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REVIEW OF THE URUGUAY ROUND: COMMITMENTS TO OPEN FOREIGN MARKETS

HEARINGS

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED SECOND CONGRESS

FIRST SESSION

APRIL 17 AND 18, 1991

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REVIEW OF THE URUGUAY ROUND: COMMITMENTS TO OPEN FOREIGN MARKETS

WEDNESDAY, APRIL 17, 1991

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

The hearing was convened, pursuant to notice, at 10:00 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Baucus, Daschle, Packwood, Chafee, Durenberger, Symms, and Grassley.

[The press release announcing the hearing follows:]

[Press Release No. H-13, April 11, 1991]

FINANCE COMMITTEE TO REVIEW URUGUAY ROUND, SENATOR BENTSEN SEEKING COMMITMENTS TO OPEN FOREIGN MARKETS

WASHINGTON, DC.—Senator Lloyd Bentsen (D., Texas), Chairman of the Finance Committee, announced Thursday that the Committee will hold 2 days of hearings on the Uruguay Round of Multilateral Trade Negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT).

The hearings are scheduled for *Wednesday, April 17, at 10 a.m. and Thursday, April 18, at 9:15 a.m.* in Room SD-215 of the Dirksen Senate Office Building.

"In 1988, Congress authorized the most ambitious set of multilateral trade negotiations to date in the Uruguay Round. As we now debate whether to grant the President's request for a 2-year extension of "fast-track" legislative procedures for trade agreements, we need to take stock of our interests in those negotiations," Bentsen said.

"I want to explore the views of a broad range of U.S. interests that might be affected by these negotiations. The Committee will be interested in hearing an evaluation of the talks to date, and what may be gained by continuing the Uruguay Round. At the same time, we need to be aware of the potential problems so that the Congress can exercise proper oversight," Bentsen said.

"I am particularly interested in exploring how we can insure that other countries participate fully in these negotiations. One of our primary concerns must be to insure that our trading partners make meaningful commitments to open their markets to U.S. exporters. In the past, we have let too many countries take a free ride in the multilateral trading system. I am asking all witnesses in these hearings to address the issue of full participation and to explore new ways to insure that future agreements are truly effective in creating an open trading system characterized by full participation by all nations," Bentsen said.

In September 1986, trade ministers for GATT member countries agreed in a meeting at Punta del Este, Uruguay to launch the eighth round of multilateral trade negotiations conducted under the auspices of the GATT. Known as the Uruguay Round, the negotiations fall into four broad categories: market access, GATT rules, agriculture, and new areas, such as services trade, intellectual property rights, and investment measures. At Punta del Este, ministers agreed to conclude the Round by the end of 1990. However, the effort to reach final agreement at a ministerial meeting in Brussels in December 1990 failed, primarily due to fundamental disagreement regarding agricultural trade reform.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SENATE FINANCE COMMITTEE

The CHAIRMAN. If you will please be seated and cease conversation. The committee attendance this morning is obviously short on quantity by long on quality. So we will get this hearing under way right away.

Let me state that the first panel will consist of Mr. James Robinson who is the chairman of the Advisory Committee for Trade Policy and Negotiations, chairman and chief executive officer, American Express Co. I want you to know, Jim, that the check is in the mail on my American Express card. [Laughter.]

And Donald Fites, who is the chairman, National Foreign Trade Counsel, and chairman and chief executive, Caterpillar. Gentlemen, if you would come forward and be seated, please.

Today we are continuing a series of hearings on fast track negotiating authority. We have already held two hearings on the proposed free trade negotiations with Mexico. Over the next 2 days we will examine the Uruguay Round. And next week the committee will hold 1 day of hearings on the Administration's Enterprise for the Americas Initiative.

When Congress passed the 1988 Trade Act, we gave the Administration fast track authority to negotiate the Uruguay Round and to negotiate bilateral agreements with individual countries. We did that because we believed those negotiations offered us a solid opportunity to open up foreign markets to our products. I believed that then and I believe it today.

It is for that reason I support the extension of the fast track authority for both the Uruguay Round and for the Mexico free trade negotiations. I believe that those agreements, properly negotiated, can help promote U.S. exports abroad, stimulate the manufacturing and service industries in this country, and help American consumers as well.

But to reach those objectives, Congress must keep a watchful eye on our negotiators. We have done that with the Uruguay Round, mostly through private meetings with Ambassador Hills. In some cases we need to press the Administration to stay on course; to keep pressing on behalf on U.S. industries. In other cases we may be heading down the wrong track. We need to make some midcourse corrections. But I would rather make those corrections sooner instead of later so that a flawed agreement is not sent to the Congress for approval.

What we really have is a compact with the Administration. No Congress can seriously negotiate a trade agreement because it does not speak with one voice, because of the great variety of economic and regional interests it represents. But the Constitution says that trade is our responsibility. So we have entered into an agreement with the executive branch that says "you negotiate." But during those negotiations, you must consult with us so that we can fulfill our responsibility, and we can talk about the economic interests and the problems that they would experience in such an agreement, and then bring us the agreement.

If we did it otherwise, if we said that we are not going to have fast track and each economic interest and regional interest can

press for its amendment to that agreement, we will never get a bottom line offer. Countries will walk away from negotiations with us. That is the reason for the fast track. That does not mean that we endorse whatever final package results. We do not know what it is going to be.

My friend Kika de la Garza says, here is the United States-Mexican Free Trade Agreement. It is a blank page. Do we not have the courage to negotiate? Will we turn our backs on all the problems, such as with the environment, and other things that concern us? You will not get rid of those problems if you do not negotiate and try to work out the differences. And that is why I think this is the way we have to proceed.

Over the next 2 days, we are going to hear from a variety of witnesses representing American industries concerned about the Round. Today we will hear from two very distinguished chief executives who have major companies in this country in services and manufacturing.

We are also going to hear from the agricultural community. I felt it was very important to have their testimony because, in these negotiations, agriculture plays such a major role. I know that many members of the committee are also concerned about the agricultural negotiations.

Before we begin, let me emphasize one point I would like all witnesses to address. As I have watched this Round, I have been increasingly concerned that securing full participation by all of the members of GATT is one of the major challenges in this Round. In past GATT Rounds, you have seen a few big countries make most of the concessions. A lot of other countries made very few concessions but gained most of the benefits because of the Most Favored Nation Clause of the GATT. I really do not think we can let that happen in these negotiations.

In some of the chief areas where we want to make progress such as services and intellectual property, we want to open up the markets of precisely those countries that have taken a free ride in past rounds. If we are to give the Administration 2 more years to negotiate, we need to know how they think they are going to get full participation by these other countries. If we do not, I think any Uruguay Round agreement will be in for some really tough sledding in the U.S. Congress. I will have more to say on that subject tomorrow when we examine that issue in more detail.

Today I would simply like to urge witnesses to address this issue by suggesting ways in which we can ensure that the Uruguay Round helps promote a truly free multilateral trading system.

I yield to my distinguished colleague, Senator Packwood.

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

Senator PACKWOOD. Mr. Chairman, I think the argument that Congress is not going to be a part of this if we endorse the fast track is ludicrous. I have been through two proceedings involving free trade agreements. We all have; Israel first and then Canada. Israel is a relatively small country if they shipped us everything they could make, it would not be a significant factor in our econo-

my. And yet we went through many agonies with some particular products that Israel wanted to ship that was going to cause some difficulty with some businesses here.

We worked it out and got the agreement. And Congress was involved up to our neck in that agreement. I do not know how many days we spent with Alan Holmer and Judy Bellow testifying day-after-day as we worked out the Canadian Agreement. Did we all get everything we want? No. Did Congress have input? Lord, we had input, all of the input we wanted.

I believe as these final agreements are made, we will be involved in these negotiations, in many cases maybe more than we want to be involved. But we will be involved and no President is going to send an agreement to this committee, to this Congress, if he has negotiated an agreement without our input. Because he knows we will tear it apart.

So I would hope that we would absolutely give the President this authority, knowing full well that in the next 2 years, day after day, week after week, month after month, we are going to be involved—all of us, in what is in that final agreement.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Grassley?

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

Senator GRASSLEY. Mr. Chairman, I too am concerned that the GATT negotiations will bring a meaningful commitment to open markets for our U.S. exporters. Like other members of this committee, I commend you for holding these hearings and particularly for taking on the burden you have these last 3 months, not only holding a lot of hearings on free trade, but also holding hearings on the health care issue. You have really been tackling the tough ones and they are taking a lot of your time.

As each of us are aware, the Uruguay Round broke down when farm exporting nations including the United States, Canada and several Latin American countries clashed with the European Community on reducing agricultural supports. I was pleased when the deadlock was broken as a result of the EC's acceptance of a statement pledging Uruguay Round participants to work for specific binding commitments to reduce domestic production supports, export subsidies and barriers to agricultural imports.

Three previous rounds of GATT trade negotiations have failed to liberalize agricultural trade, largely because the EC was unwilling to negotiate modifications of its domestic agricultural policies.

I believe the question today, Mr. Chairman, is whether the Uruguay Round can reverse this historical pattern. I am particularly pleased that you have such an elite group of agricultural leaders with us this morning to provide their expert testimony to the committee. In particular, I am interested in their views as a member of this committee who has a heavy agricultural emphasis in my State.

In one of the previous hearings, Mr. Chairman, we had the pleasure of having Ambassador Hills testify before this committee. I want to tell the participants today that I was pleased by her remarks that agriculture would not be left at the table as a sacrifi-

cial lamb but rather it would be a cornerstone of whether or not we have a good agreement. I have complete faith that Ambassador Hills will honor this commitment to agriculture on the basis of her statement to me both in private and during the public hearing before this committee.

As a result, I have decided to support the President in his request for an extension of the fast track legislative procedure. I plan to honor that commitment to the President and I expect the witnesses from agriculture we will hear from this morning will concur with that decision in their testimony. However, to prevent any misunderstandings of my position or the position of any member of this committee, we all want to make it very clear that while we plan to support the request for fast track, we are not committing ourselves to the final agreement when it comes back before this body for a final vote.

I am particularly interested in the comments of the non-agricultural witnesses during the next 2 days to hear whether or not they believe agriculture is the key stone to these agreements, like Mrs. Hill does.

Mr. Chairman, thank you very much.

The CHAIRMAN. Senator Baucus?

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

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Chairman, I congratulate you for these hearings. I think that extension of the fast track is absolutely critical for the improvement of American living standards. In my view there is no question about it.

In the last three-quarters, 85 percent of the growth in the U.S. GNP was export oriented. In addition, we Americans are more accessible, we are more open by far than other nations. This is a win-win situation. The U.S. consumer will win. The U.S. wage earner will win. The U.S. farmer will win.

The more we Americans can persuade other countries to lower their trade barriers and the more we Americans meet the challenges that we have to face, and there are very significant challenges—certainly with the North American Free Trade Agreement, wage rate differentials, environmental problems, there are very severe problems. But as proud as we are of our military prowess in the Persian Gulf, must also have the same confidence in our economic prowess in the 1990's and into the next century.

There is no question about it, we cannot as Americans stick our head in the sand, disapprove fast track extension and think that Americans are going to have higher living standards in the 1990's and the next century. There is no doubt about. And we have to face the challenges that are before us. It is going to be difficult. We must be creative. We must be imaginative. But if we are, there is no doubt in my mind that we will do better as Americans, and not only we Americans, but the other peoples in the word will do better as well.

So I just think these hearings are critical, Mr. Chairman. And it is important for the United States to extend fast track so we can

sit down and negotiate and meet these challenges and get on with it.

The CHAIRMAN. Thank you. Mr. Robinson, if you would proceed. We are pleased to have you.

STATEMENT OF JAMES D. ROBINSON III, CHAIRMAN, ADVISORY COMMITTEE FOR TRADE POLICY AND NEGOTIATIONS, AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AMERICAN EXPRESS CO., NEW YORK, NY

Mr. ROBINSON. Mr. Chairman, I compliment you and your associates on the leadership you have provided over the years on trade matters. In fact, I think I met Senator Grassley for the first time in 1982 at the GATT meeting in Geneva.

I am here today representing the Advisory Committee for Trade Policy and Negotiations. I should also add that I chair The Business Roundtable's Trade and Investment Task Force. And so my views are consistent with both of those committees'.

As far as ACTPN is concerned, it consists of 45 members: a broad representation of the business committee, including agriculture, and senior members from labor. The committee, of course, was created by Congress in 1974, so these discussions with you today, with their special focus on GATT, are timely and important.

A number of you have mentioned, in addition to GATT, the importance of the North American Free Trade Agreement and perhaps enterprise for the Americas Initiative. Those also are of great strategic significance to American business. I have submitted my written testimony for the record. I will not repeat that. I will also reference the formal ACTPN report, which is required by the 1988 Omnibus Trade Bill. In fact, it was submitted on March 1. I will refer to that as well because it contains substantial detail and discussion.

Now, why is the Uruguay Round so important to a business? Simple—open markets lead to more exports. And that is what we are in the business of trying to accomplish. More exports, of course, translate into more jobs in the United States. And there are volumes and volumes of statistics that support this fact at the Federal, the State, and the local levels.

As you know, export growth is fueling real economic growth in the United States. Senator Baucus, you have also mentioned that. Look at the incredible figure of some 88 percent of real growth in 1990 coming from exports. And that is not just because of a slump in U.S. business domestically. It is also because our manufactured exports have jumped about 90 percent since 1985 and are fast approaching the $350 billion mark.

Export-led growth is creating jobs. One rule of thumb that I think is generally accepted is that roughly 30 new jobs are created for every $1 million in net exports. That impact is equally clear at the State level, where exports have grown dramatically over the past 3 years. Certainly the experience in Texas stands out as a startling example.

Now, history has shown that the United States prospers when trade grows. Denying the President fast track authority—simply the authority to keep negotiating or to enter into negotiations—

would be ludicrous. It would send the wrong signal to the world and it could lead to economic isolationism, which in turn could lead to protectionist pressures and tit-for-tat trade actions. Clearly American business and jobs would be hurt. That is why ACTPN strongly supports the extension of fast track.

In short, let us have a chance to finish the job that we began 4½ years ago as far as the Uruguay Round is concerned. I speak with confidence on behalf of most of the business community, which is working together: the Chamber, NAM, and many other business associations across the country. In fact, next week I believe there will be a letter signed by some 500 associations and businesses encouraging the extension of fast track.

Now, GATT is not the only game in town. As important as it is, we have another great opportunity to open markets and expand jobs. That, of course, is the North American Free Trade Agreement. ACTPN views the NAFTA, not as an alternative to GATT—because we must have a multilateral trading system, and one where there is full participation—but as a supplement, a special complement.

Clearly, with a North American Free Trade Agreement, some jobs and some areas will be impacted. Appropriate transition periods and other mechanisms will be needed to take that into account. That is something we support.

So let me make it clear that ACTPN strongly supports an aggressive American trade policy—bilateral as well as multilateral. All the trade tools we have at our disposal are being used by USTR. Those tools were refined by the 1988 Omnibus Trade Bill.

Many people do not understand fast track. They think it means something hastily done; it does not. Mr. Chairman, you have explained the process. I have participated in the GATT Ministerial meetings, as have others, including Dean Kleckner of the American Farm Bureau. He has been selling the merits of services, and I have been selling the merits of agriculture. A consolidated package is what we are looking for because without that, a GATT agreement would not have the appropriate support.

So, Senator Grassley, you have my full commitment on importance of agriculture, which is a key component of a successful GATT agreement. On the issue of full participation by Congress in the negotiations: Unless there is movement in agriculture, and unless the United States does have the authority to negotiate, they will be no participation because there will be no Uruguay Round. That would be foolish indeed. The existing process for consulting with Congress and the private sector is as thorough and inclusive as any that I have seen in my days as a businessman dealing with issues in Washington.

So you have our support for fast track. I should point out that labor does not agree, particularly in relation to Mexico. Their comments are covered fully in the ACTPN report. I am sure you have read those and will take them seriously.

