has come out with their report with the cheerful message that, instead of going broke in the year 2029, it will go broke in the year 2030, which should cheer us all. It is like being told by the doctor that

you are only going to live 6 months instead of 5, which should cheer you.

And then we are told that the trust fund with regard to health insurance will go broke in the year 2002 instead of 2001, which is another cheery note that we will speak about on the floor.

Senator Kerry and others of us, like Senator Moynihan and others who were on the Entitlements Commission, know that something must be done there.

But, in any event, oil is an issue—and you saw the passion on Frank Murkowski on that. I too represent a State which has a large oil producing capability. The boom was extraordinary with stripper wells in the early 1980's.

How are we going to break away this dependency on imported oil? What is your thought? The people of America are headed right where they were, back through the gas lines. They think the stuff just comes from the moon, as long as they can get it out of that pump.

And, if they turn the spigots, where are we going to go next time? How are we going to correct that one?

Ambassador KANTOR. There have been a number of suggestions by a number of people a lot brighter than I on that subject.

It is not a subject that I am anywhere close to an expert on, but the fact is that, when you compare the price of oil in the United States at the gas pump, it is much lower than, I would assume, anywhere else in the world. Obviously, that leads to a problem. And, if we do not spur domestic production at the same time, you exacerbate an already difficult situation.

It should not be any wonder that now 50 or 53 percent of our oil comes from overseas. I do not know what the figure is today, but I assume it is somewhere close to that.

I think what Senator Murkowski has done with his bill is a good bill, and we support it in order to move Alaska oil to the Far East, and then hopefully be able to produce more oil in California and other places in this country.

But we have a long way to go. Now let me make it clear that that is a personal comment. I am not an expert in this area. But it seems to me that certain common sense ought to hold sway here. It is a major part of our problem, and we ought to do something about it.

Senator SIMPSON. Thank you, Mr. Chairman. And thank you, Mickey.

Ambassador KANTOR. Thank you Senator. I appreciate your kind comments. It is very nice of you.

The CHAIRMAN. Mr. Ambassador, so that you do not forget the importance of trona, the port of Portland is the biggest exporter of trona, all of which comes from Wyoming. [Laughter.]

Ambassador KANTOR. Mr. Chairman, I am very aware of trona. I have been very involved in making it quite clear in the administration what we believe that the tradeoff is. And I would do it, as well as Durum wheat and tomatoes, and many other products.

You know, all these look parochial, but they have a big impact on our economy, especially in certain areas of the country. And it does make a big difference.

The CHAIRMAN. You made a comment on the Japanese patent system. I just want to clarify two things because I do not want to leave the record confused.

One is, how does the world patent system work, versus ours? Two is, the Japanese patent system. First, the United States is out of step with the rest of the world in terms of how our patent system operates. We may be the last country to operate on a first-to-invent system, while all the rest of the world operates on a first-to-file system.

A first-to-file system is much easier. You take your patent to the courthouse, and file it, and then you receive the patent. Here, in the United States, where there is a first-to-invent system you frequently have to debate who invented the invention first not who filed it first. Further, the United States has taken our first-to-invent concept and tried to impose it on the rest of the world, which does not follow it. I hope that one day that the United States leaves the system we are now under. Under our system, it is a very hard thing to prove who first invented something.

Second, with respect to Japan's patent system, I understand the Administration's concerns, but I hear from as many American manufacturers who say, fine, they can deal with the system as I do from those who say it is a problem.

Japan not only is in step with the rest of the world in terms of following the first-to-file concept, they also have a unique system. Critics would call Japan's system one based on patent "flooding"; however, those who are not critics would say the system is perfectly rational. An example illustrates the idea.

Here, in the United States, if Kodak invents a Brownie camera, they patent the Brownie camera. In Japan, given the same invention, the inventor would patent the shutter, the lens, the film advance, and the box, and you would have a half dozen patents on a product that only receives one patent here. This difference in approach does not make us right and the Japanese wrong; it is just different. But the United States usually is out of step on filing versus inventing.

Now, on trade, the New York Times does not often make a factual mistake, but they do have it wrong today. On a front page story, the New York Times states that the United States is "faced with a dipping budget deficit, and \$150 billion gulf with other nations in goods and services." Well, it is not \$150 billion when you count services.

Ambassador KANTOR. Not at all.

The CHAIRMAN. In fact, we do very well with respect to trade in services. We have a \$58 billion surplus in services.

Ambassador KANTOR. Yes, sir.

The CHAIRMAN. So, when Senator Murkowski had his chart depicting a \$166 billion trade deficit, he is referring only to the merchandise deficit. And, indeed, that figure is accurate.

But once you subtract the \$58 billion surplus the United States runs in services, and you are down to about \$105 or \$106 billion.

Ambassador KANTOR. Exactly.

The CHAIRMAN. Now, interestingly, of that total, approximately \$105 billion is attributable to our trade deficit in oil and cars. And several Senators today have asked you what we can do about oil.

Every time there is any hope of finding oil, we are prohibited from even looking for it. We are stopped before we even explore. Whether it is Prudhoe Bay or Northern Alaska, or offshore, we are stopped by environmental lawsuits from even exploring the possibility of whether there is oil there.

In terms of cars, we threw away the market in the 1970's. I was here when we adopted the first fuel mileage standards. And I remember Detroit's argument—Americans do not want to purchase cars that get 25 miles to the gallon and do not need repair. According to U.S. auto manufacturers, Americans at that time liked the cars they had, which got 12 miles to the gallon and had to be repaired all the time.

To their credit, U.S. auto manufacturers have gotten much better. Our cars are now competitive worldwide. It took us 20 years to get there, but we threw away the market in the 1970's to good, cheap cars that got high mileage. So we have only ourselves to blame.

Now Senator Simpson asked what we could do about the oil deficit. I checked the oil import deficit when we were debating GATT, because we are an energy-rich country. Japan is energy-poor. They do not have any oil. They do not have any gas. They have hardly any hydro; they have to import everything.

We could make all of our oil from coal if we wanted to. South Africa has been doing it for years because of the worldwide trade embargo it faced for years, and that country has a cornucopia of coal, and they make oil out of it. But to extract oil in this manner would cause gasoline to cost about \$3 to \$4 a gallon. It is doable, however.

Senator MOYNIHAN. But at that high price?

The CHAIRMAN. I had the Library of Congress check this for me, and they did a wonderful job during the GATT debate.

From a market cost standpoint, we could produce it out of coal if we wanted to pay \$3 to \$4 a gallon for gasoline.

So the question becomes, would you rather import it at \$1.25 or \$1.30 a gallon, or would you rather be energy independent on oil and have it cost \$3 to \$4 a gallon. And I am not talking about taxes; I am talking about costs. But we could do it.

If we wanted to produce all of our electricity from nuclear means, we also could do that. France is just about to become 100 percent nuclear in terms of electric generation. France made the decision 35 years ago to go that direction, and it will be completed by the end of this century.

We could save a lot on energy if we produced all of our electricity from nuclear, but we prefer not to. Instead we build plants and, before they ever get up and running, we shut them down.

So there are two sides to this oil import debate. And oil, comparatively speaking, is cheap, so long as the worldwide cartel does not work. And usually cartels do not work very long because somebody inside the cartel cheats.

So, if we want to adopt a policy of energy independence—and I remember President Nixon talking about it 20 years ago—we can do it. We have a 400-year supply of coal in this country. We have a 200-year supply of tar sands. I mean we could do it. However,

it is very expensive. I do not know what the environmental consequences are, but it is very expensive financially.

Now, let me ask you a question about Europe. With the accession of three new countries into the European Union and the renegotiation of tariff schedules, do you think we can get Europe to agree to zero-zero on all paper and wood products?

Ambassador KANTOR. As you know, we have put a lot of effort into that situation. We went to zero-zero on both during the Uruguay Round phase-in. And the Japanese, of course, would only go 5 years on wood products. It is 10 years on paper. We are trying to use these enlargement talks we are in to go to zero-zero in many areas, including the two you are talking about, on a much more accelerated basis.

One of the discussions we will have in May, at the so-called Quad Meeting—that is Japan, Canada, European Union and the United States—which we have twice a year, is to discuss accelerating those tariffs in the Uruguay Round, going to more zero for zeroes among ourselves, if not in a larger context.

But, even if we did it among ourselves, it would make a huge impact, given the size of these nations in terms of their trade.

The CHAIRMAN. One last question that I ask for Senator Dole. In the ongoing banana case—I can see your face drop already on this—

Ambassador KANTOR. Oh, no sir.

The CHAIRMAN [continuing]. Costa Rica and Colombia implemented the so-called framework agreement with the European Union, despite the USTR's promise to initiate a Section 301 investigation if they were to do so.

It is my understanding that these governments have been indifferent and uncooperative toward your efforts to have them suspend the framework, pending broader reform negotiations with the European Union.

Under these circumstances, when do you expect to make an unfairness determination against the governments? And, also, what is your intended time frame with respect to the European Union achieving reform vis-a-vis the bananas? And, if there is no reform, can the European Union expect retaliation as well?

Ambassador KANTOR. One, we brought a 301 last fall, as you know, against the European Union. We brought 301 actions against Costa Rica and Colombia in January. We are having negotiations, I think next week, on bananas with the Europeans, if I am not mistaken. Somebody could correct me, but it is either next week or the week after. We can supply that for the record. I am not sure what date.

And we have made it very clear to all the parties involved that the unfairness is having a pernicious effect upon U.S. businesses and U.S. workers, and upon U.S. investment, all of which are, of course, covered by 301.