We cannot pull the plug on the negotiations at this stage. However, the business community does not believe in giving the Administration a blank check. That is why we have been as involved as we have in the discussion process. As the Uruguay Round picks up, we will continue to be as actively involved as we have in the past,

both on a macro level and in dealing with issues like intellectual property, subsidies, services—all the areas. I will be glad to answer any questions that you might have on this point, Mr. Chairman.

To repeat, the Uruguay Round is of critical importance to this country. A North American Free Trade Agreement can also be of critical importance to all three countries, and to all of the Western Hemisphere, if properly done. We are eager to be a participant in the process by working with you and with the Administration.

Now I will be glad to answer any questions that you might have. I will conclude by saying that it is time to use fast track to help create a permanent trend toward opening markets around the world for the United States and for all countries. Thank you.

The CHAIRMAN. Thank you. Mr. Fites, if you would proceed, please.

[The prepared statement of Mr. James D. Robinson III appears in the appendix.]

STATEMENT OF DONALD V. FITES, CHAIRMAN, NATIONAL FOREIGN TRADE COUNCIL, AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CATERPILLAR, INC., PEORIA, IL

Mr. FITES. Thank you, Mr. Chairman, members of the committee. I am Don Fites. I am chairman of Caterpillar, Inc. Today I am testifying before you as chairman of the National Foreign Trade Council. NFTC is the oldest and largest association formed to address international trade and investment issues. Its 500 corporate members account for more than 70 percent of all U.S. exports.

Before relating NFTC's recommendations on GATT issues, let me recount a recent incident. I think this story points up a misconception that for some time has plagued discussions of the GATT. Earlier this year a reporter for one of America's most prestigious newspapers called us saying that he wanted to write an article about the market access portion of the GATT negotiations. More specifically, he wanted to write about the U.S. initiative called the zero-for-zero tariff proposal. We were delighted. The zero-for-zero initiative is one of our top corporate priorities.

As it turned out, the reporter's article was never written because an editor did not feel the story would be newsworthy. After all the reporter was told, everyone knows that this GATT Round is about agriculture, services and intellectual property protection. It is unfortunate, but I think the editor was just echoing what many people really think, that the GATT begins and ends with agriculture, services and intellectual property protection.

And because of that perception, enthusiasm for a new GATT agreement has appeared lukewarm within America's manufacturing sector. Well, that appearance is deceiving. So if you will permit me this morning, I want to leave discussion of these other issues to my colleagues, like Jim here. I want to talk about just one subject, market access.

I'm chairman of one of America's largest net exporters—Jim used the figure of $350 billion of manufactured exports, we do about 1 percent of that; 3.4 billion in 1990. I know that improved market access is not only the key to the Uruguay Round, but it is

critical to bolstering America's export performance during the 1990's and beyond.

To further open foreign markets, GATT negotiators must succeed in a number of areas. Now, the most obvious market access issue does relate to tariffs. But even lower tariffs will not benefit many American manufacturers unless there are new GATT rules to ensure that exports are not restricted by such issues as governmental procurement practices, unreasonable technical standards, balance of payment rules, cumbersome rules of origin. Even antidumping rules are increasingly being used as a tool to restrict market access for American products.

In my written testimony, Mr. Chairman, I expand significantly on each of those five issues. So I will not go into them further right here.

As we see it, American manufacturers, their customers and employees are poised to be the big winners if negotiators can successfully craft a new GATT agreement that addresses those issues that I have just enumerated. Nevertheless, I realize that there are those who believe the risk associated with a new GATT are so great as to outweigh potential gains. We do not agree.

In our view, the present international trade landscape largely represents trade rules of a past era, an era in which the United States was the world's only economic powerhouse. And we had the trade surplus to prove it. Although that era has long since ended, America's exporting manufacturers are still operating within the bounds of that old system.

Today, with a few notable exceptions, American markets for manufactured good are open, as Senator Baucus observed. Consequently, future U.S. market access concessions will likely be modest. In contrast, while many of our trading partners have made impressive gains in productivity—their markets have only opened slightly.

Let me put it another way: When it comes to market access, the United States has already paid its dues. It is now time to collect. That is one reason why the National Foreign Trade Counsel has joined with the Zero Tariff Coalition to support the U.S. zero-for-zero tariff proposal.

This initiative is about as straightforward as GATT issues get. Simply put, the United States has offered to totally eliminate import tariffs on the products of nine industrial sectors, so long as other countries agree to do the same. The sectors include construction equipment, steel, non-ferrous materials, paper, wood products, electronics, pharmaceutical, beer, fish and others. Together, these proposed free trade sectors account for about 30 percent of U.S. manufactured trade.

Anyway you look at the zero-for-zero tariff proposal, it is not only fair, it is a good deal for America. For example, tariffs applied to Caterpillar-type products are about 2 to 2½ percent coming into the United States; 4 to 13 percent in Europe and over 15 percent in most developing countries. If the zero-for-zero initiative is successful, those tariffs would all evaporate.

And what is true for the construction equipment industry is especially true for other zero tariff industries; like semiconductors, paper, wood products, metals and beer.

Before closing, I would like to pass on a personal observation. There are a lot of estimates floating around Washington as to how much economic growth a new GATT agreement will generate—millions—billions—or even as much as a trillion dollars of growth during the next decade. I do not know what the correct number is, but I do know that whenever markets are open, American manufacturers like ourselves historically have benefited more than our greatest expectations. Let me give you an example: The Mexican market is a current case in point. Since coming to office, President Salinas has stood up to protectionists in his country by ending many import restrictions. He partially opened the construction equipment market in 1988. He reduced tariffs in 1989 and opened the diesel engine market in 1990. Anticipating these actions, we guessed that Caterpillar exports to Mexico would increase by about $20 million. Well, we were way off the mark. Last year, Cat exports to Mexico nearly doubled to $131 million. To $131 million in human terms, Cat exports to Mexico now generate work for 900 U.S. Caterpillar employees and 1,800 employees at the American suppliers who supply us.

I think, Mr. Chairman, it is understandable that up to now it has been new GATT areas commanding most of the world's attention; new areas often do. But for many National Foreign Trade Council members, the real GATT payoff will come by way of improved market access. For those reason, the NFTC urges the Senate not to interfere with the automatic 2 year fast track extension of negotiating authority that was provided for in the Omnibus Trade Bill.

Enacting fast track authority was the right decision in 1988. Preserving it is the right decision today. That concludes my remarks and I would be pleased to answer any questions. Thank you.

[The prepared statement of Mr. Donald V. Fites appears in the appendix.]

The CHAIRMAN. Mr. Robinson, some in the service industries, such as basic telecommunications and transportation, have expressed their concerns about applying the MFN principle to services. They are concerned that the same thing that has happened in the past to manufacturing industries in the GATT will happen to services; that you will have a lot of free riders that a number of these countries will have the advantage of open markets, but will make no concessions; and, that this country will have lost its leverage to get future concessions out of them.

I share that concern. I do not want any hitchhikers in this agreement if we can avoid it. Now, you are Chairman of the American Express Co., and very much interested in services trade. What is your view on the MFN issue and what should we do about it?

Mr. ROBINSON. Well, I agree with you, Mr. Chairman, that we cannot fall into the trap of accepting agreements that grant MFN treatment around the world, even to markets that are basically not open. So, as we put it in the services area, there has to be a substantial "down-payment" by each country in terms of market opening and changes in the kinds of restrictions that can impact U.S. services such as transportation or telecommunications or financial services. For instance there were several options being discussed in Brussels, such as a two-track approach, where you have an agreement that applies to countries who sign on—who have, in fact, sub-

stantially opened up—but it does not apply to countries that have not made that kind of commitment, i.e., a down payment.

Take financial services: If Hank Greenberg were here to speak on behalf of insurance or John Reed on behalf of banking, they would be very clear in stating their concerns that the Asian and Latin American countries must move in the direction of market opening, national treatment, and right of establishment before we can contemplate the application of traditional MFN.

The CHAIRMAN. Well, I am pleased you share the concern and we will be looking at those options.

Mr. ROBINSON. I think it can be worked out. You focused initially on the issue of full participation. Well, this round is about full participation. The Latin countries in particular walked out in Brussels because the European Community was not willing at that time to deal with the specifics of export subsidies in agriculture. They need access to markets. If they gain access to those markets, they are prepared to show movement in other areas, such as tariffs or intellectual property or services. But they are not prepared to move without gaining market access themselves in areas that are important to them.

The CHAIRMAN. Well, I agree. I think that is one of the concerns that Senator Grassley expressed, and I share that concern about opening up foreign markets to our agricultural exports. We have some powerful allies in that group that are going to hang tough on that, just as we have.

Mr. Fites, I could not agree with you more about the overshadowing of the manufacturing side of the Round by the new areas. The GATT Round is a chance for us to really make some headway in access to foreign markets for U.S. manufacturing industries, and that is critical to us. Those are some of the best jobs that we have in this country, and help the economy.

What do you think could be done to place more emphasis on market access for manufacturing? Do you think the Administration is doing enough there?

Mr. FITES. Mr. Chairman, I think we have had great cooperation from the U.S. Trade Representative's Office on the zero-for-zero tariff initiative. They seized that issue as one of their chief negotiating goals in Geneva. I think the Administration is cognizant of the benefits that you describe that can come from reduced tariffs and from market access. So yes, I think it is being addressed.

You know, it is hard slugging out there, as Jim knows. He has been involved in some of these negotiations, as some of our people. We cannot expect to win all the battles. But I am satisfied that we are making progress. And if we can, it is going to mean a lot of manufacturing jobs for this country because if I could just digress a minute, why does a company like mine open plants in Mexico and Indonesia and in Canada? It is because we did not have market access. It is not because we want to build a plant in some of these places. Had we had market access a decade ago, some of those non-U.S. plants would not have been required. I think that also is true of many other U.S. companies.

The CHAIRMAN. That is a good point. Senator Packwood?

Senator PACKWOOD. Mr. Fites, I was going to follow down that track exactly. Last year you had $3.4 billion in exports in Caterpillar?

Mr. FITES. Yes.

Senator PACKWOOD. Out of total sales of how much?

Mr. FITES. 11.1 billion.

Senator PACKWOOD. So about one-third of your business is exports?

Mr. FITES. Because of the weak U.S. economy, about 45 percent of our 40,000 U.S. employees—had jobs because of exports.

Senator PACKWOOD. Forty thousand U.S. employees?

Mr. FITES. Forty-five percent of those 40,000 U.S. employees.

Senator PACKWOOD. In your testimony on page 3, you made reference to what the tariffs are on Caterpillar-type products coming into the United States. You said about 2 to 2.5 percent.

Mr FITES. Right.

Senator PACKWOOD. So you could manufacture in Mexico and send things into the United States with a relatively modest tariff if you wanted to?

Mr. FITES. Yes, we could.

Senator PACKWOOD. You know what organized labor's fear is? This agreement is signed eventually with Mexico and America's major manufacturers are going to move to Mexico. If that were the case, why do they not move now? I mean the tariff is so slight that if the differential in labor is the sole principal factor, why do you and the others not go now?

Mr. FITES. Well, I think that is a fallacy of U.S. Labor's argument. There really are very few restrictions on companies moving to Mexico now and exporting to the United States The fact of the matter is, the reason we do not go is because it is not economical. Productivity is the key issue here. We can produce a product in Peoria, IL or Decatur, IL, export it to Mexico and have it be a much better economic deal for us than it would be to try to build those products in Mexico.

In fact, when we first opened our Mexican plant, that is why we opened it, to assemble products, to escape the duty barriers and the licensing arrangements down there. As soon as President Salinas allowed us to start exporting to Mexico, we stopped assembling those finished products in Mexico. We now primarily use that facility to do heavy welded fabrications.

Senator PACKWOOD. I talked with John Young of Hewlett-Packard and he said I could use these figures because he had testified to them several years ago. He said the direct cost, and by that he meant in essence assembly and not the overhead, was less than 6 percent. And, therefore, labor costs per se are not a factor in where Hewlett-Packard decides to locate.

How much are your direct labor costs?

Mr. FITES. It depends how you measure it. But if we say direct labor costs, that is the labor that goes directly into the product—we are looking at 6.1 percent.

Senator PACKWOOD. So, in essence, you are in the same situation he is, that purely the direct labor cost; that is a relatively modest factor in where you choose to locate.

Mr. FITES. Yes, that is true.

Senator PACKWOOD. Thank you, Mr. Chairman. No other questions.

The CHAIRMAN. Senator Grassley?

Senator GRASSLEY. Mr. Chairman, I just want to say that I appreciate the comments of Mr. Robinson. The more we get the non-agricultural interests who are involved in the GATT agreement making the statements you made here, not only for my satisfaction and the benefit of the entire Congress but also because they come from the heart, I think the better off we will be. I would encourage you to encourage people, like yourself, to speak more freely to that point. Your comments are very assuring, and I think the fact they back up Ambassador Hills' commitment to agriculture as it does, brings your words even more credibility.

So thank you very much and I have no questions.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Fites, I want to follow up on the questions that Senator Packwood particularly asked about; namely, the incentives that the American manufacturers have or do not have in going say, to Mexico where the wage differential is so great.

You say you do not go now or some businesses do not move offshore, as it were to Mexico, in part because productivity in Mexico is a little bit lower and infrastructure costs. There are many reasons I suppose.

Mr. FITES. Yes.

Senator BAUCUS. If an agreement is written with Mexico and it is approved, and as Mexico hopes, Mexico becomes more prosperous, is there a point where either for Caterpillar for American manufacturers—because productivity in Mexico does increase, and the infrastructure improves—it makes sense for American manufacturers then to go and build plants or to manufacture in Mexico. Or will Caterpillar and most American manufacturers still feel that well, you know, productivity is even higher here or, you know, this is home, et cetera and since there is a real low tariff in our products going into Mexico, it makes more sense just to manufacture for export?

Mr. FITES. Well, I have to hope that if we are doing our job as U.S. management, we are going to continue to improve our productivity in this country. And for businesses like our own which are highly capital-intensive, as are most heavy manufacturing businesses, it really does not make sense to duplicate manufacturing facilities unless you have a very, very large market and there is some savings in the freight along with the labor cost that you refer to. I cannot foresee that, when you are talking about a country like Mexico—which is what, 3 or 4 percent of U.S. GNP? I cannot foresee that happening. What this will do is allow us to further enhance our production capabilities in the United States and export to Mexico because that will be the most cost-effective thing to do.

Senator BAUCUS. And you think other major manufacturers in the United States are about in the same position as Caterpillar?

Mr. FITES. I think for capital intensive industries they are, yes. I cannot speak for all U.S. manufacturers but I think we are a pretty good proxy for capital intensive business in the United States, and that is the way we see it.

Senator BAUCUS. And again, about 45 percent of your production is exported?

Mr. FITES. In 1990, 45 percent of our U.S. employees were really there because of our exports, because the domestic market was down and 55 percent of our sales were outside the United States We are one of America's largest net exporters. We import some products too, but we export a lot more, therefore, we can say that 45 percent of all of our U.S. employees where there because of exports, not only to Mexico but to Japan—a very strong export market for us also in 1990.

Senator BAUCUS. I want to compliment you on your emphasizing market access, because at least in my State of Montana, nonferrous medals, forest products, et cetera, benefit greatly with the zero-for-zero approach to tariffs. And as you say, it is part of these negotiations that is not in the headlines of the newspapers.

Mr. Robinson, you are the head of ACTPN and 2 years ago ACTPN recommended a certain approach with respect to Japan; namely, to set targets or benchmarks. And I am just curious 2 years later, your assessment of how we are doing now in our trade relationship with Japan? Would you modify our approach? Would you have any suggestions for us or for the Administration, you know, based upon the 2-year interval?

Mr. ROBINSON. Well, Senator, I think that the report we sent out before calculated import penetration in various industries by foreign goods coming into Japan, and pointed out that it was substantially lower empirically than in most other industrial countries around the world. We used that finding not to seek quotas or targets, but as a basis for challenging and encouraging Japanese industry itself to deal with the problems—ranging from the Big Store Law to the Keiretsu system.

In my own view, there has been a good deal of progress made by the Japanese in opening up markets. If you did the same analysis today, my guess is that the figures would show improvement, but would still reflect a lower foreign product import penetration across a number of industries as compared to other industrial countries. But the trend line is clearly in the right direction.

I also believe that the SII talks that have been going on have had a number of benefits, not least of which is the integration and coordination of the U.S. Government's interagency process and the realization that all of these issues are interrelated. That that has been a force for positive change.

I cannot tell you that everything has been done because clearly it has not, but the trend lines are right.

Senator BAUCUS. I appreciate that. Some American industries that are directly involved in the SII talks feel the Administration has kind of backed off a little bit and is not quite as aggressive as it was earlier. Do you agree or disagree with those assessments?

Mr. ROBINSON. Well, I know the groups that have gone over there—Charles Delara, for instance. I talk to him frequently, and he has used SII on behalf of Treasury and the financial services industry in quite an extensive fashion. Maybe some of the sound and fury that accompanied the initial meetings has simmered down—in part because they are now having these meetings as a matter of routine. But they are still going on. I think they are important.

Senator BAUCUS. Thank you.

The CHAIRMAN. Senator Daschle?

OPENING STATEMENT OF HON. TOM DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator DASCHLE. Thank you, Mr. Chairman. I was interested in the comment you made to Senator Packwood about the cost of labor. You said it is about 7 or 8 percent. What caught my attention was just yesterday we had Mr. Darman from OMB here who said that health costs alone last year for the work force in America equaled total net profit in American business. If that is the case—not that is necessarily in conflict at all with what you said to Senator Packwood, but it just seems to me that 7 or 8 percent would be very conservative. Did I misunderstand?

Mr. FITES. Well, let me put it in perspective here. I answered the question in relation to direct labor. When we talk about direct labor, the man assembling the machine is direct labor. The man supervising the assembly line is not direct labor. We call that indirect.

Senator DASCHLE. Oh, so we are talking about definitional——

Mr. FITES. But I think that is probably what John Young was talking about also in terms of direct labor.

Senator DASCHLE. Obviously, I am not in business, but it would seem to me you could not take direct labor cost as the means by which one judges the cost of labor within this country versus the cost of labor in Mexico because down in Mexico, you are going to have certain health costs, you are going to have other indirect, I guess you would use the term, costs that would be associated as well with the cost of doing business.

What is the total direct and indirect cost of labor in business today?

Mr. FITES. In our company, that figure is 27.5 percent.

Senator DASCHLE. Twenty. Is that what it is? Of course, yours is——

Mr. FITES. It is about 50 percent material, 27.5 percent labor. Now, in Jim's business it is probably the other way, but ours is basically material and overhead, depreciation; 50 percent material, 27.5 percent labor.

Senator DASCHLE. What would yours be, Mr. Robinson?

Mr. ROBINSON. Labor might be a bit higher in our context. Other major categories would be telecommunications costs, interest costs, and things like that.

Senator DASCHLE. Could you throw a rough ball park figure at us with regard to direct and indirect cost?

Mr. ROBINSON. I would guess in the 20 percent range.

Senator DASCHLE. Twenty percent, too?

Mr. ROBINSON. My staff have done the calculations, and the exact figure is 23 percent for direct and indirect labor costs.

Senator DASCHLE. Well, I only ask because it just seems to me that if we are going to lay everything on the table, I think that wages are only part of the picture. If I were a businessman and I were looking at all the different factors that go into whether or not I would locate in Mexico, I would look at wages, I would look at

health benefits, I would look at the regulatory environment. And if all of that led me to think that I might be able to save a substantial amount of money, I would have a lot of explaining to my board of directors to do if I said in spite of all the advantages, I am not going to locate there.

Now, I know productivity is a major offset here. But we have seen a substantial flight south, not necessarily to the degree that some have predicted, but there has been a significant degree of flight to Mexico as a result, I think, of very legitimate business questions that have to be asked when you look at the cost of labor.

Frankly, I am curious as to why it would be in Mexico's interest to even want this, given all the testimony I continue to hear about the North American Free Trade Agreement. It appears every time it is discussed that it is totally in our best interest. If it is just market access that business is looking at, I have difficulty accepting that, only because I do not think that market access, given their tariffs versus ours, is necessarily that much more significant. Ours is 4; I am told theirs is between 8 and 10.

I know this hearing in particular is on the fast track concept. And I would just be interested in your comments with regard to past history in international agreements. I am told that there are, thus far, 24 international agreements, both commercial as well as related to arms negotiations and other things; 24 agreements that have been ratified without fast track since 1960.

Both of you have indicated that successful conclusion of the Uruguay Round is to a large degree dependent upon whether we have fast track. What is different about this particular agreement over the 24 that have passed since 1960? And is it your view that you would not be able to accomplish a Uruguay Round without fast track?

Mr. ROBINSON. Well, in my view, Senator, you could not have a Uruguay Round without fast track. I do not know what those other 24 agreements entailed, but I do know—having been at the 1982, 1986, 1988 and 1990 GATT Ministerial Meetings, and having taken members of the ACTPN to Geneva on several occasions—that you have got to centralize your negotiating power in one body.

If the other countries are to make concessions that they think might be unwound on the congressional floor, for instance, or in committee, then they are going to preserve those concessions until the 11th hour in some capacity. In my view it is impossible to negotiate under the GATT framework without fast track with 100 countries, each with its own special interest, each wanting to be more and more a full participant in this game of world trade, and each looking for laws that are clear, dispute settlement mechanisms that do work, and so forth.

Again, I point to the rigorous process for congressional and private sector participation in the negotiations. I would venture to guess that of the 24 treaties you mentioned, none have had fuller participation by the business community, labor, and members of Congress than trade agreements being negotiated under the GATT, particularly in the Uruguay Round.

As to the other issue: would we move to Mexico because of labor costs? We have a huge operation in Mexico. Customer service has to be provided at the local level. There is no incentive we see for

moving people from the United States to Mexico. I have to deal with the issues you are talking when evaluating New York City relative to Santa Fe. Each has to be taken case-by-case. Productivity and other things are important—like New York City being the financial capital of the world. There are elements like that which override the labor-cost analysis alone.

Manufacturers, of course, have been able to take advantage of the maguiladoras. So I see very little incremental change from a United States-Mexico Free Trade Agreement. On manufacturing, of course, I defer to Mr. Fites.

Mr. FITES. If I may, Senator, let me just draw a parallel. How do we go about negotiating with our labor unions? I give a lot of authority to our people who are doing that negotiating. Owen Beiber gives a lot of authority to the people from the UAW who are negotiating for him. The negotiators get input from us from time to time. But when it is all over, there is a straight up and down vote by those on both sides; myself, in terms of my management team; Owen Bieber for those represented by the union. So I do not see this as a much different process.

And I think in somewhat further answer to your question, it was Congress itself 2 years ago that recognized the near impossibility of negotiating one of these agreements and, therefore, took it upon themselves to extend the fast track authority. And so I think they recognized the problems involved for our negotiators in trying to negotiate without some assurance that they could bring this bill before the Congress without bypassing the amendatory process, and get a straight up or down vote.

Mr. ROBINSON. Let me add that Congress put the 2-year review in place because you wanted to be sure the Administration did actively consult with and work with Congress. You wanted the opportunity to take a look. That is why we are here; you are taking a look.

The CHAIRMAN. Thank you. Senator Chafee?

OPENING STATEMENT OF HON. JOHN H. CHAFEE, A U.S. SENATOR FROM RHODE ISLAND

Senator CHAFEE. Thank you, Mr. Chairman. First, Mr. Chairman, I would like to congratulate you for having these two witnesses. Both of these gentlemen are right out in the firing line. They know what it is all about; Mr. Robinson, obviously having vast overseas operations and having been involved with this in a extracurricular fashion outside his company for so many years, and Mr. Fites for being in a very, very competitive business.

I must say, Mr. Fites, every time I drive out to Dulles, I weep when I see that Komatsu equipment on the side there. I wish it was broken down more often. [Laughter.]

Mr. FITES. I hope you see more Caterpillars there.

Senator CHAFEE. Well, I do.

Mr. FITES. I took a windshield market survey on the way in and I thought we were doing pretty well.

Senator CHAFEE. Well, you are a more accurate counter than I am in that. But in any event, we wish you well in that very, very tough competitive atmosphere. And I must say, I wish you would

get the word across to your unions. If you have got 45 percent of your people, and I presume they are mostly UAW, who are dependent upon exports, I wish the labor unions would catch on a little faster, that this has good means, good things for their folks. It is not everybody picking up and rushing to Mexico to make blue jeans.

There is a question I would like you folks to briefly comment on if you could here. We hear a lot about the virtues that will come about if fast track is approved and if the Uruguay Round is approved. But for everybody that does not vote for fast track or for this Uruguay Round, if they do not vote yes, they are going to vote no. In other words, we are not going to have it. And I wonder if you could just address that side of it. You have touched on all the lovely things that will happen if we get it. Please tell us in 2 minutes a piece, perhaps, what will happen if we do not get it? Mr. Robinson?

Mr. ROBINSON. Well, I think that business will go on but at a substantially slower pace of growth, and that U.S. businesses will experience increasing frustration in dealing with a variety of trade-limiting procedures around the world. So there will be an opportunity cost. It is also possible that as the intensity of trade friction grows, one country or another will take an action which will precipitate trade retaliation, and then you could have a substantial downturn in world trade.

As a result, the benefits to economic growth in this country from growth in trade would clearly peak—and, in my view, go down.

Senator CHAFEE. It would lose jobs in your judgment or lose the rate of increase in jobs that we otherwise would have?

Mr. ROBINSON. And that would translate into lost jobs.

Senator CHAFEE. Mr. Fites?

Mr. FITES. I agree with what Jim has said. In our case, I think we would almost get down to a country-by-country, industry-by-industry bilateral negotiation which would be ongoing. I think companies like ourselves which do 55 percent of our business outside the United States would be forced to manufacture more of our product outside the United States So most assuredly, we would see fewer U.S. employees building construction equipment and diesel engines in Illinois and the other States where we operate.

Senator CHAFEE. Well, I hope you inform Mr. Beiber and others on those points.

Mr. FITES. I have discussed that with Mr. Bieber and have not been totally successful in converting him.

Senator CHAFEE. Well, I would say I agree with you, that you have not been totally successful.

Mr. FITES. Maybe not even partially.

Senator CHAFEE. Yes. I would say you have been considerably less than totally successful so far.

I think another point you might make, and that is reinforcing what you stated earlier; that you manufacture in some of these foreign countries in order to gain market access. Absent the necessity to do that, you would not be building them overseas in many instances.

Mr. FITES. That is right.

Senator CHAFEE. You pointed out that is why you went to the East Indes; that is why you went to Mexico.

Mr. FITES. And Canada.

Senator CHAFEE. And Canada. So that if you had this agreement, there would be less of an emphasis to go overseas, am I correct?

Mr. FITES. Yes, sir.

Senator CHAFEE. Well, I think that is a point worth making. Thank you very much, Mr. Chairman. Thank you both for coming.

The CHAIRMAN. Senator Durenberger?

OPENING STATEMENT OF HON. DAVE DURENBERGER, A U.S. SENATOR FROM MINNESOTA

Senator DURENBERGER. Thank you, Mr. Chairman. Gentlemen, I would like to ask you a question or two with regard to the North American free trade that is going to sound terribly basic but it starts as simply as this. Do you recall who invented the notion of the North American free trade or whatever this concept is?

Mr. ROBINSON. Well, of course, it has been talked about off and on for years, the concept of the Western Hemisphere free trade zone being a dream perhaps.

First, we did the United States-Canada Free Trade Agreement, Canada being our largest trading partner. Then we discussed the possibility of a free trade arrangement—limited perhaps, but nevertheless a possibility—with Mexico. They were not interested. Then over the last 2 years the attitude in Mexico has changed, so the United States accelerated the discussion of an agreement with Mexico. The reason they did is that the vision of President Salinas is to take Mexico into the 21st century as a world-class competitive country.

Senator DURENBERGER. I am trying to get at what is 10 years from now, 15 years from now, so that you can put the immediate issues in a much larger context. And you used the words Western Hemisphere and I would accept that, because it is consistent with my concerns for the CBI countries. And there is a lot of logic in that to me.

So my question then is this: Is it your judgment on the basis of your experience and your observation of what we are doing in a political sense, that we are taking this a country at a time? For example, in Canada you learn certain things about impacts on U.S. policy and certain things on U.S. politics as you go through the process. And each of the industrial sectors learns something about definitions and something about the impacts and something about the response and so forth.

My next question is why is it important to begin the phase as we head south with Mexico? Is it only the logic that Mexico is right next to Texas? Is it logical that most of the trade in volume comes from Mexico? Is it the convenience, the low cost of transporting out of Mexico? What I am getting at, of course, is that we have struggled since I have been in the Senate not so much with Mexico in a security sense, although we should have. We have struggled with Guatemala and Honduras and El Salvador and Nicaragua and lately Panama. We have sent our military to Grenada. We do not have relations with Cuba. We have a lot of people in the proximity

of the United States. You do not have to go to Colombia, Venezuela, all the way to Brazil and Argentina to start dealing with the realities of some free trade. You can just see the consequences of discrimination against little countries like Dominica or St. Lucia in the fact we do not pay any attention to them because they are so dog gone small.

So now we are going to take on this great big giant. We are going to talk about all of the horrors of pollution and cheap labor and all that sort of thing. I worry about losing a few folks in Dominica or St. Lucia or Grenada or places like that. My question of you, simply because you have been at this longer than many of us, is do we run a risk here in bogging ourselves down by moving in the direction of a North American free trade zone? To what degree do we put Costa Rica and Nicaragua and El Salvador and Guadalupe and the rest of those places on a back burner in a national security sense and an economic sense while we are spending the next 5 years debating Mexico?

Mr. ROBINSON. That is a provocative question. Let me attack it from several angles. First, that is exactly why we have the Uruguay Round: to try to set world rules so that the developing countries are accommodated and brought into the trade arena. Another reason to think of a North American free trade arrangement is to remember that in Europe, 1992 will produce a market of 340 million people; the combined markets of Mexico, Canada, and the United States will be 360 million people and a $6 trillion economy.

This is simply bringing together close neighbors, hopefully with a set of laws that will be complementary to what the international laws happen to be. The momentum is having a dramatic effect throughout Latin America. You are seeing everyone—Venezuela and others—opening up their markets, privatizing, moving from import substitution to a balanced economy, allowing foreign competition, and reducing the degree of protection of local companies. That to me is one of the most powerful national security messages that there could possibly be, because lasting world peace—as George Marshall pointed out—comes only from economic prosperity.

The Andean Pact countries, like Venezuela, are talking about how to interface with a North American Free Trade Agreement. Chile wants to negotiate. Argentina would like to talk. Market-oriented economies are breaking out all over. That is a very positive world geo-political phenomenon, and I think we have the opportunity to supplement that. I do not see the United States-Mexico discussion as excluding the other countries, but as being an inducement for them to move even faster.

In fact, Venezuela is trying to determine what they need to do to catch up to, if not surpass, Mexico in terms of competing for foreign capital. In Colombia, the same thing. So the economic message we are sending--together with the freedoms human rights, and everything else that economic prosperity should bring with it—in my view is a substantial positive factor that outweighs the frustrations of the 1980's in a military sense.

Senator DURENBERGER. Thank you. I appreciate the answer.

The CHAIRMAN. Thank you. Senator Packwood, you had another question you wanted to ask.

Senator PACKWOOD. I just want to ask Mr. Fites once more on those labor costs. You had said in response to Senator Daschle, 27.5 percent is your total labor costs, and this means fringe benefits and everything.

Mr. FITES. Right. And management employees are included in that.

Senator PACKWOOD. Yes. And overhead employees and the R&D. And even if you moved a major manufacturing operation to Mexico, your R&D stays where it is and many of your costs stay here anyway.

Mr. FITES. That is right.

Senator PACKWOOD. And I believe, Mr. Robinson, you said around 20 percent also for total labor cost?

Mr. ROBINSON. Yes. Twenty-three percent, to be precise.

Senator PACKWOOD. All right. Thank you.

The CHAIRMAN. Thank you. Gentlemen, we have a very distinguished panel of agriculture leaders I would like to move to now. Thank you very much for your attendance.