We are going to move in a very vigorous manner if we cannot get satisfaction on this issue.

This is to the dismay of a number of European States, including Germany, who is opposed to these quotas and export licensing requirements, and the so-called preferential treatment of so-called Lome bananas coming from their ex-colonies, Senator Moynihan.



And so we have made it clear that we——

Senator MOYNIHAN. What are Lome bananas?

Ambassador KANTOR. L-o-m-e, with an accent over the "e." Yes, sir,

We have made it absolutely clear that we will move if we cannot resolve this by the middle of this year.

We are trying to determine now whether we move within the WTO, or whether we move unilaterally. Using our own trade law, we can do either, as you know, under 301 at the end of an investigation.

But move we will. This cannot continue to persist. It is out and out discrimination. In fact, for years we stood on the side of all the Latin American countries, including Colombia and Costa Rica.

Two cases were won at the old GATT, which the European Union blocked because they were not in their favor; they were in our favor—"our" meaning we supported the Latin American countries.

And these Latin American countries, frankly under great pressure from Europe, then ended this so-called framework agreement, which exacerbated the discrimination. And that is when we moved against Europe, and then Costa Rica and Colombia.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Well, in the trona tradition, may I just make this one little comment?

Ambassador Kantor, you are no doubt aware that the first American trading vessel to reach Canton was the Empress of China, which cleared New York harbor in, I believe, 1796, with a cargo consisting exclusively of ginseng.

The CHAIRMAN. Of what?

Senator MOYNIHAN. Ginseng. Aha. We are going to pursue this now. And it returned with manufactures.

It was in 1975 the first time, and I was very graciously received by George and Barbara Bush. George Bush was then in the rather ambiguous situation of neither an ambassador nor anything else quite.

But I asked him, because I come from the county involved, and I knew he was concerned with U.S.-China trade, but was he advancing the cause of Delaware County ginseng, which is the ginseng of preference by Chinese elites from the earliest times, as against the inferior cultivated ginseng that came from Korea?

And he did not really know. A couple of days later, we were visiting a pharmacy in one of those fake housing projects where everything is wonderful, and I asked the folks down in the pharmacy if they had any ginseng. I was told, oh, goodness, we could not have any ginseng in a humble place like this. We would have to go to a hospital for ginseng. And it was well known that Chairman Mao only smoked ginseng cigarettes.

And on the way out, George Bush asked me, what is this stuff called ginseng? And I finally explained it to him.

And what I want to know from you, sir, are you advancing the commerce in Delaware County ginseng? It is the only ginseng that meets the standards of the Chinese elite, and is of great interest to them. [Laughter.]

Ambassador KANTOR. Senator, I can tell you the first thing I am going to do when I go back to my office is draw the staff together,

and we are going to advance the export of Delaware County ginseng to a fare-thee-well. It will have the same level of intensity that trona has. I can assure you of that.

Senator MOYNIHAN. I have declared that some of my interest here comes from our hillside but, even so, good.

The CHAIRMAN. If it grew on your farm.

Senator MOYNIHAN. And in the woods.

Senator SIMPSON. How about elk antlers?

Senator MOYNIHAN. That is the same thing.

Can I ask you really to consider this question of having the World Trade Organization in Washington? It is ours by right of invention. We thought of it first, and filed it first. It is 60 years of American trade policy. It would not have happened without us. It was a trade policy we pursue when we were the only nation standing in the world. And we have done it to the great advantage of others. It has not always been as ingrate as reciprocal, as the reciprocal trade agreement.

We have a claim here. And, if we had to give up the World Bank, or something else to spread it around a bit, I think this is more important because you know the Gallup Poll finally shows Americans more favorable to trade than not. But it could flip back the other way. And, in the era when it was self-evidently in our interest, we did not think so. I just give you that thought.

Thank you.

The CHAIRMAN. Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman.

On the second round, I think we have all gotten to items that are of our parochial interest, and I am no different with respect to that.

We do not have any trona, that I know of, in North Dakota, but we would sure like to get some. We cannot grow it.

Senator SIMPSON. We will sell you some. [Laughter.]

Senator CONRAD. But we do have a lot of wheat. And nobody has helped us more with respect to the issues important to wheat than you have, Mr. Ambassador. We deeply appreciate the results that you have produced.

In this case, it has not been a matter of trying to do something—you have done something. I just want to say that we deeply appreciate what you did, because it has produced a result, that it is terribly important to my State, and all the other wheat producing States in the country.

And the results are significant; they are evident to everyone who is involved in the issue.

Let me just say that I wanted to alert you that we have a potential future problem, if the TRQ's are not continued or if this commission that is working now, as a result of your good offices, does not achieve a negotiated settlement.

And the reasons for that—just four factors that are out there right now. We have record Canadian Durum planting. We have growing world production and stocks, which will make the U.S. more attractive as a market, as world prices fall.

We have another factor that I think is very little understood. As Canada eliminates the WGTA—that is the Western Grain Trans-

portation Act subsidy—that is going to make wheat in the central part of Canada worth about 40 cents a bushel less.

They are going to be under enormous pressure to flush that wheat right South. I have alerted the commission to this fact. And I just wanted to alert you to it.

We also have the falling Canadian dollar. So we have all these things going on and we have got that commission working, again, because of your excellent work. The TRQ that was put in place has been very effective, again because of your excellent work.

I just wanted to alert you that, if the Joint Commission on Grains does not achieve a result, we are going to have a very serious problem on our hands in the future. I do not know if that is something you want to respond to or not.

Ambassador KANTOR. Yes, I would like to. First, thank you for that. We worked together, and you were more than helpful. Without your advocacy, and Senator Dorgan and others, Pat Williams, it would not have happened.

We used to bring charts. I remember, even at my confirmation hearing, and that line was here, going up, up, up on wheat imports. Now look what has happened to the line. It is going down, down, down now. You have raised exactly the right issue.

With the dollar, stocks, Western Grain Transportation Act going out, we are going to face a potential problem in August or September of this year if the commission, whose American members I met with last week before they met with their Canadian counterparts, cannot come up with the wisdom of Job in order to solve this problem.

We are going to insist that TRQ's stay in place if we cannot solve it. My guess is that we are going to need your support and the support of your colleagues as we move towards that.

We hope the joint commission comes up with a reasonable solution to solve this problem. I know you do too. If they do not, we are going to keep these TRQ's in place.

Senator CONRAD. Well, that is excellent news. That is the best news I have had in a long time.

Again, I very much appreciate what you have done. And there are a lot of people in my State who appreciate what you have done.

Mr. Chairman, I will end it there.

The CHAIRMAN. Thank you.

Pat, any more?

Senator MOYNIHAN. Thank you very much.

The CHAIRMAN. Mickey, thank you very much for coming.

Ambassador KANTOR. Thank you very much, Mr. Chairman. Thank you for having me.

[Whereupon, at 11:30 a.m., the hearing was concluded.]

# APPENDIX

## ADDITIONAL MATERIAL SUBMITTED

### PREPARED STATEMENT OF SENATOR CHARLES E. GRASSLEY

Thank you, Mr. Chairman. I also want to thank Ambassador Kantor for coming here today. It is vitally important that we discuss the administration's trade agenda for the coming year so we can forge a bipartisan approach to achieving the common objectives we all want for our country. Those objectives are expanding markets for U.S. exports; the elimination of unfair trade barriers; the protection of our intellectual property overseas, and the continued development of emerging market economies.

Ambassador Kantor is to be commended for pursuing these objectives, continuing the initiatives begun under Presidents Reagan and Bush. In the last Congress, great strides were made with the passage of NAFTA and GATT, despite powerful opposition to both trade agreements. It is important that we maintain the bipartisan momentum for increased trade and expanded market opportunities.

The challenge, therefore, is to focus on an agenda to guide trade policy so as to achieve our ultimate objectives. In this regard, I think there are several critical issues that need to be addressed.

The first of these is extending fast track negotiating authority. We are all aware that as trade agreements have become more controversial, congressional dissatisfaction with the fast track arrangement has increased. Some Members of Congress have declared outright opposition to further grants of fast track authority while others want stricter controls. Some want certain provisions of future agreements to be amended by Congress.

Certainly, fast track is a major concession of power from the Congress to the President. But experience indicates that without fast track, the task of negotiating free trade agreements would be far more complex and drawn out. Every administration since the Ford administration has argued that serious trade negotiations are impossible without some grant of fast track authority. I agree with these arguments. I favor granting fast track authority, but only for those provisions absolutely necessary to achieve a free trade agreement. Allowing environmental and labor disputes to complicate and stall trade negotiations would be a major setback for the global economy. So if fast track is to have bipartisan support, it will likely need to be a clean bill—that is, a bill closely based on past fast track extensions, without extraneous provisions.

Another issue that we need to focus on involves the implementation of the Uruguay Round, particularly our role in the World Trade Organization. The U.S. must ensure that commitments are kept by its trading partners, must work on negotiations left incomplete, and must plan future multilateral trade objectives.

The benefits to the U.S. economy of the Uruguay Round will only materialize if the U.S. insists that commitments made are commitments kept. While some concessions are easy to enforce, are controversial and require complicated changes in national policy. This creates opportunities for opponents of these concessions to block implementation. For example, changes in patent and copyright law will require enforcement efforts whose adequacy maybe open to question, but difficult to prove such disputes are certain to be brought to the WTO, and the U.S. will need to work under the system to press its trading partners to open their markets. This means that WTO decisions will play a more important role in U.S. trade policy, and will require a degree of vigilance. In this regard we have S. 16, the bill introduced by Senator Dole, to establish a review commission to examine WTO dispute settlement decisions. It could initiate action leading to U.S. withdrawal from the WTO if a pat-

tern of decisions unfavorable to the U.S. emerged. I support this bill and hope we can pass it soon.

In addition, the Uruguay Round left agreements on certain key areas of negotiations incomplete. One important example is the New General Agreement on Trade in Services. Specific market access schedules remain to be negotiated, and are essential if this agreement is to be meaningful. Other negotiations need to continue on financial services, investment, antitrust and cultural issues.

Another item on the trade agenda that Congress needs to consider is the opening of markets in East Asia, particularly Japan and China. With regard to Japan, some agreements have been reached, but it remains a critical trade challenge. Our ongoing efforts to open up their market to our autos and auto parts must be pursued vigorously.

As for China, we have a unique opportunity to simultaneously address trade concerns and economic reform objectives by requiring concessions as the price of WTO accession. A strong China trade policy should be an important element of trade policy for the Congress.

Other items on the agenda before Congress include the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative. Both programs are up for renewal, and while they represent aid more than trade they are an integral part of trade policy. We must ensure that the countries that benefit from the GSP and CBI program provide fair treatment to U.S. exports. As for the GSP program, another issue is that of graduation. One of the main criticisms of GSP is that the program is dominated by large, relatively advanced, developing countries that have little need for further GSP benefits. We need to examine and, if necessary, correct this situation.

In conclusion, Mr. Chairman, let me just say that there is a lot on Congress's plate in the international trade arena, including the negotiation of several free trade agreements, and I look forward to working with Ambassador Kantor to make sure that the United States achieves its objectives. Thank you.

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#### PREPARED STATEMENT OF SENATOR ORRIN G. HATCH

Mr. Chairman, I share your enthusiastic welcome of Ambassador Mickey Kantor to this morning's meeting. The USTR office is recognized as one of the most effective agencies in the federal government. Ambassador Kantor's stewardship is a tribute to that recognition.

With NAFTA and GATT under his belt, Ambassador Kantor must now turn to the grueling task of implementing these and other trade agreements. Contentiousness in crafting the agreement is a preview of what follows, and USTR is experiencing everything that it expected.

I agree with the administration's regional trade priorities. In the two areas of great importance to us, Latin America and Asia, the obstacles deserve more than passing attention. The Mexican peso crisis threatens to unravel emerging markets in Latin America, and has already had an adverse impact on Argentina, Peru and Brazil. In Asia, piracy of intellectual property in China is finally being confronted, but new problems in Indonesia concern me greatly. I will address them momentarily. In the Caribbean, we face legitimate fears from our Basin Initiative partners that they may face economic losses from NAFTA.

On the bilateral side, we face difficult negotiations with Japan over the framework agreement and on automobile and after-market sales. The European Union's agricultural policy has hindered cooperation on many other trade-related issues, and I will leave a question for the record on the continuing banana crisis.

Mr. Chairman, this committee represents a broad cross-section of congressional attitudes on many of these issues. Wherever appropriate, we have lent unified, bipartisan support to the President's negotiating objectives. But we have also exchanged strong differences of opinions on the implementation of these agreements. This is the way it should be. And it is in this spirit that I welcome Ambassador Kantor to our forum. Mr. Chairman, I would like to discuss the EU banana and Indonesian intellectual property piracy issues with Ambassador Kantor.

#### LATIN AMERICAN/EU BANANA IMPORTS

Mr. Ambassador, I appreciate your responsiveness to the Latin American/EU banana issue, which I know interests many members of this committee, including Senators Dole and Packwood.

Naturally, I was disappointed to see Costa Rica and Colombia proceed in implementing the framework agreement with the EU, despite the Section 301 action

taken by the U.S. I am also distressed by reports that these countries intend no change until threatened with sanctions by the U.S.

Well, the case has been made. USTR has identified hundreds of millions of dollars of harm to our domestic banana industry. For my part, I am deeply troubled by the precedent-setting behavior of the EU, which could apply the same policies to other U.S. agricultural products, a matter raised by the American Farm Bureau Federation in their September 9, 1994 letter to you.

#### INDONESIAN PIRACY OF SOFTWARE PRODUCTS

Mr. Ambassador, I want to turn to the issue of Indonesian theft of U.S. intellectual property, an item on which I and several other senators will be writing you shortly. U.S. software and book publishers reported \$132 million of piracy losses this year alone in Indonesia.

The Business Software Alliance and the Association of American Publishers have not been idle. BSA and AAP have spent upwards of \$130,000 in pursuing legal remedies. Despite several cases, some leading to penalties against the more notorious Indonesian pirating parties, new problems have emerged. Not only are the pirates back at work, but threats of physical harm directed at members of the Indonesian bar seem to have inhibited many from resuming legal battles against this theft.

As you know well, this type of structural obstacle to resolving harmful trade practices is a non-tariff barrier.

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#### PREPARED STATEMENT OF AMBASSADOR MICHAEL KANTOR

Mr. Chairman, it is a pleasure to appear here today to discuss with you President Clinton's trade policy and the principles that guide it. We recently released the USTR Annual Report, which outlines our accomplishments for last year, and our challenges for this year. Last Friday we released the National Trade Estimates report, which details barriers to U.S. exports. So it is particularly appropriate to discuss the opportunities and responsibilities we face in the coming years.

In just over two years, President Clinton and his administration, with bipartisan support in Congress, advanced and then ensured the passage of the North American Free Trade Agreement; set our negotiations with Japan on a new course under the Framework Agreement; concluded and obtained approval of the broadest trade agreement in history, the Uruguay Round; set the stage for trade expansion in Asia through the Asia Pacific Economic Cooperation forum with the Bogor Declaration; and announced creation of a Free Trade Area of the Americas by 2005 at the historic Summit of the Americas. We concluded the largest procurement agreement in history with the European Union, 14 agreements with Japan, and an agreement covering 80 percent of global shipbuilding. In addition, his Administration completed scores of other bilateral trade agreements, including textile agreements.

President Clinton's trade policy is part of an economic strategy to keep the American dream alive as we move into the 21st century. His Presidency is dedicated to policies which promote capital formation, foster growth, create jobs and raise standards of living for working Americans.

His strategy reflects an age that is marked by tremendous change, on the threshold of a new century. The end of the Cold War altered political, strategic and economic equations of the world. A new economy has emerged which offers both opportunities and challenges for ordinary working American families.

President Clinton understands that future prosperity in the United States depends on our ability to compete and win in the global economy. He has based his trade policy on three basic truths about the era in which we live.

#### (1) TRADE IS INCREASINGLY IMPORTANT TO THE U.S. ECONOMY.

Where our economy was once largely self contained, now we are increasingly interdependent with the rest of the world. This change began decades ago, but has accelerated in recent years. The value of U.S. trade is now equal to 28 percent of the U.S. economy.

This global economy offers tremendous opportunities for American workers. Over 11 million workers in this country owe their jobs to exports. These jobs pay higher wages, on average, than jobs not related to trade. Every billion dollars of exports supports 17,000 jobs. Clearly, expanding trade is critical to our effort to create good, high-wage jobs.

Trade is important to other economies around the world, not just the United States, however. Over the last five years, global exports have increased 32 percent. Goods, services, capital and information now speed around the globe.

The global economy will not disappear. We can not turn back the clock. Even if we could, we must face the fact that the United States has a mature economy and we have only four percent of the world's population. Future opportunities for growth here at home will depend in part on providing goods and services to the other 96 percent. Given this fact, opening markets, expanding trade and enforcing our trade agreements are important to fostering growth here at home.

## (2) TRADE IS INCREASINGLY CENTRAL TO OUR FOREIGN POLICY.

With the end of the Cold War, and the growing importance of trade to our economy, economic concerns are now as evident in our foreign policy as strategic, or political concerns.

After World War II and during the Cold War, the United States used trade policy as part of the strategy to help rebuild the economies of Europe and Japan and resist communist expansionism. We led the world in global efforts to dismantle trade barriers and create institutions that would foster global growth.

During that period, we often opened our market to the products of the world without obtaining comparable commitments from others. As the dominant economic power in the world, we could afford to do so. And as part of a strategy in the Cold War, we needed to do so.

Despite the uneven commitments, the resulting expansion of trade fueled rapid western growth, which ultimately proved to be the winning card in the Cold War. While these, then communist countries, closed off their economies from domestic and international market-driven competition, and stagnated, the western world pursued the opposite strategy of opening up their markets to increasing internal and external competition, and prospered.

But now we are no longer the sole dominant economic power in the world. We are the world's largest economy—and largest trading nation—but our economy, which represented 40 percent of the world's output following World War II, now represents 20 percent. Europe and Japan rebuilt and became tough competitors. The newly industrialized nations, such as the so-called Asian Tigers, became increasingly productive, winning a share of our market, without opening theirs equally.

Although we welcome the products, services and investment of other nations here in the United States, now we insist that the markets of our trading partners be open to the products, services and investment of the United States. We will no longer tolerate "free riders" in the global trading system. We insist on reciprocity in our trade agreements. This is a critical change in the way we view both trade policy and foreign policy.

In addition, it is critical to fostering global stability that we expand economic ties with other countries. Nations around the globe have found the best road to prosperity is through opening markets and trading with the world. Those economic reforms, in turn, have helped support the remarkable transitions to democracy we have witnessed in recent years and have helped build the middle class in those countries. Fostering growth in other countries is still in our interest, because as the middle class grows, stability increases, as does their ability to buy our goods and services.