Mr. ROBINSON. Thank you, Mr. Chairman.

The CHAIRMAN. And if the members have further questions, if you would submit them in writing, we would appreciate it.

Our next panel, Mr. Dean Kleckner who is the president of the American Farm Bureau Federation of Rudd, IA; Mr. Leland Swenson, who is the president of the National Farmers Union from Denver, CO; Mr. Lloyd Cline, former chairman, National Cotton Council of America, Lamesa, TX; Mr. Merle McCann, president, American Soybean Association, Carson, VA.

Gentlemen, since I have another meeting I have to attend later, I am going to assert one of the few privileges of the chair, and the first witness will be the gentlemen from Texas, Mr. Cline.

STATEMENT OF LLOYD CLINE, FORMER CHAIRMAN, NATIONAL COTTON COUNCIL OF AMERICA, LAMESA, TX

Mr. CLINE. Thank you, Mr. Chairman. My name is Lloyd Cline. I am a cotton producer from Lamesa, TX and past president of the National Cotton Council. I currently serve as chairman of a special committee on the council which deals with trade matters.

The National Cotton Council is the central organization of the U.S. cotton industry. Our members include producers, ginners, oilseed crushers, merchants, cooperatives, warehousemen and textile manufacturers. Our industry is unique in that any multilateral trade agreement will adversely impact in two fundamental ways.

First, the loss of Section 22 quotas governing imports of raw cotton could result in uncontrolled surges of imports which would de-stabilize domestic markets; could disrupt and increase the cost of operating the cotton program and would reduce farm income.

Second, the further liberalization of textile and apparel imports is projected by the American Textile Manufacturers Institute to result in imports accounting for over 85 percent of domestic textile and apparel consumption by the year 2000, and over 90 percent by the year 2002. Since more than half of our cotton goes to the domestic textile industry, this substantial market penetration would inflict serious losses on the U.S. cotton industry.

USTR has not convinced the cotton industry that the domestic textile market will grow fast enough to offset increased imports under new GATT rules.

Mr. Chairman, we remember too well a whopping 328 percent growth in cotton textile imports over the last 15 years, growth that came while the textile industry was being unfairly called, one of America's most protected industries.

We are not willing to accept USTR's insupportable speculation that U.S. market growth will be sufficient to offset textile import growth. We are deeply concerned that two countries with non-market based centrally planned economies, the Soviet Union and the People's Republic of China, will account for nearly 45 percent of foreign cotton production during the current crop year. Neither of these countries is presently a signatory to the GATT. Not only do these countries represent a potential threat to our raw cotton industry, the People's Republic of China is the largest exporter of cotton textile and apparel products to the United States.

Another concern is the continuing insistence that less developed countries receive special treatment in any GATT agreement. It is quite clear the that U.S. cotton's principal foreign competitors are either non-GATT signatory countries or LDCs, for which GATT apparently will provide special concessions. Only a small fraction of cotton production outside the United States would be affected by GATT. The U.S. cotton industry can hardly be expected to embrace a GATT agreement when we are the only major cotton producing country in the world that would be bound by its terms.

The United States' initial position in the GATT negotiations would have required the elimination of all market-distorting domestic and export subsidies and would have expanded market access through he conversion of quotas to tariffs, known as tarrification. Later the United States modified its position to support a 75 percent reduction in domestic subsidies and a 90 percent reduction in export subsidies and import tariffs.

In December 1990, in Brussels, U.S. negotiators once again modified their position, expressing strong interest in a proposal requiring reductions of 30 percent in export subsidies and internal supports and minimum guaranteed market access.

In every instance, the reduction of internal subsidies would be based on a measurement known as Aggregate Measure of Support or commonly referred to as AMS. In theory, every country is to calculate an AMS for every commodity and submit it to the GATT. Unfortunately, not all countries have submitted the data. Even more unfortunately, the United States has no reliable way to verify how the AMS's work or will be calculated.

Further, no method has been developed to calculate AMSs for the non-market economy; such as, the Soviet Union and China or even the countries with mixed economic systems; such as, Pakistan, Egypt and Turkey, all significant cotton producers. So, if the negotiations ultimately produce an agreement, they will do so based on the promise of a subsidy reduction which the United States cannot verify.

Another concern is the absence of an effective way to deal with illegally subsidized shipment to the third countries. When an LDC such as Pakistan or a non-GATT signatory such as China sells raw

cotton or manufactured textiles and apparel under subsidies to a third country, the U.S. cotton industry will be adversely affected but will be helpless to curb or prohibit such practices. Even if the United States closed its markets to a offending country, it could not force other countries to do so.

The U.S. cotton industry is also deeply concerned about a so-called reverse subsidies which are not being addressed in the negotiations. Unless dealt with, U.S. producers will be unfairly penalized by limitations on benefits and by environmental and conservation rules and labor laws which do not exist in many of the other countries.

In spite of the National Cotton Council's cautions, the ITC and the USDA have used a combination of base year selection and certain assumptions about domestic cotton policy to conclude that the tariff equivalent of Section 22 quotas necessary to maintain cotton imports at current levels would be zero.

The ITC and USDA have not proposed a method to compensate U.S. producers and processors if a foreign-exchanged starved, inflation-riddled, less-developed country dumped cotton in the United States at below market prices. Unfortunately, all known trade remedies provide inadequate relief, if any at all, and only after the damage is done.

Mr. Chairman, I will conclude by saying I have prepared a copy for the record and we appreciate the opportunity to voice our views and our concerns on the matter before us today. Thank you.

The CHAIRMAN. Thank you, Mr. Cline. Your entire statement will be taken for the record.

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

The CHAIRMAN. Mr. Kleckner is the president of the American Farm Bureau Federation.

STATEMENT OF DEAN R. KLECKNER, PRESIDENT, AMERICAN FARM BUREAU FEDERATION, RUDD, IA

Mr. KLECKNER. Thank you, Mr. Chairman. My name is Dean Kleckner. In addition to being president of the American Farm Bureau, I am a corn, soybean and hog farmer from Rudd, IA, Senator Grassley's home State. I appreciate the opportunity to present our testimony today on the subject of extending fast track.

I want to compliment you as Chairman of this committee for these hearings and your efforts, and your staff's efforts over the past year. I see your staff at meetings in Europe and elsewhere representing you. Senator Baucus spent time, most of that week, in Brussels in December when I was there. And Senator, you were extremely helpful. The rest of the committee, I compliment them also for their efforts in this regard.

Trade is extremely important to American agriculture and will remain even more so in the future. A large percentage of what we grow is now exported. In fact, our overall trade surplus in competitive agricultural products is now $23 billion. Even so, our products continue to face serious and unacceptable obstacles in world markets. Foreign import barriers and export subsidies are widespread, and subject largely to ineffective international rules.

Despite the apparent failure in Brussels in December that I spoke of, we believe that substantial progress has been made in the Uruguay Round agricultural talks. For example, there now exists broad international support for stronger and clearer rules on the import and export measures affecting farm trade. A consensus was reached last year on the overall objective of "progressive and substantial" reductions in those restrictive practices. We forget that we have agreement in this area. Particularly, nearly all countries have now recognized the need for especially deep cuts in export subsidies, as the most distortive in world agricultural practices.

Mr. Chairman, I do not think there is anyway that anybody can defend export subsidies; not at all. An important step has also been taken toward multilateral acceptance of a code to prevent health and sanitary standards from being used as unfair and unjustifiable barriers to agricultural trade.

Unfortunately though, without the participation of the European Community, this apparent progress will not lead to a successful conclusion in the Round. The Community has accepted from GATT Director General Arthur Dunkel, his statement on agriculture, and that is a positive sign. But its true meaning will only be known after nations begin to iron out concrete commitments on import barriers and export subsidies. We understand that these technical discussions now are taking place in Geneva and have been fairly productive.

On the basis of this progress, Farm Bureau supports extension of the Administration's negotiating authority under the terms established by the Trade Act of 1988. We believe that American agriculture has a great deal to gain from a successful agreement and a great deal to lose from giving up on the effort at this time.

But our support for the ultimate agreement in the Uruguay Round will ultimately depend on the benefits achieved for American exports in return for the concessions that we make. Obviously, we will not accept any result in which U.S. farmers are asked to give up more than they receive from other countries.

If the Uruguay Round fails, American agriculture will lose a major opportunity to open and develop export markets for future U.S. agricultural output—output which is almost certain to outpace domestic demand in the years to come. We just will not be able to eat our way out of what we produce in the United States Failure to generate new export markets for our products will put increased pressure either on farmers' incomes or future Federal budgets, or both.

In addition, existing ineffective GATT rules will remain in place and continue to offer little for agricultural exporters facing unfair subsidized competition. As a result, trade relations between the EC and other countries will become even more strained and some fairly serious trade skirmishes could result.

We also support extension of fast track authority for negotiations toward a North America free trade agreement. We will only support an agreement resulting from those negotiations, however, if such negotiations provide for fair and equal competition in agricultural trade. Factors that must be considered include equity in regard to environmental regulations, quality standards, food safety concerns and a tariff reduction schedule.

American agriculture has much to gain from successful and equitable trade agreements and Farm Bureau urges that they be pursued.

In the final analysis, Mr. Chairman, and members of the committee, Farm Bureau's farmer and rancher members will judge whether our overall objectives have been sufficiently met. If fast track is not extended, any opportunity to achieve those results will be lost.

Mr. Chairman, I have submitted a written statement. I have included a run-down in that statement of a number of problems that exist in world agricultural trade that we hope can be addressed in the Uruguay Round. We have also indicated in a little more detail what Farm Bureau would view as a good agreement.

In the interest of time, I will just call your attention to the overall statement and ask that it be inserted in the record of this hearing. Once again, I would like to thank you and members of the committee for the opportunity to present our views.

The CHAIRMAN. It will be taken in its entirety.

Mr. Swenson is the president of the National Farmers Union from Denver, CO. Mr. Swenson, we are pleased to have you.

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

STATEMENT OF LELAND SWENSON, PRESIDENT, NATIONAL FARMERS UNION, DENVER, CO

Mr. SWENSON. Thank you, Mr. Chairman. As you mentioned, my name is Leland Swenson and I serve as president of the National Farmers Union. And I am testifying on behalf of the Farmers Union, nearly 300,000 farm ranch families, of all whom stand to be affected in one way or another by the topics which are the subject of this hearing. And given the importance of these issues to our members and to American agriculture in general and to all citizens of this country, I want to commend you, Mr. Chairman, and the other members of the Senate Finance Committee for holding this timely hearing, as Congress is debating the merits of the extension of the fast track authority.

The issues before this committee in regards to the extension of the fast track authority, and the GATT negotiations themselves and possible North American Free Trade Agreement or United States-Mexico Free Trade Agreement, are both broad and complex.

And I would like to focus first on the most pressing issue before the U.S. Congress: The extension of the fast track authority for the conduct of trade negotiations. During the Farmers Union convention held last month in Philadelphia, our delegates made our position on fast track very clear. Farmers Union members are opposed to the extension to fast track authority, for the GATT and other trade negotiations for a number of reasons.

Fast track is a bad public policy that sets unfortunate precedent which might be applied to other equally difficult issues as well. Fast track increases the likelihood for the negotiations and adoption of trade agreements damaging to the interests of the United States And fast track is not needed to conduct negotiations for international agreements.

The truth of the matter is that the United States has conducted successfully a large number of very important multilateral international agreements and treaties sometimes on even more complex and contentious issues, without fast track authority. And a list of those is attached to my written testimony.

There is no reason to believe different conditions apply in regards to either GATT or trade negotiations with Mexico or Canada. And I think it is a false accusation to state that those that are opposed to the extension of fast track are opposed to trade negotiations or trade reform or trade.

The Farmers Union finds it hard to believe that 100 plus nations involved in the GATT negotiations are going to wash their hands of 4 years of hard work to leave the table simply because fast track is not extended. They may be threatened to do so at this time and we would expect them as a negotiating ploy, but in the final analysis, it is difficult to believe that they will not be present at a table given what they have at stake, compared if they were not there at all.

The Farmers Union acknowledges that denial of fast track will make the negotiating process probably more complicated for the Administration. It will have to consult more closely with the constituencies affected by the negotiations. It will have to consult with the Congress on a more regular and a deeper basis to insure that what is being agreed to is acceptable to Congress.

The Farmers Union believes that is a good idea. We believe it would make it less likely that our negotiators will make mistakes which would be damaging to the U.S. interests. And we think it would be more likely that any agreement brought back to Congress for approval will be a good agreement, rather than a bad agreement.

Certainly, the Farmers Union believes that denial of fast track authority is the best way to address an issue of an extreme importance to you, Mr. Chairman, and that of the free riders. As you have said, in an agreement as broad as that being negotiated in GATT, it sometimes happens that countries end up reaping the benefits without having to give much, if anything, in the process. The best way to stop that from happening is to deny fast track authority so that mistake can be corrected if it occurs. And the possibility that Congress could take action to correct such a mistake makes it less likely that it will happen in the first place.

The very fact that you worry about free riders points out one of the biggest problems with the fast track authority. It gives our negotiators a blank check that someone else fills in. It leaves Congress with the only decision as to whether or not to sign the check and pay the bill. That is not the way our system of checks and balances is supposed to work or does work in other policy areas.

That brings us to the first major concern we raised in fast track earlier in our testimony. Fast track is a bad public policy idea that deserves to die. It is bad public policy for the entire Congress to give up its birth right to debate and legislate on major issues confronting the country. It sets an unfortunate precedent that could then be applied to other difficult issues that confront Congress.

In regards to the issue before, us, the Constitution speaks clearly that it is the responsibility of Congress to regulate Commerce with

foreign nations, and among several States and the Indian Tribes. Congress should fully exercise that responsibility and not limit itself to a yea or nay vote to rubber stamp the actions of the Administration.

On a final note regarding fast track, the Farmers Union believes that the granting of fast track contributed to the near death Uruguay GATT Round itself in December in Brussels. Let me make it clear the Farmers Union does not believe fast track was the only thing that led to the deadlock in Brussels. The too firm position of the United States by the European Community, by the Cairns Group and Japan and others was the main reason the Round deadlocked. But we believe fast track contributed to the deadlock as it raised expectations too high and led negotiators to fail to develop a realistic action agenda.

In regards to the United States-Mexico Free Trade Agreement or the Trilateral North American Free Trade Agreement, the sheet is blank and I think it is too early to again talk about specifics which do not appear on the table.

But we are aligned with some generalized concerns that exist based on what we know, and the fact that its impact may impact the fresh vegetable area; also, in the area of the environmental concerns, and the area of chemicals. We also have concerns in regard to trade negotiations, and in regard to tax policies that exist. And so we raise those as areas that we feel must be negotiated in those rounds.

It is an honor to appear before you. I would be glad to answer any questions.

The CHAIRMAN. We are glad to have you, Mr. Swenson.

Mr. McCann, I have another commitment I cannot avoid and I will have to leave. Senator Baucus will be presiding. I am looking forward to hearing from you. If you would proceed, sir.

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

STATEMENT OF MERLE McCANN, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, CARSON, VA

Mr. MCCANN. Mr. Chairman, members of the committee, I am Merle McCann, a soybean producer from Carson, Virginia. I am the president of the American Soybean Association. The American Soybean Association is a national non-profit organization representing about 450,000 soybean farmers in 29 States. And incidentally, we all serve voluntarily. We do not receive any salary for anything that we do as soybean leaders.

ASA aims to increase the opportunities for U.S. soybean profitability through its market development, research, government relations and trade policy programs.

Thank you for asking our views on the GATT Uruguay Round trade negotiations. ASA has been closely following these negotiations, which unfortunately ended in a deadlock last December. A successful agreement would expand overseas market opportunities for U.S. soybean farmers. The American Soybean Association favors resuming the talks.

Export markets are key to the prosperity of soybean farmers. Soybeans and soybean products, mainly meal and oil, have accounted for about 15 percent of the total U.S. agricultural exports by value in the recent years.