The road to prosperity is not always smooth. Sometimes our trading partners will have economic problems and we must remember that the success of our economy is inextricably linked to the economies of other nations. Some would have us follow the ostrich approach: if we just stick our heads in the sand, the problems of other nations will simply go away. But history has shown cutting ourselves off from the world is a sure formula toward a less successful and prosperous country.

## (3) OUR NATION'S ECONOMIC STRENGTH BEGINS AT HOME.

Trade negotiations and trade agreements open new opportunities for American workers and firms. All of us, in turn, must accept the responsibility to make the most of those opportunities. And government—at the local, state, and federal level—must work as a partner with the American people to give them the tools to prosper in the new economy. Getting our own domestic policies in order has taken on a new urgency as we compete in the global economy.

American workers compete against highly educated, high-wage workers in other countries as well as low-skill, low-wage workers. We must make sure everyone achieves their full potential.

President Clinton has embarked on a course that would give Americans the tools to succeed in the new economy. He enacted the largest deficit reduction package in history; placed a down-payment on America's future by investing in education; and began a bold effort to make government leaner and more responsive to the needs of American families. Pursuit of this economic strategy continues with the Middle

Class Bill of Rights, welfare reform, deficit reduction, and the second wave of the reinventing government effort.

#### A STEADFAST TRADE POLICY

President Clinton set out his trade policy in a series of speeches during the campaign and the early days of his presidency. At Georgetown University on November 20, 1991, he first laid out his strategy for competing and prospering in the new economy. Later, at North Carolina State University on October 4, 1992, he proclaimed his support for the North American Free Trade Agreement, and argued that it was strongly in the interest of American workers and firms. Shortly after taking office, he spoke at American University, and laid out his trade agenda for his Administration and said "In the face of all the pressures to do the reverse, we must compete, not retreat."

President Clinton has followed through on this policy with resolute consistency. In the process he has reasserted American leadership in the global economy and opened doors of opportunity that have led and will continue to lead to the creation of jobs. Despite the temptation to turn inward and cut ourselves off from the world, the United States has renewed its commitment to remain engaged in the world and continue the U.S. leadership role in the global economy.

#### 1995 TRADE AGENDA

Our trade agenda is now entering a new phase. We must get down to the hard work of reaping the benefits of those trade agreements that we have negotiated over the past two years for the good of U.S. workers and companies. This is no time to rest on our laurels.

I characterize our trade agenda for the foreseeable future with three words: implementation, enforcement, and expansion.

#### IMPLEMENTATION

Our trade agreements are mere pieces of paper unless we pursue their dictates in a vigorous manner.

Our first priority is to implement the Uruguay Round, and begin building a World Trade Organization that works as conceived, with discipline, by consensus, with all countries living up to their commitments.

The Uruguay Round is a single undertaking. Before the Uruguay Round, between 27 to 45 countries were signatories to the five codes in the General Agreement on Tariffs and Trade. Countries could pick and choose which agreements to sign. Non-signatories were allowed to enjoy the benefits of more open markets without corresponding responsibilities. It was a classic free rider system.

Under the Uruguay Round, we insisted that all 123 countries that signed the agreement, sign all five codes, as well as the other multilateral agreements. Now, everyone will, in a comparatively short time, play by the same rules. This includes the developing countries, where potential growth is so great, who are now all bound to international trade rules for the first time. Our policy is to build this kind of mutual responsibility into all of our trade agreements.

Implementation of the Round will further open markets to U.S. exports of goods and services in a number of ways. Foreign tariffs on industrial products will fall by more than one-third and non-tariff barriers will be significantly reduced or eliminated. For the first time, trade rules will extend to agriculture and services. New rules will protect intellectual property rights, strengthening key U.S. industries.

It is critical that we complete successfully the unfinished business of the Uruguay Round in the services sectors. Negotiations were extended in four areas: financial services, temporary entry of people, basic telecommunications, and maritime. The negotiations on financial services will conclude in June, and we must have improved market access for our banks, insurance companies, and securities firms from a number of key countries by that time.

We will continue to implement the North American Free Trade Agreement. Mexico's economic partnership with the United States is critical to their recovery and our own future prospects for job creation. Chile's accession to NAFTA is a high priority for us. We will launch negotiations with Chile by May of this year.

Finally, it is important to note that increasing interdependence among nations requires all of us to accept new responsibilities, which means we must begin to address internal domestic policies that distort or inhibit trade, including a nation's actions—or inactions—regarding anticompetitive business practices, lack of transparency, corrupt practices such as bribery, environmental policies and internationally recognized labor standards. We began to address these issues in the NAFTA and we will continue to do so.



An area of great concern to this Administration is the lack of openness in multi-lateral proceedings. International institutions are closed to outside observers. This must change. Because trade is increasingly important to the livelihoods, not just of Americans, but people around the world, we simply can no longer tolerate such a closed system. The credibility of the global trading system depends on greater public access to, and confidence in, that system.

#### ENFORCEMENT

During the Cold War, the United States often looked the other way when countries did not live up to their trade commitments, as a strategic necessity. That has changed. Now all sides must play on a level playing field. To reap the opportunities in the global marketplace, all countries must accept the responsibility to open their markets.

Enforcement of both international trade agreements and U.S. trade laws underpins our entire approach to trade. Since we are the world's largest trading nation, it is in our interest to strengthen the rule of law and institutions. We have made it clear that promises are worth nothing without effective rules, dispute settlement procedures, and remedies.

We will closely monitor the agreements we have reached, as well as those negotiated in previous administrations, to ensure that other countries live up to their commitments. Of course, if a country is not living up to its WTO obligations, our first course will be through the strengthened dispute settlement process in the WTO. However, we will continue to use every tool in our disposal—301, Super 301, Special 301, Title VII, GSP, the Telecommunications Trade Act, or WTO accession—to open markets around the globe.

I have frequently been amused by the reaction that is triggered when the United States initiates an action against another country using our trade laws. Cries of "trade wars" and "protectionism" go up. Well, we are protecting U.S. workers and interests, but by using our position as the world's largest market to open foreign markets. Some people seem to think that signing an agreement is enough. I don't.

Our willingness to use our trade laws has contributed to many of our successes. For example, our recent agreement with China epitomizes this strategy.

**China.** Last month, I travelled to China to sign an historic agreement, which will provide for both immediate and longer term improvements in enforcement of intellectual property rights (IPR) and provide U.S. companies greater access to the Chinese market. The agreement came after pressure following an investigation under the Special 301 provision of the 1974 Trade Act. While in China, I also signed an historic space launch agreement, and we reached an "eight point accord" that is a road map for our work to resolve differences over market access, services, agriculture, and China's accession to the WTO.

Underlying these agreements is a much more fundamental concept—the rule of law. Respect for the rule of law not only results in a more efficient economy and trade regime, but also leads to a better society. Enforcing the law—for example, cracking down on copyright pirates, eliminating unfair trade practices, halting textile transshipments—helps both our economies grow. Respect for the law is also contagious. It improves human rights and creates a more open society. This has proved to be the case throughout East Asia. China will be an important focus of our trade efforts in the coming months as we work to develop reciprocity in our trading relationship.

**Japan.** Our enforcement strategy also underpins our policy towards Japan. Over several decades, the United States has tried many different approaches to deal with the unique structural and cultural obstacles to market access in Japan. Difficulties faced by U.S. firms stem from trade barriers that are a combination of government and private industry exclusionary practices and a myriad of non-transparent, unpublished rules and regulations, known as "administrative guidance."

The cornerstone of the Clinton Administration's trade policy toward Japan is the Framework, which represents a practical, market-based, "results-oriented" approach to dealing with these non-market barriers. In 1994, we reached significant agreements under the Framework in such areas as telecommunications, flat glass and insurance. We now have begun to monitor closely Japanese implementation of these agreements.

In addition, we continue to press the Japanese government to take bold action to free up over-regulated sectors of the Japanese economy. These complex regulations constrain the country's economic growth, hurt Japanese consumers and impede foreign access to the Japanese market.

A high priority area for our trade relationship with Japan is the automotive and auto parts sector. Trade in this sector constitutes approximately 60 percent of the

U.S. bilateral deficit with Japan, and 22 percent of our total trade deficit. Discussions with Japan have focused on three major areas: access to Japan's motor vehicle market, auto parts purchases in Japan and in the United States by Japanese motor vehicle makers, and deregulation of the Japanese auto parts "aftermarket." After eighteen months of negotiations under the Framework, there has been virtually no progress in the automotive area. In addition, on October 1, 1994, we initiated a Section 301 investigation of Japan's virtually closed market for replacement auto parts.

In the last 25 years, Japan has exported 40 million cars to the United States. During the same period, the United States has shipped 400,000 cars to Japan. This imbalance must be addressed.

**Korea.** I would also like to say a few words about Korea, one of the toughest markets in the world. Korea's trade barriers increasingly resemble those of Japan's about fifteen years ago—Korea has already "targeted" the auto, computer chip and shipbuilding sectors. And U.S. exporters are constantly harassed by significant layers of often unknown and unpublished regulations and endless regulatory requirements which are contrary to international norms. Bilateral agreements are frequently ignored or reinterpreted. It's no wonder that American businesses have been going elsewhere in Asia for the past five years. Senator Baucus's March 16 resolution was right on target.

We are actively reviewing our trade relationship with Korea and intend, where appropriate, to take particular advantage of the new rules in the WTO under the Sanitary and Phytosanitary Agreement. Yesterday we requested dispute settlement consultations regarding Korea's testing requirements for agricultural chemical residues. Fruit was rotting at the port while exporters waited for as long as three weeks to receive the test results. Today I learned that Korea intends to change those laws. Next month, we will challenge Korea's unscientific government-mandated shelf-life system in the WTO, a system that hurts not only U.S. meat exports, but a wide range of food products.

We also depend on U.S. trade laws to enforce the numerous U.S.-Korea bilateral agreements. The Section 1377 telecom review is essential in enforcing our 1992 telecom agreements with Korea. Two weeks ago we successfully negotiated a deal worth over \$100 million to U.S. telecom companies. We intend to enforce our laws and those of the WTO without hesitation.

**Intellectual Property Rights.** Intellectual property protection has been a significant feature of our trade policy. Piracy of intellectual property is a problem in numerous countries around the world. One study estimated that U.S. companies lose over \$40 billion a year as a result of piracy.

Negotiating strong IP agreements and enforcing them has taken on new urgency because of the increased importance of our intellectual property industries to our national competitiveness. Our copyright-based industries are growing at twice the annual rate of the economy and employing new workers at almost four times the annual rate of the economy as a whole.

We are particularly concerned about continuing problems in Brazil, Argentina, and Turkey, and new problems in Singapore, especially regarding product patent protection of pharmaceuticals. We look for these countries to make significant improvements if they wish to avoid a major trade confrontation with us.

#### EXPANSION

The other area of focus in the coming months is expansion, that is, to build on the trade agreements we have reached so far, and to open markets further and expand trade. In particular, we will pursue the Free Trade Area of the Americas, it is critical to hemispheric growth that we move forward with the FTAA. And we must move forward the process started by the Bogor Declaration, the commitment made in Indonesia to eliminate barriers to trade and investment in Asia. I will discuss these two in a moment, but first there are two areas of trade expansion I would like to mention.

**G-7.** Last year in Naples, the President challenged his colleagues to begin thinking about how the G-7 could continue to demonstrate leadership by pursuing further initiatives to open markets. Clearly, with the successful conclusion of the Uruguay Round, we enter a new phase in our trade relations. As the largest economies in the world, the G-7 countries have a responsibility to stay at the forefront of trade expansion. In the time leading up to the next Summit in Halifax, we will have opportunities to pursue specific initiatives as well as to begin to pick a course for a new WTO agenda.

First, I will be meeting with the trade ministers of the Quad—Canada, Japan, and the European Union—in early May where I expect that we will review developments in the ongoing negotiations on services, including financial services which has

a deadline of June 30, and basic telecommunications services which must be energized if we are to reach agreements by April 1996. Additionally, we shall explore further cooperation in implementing the Uruguay Round agreements, for example, moving forward in key areas such as transparency and dispute settlement, and the prospects for cooperation in the standards area.

I expect that the OECD Ministers in May will endorse negotiations on a multilateral investment agreement. The United States supports these talks. Negotiations will be tough, but we all know that trade follows investment and this will be an important issue over the next several years.

**Europe.** The European Union is a huge market for U.S. products. Our exports to Europe already exceed \$100 billion a year. The Uruguay Round greatly reduced trade barriers between the United States and Europe, but there is still much more that could be done to increase Transatlantic trade. The Administration is studying a number of options for the U.S.-European trade relationship.

We will also continue to be actively engaged with the countries of Central Europe and the newly independent states of the former Soviet Union as they make the transition to market economies. Our goal is to assist these economies' full entry into the world trading system on commercial terms. In addition to their strategic importance to the United States, there is great long-term potential for U.S. trade and investment in the region.

#### LATIN AMERICA AND ASIA

Our trading partners in Europe and Japan, of course, remain critically important. But future opportunities for growth and new job creation lie in Asia and Latin America. That's why we are moving forward with the commitments we made to expand trade in Indonesia with the Bogor Declaration and in Miami with the Free Trade Area of the Americas.

Development of a central position for the United States in evolving trade arrangements in these regions will be critical to our economic future and to our broader security interests.

**FTAA.** Latin America is a key area of focus for trade expansion through the FTAA. It is critical that we move forward with the FTAA to foster hemispheric prosperity through economic partnership. Let me explain why.

As a result of efforts to reform their economies countries in Latin America are exploding with growth and trade with the United States. In recent years, Latin America has been the second fastest growing economic region in the world.

Along with the economic reforms in Latin America have come striking political changes. The only country in the hemisphere with a leader who is not freely elected is Cuba.

The results have been stunning. The "lost decade" of the 1980s has been replaced by found opportunities in the 1990s. Inflation rates which reached several thousand percent in some countries have fallen to single digits in most nations.

The United States benefitted from economic reform in the hemisphere. U.S. exports to Latin America jumped from \$30 billion in the mid-1980s to over \$78 billion in 1993, creating 600,000 additional export-supported jobs and employing 1.3 million U.S. workers.

U.S. exports to Latin America now approximate our exports to the European Union, and, if trends continue, may reach \$232 billion by 2010, greater than our combined exports to the E.U. and Japan (\$216 billion).

It's not just geographic proximity that accounts for this explosion of trade. By reforming their economies, developing countries have unleashed a tremendous demand for everything from consumer products to capital goods and the materials needed in major infrastructure projects.

Latin Americans spend 40 cents of every dollar spent on trade on U.S. goods. We supply over 70 percent of some countries' imports and often three to four times as much as a country's next largest trading partner.

However, the average Latin American tariff is still over four times the average U.S. tariff. Although a number of non-tariff barriers have been removed, Numerous non-tariff barriers remain. U.S. firms continue to face some investment restrictions and inadequate intellectual property protection in the region.

The opportunities—and problems—in Latin America are greatest for small and medium businesses. Large businesses, for the most part, have the resources that have allowed them to surmount the legal and technical barriers to trade in other countries. Many have sold their goods in Latin America for decades. Small businesses don't have those advantages.

We must level the playing field. These are historic opportunities. But to make our trade agreements work for all people, each country must accept certain responsibilities.

ities. We will not accept free riders. Our trade agreements will be single undertakings, like the NAFTA and the Uruguay Round, where each side accepted the same obligations.

Recognizing this historic moment, President Clinton hosted the Summit of the Americas last December in Miami, the first time in 30 years that the nations of this hemisphere have gathered together.

The 34 democratically elected leaders enthusiastically endorsed the U.S. proposal to construct "The Free Trade Area of the Americas," or FTAA, by the year 2005, with substantial progress expected before the end of this century.

In June, the trade ministers of the region will meet in Denver to adopt specific recommendations for both immediate action and long-term work towards the FTAA. This is a long road. But we must remain focused and move forward with determination and optimism. We intend to press the attention of the hemisphere on making concrete progress over the next year and beyond.

Chile's accession to the NAFTA will be a first strategic step in creating the FTAA.

The Latin Americans are not waiting for us. Neither are our trading partners outside the hemisphere. Latin America is in the process of integrating now. Nearly every country in the region is part of at least one major subregional trade agreement. There are five major sub-regional trading arrangements in Latin America, of which the NAFTA is only one. All are different in nature and scope, but they share a goal of reducing trade barriers and opening markets.

In addition, countries outside the hemisphere are keenly interested in Latin America. The European Union and the Southern Common Market have agreed to negotiate a reciprocal trade agreement. China, Japan and Korea are investing heavily in Latin America.

What happens if the United States is not involved in Latin America? U.S. firms, workers and farmers will be placed increasingly at a competitive disadvantage. Business opportunities for construction contracts, medical equipment, computers—all the things developing countries want and need—will go to Europeans, Japanese or Canadians. We will lose chances to create jobs and promote growth in this country.

We have a historic window of opportunity now. Countries in Latin America want to create an FTAA. It is clearly in the U.S. economic interest to make this happen.

We want to make sure this integration occurs on terms that are in our mutual interest. That means eventually establishing a common set of trading rules for the whole hemisphere, based on high standards of openness to match our own, not a maze of agreements that complicate, instead of enhance, commercial relationships.

**APEC.** The Asia Pacific region has the fastest growth in the world—three times the rate of the established industrial countries. Over the past three decades, Asia's share of the world's GDP has grown from 8 percent to more than 25 percent. By the year 2000, the East Asian economies are likely to form the largest market in the world, surpassing Western Europe and North America.

This growth has led to an explosion of trade with the United States. East Asia is the number one export market for U.S. products. US merchandise exports to Asia have grown nearly 60 percent over the last five years. U.S. trans-Pacific trade was 22 percent more than our trans-Atlantic trade in 1992. Our exports to Asia account for over 2 million jobs in the United States. One projection shows that Asia, excluding Japan, will be our largest export market by the year 2010, amounting to \$248 billion.

APEC is the regional centerpiece of our efforts to open markets, expand trade and ensure the future of our economic cooperation with the Asia Pacific region. Six years ago, when APEC was established it was generally viewed as a forum for consultation and cooperation on economic issues. Now, because of President Clinton's leadership in Seattle in November of 1993, and President Soeharto's leadership in Bogor, Indonesia last November, we have focused APEC's central objectives on one common goal: the achievement of free and open trade and investment in the Asia Pacific region by no later than 2020. "Industrialized" countries have agreed to strive to implement liberalization by 2010. This goal will involve promotion of business facilitation steps, economic cooperation and technical assistance as well as traditional liberalization which builds upon and "broadens and deepens" Uruguay Round outcomes within the region.

The first post-Summit meeting of APEC senior officials was held several weeks ago in Fukuoka, Japan, initiating the APEC trade process under Japan's chairmanship. Although much work remains to be done, we believe the APEC trade process is off to a good start this year in developing a concrete, credible and comprehensive action plan to implement the Bogor mandate. This plan must be completed for approval by leaders at their next meeting to be held in Osaka this coming November. In addition, officials are working on some short term results, such as the simplifica-

tion of customs and standards procedures, improvements in telecommunications and transportation infrastructure, which will add momentum to the APEC process and be of immediate benefit to businesses.