The 1980's witnessed an unfortunate decline in the portion of the U.S. soybeans in world markets. In 1979, we were the number one suppliers of soybean, soybean meal and soybean oil. Today, we are the number three supplier of soybean meal and the fourth largest supplier of soybean oil. We still rank number one in whole soybeans, but our market share has dropped from over 85 percent in 1981, 1982, to just over 60 percent in 1989 and 1990.

The declining position of the U.S. soybeans in world markets was brought about by a combination of factors. The 1985 Farm Bill set a loan rate that served as a floor, encouraging soybean expansion in Brazil and Argentina. Growers and processors in those countries have benefited from government subsides. And in the case of Argentina, a differential export tax which is still in effect stimulated exports of soybean meal and oil.

While the European Community has remained a key market for American soybean farmers, its oilseed regime has eroded market opportunities for the United States. EC deficiency payments to its soybean farmers in 1990 was the equivalent of $13 per bushel. This is more than twice the average price of $5.79 per bushel received by the American farmers.

Those high supports for soybeans and other oilseeds caused European Community output to jump from 1 million metric tons in 1977 to 10.5 million metric tons in 1987. The EC oilseed production in 1990 was around 12 million metric tons. It is expected to expand this year with addition of the former East Germany to the community. The estimated cost of the EC's oilseed, olive oil and protein crop programs from 1991 is another $9.5 billion. This is about the same amount the United States will spend on all farm programs in fiscal year 1991.

The steady erosion of our exports in the EC market caused ASA to file a Section 301 complaint against the EC oilseed regime in late 1987. Our case was referred to GATT. In December 1989, a dispute settlement panel issued its report. The panel ruled that EC deficiency payments could no longer be made through oilseed processors. It also held that a system must not nullify the EC's zero-bound tariff on soybean, soybean meal and other protein products.

Following discussions with Ambassador Hills and our former Secretary of Agriculture, European officials promised to implement panel recommendations in the 1991 crop year, which has already started. These same Community authorities now claim that their commitments was to link EC agriculture reforms to the conclusion of the Uruguay Round negotiations. ASA is urging the Administration to pursue diplomatic means to persuade the EC to reform its illegal oilseed system. But if the Community fails to respond positively, retaliation against the EC trade in this country is the only alternative.

American soybean farmers are efficient producers. A March, 1990 study by the USDA concluded that U.S. soybean output will expand with the liberation of market of world agriculture trade. However, U.S. soybean farmers cannot count on the massive gov-

ernment subsidies of the European Community or unfair trade practices, such as Argentina's differential export tax. It's for these reasons that ASA is now a strong supporter of U.S. efforts in the Uruguay Round.

As a close observer of negotiations, ASA realized that the gap between the United States and the European Community positions on agriculture would be hard to bridge. For example, the EC insisted on rebalancing, which would have impact on quotas and duties on soybeans, soybean meal and other protein products. Rebalancing is clearly inconsistent with the aims of the Uruguay Round and would in effect set aside the GATT panel's decision against the EC oilseed regime.

We are disappointed that despite 4 years of work, the negotiations ended in a deadlock last December. The EC has since agreed to negotiate on the three key areas of agriculture. We believe that the potential benefits to U.S. soybean farmers justifies continuing the talks. For any GATT agreement to be accomplished, central to U.S. soybean farmers, there must be substantial cuts in trade distorting support and protection in the three key areas. As well, it must treat all countries equally and must be enforceable.

While we support our negotiators' efforts, ASA's position on a final agreement will depend on whether it meets the overall interests of the American soybean farmer. Inclusion of rebalancing is totally unacceptable, and would force ASA to oppose any GATT agreement in the strongest possible terms.

Last, but not least, it is essential the that European Community officials keep their commitment to Ambassador Hills to implement the GATT panel recommendation on oilseeds for the 1991 crop. Failure to do so would demonstrate a lack of EC commitment to GATT, and we believe, undermine the entire Uruguay Round negotiating process.

We have sent in a written statement and we ask that these be included in the record. And I thank you for the opportunity to testify before your committee today.

Senator BAUCUS. Thank you very much, Mr. McCann. Your full statement will be included in the record.

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

Senator BAUCUS. Senator Packwood?

Senator PACKWOOD. As I understand, the Administration's negotiating goals in agriculture are as follows: One, eliminate export subsidies. Two, eliminate market distorting domestic subsidies. Whether or not you agree with those goals, is it your understanding that that is what the Administration's negotiating goals are in the Uruguay Round? Mr. Kleckner?

Mr. KLECKNER. Senator Packwood, those were the original goals, complete elimination. I think they have since been modified to something less than that, but the thrust is in that direction.

Senator PACKWOOD. They have been modified as a matter of practicality. I think that is what they would have liked to have gotten to.

Do you all agree that those were the goals or are the goals? Mr. Swenson?

Mr. SWENSON. I think as laid out by the Administration, those were two of four. I think also encompassed with that was sanitary and bio-sanitary standards, along with market access. So there were four areas in agriculture that were the main areas of discussion.

Senator PACKWOOD. Let me ask each of you, apart from whether or not you like the fast track or do not like the fast track, do you agree with those goals? And I will start with Mr. McCann.

Mr. MCCANN. Yes. We back those goals. We realize it might be hard to accomplish completely but certainly the goals we would like to strive and work towards.

Senator PACKWOOD. Mr. Cline?

Mr. CLINE. Yes. I believe originally the cotton industry supported that position. But since then, it has been negotiated away from that position and we cannot support their position now.

Senator PACKWOOD. Mr. Kleckner?

Mr. KLECKNER. Yes, those are proper goals.

Senator PACKWOOD. Mr. Swenson?

Mr. SWENSON. We did not support the goals in its entirety. We did support, for example, the elimination of direct export subsidies. We do agree that the rules and regulations in regard to dumping practices need to be strengthened within the GATT. We do agree that the area of health and sanitation standards must be addressed. But we did disagree in the advocation of the elimination of domestic farm programs, including Section 22.

Senator PACKWOOD. And would that particular fact, and I thought this might be the answer Mr. Swenson, perhaps distinguish you from these other groups; that the Farmers Union for a long time has had a position on farm subsidies which is basically a supportive position. And you made a statement in your statement, that the Administration wants to achieve by negotiation what it cannot achieve in the Congress. Do I take it that is what you are aiming at with that statement?

Mr. SWENSON. Well, I want to stress that we are not in support necessarily on ending farm subsidies. We think the structure of agriculture is so unique from that of other industries, not only in regards to domestic, but internationally; so we are not asking that the level of subsidies necessarily be continued. What we are saying is that the right to continue a domestic farm program should be the right of every country; not that the farm program should cost any money at all. And I want to differentiate between subsidies and the right to maintain the farm program.

Senator PACKWOOD. All right. But we can call them by different terms. Mr. Kleckner?

Mr. KLECKNER. Senator Packwood, I think there was a great misunderstanding about the goals of the Administration. Certainly in Farm Bureau we would not be in support of elimination of domestic farm supports that help agriculture. We are talking about trade distorting and——

Senator PACKWOOD. Yes.

Mr. KLECKNER. Market distorting subsidies—there is a great deal of difference. We think all nations ought to be able to provide for their agriculture within the context of that nation. We are not disputing that, including for us. But do not do it on the backs of farm-

ers from around the world. And in essence, that is what the European Community is doing. They are balancing their agricultural books on the backs of farmers around the world, including ours in the United States.

Senator PACKWOOD. Now, let me ask each of you this question: Do you think, and let us just limit it to Europe for the moment, that we could conclude with Europe, a serious agricultural deal leaning toward the elimination of export subsidies and market distorting domestic subsidies, if Europe thought that Congress might undue the agreement that we arrived at, would Europe negotiate?

Mr. KLECKNER. Senator Packwood, no. Extension of fast track is so crucial to the whole process. It is easy to say, let us bring it back to the Congress, let us go through the process. And I would say, to those people that say that, that Congress has been—this committee and the House Ways and Means, Agriculture, and other committees, have been consulted right along and will be as we move forward. But why should the EC or any nation in the world seriously negotiate if the negotiators do not have the say as to what the agreement will be?

The 535 members of Congress, each with different constituencies have different concerns. And if you are all going to be able to weigh in after an agreement has been finalized, why should other nations make any agreement at all? I would think if fast track is turned down, we might as well bring our folks home from Geneva and save the taxpayers some money; the Round is over.

Senator PACKWOOD. Mr. Swenson, do you agree with that?

Ms. SWENSON. No, I do not. I think that they would continue to negotiate. As we saw in the debate during adoption of the 1990 Farm Bill, great differences that existed which centered around one factor and that was the budgetary factors that came to bear on the structure and the nature of our farm program. The same budgetary pressures are coming to bear within the structure and the nature of the European farm program. And I think they will be willing to look forward to continue to negotiate.

They also have the environmental concerns that are as high in Europe and within the structure of the countries of the European Community as we see arising within our country. And I think there are areas in which negotiations would continue and will continue.

Senator PACKWOOD. Mr. McCann, Mr. Cline, what do you think?

Mr. MCCANN. Of course, with the cost to the European Community that they are experiencing, I think that they are more wiling perhaps right now to negotiate than they would have been some years back. I'm sorry we could not have concluded in December, but I think that we still have the opportunity to negotiate and I hope that we can negotiate successfully so it would be beneficial to all American agriculture.

Mr. CLINE. Senator Packwood, I feel like that there could be successful negotiations without fast track.

Mr. PACKWOOD. Thank you, Mr. Chairman.

Senator BAUCUS. Thank you, Senator. I would like to explore with all four of you a provision in last year's budget agreement, essentially that if fast track is extended, and if a successful Uruguay Round is not concluded; first of all, the Administration does not

present and the Congress does not ratify the provision of the Uruguay Round, then under that budget agreement, the President is required to increase agricultural export subsidies, EP essentially, a $1 billion. And the President is required to implement the marketing loans for all commodities. And the President does have discretion to recommend increases in the farm program.

Now, that would mean that if fast track is not extended and if no successful Uruguay Round is concluded, the President would have the authority to weigh those mandatory provisions; that is, he would not have to increase the EP by 1 billion and he would not have to implement marketing loans.

So my question really is: What effect does that budget provision have with respect to agriculture; namely, what degree does that bear upon your industry's view as to whether or not fast track should or should not be extended? Let me start with you, Mr. McCann.

Mr. MCCANN. Let me go back just a little bit. I did not say well, ASA was opposed to or for fast track. We are for fast track. And we think it will greatly benefit our negotiations in Europe and also it will help a lot with the free trade agreement with Mexico, which we also favor. And this is the way we remain at the present time, is to support fast track, because we feel that will help both of these issues a great deal.

Senator BAUCUS. I see. Mr. Cline?

Mr. CLINE. Well, cotton is different from any other commodity. We have a marketing loan and it is working very well. We are very pleased with our program and it would not affect us.

Senator BAUCUS. All right. Mr. Kleckner?

Mr. KLECKNER. You make a very pertinent point, Senator Baucus. Those who oppose fast track are in effect saying, let us not do those things. The mandatory budget provision that you mentioned, that was the June 30, 1992 deadline, I think that you are referring to.

Senator BAUCUS. That is correct. June 30, 1992.

Mr. KLECKNER. Yes. There is a June 30, 1993 provision that will then will rescind budget cuts for agriculture if there is no agreement to fast track. So it is a 2-year trigger level.

And without extending fast track, those are off. Despite the fact that cotton now has marketing loans, every commodity could be affected by the June, 30, 1993 trigger of the recision of the budget cuts in the Agricultural budget if there is no Uruguay Round Agreement.

So all commodities will be affected at some point. And I think for those of us in agriculture that say, and there are some, and we are hearing some this morning that say, let us not extend fast track, that is not a good long-term view for agriculture for the very reason that you mentioned.

Mr. BAUCUS. Mr. Swenson, your view?

Mr. SWENSON. Well, first of all, let us go back to that point that we are supporting the continuation of the GATT negotiations even without the extension of fast track, and hopefully a conclusion of which is an acceptable agreement that keeps away from trade conflicts that may arise.

But in dealing with the implementation of the EEP monies according to the budget adopted, as well as the implementation of the marketing loans, which would be put in place to try to maintain a competitive edge for American agriculture and international trade; that is why they were put in the budget if the GATT failed.

As I look back at the actions of Congress and I think no matter what is there today, Congress will respond to what the budgetary pressure is at that time, rather than what may be there today as the, club-over-the-head in negotiations. And so the wait and see I think is the more appropriate answer to what will be the impact. Because I am not even sure they will be implemented. It depends on budgetary pressures that exist at that time.

Senator BAUCUS. Well, that is a good point. But those mandatory provisions we are discussing are only mandatory if fast track is extended, and if there is no successful conclusion of the Uruguay Round by June of 1992.

So it just seems to me that if we extend fast track say, then the Congress has the authority to either approve or disapprove whatever our negotiators come up with in the Uruguay Round. That is, if we think, and I come from an agricultural State—it is the biggest industry in my State by far—that if the agreement is not good for agriculture, we can always disapprove it and those mandatory provisions, unless Congress changes it, would then kick in which would help agriculture.

On the other hand, if fast track is not extended and despite your belief that we can still negotiate, and even if we still do negotiate, if there is not a successful agreement that helps agriculture, then because we have not negotiated under the fast track procedure, those mandatory provisions are not available. So I am just curious——

Mr. SWENSON. I think the President still has the authority.

Senator BAUCUS. I am sorry?

Mr. SWENSON. The President still has the authority, is my understanding.

Senator BAUCUS. No, no. Under current law if fast track is extended and if no successful Uruguay Round is concluded by June, 1992; that is, negotiated and approved by the Congress, then the President is required—it is mandatory to increase agricultural export subsidies, EP, by an additional $1 billion, and also is required to implement marketing loans. And he is also given the authority to consider recommending the increases in domestic farm program.

On the other hand, if fast track is not extended, we, therefore, are negotiating without fast track and if no agreement is concluded which reduces the EEC, say of export subsidies, then the President has discretion as to whether or not to increase the export program by $1 billion or discretion whether or not to implement marketing loans.

So it just seems to me coming from an agricultural sense, it makes sense to extend fast track because it is a win-win situation for agriculture. Either we get a successful Uruguay Round Agreement which helps agriculture, and Congress approves it, or we do not because Congress disapproves it, then the President is required under the law to implement those provisions we are now talking

about. So agriculture comes out ahead either way, but again if we go down the road without fast track, the President is not required to implement those provisions.

So it just seems to me as a farmer, I would kind of want fast track because I have got that backup that is in the law that must be implemented in the event there is an unsuccessful Uruguay Round agreement.

Mr. SWENSON. Senator Baucus, just to respond to that, the farmer members of our organization do not believe that under the fast track authority we are in a win-win situation.

Senator BAUCUS. All right. Thank you.

Mr. CLINE. Mr. Chairman, may I add for cotton also, I do not see it and the cotton industry does not see it as a win-win situation for us. We see it as a losing situation for us.

Senator BAUCUS. Because you have got your marketing loans. I appreciate that.

Mr. CLINE. I did not want to let it go——

Senator BAUCUS. I got you.

Mr. CLINE [continuing]. Without cotton being recognized, the position we are in.

Senator BAUCUS. I appreciate that. Senator Symms?

Senator SYMMS. Thank you, Mr. Chairman. Mr. Chairman, you really asked the question that I was going to ask and I guess coming from a neighboring State of yours, I share your concern for agriculture.

I might just ask one question to you, Mr. Kleckner, with respect to meat exports. What is the current situation with respect to meat exports to Europe and the problem of, you know, growth hormones? And then the second part of the questions, how are we doing now with respect to gaining a foothold in the Japanese market?

And I assume from your points—and I think all of you have stated this—that you want these rules fair so there are no nontariff trade barriers after the fast track is completed.

Mr. KLECKNER. No question. The sanitary, phyto-sanitary talks—the fourth leg of that four legged stool—is very important and very often not talked about as much as the other three. Let me say for beef, I think it was prior to 1974 the EC imported beef, believe it or not. Now, they are the world's second largest exporter of beef—subsidized. They have got a mountain of beef over there that they dump on the market, depressing prices. Some of our members are having a hard time talking about depressed prices now, but there will come a time again, with them holding a club over the beef market in the world. They also subsidize pork sales into the United States, and as a pork producer I recognize that.