APEC members account for over 40 percent of the world's population, over 40 percent of world trade, and about 50 percent of the world's output of goods and services. Our efforts to expand trade with this region are critical to future growth and job creation in the United States.

#### FAST TRACK

I look forward to working with you in the coming weeks and months to establish a consultative arrangement. Fast-track renewal is critical if we want to continue expanding economic and job growth in this country by opening key foreign markets for our firms and workers. It is important that we have a consultative arrangement that balances the responsibilities of the executive and legislative branches of our government.

We need fast track to pursue opportunities in the world's fastest growing economies, countries that now restrict access to their markets but that show huge potential for our exports.

**Other Issues.** There are a few other issues that we will need to address in the coming weeks and months, in particular, graduating Bulgaria under Jackson Vanik, granting Cambodia Most Favored Nation status, implementing the historic ship-building agreement, extending the Generalized System of Preferences, or "GSP," program, enacting a Caribbean Basin Initiative program, and establishing the U.S. Israel Free Trade Zones.

Finally, I know the Finance Committee will take up Senator Dole's proposal, S. 16, The WTO Dispute Settlement Review Commission Act, on May 10. The Administration supports Senator Dole's efforts and stands ready to work with him and the members of this committee to ensure the creation of an appropriate review commission.

#### CONCLUSION

Mr. Chairman, President Clinton and a bipartisan coalition in Congress have proven their dedication to doing everything possible to raise standards of living and improve the lives of working Americans as they compete in the new economy. Together, we must continue to fight to open markets and expand trade, because it will foster new opportunities for working Americans, create jobs and raise standards of living.

The President put it best in a speech last November: "The center, the heart of our economic policy must be an unbreakable link between what we do to open the global marketplace and what we do to empower American workers to deal with that marketplace."

Americans need not hide behind their fears, but must boldly build a new country of peace, growing prosperity, and economic security. I look forward to working with you this year as we work to achieve that goal. Thank you very much.

#### RESPONSES OF AMBASSADOR KANTOR TO QUESTIONS SUBMITTED BY SENATOR HATCH

**Question:** When do you intend to make your Section 301 unfairness determinations against Costa Rica and Colombia?

**Answer.** I commenced Section 301 investigations of certain Costa Rican and Colombian banana export policies on January 9, 1995. By law I must make my unfairness determination no later than January 9, 1996. It is too early to say with certainty when I will make a determination in these cases, but my staff and I already have conducted several sessions of consultations with these countries to determine the facts in this case. I believe it highly likely that I will make a determination in these cases before the January 9, 1996 deadline.

**Question.** What is the timetable for completing negotiations with the EU for policy reform?

**Answer.** We will hold a second round of negotiations with the EU on the bananas issue April 11-12 in Washington. After this round of talks is completed, we will have to determine whether further talks would be useful. As such, there is not a formal timetable for completing negotiations with the EU. However, unless the negotiating process shows sufficient promise, we will not continue with negotiations for any extended period of time.

**Question.** If your time frame for reforms is not met, will you then proceed with the threat of retaliation which you made in January?

*Answer.* If it appears that our ongoing negotiations with the EU will not lead to a resolution of the bananas issue, I will consider other actions. If it appears that our ongoing negotiations with the EU will not lead to a resolution of the banana issue, I am prepared to take additional steps including possible trade retaliation at the appropriate time.

*Question.* Has USTR made inquiries into the Indonesian piracy situation?

*Answer.* USTR has discussed the issue of software piracy with the Indonesian government, most recently during USTR meetings in Indonesia in January and March. USTR has also been working closely with BSA to develop an effective approach to dealing with its piracy concerns in Indonesia. The Government of Indonesia has begun to respond to these inquiries (it sent USTR a detailed response on April 4), but needs to do much more to effectively combat software piracy.

*Question.* Is USTR receptive to considering a Special 301 priority foreign country designation for Indonesia if the government cannot or will not assure the availability of workable justice system procedures to deal with the thefts?

*Answer.* USTR's objective is to solve the problem in Indonesia. In this case, this means persuading them to provide, among other things, a workable justice system and procedures to address intellectual property theft. We will use whatever means necessary, including those means available to us under special 301, to achieve this result.

#### RESPONSES OF AMBASSADOR KANTOR TO QUESTIONS SUBMITTED BY SENATOR BAUCUS

*Question 1.* Lumber consultations with Canada.

After ten long years of the softwood lumber dispute and several binational panels, and the loss of thousands of U.S. mill jobs, the United States and Canada are finally formally sitting down at the table to find ways to resolve the dispute permanently.

How are the U.S.-Canada softwood lumber consultations going?

*Answer.* Representatives of the United States and Canada met on March 2. They agreed to continue to meet on a regular basis in plenary sessions scheduled for May, July, and September. A joint task force was set up in March to prepare for the plenary meetings.

Softwood lumber is a top priority on the bilateral trade agenda. Plenary meetings are being conducted on a high political level, giving further evidence to the high priority we attach to this issue. We are determined to make these consultations a success and, along with the Commerce Department, have devoted considerable resources to this project. We also are working closely with other government agencies and the U.S. private sector. Both governments undertook to ensure broad participation and depth of expertise on delegations with a view to encouraging an educational and productive dialogue.

The first two plenary meetings will concentrate on the following issues:

May meeting: The current situation, outlook, and factors affecting supply and demand in the North American lumber markets and industries, including: timber supply factors; global supply and demand outlook of lumber; productivity and technological development; competition from substitute products; global competition and trade issues affecting export opportunities for North American producers; emerging standards for sustainable forestry. The agenda for the July meeting will be set.

July meeting: Policy environment and trends in forest management and pricing policies in Canada and the United States. Other topics identified in the "Elements", will be discussed. The agenda for the next meeting, anticipated in September, will be set.

*Question 1a.* What steps is the Administration taking to ensure that Canada moves towards a market-based system?

*Answer.* We are determined to make these consultations a success. As the "Elements of a Consultative Process" state, one of the common objectives is one of "a system of forestry resource management oriented to market forces." Along with the Commerce Department, we have devoted considerable resources to this project. We also are working closely with other government agencies and the U.S. private sector. Both governments undertook to ensure broad participation and depth of expertise on delegations with a view to encouraging an educational and productive dialogue.

The "Elements of a Consultative Process" (see attached) on softwood lumber and related forestry resource issues we agreed to in December 1994 lay out three goals: "to create better understanding, to resolve problems, and to try to avoid litigation. The elements are based on the common objective of "a system of forestry resource management oriented to market forces."

## ELEMENTS OF A CONSULTATIVE PROCESS

The United States and Canada wish to encourage a bilateral dialogue on trade in softwood lumber and related forestry resource issues. To that end, the governments announce the establishment of a bilateral consultative process. This process will establish an ongoing dialogue to create better understanding, to resolve problems, and to try to avoid litigation. Both sides acknowledge that such a dialogue is most likely to be productive in an atmosphere of cooperation and conciliation, not contentiousness or litigation.

The consultative process will be government-to-government. Both governments will seek the views and input of the industries and other interested parties as appropriate.

The Government of Canada intends to involve fully in the process the provincial governments with respect to matters falling under provincial jurisdiction.

Both sides agree to consult on a full range of issues including, but not limited to: current and future policies and practices, as well as barriers, that affect trade in softwood lumber and related forestry resource issues; and challenges facing the industry in either or both countries. To this end, both sides will exchange factual information.

The consultative process will include working together to resolve problems on either side that may arise, including ways to ensure that progress made in addressing problems is not eroded. Both sides will work to explore mechanisms to try to resolve problems or disputes without litigation.

The United States and Canada note the significant changes that have taken place in forestry resource management programs and practices. Both sides recognize that a system of forestry resource management oriented to market forces will contribute to attaining a fair financial return from forest resources and assist in mitigating the possibility of contentiousness and litigation.

The consultations will commence no later than March 1, 1995. At the initial session, the governments will agree on an agenda and schedule for the consultations for the first year.

Representatives will report periodically to ministers on progress made in the consultations.

*Question 2. TCK smut in the context of China WTO accession.*

As part of our negotiations with China regarding China's accession to the WTO, the United States raised the issue of TCK smut.

What commitments has China made to resolve this barrier to tremendous volumes of U.S. wheat exports? What are you doing to resolve this long-standing unfair trade barrier.

*Answer.* The 1992 Market Access MOU commits China to removing unscientific phytosanitary barriers to trade within one year of signature of the agreement. Despite numerous consultations, China continues to bar imports of wheat that may have been contaminated by TCK smut. With very limited exceptions, China's climate does not provide the conditions for TCK. During Ambassador Kantor's trip to China, the Chinese did indicate a willingness to end the deadlock on phytosanitary issues. A USDA/USTR team will meet with Chinese agricultural officials in San Francisco the week of April 17—and we will make every effort to resolve this difficult issue.

*Question 3. Free Trade with Chile.*

How will free trade with Chile benefit the American economy and especially the American middle class?

*Answer.* We are faced with an unprecedented set of circumstances in this hemisphere to expand U.S. economic opportunity—the traditional bedrock of our prosperity and a pillar of global democracy, including the 34 democracies in this hemisphere. The Administration is committed to pursuing policies that project long term confidence in the market based economic reforms in this hemisphere because they are critical to U.S. job growth, immigration trends, and prosperity.