In the sanitary, phyto-sanitary issue, there has been no change that I know about. They are still not taking our beef. There is a continuation of talks on it, rather low key, and we have retaliated on about $100 million worth of EC products coming in. It is an unfair trade barrier. There is just no question about that. And it is one that we think—and Senator Baucus you were at those many meetings also—that there is a potential for agreement in the sanitary, private sanitary area that maybe easier to get in the context of the multilateral agreement than the other three. We have not

gotten it yet, but we think it is possible to set scientific standards, whether under Codex Alimentarious, or some other scientific world group that can set those standards, that nations may or may not agree to. But at least they will agree to judge them scientifically one way or the other.

On April 1, Japan eliminated their import quotas for beef. I think a 70-percent tariff was triggered in. But a 70-percent tariff on our beef going to Japan still allows, from their beef prices, a pretty good buy. And the agreement is that those tariffs will ratchet down, next year, I guess 60 percent; then 50 percent. So it is going the right way and we should sell a lot more beef into the Japanese market in the years ahead.

Senator SYMMS. Thank you, Senator, and thank you gentlemen.

Senator BAUCUS. Thank you very much for your input to the committee here this morning. I appreciate hearing from you. Thank you.

Thank you very much, Senator. Senator Daschle?

Senator DASCHLE. Thank you, Mr. Chairman.

Mr. Kleckner, I would like to explore a little bit your definition of fair and equal competition. You made comment in your testimony that that is really what you wanted, and I applaud you and I think that is exactly what we are looking for—fair and equal competition. The question is trying to define what that means.

It seems to me, and I would be interested first in your observation as to my perception, that we have already demonstrated a dramatic determination to bring down subside and trade barriers in our country with very little response on the part of the Europeans. In other words, the charge that the United States is unilaterally disarmed to a certain extent already is a valid perception in my view. How do you view that?

Mr. KLECKNER. Senator Daschle, an excellent point. First of all, fair and equitable seems to be in the eyes of the beholder very often.

Senator DASCHLE. That is right.

Mr. KLECKNER. So it is tough to define. Yes, we are relatively an open market. There are a few commodities where we have the barriers still. But by and large, we are an open market. That is why I have a hard time understanding the fear of many in this country, not only in agriculture, but from others, to having a GATT agreement or extending fast track.

The rest of the world, primarily the EC in agriculture, but also Japan and many other nations, are going to have to come a lot further than we do. We have already gone the substantial part of the way. But I do not see that we have hurt ourselves by unilaterally disarming or whatever the term may be.

In Europe last summer at a meeting right after all of you gentlemen passed the Farm Bill that cut payments by $13 to $14 billion over the 5 years, EC farm people I was meeting with knew as much about it, if not more, than I did. And they were extremely upset about it because they did not view it as, "we put it over in the United States, they have unilaterally disarmed; we will not have to." These were farmers and farm organization people. They viewed it as "we have been telling you for a long time to put up or shut up," knowing that the United States would not do it. We did

it, and we shocked them. They had a hard time understanding and believing that we did it.

Senator DASCHLE. We are a little off the mark here. And what limited time I have, let me just ask you this: If we finally come up with an agreement, with or without fast track for the moment, that would lock into place a European subsidy greater than ours, would lock into place more market obstacles than ours, would lock into place greater export subsidy than ours, would the Farm Bureau support an agreement of that kind?

Mr. KLECKNER. Senator, based on your definition of it—again, without seeing it, it is hard to tell. But based on your definition, I would say no, we could not support it. And we would be urging you and Congress—if it is locked in. And I guess I am not sure exactly what locked in means—that they are starting from a higher level than we are and so over a period over the first few years, they cannot come down to where we are, and that might be a disadvantage. But if we are ratcheting down some, they are ratcheting down faster. When this is all said and done, whether it is 5 years or 10 years or 15 years, we ought to have a level playing field or virtually level, and if we do not, I would think at that point that the American Farm Bureau would be coming to you and say vote no on that agreement when you get it in 1991 or 1992.

Senator DASCHLE. So just for example, if we would give up Section 22, a concern expressed by some of our witnesses this morning, and they still have impediments to market access, where you clearly do not have a level playing field, the Farm Bureau on that basis of that alone would oppose the agreement, is that correct?

Mr. KLECKNER. Senator, you have got to look at the context of the whole agreement, I think. The Farm Bureau is not in favor of unilaterally giving up Section 22. We favor it in the present world, but it is on the table to negotiate as we think it should be. We are going to have to get considerable concessions on market access into other countries or we will not be in favor of giving up Section 22.

Now, whether that would be in itself, standing by itself, the "killer" if everything else was good, I do not know. We would have to see the whole agreement.

Senator DASCHLE. Well, we would just have to be very careful it seems to me. And agriculture is the most sensitive to this or it ought to be because in the past we have had bilateral negotiations and that is one thing. Now, we would be officially sanctioning, locking in disparities in market access in export subsidy as well as in internal supports. For the first time, we would be saying, what they are doing is okay; we have signed onto it. And that is a very precarious position for the United States to be in unless it is fair. And that is what we ought to be looking at.

And the concern that some of us have with regard to fast track, is are we going to be able to help them define fairness through this process, or are we going to have it dumped on our lap with the charge, take it or leave it? And that is the concern I think expressed by some of your colleagues here at the table and a concern that I will continue to voice as we go through the process.

Mr. KLECKNER. Senator, I agree with you. And again, fairness would have to be defined in the end. But just because the American Farm Bureau is for extension of fast track—I think we need to

have that to negotiate further—in the context of a final agreement, we will look at it critically—and we are going to look at it from the perspective of agriculture—and if it is not fair, as we perceive overall fairness to American agriculture, we are going to say, U.S. Congress, vote no on it.

Senator DASCHLE. Thank you. Thank you, Mr. Chairman.

Senator BAUCUS. I think that last point is a very good point; namely, that if fast track is extended and I think it should be, we in the Congress are going to be working very, very diligently and pressing the Administration very strongly to be sure that they negotiate an agreement that is good for agriculture. Because if not, I know two Senators who are going to be opposed to that final agreement and I have hunch there will be many others.

Senator Packwood basically made the same point. It is not in the Administration's best interest to bring back an agreement that it knows is going to be trashed. They will work with us. They have worked with us. In fact, Section 22 is a good example, and the Canadian Free Trade Agreement. That is, I wanted to keep Section 22; others did to and we were able to persuade the Administration in negotiations with Canada to keep Section 22. There is a lot from here to there, but certainly one of our main interests is protecting agriculture and we all have that in mind.

Thank you very much. Thank you, Senator. Thank you, panelists.

Mr. CLINE. Mr. Chairman, before we conclude, for cotton particularly, I would like to just mention the conspicuous absence of Senator Pryor today. We are certainly saddened by his situation and wish him a very speedy recovery.

Senator BAUCUS. Oh, I appreciate you mentioning that, Mr. Cline. I drove down to the hospital yesterday. I saw Senator Pryor. He very much regrets that he is not able to be here, and also is not supposed to be here for the next several weeks. But I can report he is looking good. He is recovering. He is getting his color back and I think you will continue to have a very, very vigorous supporter for cotton, soybeans and other products. So I can report he is doing well. Thank you.

Mr. CLINE. Thank you.

Senator BAUCUS. The hearing is concluded.

[Whereupon, the meeting was recessed at 12:07 p.m. to reconvene at 9:15 a.m. on Thursday, March 18, 1990.]

REVIEW OF THE URUGUAY ROUND: COMMITMENTS TO OPEN FOREIGN MARKETS

THURSDAY, APRIL 18, 1991

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

The hearing was convened, pursuant to recess, at 9:15 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman of the committee) presiding.

Also present: Senators Moynihan, Baucus, Bradley, Rockefeller, Daschle, Packwood, Danforth, and Grassley.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SENATE FINANCE COMMITTEE

The CHAIRMAN. This is the second day of hearings scheduled by this committee to take stock of the Uruguay Round negotiations and what has been accomplished thus far.

Yesterday, we had two distinguished chief executive officers of major companies in this country, one in manufacturing and the other in the service industry. And then, that was followed by some articulate witnesses for various agricultural groups in the country that have a deep interest in the progress of the Uruguay Round.

Today, we are going to have an equally distinguished group.

I would like to focus on one issue that I believe demands greater attention from our negotiators, and that is the free rider problem. I firmly believe in a multilateral trade agreement. I think that kind of a system is critical to our long-term economic growth; but a multilateral is just that.

It has to be one where all of the trading partners participate. It cannot be one where there is all give and no take among some of them, or all take and no give by others.

There is no question but that we had a problem in past GATT Rounds. It is ironic that the very principle that has held the GATT system together for the past 40 years—the most-favored-nation clause—that principle—is also one that has encouraged free riders to the system.

MFN says that if you give a trade benefit to one country, then you have to give it to all of them. If we reduce our tariffs on semiconductors for the EC, then we have to reduce it for Japan and India and Brazil.

In short, if some countries are willing to enter into a trade agreement, other countries will also reap the benefits even if they make no concessions themselves. In past GATT Rrounds, it has been a

small group of the major nations that have generally been those that were prepared to make the major concessions, and some others have opted for a free ride.

Partially as a result I think, we have a very unbalanced trading system. Some countries have very low trade barriers, and others have virtually insurmountable ones.

As a result of past negotiations, the United States has an average tariff rate that at this point is less than 5 percent. India has one of 118 percent.

We have agreed to bind almost 99 percent of our tariffs. That means that we can't raise our tariff on any one of those items without paying a price for it.

Australia has agreed to bind 25 percent of their tariffs. So, it can raise the tariff on 75 percent of their products or goods without compensating for it.

And we ran squarely into that free rider problem last year at the Brussels negotiations. At that time, concerning the negotiations on services, of the 100 GATT members invited to Brussels, only three came with proposals—one of them, of course, the United States—with specific offers to open up their markets for services.

I know part of that is just normal negotiating strategy, that you hold back your offers until late in the negotiations; but part of it also is the free rider syndrome.

I believe that Uruguay Round negotiations, whether we are talking about market access negotiations or the negotiations on services or intellectual property, will be successful only if we get meaningful participation by the maximum number of GATT countries. Without it, I am convinced it is going to very difficult to sell that agreement to the U.S. Congress, including this Senator.

I have asked each of our witnesses today, particularly Senator Brock and the witnesses on our last panel, to address that issue. I am interested in their views on the MFN principle.

I am also intrigued by the suggestion that we have a GATT PLUS; and that would be a situation where we have a more selective group—GATT PLUS—that will be those that give full reciprocity on these kinds of concessions.

As I understand it, they just give a premium in trade to each other; and that those countries that don't accept that principle would not get the benefits.

I am intrigued by that idea, but I think it deserves more attention; and that is one of the reasons I called the hearing this morning, to focus on the free rider problem and what we do to try to make improvements. We need to break that free rider syndrome if we can.

The responsibility for making a multilateral trade agreement should not rest just on the backs of a few countries; and I will be very interested in the views of the witnesses on that.

I yield now to my friend, the distinguished minority member of the committee.

Senator PACKWOOD. Mr. Chairman, thank you. I have no opening statement.

The CHAIRMAN. Senator Baucus?

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

Senator BAUCUS. Thank you, Mr. Chairman. I appreciate your statement on the free riders. I want to join with you in exploring the idea of the GATT PLUS; I think it has a lot of possibilities.

Mr. Chairman, I would also like to point out that one of our key objectives in the Uruguay Round is securing protection for U.S. intellectual property overseas. The term "intellectual property" means copyrighted, patented, and trademarked materials, such as books, films, recordings, and pharmaceuticals; and the United States is the world's leading producer and exporter of intellectual property.

Unfortunately, many other nations do not adequately protect intellectual property. In much of the developing world, there is widespread piracy of U.S. films, recordings, and pharmaceuticals.

In fact, the International Trade Commission has estimated that this piracy costs the United States $60 billion in lost exports each year.

As you know, in the 1988 Trade Act, we included a provision known as "Special 301" to promote protection of U.S. intellectual property overseas. The provision had the dual purpose of promoting the Uruguay Round intellectual property negotiations and, in the interim, protecting intellectual property through bilateral agreements.

Special 301 required the Administration to identify those countries that tolerate the most egregious piracy of intellectual property by April 30th of each year.

The USTR is then directed to begin negotiations with those countries to stop the piracy. If those negotiations fail, the USTR is directed to retaliate against that country's exports to the United States.

In my view, the Administration has not yet implemented the law. No countries have been identified under Special 301 in either 1989 or 1990. Several countries have been issued warnings, but no action has been taken.

We can no longer get by with warnings. In my view, it is time for the Administration to implement Special 301.

Today, I am transmitting a letter to the Administration that is signed by more than one-quarter of the Senate. The letter urges the Administration to implement Special 301; specifically, it asks that cases be initiated against four countries that tolerate the most egregious piracy: Thailand, The People's Republic of China, India, and Indonesia.

The letter also requests action against Mexico unless Mexico promptly implements its commitments to improve intellectual property protection. Finally, it asks that the European Community quotas on TV programs receive attention under Special 301.

This committee worked very hard to complete the 1988 Trade Act. We must see to it that the Act is enforced. We insist on full implementation of Special 301.

Piracy of U.S. intellectual property is costing U.S. exporters many billions of dollars each year. We must send a strong signal to the countries that tolerate piracy that the United States will insist

upon protection of intellectual property; and the way to do that, I think, is to initiate Special 301 cases by the end of this month.

And if progress is not forthcoming in the Uruguay Round, further steps will probably have to be taken.

Thank you, Mr. Chairman.

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

The CHAIRMAN. The distinguished chairman of the Commerce Committee has long had an interest in trade, a very deep interest; and he has asked to testify this morning. We are very pleased to have him. If you will proceed?

STATEMENT OF HON. ERNEST F. HOLLINGS, A U.S. SENATOR FROM SOUTH CAROLINA

Senator HOLLINGS. Thank you very, very much, Mr. Chairman, and my distinguished colleagues. You can tell from the opening statements that trade is a many splendored thing; and I guess, as they would say down home, you only enter into a trade agreement somewhat as porcupines make love—very, very carefully. [Laughter.]

And you certainly don't want to go fast track. Look at the ramifications already at the commencement of this hearing. Mr. Chairman, we have submitted two bills. One, of course, is the vitiation of this fast track—to disprove it—S. 78, by myself and some 16 cosponsors.

We didn't want to be misunderstood; and so, I have introduced a companion bill at the same time, referred to this distinguished committee as S. 636, that allows us to continue to negotiate the way the present law stands on the books.

It would be assumed—and I have heard it in argument—that if you are against fast track, you are just against the Mexico agreement, or you are just against the Uruguay Round. I can't tell if I oppose these agreements. No one knows.

I voted for the Canadian Free Trade Agreement. I voted for other ones. When you get a chance to look at them—we haven't been able to see the Uruguay Round agreement. It started out, as you well know, in 1985; we gave it authority from your distinguished committee.

We thought, by the end of 1990, we would have an agreement. It is now in the spring of 1991, and we still don't have an agreement. And it is complicated, and it is difficult; and it should be scrutinized by every Senator under our constitutional authority, Article I, Section 8, that the Congress shall regulate foreign commerce, not the President.

We had a little go-around about that; we want the executive branch to continue to negotiate for us, but not to make the agreement and come with a gun to our heads and say: Take it or leave it and no amendments.

Mr. Chairman, I have a prepared statement I would ask consent of the committee to be submitted in its entirety.

The CHAIRMAN. We would be delighted to have it included.

Senator HOLLINGS. And let me highlight just a couple of points because I see you have more important witnesses here ready to testify.

One, we truly are in the hands of the Philistines. I learned this day before yesterday. We had the U.S. Trade Representative, Ambassador Carla Hills, appear before the Appropriations Committee; and she reassured us that the country's trade position is in the pink of health. I read from her statement—I have the entire testimony—but she threw us all into shock, stating, and I quote:

"Today, our manufacturing sector is stronger than at any time since World War II." [Laughter.]

Now, I have heard of concealing your bargaining position until a certain point in negotiations, but I've never heard of starting a negotiation by agreeing to the other side. That has been the other side's position since the commencement of GATT in 1948, that the United States is super strong and should make the concessions.

They said: Look, after all, we are prostrate in ashes from the war; you Americans have all the industry and all the manufacturing, and you are going to have to concede. You are going to have to make concessions; and we did. In effect, we taxed ourselves.

You can't use that word in this town today, but we taxed ourselves for our former adversaries to reinvigorate them and get this capitalistic free enterprise system spread the world around; and it has worked.

And here we are now, with a tremendous change since that time; and to say that we are as strong now as we were then is nonsense. We have the worst unemployment since 1981-1982. It is 6.8 percent, 8.1 million unemployed, with 2 million manufacturing jobs lost in the last 10 years. Real, after-inflation income has been declining for 10 years.

We now are moving so fast, growing out of it. Read our lips: We have raised everybody up to the 1973 level of income.

The National Association of Purchasing Management says that any time the index of industrial activity falls below 50 percent, we are in manufacturing recession. Well, the index is at 40 percent right now and has been below 50 percent for the last 2 years.

So, we are in a manufacturing recession. When the distinguished Ambassador says we are stronger than at any time since 1950, I would inform her that first quarter profits are down; car sales are down 17 percent. General Motors lost $5 billion; IBM, $1.7 billion; United Technologies' profits down in the first quarter by 70 percent. But oh, we are strong.

So, if you have a negotiator—like a lawyer—trying your case in this manner, you had better get a second opinion because the truth is we are in real trouble. Trying to recover, the distinguished Ambassador then ballyhooed exports, exports, exports—saying that exports are now going to really get us out of all of this trouble.

Well, exports since 1985, yes, have been growing as a result of the Plaza Agreement that then-Secretary of the Treasury Baker negotiated; we devalued the dollar. That really affects our exports, and the truth is now that, for the past 2 years, the trade deficit is declining.

Yet 6 out of the 10 most export-intensive industries, construction, electronic components, engines and turbines, electrical equipment, iron ore, are in a recession.

The annual rate of growth in exports in 1989 was 14.7 percent; in 1990, 7.1 percent; and Shearson now predicts for this year 1.7 percent. So, while we like exports and try to press for exports and do everything we can to promote exports, let's don't go down that primrose path.

And finally, we got to question the distinguished Ambassador and asked: Now, Madam Ambassador, really why do we have to have fast track? We have experience with other very important treaties fundamental to the United States in national security: SALT I, SALT II, the ABM, the INF. All the treaties that affect our national security are negotiated in equally difficult circumstances and are equally complicated; and we bring them before the Congress. And in our ratification duties in the U.S. Senate, we can put in an understanding; we can submit reservations. You can make demands.

If we can do that for our national security, you would expect the same for a little trade treaty.

And of course, the plea has always been: Well, wait a minute. If you start trading, then the whole thing will come apart; and they will never come back to the table. We heard that on SALT II. We turned SALT II down, and they were immediately back at the table; and we not only got together an agreement on intermediate nuclear forces, but we ratified that.

We live in the real world. We are mature; we are grown; we are good business folks. We are Yankee traders; and if it is in our interest and benefit, we are going to vote for it. And if it is not, we are not going to vote for it.

There is no use in having this political nonsense about the complications of it.

Being pressed and asked again, the distinguished Ambassador said: Well, now, you Senators really don't understand the history. And let me quote:

"We went through the era of the Smoot-Hawley Bill, where every Congressman tried to protect his special constituent interests, and it drove us into the Great Depression." Now, they drag that old cat across the table.

For one, Milton Friedman has said that the Depression was in fact a tragic testimonial to the importance of monetary forces.

Secondly, Paul Krugman of MIT said, and I quote him: "The claim that protectionism caused the Depression is nonsense. The claim that future protectionism will lead to a repeat performance is equally nonsensical."

But none has better debunked the Smoot-Hawley myth than our former colleague, Senator John Heinz, of Pennsylvania. I remember debating that with him, and we were on the same side 8 years ago; and I would like to submit for the record his particular presentation on the floor of the U.S. Senate, a distinguished member of your committee.

[The presentation of Senator John Heinz appears in the appendix.]

Senator HOLLINGS. And John Heinz pointed out very quickly that the Smoot-Hawley Act actually was adopted in June 1930, 8 months after the crash in 1929; it never caused any depression.

The truth of the matter is that it affected less than 1 percent of world trade; indeed, by the third year, trade was going way up; and then, we passed in 1934 the Reciprocal Trade Act, with Cordell Hull writing in reciprocity. So, it has been a bum rap.

And there is no use for our trading negotiation to start off with the position of the other side and then assume that the Senators are dummies and don't know trade history, particularly the members of the Finance Committee.

Now, when I say we are in the hands of the Philistines, that is why we want to look at this. Before we submitted the 1990 textile bill, we went to Geneva. I said: Look, I am tired of this textile thing. We passed it under President Carter, and he vetoed it, but then he started better enforcement. We passed it twice under President Reagan, and it was vetoed twice.

So, when we were getting ready to submit the textile bill last year, I said: Go to Geneva and find out what we are submitting, what you folks call "tabled" or proposed. And we found that they had proposed globalization, so that was the approach we used. We submitted it, and then they promptly opposed it and vetoed it.

So, we must understand that, as Henry Clay years back said, "There is not now, never was, nor ever will be free trade." That cry of "free trade" has been from the developed world to the undeveloped, and 200 and some years back when we were undeveloped, a fledgling United States said no.

That is exactly what the British told us: You go ahead and trade with what you produce best; there will be no tariffs or barriers. And England will ship back to you what we produce best; no tariffs or barriers—free trade.

And Alexander Hamilton wrote a booklet. There is one copy that I know of over in the Library of Congress. It is titled "Reports on Manufactures," and it is right to the point. It said: Bug off, we in the United States are not going to remain your colony. And the very first bill to pass this Congress on July 4, 1789 was a tariff bill of 50 percent on 30 articles, beginning with iron. We built this industrial giant with selective protectionism.

My point here is that with all these concerns—one Senator worried about intellectual properties—I am worried that we don't have any intellect to protect. [Laughter.]

We are approaching these treaties in the Congress with the naive belief that we are not into a real war—the trade war. When the wall fell, Senator Rockefeller, we moved from that cold war to the economic war, the war for economic preeminence and industrial backbone, the trade war.

And government is the comparative advantage in this war. We didn't propose it that way. We have tried to set the example over 45 years—free trade, free trade—but the Japanese said: You keep on talking about free trade, and we will show you how a nation goes about seizing market share.

And with their subsidies, their protection, their protrust rather than antitrust, their approach has worked. And if you were the

Emperor of Japan, you wouldn't change a blooming thing. So I don't bash Japan; I bash us—you and me and the Congress.

Living in the real world, we have got to get down on the playing field and play along with the rules that they have. If we want a barrier removed, then we must raise our own banner and then negotiate to remove them both; but be competitive. Market forces operate.

When you make it in the Japanese economic interest, they will deal, and not before then; and you can't blame them for that.

So, what we really have is a conspiracy that has predominated here in our Government. I said a moment ago that the cry of free trade was the cry of the developed world to the undeveloped. We were the developed world at the end of World War II, and now the tables have turned.

Our U.S.-based multinationals learned that they could produce more economically and really make out like gangbusters so long as we kept the largest, richest market in the world open for dumping.

Dumping. That is another facet of this particular Uruguay Round. I said long ago that if our government would enforce the dumping laws now on the books, I would throw the textile bill away. We wouldn't need it.

But the multinationals said: Now, wait a minute. Let's keep open this market back home for dumping. The banks, who made the loans to them and now who have billions out and are trying to get their money back from Brazil and Mexico, they holler free trade, free trade; let's keep America open for dumping.

Along come the retailers. When we debate these bills, we go down to Bloomingdale's and get a ladies blouse, one made in the United States and one made in Taiwan—the same price. Go over the Hermann's and get a catcher's mitt, one made in Korea and one made in Michigan, the same price.

It is obvious that the retailers are making out like gangbusters, and they pay the newspapers. Eighty percent of newspaper revenues is from retail advertisers. The Washington Post made millions from advertising; so, they parrot this free-trade nonsense.

You see, they get together, the banks and the multinationals with ECAT, the Council on Foreign Relations, the Trilateral Commission—all jumping up and down hollering free trade.

And then, as Pat Choate told us, they have 100 law firms downtown paid $113 million by the Japanese to zap you, you, me, you, you. They just pick which Senator and how to get that vote; and I can't introduce a bill.

So, I see the same old friends walking in the office. Oh, we are going to spawn another about Smoot-Hawley—protectionism, protectionism.

So, like Lincoln years back said, we have got to think anew; we have got to act anew; we have got to disenthrall ourselves. Working together, we can get a good free trade agreement; but we have got to be able to look at it, examine it, scrutinize it, and not put a gun to our heads—no amendments, take it or leave it in 30 days. There is no reason for that.

Let me stop there and try to answer any questions that you have.

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

The CHAIRMAN. I just wish the Senator would speak up and let us know where he stands on these things. [Laughter.]

I always enjoy your testimony, and I share many of the concerns you are talking about; but I come up with a different conclusion.

I think when you have over 100 other countries to deal with—to negotiate with—there is no way the Congress will speak with one voice, with all the competing economic and regional interests.

No question but ours is the responsibility under the Constitution—without a question—for trade. But I think the practicalities of it are such that the best way to approach it is in a partnership with the Administration. And that means for them to go out and negotiate, but with full consultation with us along the way.

And that is what we said on the Canadian Free Trade Agreement. They weren't consulting with us, and we blocked it right here in this committee. They weren't consulting with you; they weren't consulting with the members of the Senate to our satisfaction, and we sure got their attention. And then they did consult with us.

And then, we worked out some of the problems, and you voted for it and I voted for it. But with over 100 other countries, I don't think you are going to get a bottom line offer out of those other countries, if they think that then it comes back here and we attach whatever amendment that we can carry on the floor of the Senate. And that is why I think it is the best way to do it.

The Administration is consulting with us now, consulting with us to the point that I may start charging them rent for the use of my office. [Laughter.]

Some tough problems facing us; I was citing those of the free riders that we have now. And how do you get to that? The problems of environmental concerns along that Mexican border, and I know them well. I was born and reared along that border.

Look at 25 million gallons of raw sewage going into the Rio Grande every day out of Laredo, miles and miles of an open ditch by the U.S. border, with raw sewage coming out of waters and all the problems of hepatitis.

But if we defeat the situation and turn our backs on it, we accept it; and I don't think that is the way to resolve it.

I think we have a window of opportunity, with a change in attitude on the part of the Mexican government, with a man who wants to privatize industries owned by the government, with a man who has brought down their tariffs from 100 to 20 percent and an average of less than 10 percent.

This is a man who closed down a big refinery in Mexico City, where living in Mexico City is equivalent to smoking 2½ packs of cigarettes a day; but he closed it down and put 4,500 of their people out of work, at a time of high unemployment in Mexico.

Sometimes I think people from other parts of the country, in the north, don't understand what we face down there. I have a family ranch down there. Fly over it, and I will show you a path across that ranch from south to north, and that is not cattle; that is not deer; that is people heading north because of the economic concerns that they have down there.

And you let that thing continue to deteriorate down there, and we will have them by the millions up here; and the integrity of the border is gone.

Those are my concerns, and that is why I think we ought to be trying to negotiate with full consultation with the Congress and by Senators like you who are deeply concerned about where we are headed and what is happening to manufacturing in this country.

I agree with you; it has been a deteriorating base, and it has to be addressed. Other than that, Senator, we are in great agreement.

Senator HOLLINGS. Yes. [Laughter.]

Well, with regard to consultation, you are right; we are getting it, and that is what really has us, you might say, almost terrorized. When you get into consultation, this Smoot-Hawley canard and statements that we are in a strong, strong position and that there is no competition out there, then you know you're in trouble. We know from the Department of Commerce in one particularly field, namely textiles, that out of 1.75 million jobs in this country, under what they have now proposed, that you are going to lose 1.4 million jobs by the end of the decade. That is why I am here. And that is why I am really frightened and worried and putting in these bills and everything else because I have been consulted.

We can't stand what we are hearing.

The CHAIRMAN. All right. Senator Packwood?

Senator PACKWOOD. Fritz, are you making the argument that the number of jobs in an industry is the sine qua non as to whether the industry is strong or weak?

Senator HOLLINGS. No, I have got better facts than that. We have invested $18 billion in the textile industry over a 10-year period. Our GNP has increased 4.5 percent on an average for each of those 10 years, twice of all manufacturing; and the Baldridge Award was won by a textile industry, the Miliken Industry, last year for being the most competitive, the most productive in America.

Senator PACKWOOD. Well, then, what is the relevance of the number of jobs?

Senator HOLLINGS. The number of jobs is just what the relevance would be, I take it, in Oregon and South Carolina. When you see them walking the bread lines out here and getting the unemployment compensation and ready, willing and able and have a skill and want to work and can't find work, that is the relevance of jobs—destitution. You want to turn us into Kurds? [Laughter.]

Senator PACKWOOD. No, but you look at agriculture. At the turn of the century, over half the people were involved in agriculture; and today, we always hold it out as a hallmark of success that there are fewer and fewer people working in agriculture producing more and more food.

Senator HOLLINGS. A tremendous increase in productivity, and we have had that. The ones that are left now in the textile industry are really the survivors; they have mechanized, automated, electronically controlled, computerized. And we have the Japanese coming down here looking at our plants.

So, I am not worried about productivity. That mindset when I first came to the Congress, that the textile industry is old and dusty and incompetent and inefficient and everything else, that is

really wrong, wrong, wrong. I wish I could have you all come visit and look at all of those industries.

That is the only way they are making it right now because we can't otherwise compete with Thailand where they pay $3.00 a day and four bowls of rice. I can show you a 40,000 employee plant in Thailand that I have been to myself, and that was the wage.

Now, we are not going to do that in Oregon and South Carolina. We have a standard of living to protect. There have got to be, like you say, some concessions, some give; and we have been doing that. But now, we have reached the point where we are not going to be the largest, richest market. In EC in 1992, they will have the largest, richest market; and they are really using their government in competing, and we are sitting around here giving these nostrums about Smoot-Hawley and getting strong and put a flag in your lapel and look at what we did in the Gulf.

We couldn't have fought that war in the Gulf—the Patriot, the T-Lamb or Tommyhawk, without the memory chips from Japan. We are in a hell of a fix, this country is.

Senator PACKWOOD. I have no other questions, Mr. Chairman.

The CHAIRMAN. Are there further comments?

[No response.]

The CHAIRMAN. Thank you, Senator.

Senator HOLLINGS. Thank you.

The CHAIRMAN. We appreciate your comments.

I would like now to call Hon. William BROCK, who is a Senior Partner in the Brock Group and a former U.S. Trade Representative.

Mr. Ambassador, we are pleased to have you.

STATEMENT OF HON. WILLIAM E. BROCK, SENIOR PARTNER, THE BROCK GROUP, AND FORMER U.S. TRADE REPRESENTATIVE (1980-84), WASHINGTON, DC

Ambassador BROCK. Mr. Chairman, you are gracious to have me back. I spent 6 of the most fun years of my life in this committee, and I am grateful for that opportunity. I must admit a bit of sadness because we are missing one of our good friends today, John Heinz.

The fact that we are having this conversation, or need to have it, is just inconceivable. That some people could contemplate a headline some time between now and the 1st of June which says, "Congress rejects any further negotiations on world trade" before they are even presented to the Congress is just unthinkable.

I can't imagine that; and I can't imagine it particularly when I am here with this remarkable group of members of the Senate. In 1982, you and I looked at this problem with some care after we had a failed ministerial meeting in Geneva; and we came to the conclusion that we really did need to do something about the GATT in fundamental terms.

And we talked about it; all the members of this committee did, and I did. We talked about the fact that the GATT had done a pretty good job throughout its history, but it had been limited in its application to agriculture, in textiles, and had no coverage in services and intellectual property.

And frankly, it had a terrible inside cancer eating at it because it only covered the self-described industrial countries most of the other countries didn't believe that they needed to live by the rules. Mr. Chairman, that is the issue you are addressing when you are talking about free riders.