The results of the Summit of the Americas, including the President's December 11 joint statement with the Leaders of Canada, Mexico and Chile initiating preparatory work to negotiate Chile's accession to the NAFTA, sent a clear signal of U.S. confidence in this hemisphere and are a watershed that we should build on in partnership with the Congress. Now is not the time to sit back and hope for the best, nor let the short term financial liquidity problem in Mexico cause us to lose sight of the need to act now on our hemispheric objectives. Walking away, and the lack of confidence that will show towards the region, will only mean less opportunity for U.S. exporters, producers and workers, less encouragement for continued economic reform and less U.S. influence in a vibrant region determined to play a larger role in global affairs. The President's decisive action in the Mexican situation and

his decision to proceed with Chile should be seen in this broader context and our desire to expand high quality U.S. jobs.

U.S. exports to Latin America and the Caribbean have grown from over \$30 billion in the mid-1980s to over \$90 billion in 1994. If the trend continues, U.S. exports to this region will exceed those to Western Europe by the turn of the century and those to both Western Europe and Japan combined by the year 2010. Capital goods exports, an area where the United States is globally competitive and where high paying jobs often reside, are the largest part of U.S. exports. Capital goods exports accounted for over half of our exports to Latin America in 1994 at \$44 billion. Overall, Latin Americans spend 40 cents of every dollar spent on trade on U.S. goods.

Latin America, with Chile in the forefront, has been a leader of a market oriented revolution in developing country economic policy. The U.S. has directly benefitted from this change in the hemisphere. "The Global Economy" supplement to *The Economist* of October 1, 1994, indicated that developing country growth prospects could boost the annual rate of OECD real incomes by half a percentage point over the next two decades. That translates into a constant dollar increase annually of roughly \$8,000 per U.S. family. The supplement also says the United States is the best positioned to benefit from the opportunities created by the rapid growth of the developing economies.

The increase in U.S. exports to Latin America since the mid-1980s has resulted in the creation of approximately 600,000 U.S. jobs—jobs that generally pay 13 to 17 percent more than non-trade jobs. Increased U.S.—Latin American, and U.S.—Chile trade alone, is having a positive effect on U.S. workers. Consistent with the overall explosion in U.S. exports to Latin America, U.S. exports to Chile grew from \$796 million in 1987 to \$2.8 billion in 1994, or more than tripled. The U.S. also ran a trade surplus with Chile of nearly \$1 billion in 1994. Manufactures and capital goods account for the bulk of our exports to Chile, including industrial machinery and computers, transportation equipment, fabricated metal products and textile mill products. U.S. exports in these areas grew by over 200 percent during the 1987–93 period. In addition, U.S. agricultural and livestock product exports to Chile during the same period grew by over 200 percent.

Moreover, the U.S. has a vital interest in leveling the playing field in Latin America and the Caribbean through building the Free Trade Area of the Americas. Barriers to trade in Latin America are often greater than comparable U.S. measures. For example, the average import tariff in the region is four times the average U.S. tariff. Chile's uniform tariff is 11 percent ad valorem, nearly four times the U.S. average.

Latin America, including Chile, is also not waiting for the United States. It has the most active interregional trade agreement agenda of any developing region. The implementation of the Uruguay Round results are central to the hemisphere's plans for market opening, but Latin America is already moving beyond the results of the Round in that it is eliminating tariffs and quotas in its free trade agreements and customs unions. Such preferential arrangements, because they do not involve the United States, leave U.S. exporters and workers in a less competitive position vis-a-vis exporters of member states. Chile has arguably the most active free trade agreement agenda of any Latin American country.

The European Union and the Southern Common Market involving Argentina, Brazil, Paraguay and Uruguay—over half the economic output of Latin America—have agreed to pursue a reciprocity-based trade agreement. Talks will start this year. Japan and other Asian countries have also expanded their interest in Latin America.

NAFTA accession will play a key role in forging a partnership with the leader of economic reform in Latin America and its most dynamic economy in the last 10 years. Chile is not just a symbol of reform, but an activist of the first order in opening markets, having negotiated free trade areas with Venezuela, Colombia, Ecuador, Mexico and it is pursuing an agreement with the Southern Common Market and the European Union. Chile was the first developing country to bind all its tariffs in the GATT during the Tokyo Round, was an active player in the Uruguay Round, and is a new member of APEC. Chile's accession to the NAFTA is its number one trade priority. If Chile is able to achieve its objective, the result will encourage similar economic and trade policies throughout Latin America, not to mention that it will further open a dynamic economy to increased U.S. trade and investment.

For the United States, Chile's near term accession to the NAFTA is the most important step we can take to ensure we are shaping the trade and integration effort in Latin America in a realm of fast-moving and competing approaches. The United States has been committed to an agreement with Chile for four years. Chile, the region, and our European and Asian partners, are measuring the U.S. commitment to lead. U.S. credibility in the region is at stake in a substantive area—trade and



investment—that is viewed by the region as the most important issue at the Summit of the Americas.

**Question 3a.** Is the Administration committed to ensuring that if Chile accedes to the NAFTA, it will also accede to the labor and environment side accords?

**Answer.** The Administration's position is that the NAFTA supplemental agreements on labor and the environment are part of the package of disciplines that Chile should join when acceding to the NAFTA. All parties to a trade agreement negotiated on the premise of a balance of concessions and reciprocity should in the end undertake the same disciplines. In the Administration's preparatory talks with the NAFTA partners regarding Chile's accession both Canada and Mexico have indicated that Chile should accede to the NAFTA supplemental agreements on labor and the environment.

**Question 4.** Specific Ag-related priorities.

What are your specific priorities in the coming year involving U.S. agriculture around the world?

**Answer.** Our priorities include ensuring implementation of, and full compliance with, Uruguay Round and NAFTA commitments on agriculture; a farm bill that promotes the international competitiveness of U.S. agriculture consistent with our international obligations; progress on bilateral issues with China as well as a WTO accession agreement that results in significantly improved market access opportunities for U.S. exporters; resolution of sanitary and phytosanitary disputes with Korea that keep competitive U.S. ag exports out of the market; settlement of Article XXIV:6 negotiations concerning enlargement of the European Union to include Austria, Finland and Sweden which protects U.S. rights and benefits U.S. exporters.

**Question 5. U.S.-Canada Wheat Agreement.**

Do you expect that the U.S.-Canada wheat agreement will be extended upon its expiration later this year? Will you be pushing hard for its extension? If it is not extended, how will you ensure that U.S. wheat interests are not sacrificed to the Canadians?

**Answer.** As I told Senator Conrad, with the falling Canadian dollar and stocks, and the termination of the Western Grain Transportation Act subsidies, we are going to face a potential problem in August or September of this year. If the U.S.-Canada Grains Commission cannot come up with a solid plan to solve this problem, we are going to insist that the tariff-rate quotas stay in place. We will very much need your support and those of your colleagues on this issue.

**Question 6.** EU subsidized gluten.

How does USTR plan on dealing with subsidized gluten imports to the U.S. from the EU?

**Answer.** My office has been consulting with the U.S. wheat gluten industry, and we were recently visited by the EU industry. We are seeking clarification about a number of questions that have been raised in these discussions. Once we have received this information, we will consider what next steps might best be taken.

**Question 7.** Korean non-tariff trade barriers to U.S. beef exports.

How will you resolve this dispute and open Korea's markets to billions of dollars of U.S. beef? Will the U.S. go forward with a WTO action against Korea? What other steps are we taking to resolve this dispute?

**Answer.** USTR has been meeting frequently with the Koreans following the acceptance of a Section 301 petition filed by the American meat industry. The petition asserts that Korea restricts U.S. meat imports and abrogates several bilateral agreements. The industry estimates that they are losing \$200 million annually due to the Korean government's shelflife standards for frozen, cooked sausages, frozen beef patties, and fresh and chilled beef and pork in vacuum-packaged cuts.

Although the Koreans have yet to agree to specific commitments on moving toward a manufacturer-determined shelflife system, they have indicated they will give "positive consideration" to the U.S. request.

The Korean government is expected to publish a new Food Safety Code on April 30 which will address these issues. Unless they meet our concerns, which were presented in writing on March 2, the Koreans have been informed that the United States will request Article XXII consultations under the WTO Sanitary and Phytosanitary Agreement the week of May 1. The United States will not preclude any action, including bilateral sanctions, in the event the Koreans fail to meet our concerns.

**Question 2a.** Kantor's views regarding the 1995 Farm Bill.

I am very concerned about the United States unilaterally eliminating or substantially cutting its farm programs, while the rest of the world sits back and watches.

What are your views regarding some of the proposals to cut various farm programs, especially the export-related programs?

*Answer.* We have not seen any specific proposals from Congress. But, we do feel export subsidies are necessary and important tools which enable us to compete with subsidized competition, principally from the European Union, in third country markets.

*Question 8b.* Will you be fighting to preserve EEP, for example?

*Answer.* Yes.

*Question 8c.* If we unilaterally disarm or cut our farm programs, won't that put us at a major disadvantage with Europe?

*Answer.* The European Union uses export subsidies for most products in order to be competitive in world markets. Therefore, it is in our competitive interest not to abandon these programs.

*Question 8d.* How will you keep the pressure on Europe to cut its farm supports, if we are going to cut ours?

*Answer.* What happens on U.S. farm programs will be a matter of legislation and enactment by the President later this year. Beyond expressing the Administration's support for export programs, I don't want to speculate on the outcome of that process. However, the ceilings on export subsidies negotiated in the Uruguay Round will help to contain the degree to which the European Community can affect world markets through their domestic support programs.

#### RESPONSES OF AMBASSADOR KANTOR TO QUESTIONS SUBMITTED BY SENATOR PRYOR

*Question 1. Lumber Consultations and the Subsidy Dispute.* Could you tell the committee a little about your plans for the softwood lumber consultations and how they might resolve the trade dispute on this issue?

*Answer.* The "Elements of a Consultative Process" on softwood lumber and related forestry resource issues we agreed to in December 1994 lay out three goals: "to create better understanding, to resolve problems, and to try to avoid litigation. The elements are based on the common objective of "a system of forestry resource management oriented to market forces." Representatives of the United States and Canada met on March 2. They agreed to continue to meet on a regular basis in plenary sessions scheduled for May, July, and September. A joint task force was set up in March to prepare for the plenary meetings.

*Question 2. Priority of Lumber Issue.* Can you assure me that you will continue to make the U.S.-Canada lumber consultations a top trade policy priority for the Administration?

*Answer.* Softwood lumber is a top priority on the bilateral trade agenda. Plenary meetings are being conducted on a high political level, giving further evidence to the high priority we attach to this issue. We are determined to make these consultations a success and, along with the Commerce Department, have devoted considerable resources to this project. We also are working closely with other government agencies and the U.S. private sector. Both governments undertook to ensure broad participation and depth of expertise on delegations with a view to encouraging an educational and productive dialogue.

*Question 3. Schedule for Consultations.* What is the overall schedule for the U.S.-Canada lumber consultations? Is there an agenda for each meeting? When do you expect to have an outline of possible solutions to the lumber trade dispute? Would you be willing to come back and report to us periodically on what plan of action has been agreed to with respect to changes in timber pricing policies in Canada?

*Answer.* On December 15, 1994 representatives of the United States and Canada established a consultative process on softwood lumber, including the "Elements of Consultative Process."

The first bilateral consultative meeting was held on March 2, 1994 in Washington, DC. The two governments agreed on a work plan to implement the "Elements." Representatives agreed to meet on a regular basis in plenary sessions at the deputy assistant U.S. trade representative level, and more often at the experts level to ensure adequate preparation and follow-up, and a thorough understanding of the information exchanged. The first two plenary meetings are scheduled for May 24-25 in Washington, DC, and early July in Canada. Agendas for May and July meetings were laid out, and a bilateral task force set up to prepare for these and subsequent meetings. The first task force meeting was held March 27, 1995.

The first two plenary meetings will concentrate on the following issues:

*May meeting:* The current situation, outlook, and factors affecting supply and demand in the North American lumber markets and industries, including: timber supply factors; global supply and demand outlook of lumber; productivity and technological development; competition from substitute products; global competition and trade issues affecting export opportunities

for North American producers; emerging standards for sustainable forestry. The agenda for the July meeting will be set.  
 July meeting: Policy environment and trends in forest management and pricing policies in Canada and the United States. Other topics identified in the "Elements" will be discussed. The agenda for the next meeting, anticipated in September, will be set.

#### ELEMENTS OF A CONSULTATIVE PROCESS

The United States and Canada wish to encourage a bilateral dialogue on trade in softwood lumber and related forestry resource issues. To that end, the governments announce the establishment of a bilateral consultative process. This process will establish an ongoing dialogue to create better understanding, to resolve problems, and to try to avoid litigation. Both sides acknowledge that such a dialogue is most likely to be productive in an atmosphere of cooperation and conciliation, not contentiousness or litigation.

The consultative process will be government-to-government. Both governments will seek the views and input of the industries and other interested parties as appropriate.

The Government of Canada intends to involve fully in the process the provincial governments with respect to matters falling under provincial jurisdiction.

Both sides agree to consult on a full range of issues including, but not limited to: current and future policies and practices, as well as barriers, that affect trade in softwood lumber and related forestry resource issues; and challenges facing the industry in either or both countries. To this end, both sides will exchange factual information.

The consultative process will include working together to resolve problems on either side that may arise, including ways to ensure that progress made in addressing problems is not eroded. Both sides will work to explore mechanisms to try to resolve problems or disputes without litigation.

The United States and Canada note the significant changes that have taken place in forestry resource management programs and practices. Both sides recognize that a system of forestry resource management oriented to market forces will contribute to attaining a fair financial return from forest resources and assist in mitigating the possibility of contentiousness and litigation.

The consultations will commence no later than March 1, 1995. At the initial session, the governments will agree on an agenda and schedule for the consultations for the first year.

Representatives will report periodically to ministers on progress made in the consultations.

#### RESPONSES OF AMBASSADOR KANTOR TO QUESTIONS SUBMITTED BY SENATOR GRAHAM

*Question 1.* I am concerned as to whether our international financial institutions are adequately structured and prepared to deal with exchange rate fluctuations such as the ones we have seen recently in Mexico. We all know that the basic purpose of currency exchanges is to facilitate international trade. We also know, however, that the existence of the exchanges also has spawned a substantial amount of speculation in currency exchange rates.

a. Do we have sufficient protective mechanisms in place to insure that we can minimize, rather than aggravate, a currency rate crisis?

*Answer.* As this is a question regarding U.S. currency and rate policy, I will have to defer to my colleague, Secretary Robert Rubin of the Department of Treasury.

b. Are other western hemispheric leaders also concerned about the management of currency fluctuations (such as the peso devaluation) and their impact on trade?

*Answer.* As this is a question regarding U.S. currency and rate policy, I will have to defer to my colleague, Secretary Robert Rubin of the Department of Treasury.

c. Is this an appropriate issue for the agenda for the June Denver trade ministers meeting on free trade in the Americas?

*Answer.* The responsibility for evaluating the international financial institutions' abilities to address exchange rate fluctuations lies with Finance Ministers and Central Bankers. Trade ministers and their staffs do not have the detailed expertise to address these issues in an authoritative way. Therefore, we would not plan to propose this item for the formal agenda at the Denver Trade Ministerial. However, we do expect Trade Ministers at Denver to exchange views informally on the full range of economic and political factors affecting the efforts to promote economic inte-

gration in the Hemisphere. It is expected that recent exchange rate fluctuations would be raised by some ministers in this context.

*Question 2.* I understand USTR is conducting a section 301 investigation regarding the European Union's banana regime. It seems reasonable to infer that any action directed at the EU could adversely affect the economies of some Caribbean countries. In such a case, how does USTR assess the direct impact on our neighbors and, as a result, the indirect impact on the U.S.?

*Answer.* The USTR section 301 investigation focuses on the discrimination against U.S. firms inherent in the EU banana regime. We have made it clear to the EU and to the Caribbean banana producing nations that we are not seeking to change or eliminate the tariff, volume, and aid advantages Caribbean banana producers currently enjoy in the EU. Our most recent proposal to the EU on the bananas issue reflects this fact. We believe the discrimination in the EU regime against U.S. firms can be eliminated without harming Caribbean banana producers.

The United States does not want to take any action that would unfairly hurt the economies and democracies of the Caribbean nations. At the Technical Working Group on Bananas, which met in St. Lucia on March 2-3, the U.S. delegation and the representatives of Caribbean nations exchanged views and information on the effects of the EU banana regime.

The Administration continues to believe that the EU banana regime can be reformed in a way that does not discriminate against U.S. banana marketing companies and maintains Caribbean banana production.

*Question 3.* Attaining the goal of hemispheric free trade will require commitment by both governmental and non-governmental entities, note the work performed by the North-South Center in connection with the Summit of the Americas and the private sector conference the Department of Commerce is planning in Denver this summer. Can you comment on the role of such private institutions in achieving the Administration's free trade objectives?

*Answer.* There is no doubt that government and private entities will have to work closely to achieve the Summit of the Americas' objective of the "Free Trade Area of the Americas" (FTAA) by the year 2005. Organizations like the North-South Center—as well as others—play a very important role in facilitating dialogue among the various interests—both private and government. Dialogue and debate are, of course, necessary to promote understanding, to clarify concerns, and to resolve differences—all of which are essential in obtaining agreement among the countries in the region for the creation of a hemispheric free trade area.

The role of private entities to facilitate the FTAA process will likely grow in the future. As trade becomes even more important to our economy, private entities like the North-South Center can play an invaluable role in ensuring people understand the benefits from an open trading system. With government resources diminishing, the need for private entities, such as the North South Center, will only expand.

The Trade and Commerce Forum, co-hosted by Ambassador Kantor and Secretary Brown, will provide an opportunity for the private sector and government to determine ways to facilitate trade in the Western Hemisphere. Entities like the North-South Center can help shape the issues for future debate and discussion.

*U.S. Trade Representative,  
Executive Office of the President,  
Washington, DC, April 19, 1995.*

HON. BOB GRAHAM,  
U.S. Senate,  
Washington, DC.

Dear Senator Graham: Thank you again for the opportunity to discuss the Administration's trade program during the Senate Finance Committee hearing on April 4, 1995.

At those hearings, you asked about the Administration's views on an amended version of H.R. 553, which went through mark-up in the Ways and Means Trade Subcommittee on March 29. Let me clarify our views on that bill.

The Administration supports H.R. 553, "The Caribbean Basin Trade Security Act," as amended, during mark-up. As Ambassador Charlene Barshefsky indicated during those proceedings, we have some concerns over the sugar provision. In addition, the Administration would like to provide additional technical comments on the bill. We are working on our specific comments, which we expect to soon provide the Ways and Means Trade Subcommittee. We will forward our suggestions, to you, for your consideration.

We would welcome the opportunity to work with you on legislation comparable to the amended H.R. 553.

Sincerely,

MICHAEL KANTOR.