We said, well, if that is the case, then perhaps we ought to try to deal with it; and we had a conversation in 1982 and again in 1983 about the need to begin to work around the world to start a new round of negotiations to address those specific inadequacies.

And in the 1980's, neither this committee nor the Administration ever faltered. We maintained the objective of strengthening the multilateral trading system, and we made a lot of progress.

I want to remind those who talk about the recession today that the early 1980's were a tough time for us to look outward, too. We had a brute of a recession, the worst one in the post-war period; but this committee said: We are going to focus on restoring our growth and dealing with export barriers that are externally imposed, and we are going to try to deal with them by negotiation.

We never faltered; and in 1988, this committee wrote a trade bill that was a neat way of looking at things. You said, in effect: We have bilateral problems; we are going to strengthen the trade negotiators' authority with Special 301, Super 301, Enhanced 301, to open up markets in other countries on a bilateral basis. The other side of that coin, and the equally important side of that coin, was to say: We also are going to authorize the Administration with this fast track authority to negotiate improvements in the system—the whole system.

So, we had a two-track approach: one, to deal with bilateral barriers; two, to deal with the multilateral systemic inadequacies of the GATT itself. And we have made a phenomenal amount of progress, by focusing on exports—please note the charts in my testimony.

The growth of U.S. exports, if you look at that little chart, is about the nicest line we have in the economy in the last 25 years, since 1965. If you look at our export growth since 1980, it has been almost as phenomenal.

If you look at the importance of exports to GNP growth, 40 percent of our growth—40 percent of our growth—in these few years has come from exports. Don't talk to me about the United States being a declining industrial power because we have a larger share of OECD manufactured exports than we did in 1970.

Sure, we are having some problems right now, but it is a terrible mistake to try to establish policy in the United States that will affect this country for the next 10 or 20 or 30 years on the basis of the last quarter's statements. That would be an act of myopia of enormous concern.

Manufacturing has led our export growth. It has increased its share of world trade; and now, we have to come to the second part of the deal, and that is the Uruguay Round. We obviously have the most important Round in history because it for the first time we are really rewriting the fundamental constitution of the GATT to address those two major core inadequacies that we identified in the early 1980's.

First, I want to note that the Round has addressed those problems. And I want to point out that one of the inadequacies we identified was the lack of participation of the developing countries; but it wasn't the developing countries that brought the Round to a collapse in Brussels. It was the EC.

It was the EC because they simply lacked the political will to deal with their own problems in agriculture. Every other country in the world was prepared to negotiate. Every other country, and particularly the developing countries, for the first time ever were there at the table with their own practices on the table.

They see the need for a comprehensive package, and I think the best example in the whole world is our neighbor, Mexico. Look at where they were; they weren't even in the GATT when you and I were talking about this issue a few years ago. They not only are in the GATT; they are moving ahead of a lot of industrial countries in the speed with which they are trying to deregulate their economy, to remove tariff laws, to remove the regulatory barriers to competition. And if we are able to move to a negotiation of a free trade agreement, we are going to have a world market here with 360 million people and a GNP over $6 trillion; and we will be a fundamentally stronger economy as a consequence of that.

That is just part of the whole conversation. Let me look at the GATT system, Mr. Chairman, and address specifically the problem that you raised.

I have up here a chart on what I call "the expanded GATT system." We talked in the early 1980's about the fact that there was a need for countries who were willing to live by a higher discipline, like the United States, to get some benefits, and frankly, to share those benefits with others who were willing to share in the responsibility. But we were concerned then, and I remain concerned today, that there has been no process to bring people from a self-described developing status into the responsibilities of whole membership.

What I have done here is just to draw three circles to show you the OECD countries that constituted basically the core of the GATT at its outset; and I think that is about 24 countries, or something like that. If you forget for a minute the second circle, the rest of the circle is all the rest of the world; but if you look at just 12 additional countries that I would say are ready to get into the full membership of the GATT—what I call "GATT PLUS"—there are over 500 million people in those 12 countries.

And it seems to me that that is what we ought to be thinking about. When we are talking about free riders, what are we talking about? We are talking about people who, all of a sudden, are beginning to realize that there is value in accepting the disciplines of GATT membership, Mexico being a good example, but so are Poland and Hungary.

Other countries like that are beginning to shed the border restraints—self-imposed barriers—that they put on the products of other countries.

So, if we can take this Round as the necessary first step in dealing with what the chairman calls "free riders" and what I call the "need for a GATT PLUS," we can give a shot in the arm to world

trade that would just be phenomenal. If you want to explore that, Mr. Chairman, I would be happy to do it.

Let me just conclude with one or two points on the issue before this committee.

The most astonishing thing to me about the conversation I have heard so far is that there are people who would want to deny an agreement they have never seen. Now, I can't imagine the Congress acting that way. I want to assure you that, in my experience in 4½ or 5 years in international trade, the most confusing thing to other countries is the system we have already. If we try to negotiate with them and they know that every single component of that negotiation could be rejected or amended or changed by another group with which they were not negotiating, after the fact, we wouldn't have a serious negotiation. It would simply break down.

We made that decision in 1934; we have never deviated from the fact that this is a cooperative relationship between the executive and the legislative branches. The Congress of the United States clearly has the constitutional authority to regulate trade, there is no question about that; but 535 members haven't negotiated since Smoot-Hawley, and we have had real progress since those days.

The last point I would make in an effort to reestablish this partnership addresses the economic questions that were raised by the Senator from South Carolina. It is, I think, fair to state that the world economy and the United States economy are particularly fragile right now. We are in a recession. If you look at the history of the last 40 years, the single-most effective engine of growth in every single instance—worldwide as well as in the United States—has been the growth in international trade, trade between countries, not within countries. If we reject the ability to even negotiate a world trade agreement, people will take that as a negative signal in a lot of different ways. They will stop investing; they will slow down on their plans for growth; and they certainly will be tempted to increase the barriers in order to protect themselves against the possible coming storm.

The alternative to that is, I think, the exciting part. When I became the Trade Representative in January 1981 world trade was about $2 trillion. In a decade, it has doubled to about $4 trillion.

There is no question that we are on a path to double it again in this decade to $8 trillion. That is all the money in the world that we would possibly need to pull us out of any recession.

Even if the United States gets $1 trillion of that, that is a phenomenal boost for jobs, for growth, for income, for opportunity in the United States; and I think that is precisely what is at stake.

Maybe, Mr. Chairman, that is good and sufficient to begin. Thank you very much again for the opportunity to be with you.

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

The CHAIRMAN. Mr. Ambassador, on this proposal of yours for GATT PLUS, you include the EC and you include Japan and Brazil as part of a new system. Some of those are some of the most blatant free riders that we have had.

You include the EC that has really given us problems on access to agriculture.

Ambassador BROCK. Yes.

The CHAIRMAN. Is it your concept that they would be members at the outset, or would they earn their way into it? How would you do that?

Ambassador BROCK. Mr. Chairman, we had to learn through fairly bitter experience that people had better earn their way because, if you give them an automatic membership, they don't think they have to pay.

The CHAIRMAN. And they don't have to trade anything.

AMBASSADOR BROCK. That is right. But you see, we have the biggest economy in the world. We are the most tempting market in the world.

So, if we said, "Folks, let's get serious about trade. Now, these are the standards we are willing to live by. Anybody that wants to do business with us can come in; if you will live by those standards, we will do more business with you." That is what we did with Canada, precisely.

But you don't need free trade agreements to do that. What you do need is to use the GATT system to say: Some of us are willing to move beyond this current negotiation and really accept the higher standards.

We are asking for a lot more in GATT than we are going to get in these negotiations.

The CHAIRMAN. Let me ask you about that very point you are talking about. You said "move beyond the current negotiations."

Ambassador BROCK. Yes.

The CHAIRMAN. Have we moved too far along in these current negotiations to try to do something as an addition like GATT PLUS?

Ambassador BROCK. It is not impossible. It would be difficult because we are under serious time constraints. Because of the bitterness that came out of Brussels as a result of the EC's repudiation of negotiation on agriculture, people may be a little less forthcoming than they were going into Brussels.

I don't think it is impossible to deal with some sort of an advanced GATT, but it will be more difficult until we complete these negotiations. If we complete them, Mr. Chairman, then you have created the kind of atmosphere in which you can move very quickly.

And maybe that is when you talk about something like the World Trade Organization; but I am not even sure that is as important as this concept that people who want to participate in the system have got to participate within the disciplines of the system, not just the advantages of the system. Otherwise, it won't work.

The CHAIRMAN. Senator Packwood?

Senator PACKWOOD. No questions, Mr. Chairman.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman. Ambassador Brock, I wonder if you could respond to Senator Hollings' point that there have been many agreements that this country has concluded with other countries, most of them national security agreements—the SALT negotiations for example—that were not under the fast track.

He has pointed out that there are complications there; reservations, for example, that were added onto the treaty and changes

were made. What is your response? What do you tell Senator Hollings when he makes that point?

Ambassador BROCK. First of all, it is not pertinent. But accepting the fact that there have been treaties brought to the Senate—not to the entire Congress, but to the Senate—for ratification on which reservations or interpretations have been attached, I think the experience has shown that when the Senate attached reservations that were unacceptable to the other parties, the treaty failed.

Now, that certainly happened in the 1950's. Subsequent to that, most of the time when we have put down understandings, they were not so substantive as to require the other party to change the terms of the treaty. And as a consequence, they were willing to accept it.

But in this particular case, you are not dealing with one other country; and you are not dealing with the straight-forward question on SALT limitations, for example. You are dealing with 100-plus countries, and you are dealing with 300,000 products.

The thought that we could amend it in one area without unraveling the whole thing is insane because when you are involved in a complicated negotiation, it must be a balanced negotiation. And the United States has to put something on the table in textiles. We should; we certainly should. But in order to get the LDC participation, they have got to have something they care about. In some cases, it is textiles; in other cases, it is agriculture. Well, if we just pulled some of those things off the table after we had gotten all those countries at the table to expose themselves, this whole thing is going to become mush.

Senator BAUCUS. Is it your point that there are many other countries involved?

Ambassador BROCK. Sure.

Senator BAUCUS. And there are literally hundreds of thousands of products involved; and because it is so much more complex, we need this procedure in order to reach some kind of an agreement. Is that your point?

Ambassador BROCK. Complexity is a major part of it, but the other major part of it is the exquisite balance that you have. When you are dealing with 15 different major subject areas, we are going to get 60 percent of what we want in one area, 90 percent in another, 30 percent in another; but everybody is putting something like that percentage on the table.

And when you unravel one particular thread, you unravel all those connections and that is the problem you have.

Senator BAUCUS. Is it true that the European Community would not sit down with the United States and negotiate in the Tokyo Round unless we had a fast track procedure?

Ambassador BROCK. Well, I don't think there is any question about it.

Senator BAUCUS. I mean, that is what happened, isn't it? Is that correct?

Ambassador BROCK. That is precisely what happened. Ambassador Strauss can tell you in great detail about that.

SENATOR BAUCUS. And isn't it also true that other countries, in effect, already have their fast track procedures and we are the only one that doesn't? That is, other countries are mostly parliamentary

governments—the majority party is also the government. And when the government negotiates a treaty, it can also automatically pass its treaty in its parliament.

So, in effect other countries have their fast track.

Ambassador BROCK. I wish everybody understood that. We are the only country that needs it; everybody else has it automatically in a parliamentary system. That is precisely the point. It puts us at a competitive disadvantage not to have it—a very severe disadvantage.

Senator BAUCUS. We have a unique form of government; and I want to underline the point the chairman made about cooperation with the executive branch.

When we negotiated the Canadian Free Trade Agreement, there were many items in very direct dispute, items which I particularly opposed in that agreement; and I could say from direct personal experience, that when I went to then-Secretary of the Treasury Baker—directly to him; he was in charge of the negotiations—they made some changes.

They went back to the Canadians and said: What about this? And they got the Canadians to agree to those changes. There was Section 22—that was one of them—and also a provision to address Canadian subsidies; that was the other.

They made those changes and came back; and I, therefore, gave my support. So, there is a process here where members of the Congress can work with the Administration to come up with an acceptable agreement.

Ambassador BROCK. I remember how active and effective you were. [Laughter.]

Senator BAUCUS. Thank you.

Ambassador BROCK. It was good because you showed it can be done.

Senator BAUCUS. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much. Senator Rockefeller?

Senator ROCKEFELLER. No questions, Mr. Chairman.

The CHAIRMAN. No questions? Senator Danforth?

Senator DANFORTH. Mr. Ambassador, I want to ask for your clarification of what you mean by "GATT PLUS." I think it is a fascinating concept; and I note that our chairman, in a speech that he delivered in late February to the Business Council, also suggested the same idea, and others have as well.

Correct me where I am wrong. It is one thing to negotiate rules; it is another thing to actually play by rules. How an arrangement appears on paper and how it works out can be two different things.

There are rules, for example, of ice hockey; some people play differently than others. Okay? There are rules for international trade, a basic concept called GATT; some countries are very open—take Hong Kong or Singapore. Nobody would doubt that.

Other countries, as the chairman has pointed out—some of which appear on that list—are notorious for being extremely difficult to get into.

It is sometimes the case that a country doesn't open its markets unless it has a reason to do so, unless it perceives it to be in its own self-interest.

When we created the Super 301 idea, the concept was to provide an enforcing mechanism so that countries would have a reason to live by the rules, so that they wouldn't be fudging, cheating on the rules; but they would be living by them.

Ambassador BROCK. Yes.

Senator DANFORTH. I thought Super 301 was a great idea; a lot of people didn't. It became controversial. People said: Well, any time you talk about enforcement, you are really talking about protectionism. And therefore, a lot of the pundits and so on dumped on the idea.

Now, it seems to me that what you and the chairman are talking about, when you talk about GATT PLUS, is a positive version of what we were talking about when we talked about Super 301; in other words, to provide a self-interested reason, not just for minimal compliance with the rules whenever the referee is looking, but for really opening up markets.

And therefore, the idea is to create a higher standard based on actual performance and to say that countries that, in fact, meet that higher standard are going to get something out of it.

They are not going to be penalized if they don't meet the higher standard, but they are going to be treated in some sort of beneficial way if they do meet it.

Ambassador BROCK. Right.

Senator DANFORTH. That is what you mean by GATT Plus?

Ambassador BROCK. Absolutely. I am worried that we, failing this, are going to be trapped by the lowest common denominator; and that is crazy. We are too good for that, and too many other countries are willing to accept the higher level of discipline.

And frankly, it is all right to have penalties; but there ought to be some rewards in this process, too. We have some penalties, and we can impose them. We are big; we are strong; we are bigger than anybody else. We can impose things; but isn't it a whole lot better to have both—the penalty for the egregious offender and the reward for the people who live by a higher standard? And that is precisely what we are talking about here.

Senator DANFORTH. Now, I take it that we could do this in one of, I guess, several ways. One way would be to negotiate a whole series of free trade agreements bilaterally with countries that are sort of good guy countries. The other would be to set up a generic standard—a higher standard—of what constitutes real openness, going beyond the basic GATT rules.

Ambassador BROCK. Right.

Senator DANFORTH. Based on performance as opposed to just paper agreements, and then to say that, if these standards are met, certain benefits will be open to you.

Ambassador BROCK. Precisely.

Senator DANFORTH. Is that what you have in mind?

Ambassador BROCK. Yes. You know, I have negotiated some of these free trade agreements; I believed in them; I still do. I think we have some other ones that are fundamentally important to our well-being to complete yet; but if you do it one by one, it is going to take you a long, long time.

If you set this standard and say "You all come and let's get serious about expanding trade," you can do it a lot faster.

Senator DANFORTH. Right. Now, we could do that, couldn't we, in Congress?

Ambassador BROCK. Yes.

Senator DANFORTH. Without the Uruguay Round. I mean, I am for the Uruguay Round and the fast track extension; but aside from whatever happens there, this is something we could do, couldn't we?

Ambassador BROCK. You could. If we failed in the Uruguay Round, the atmosphere would be so bad that nobody would come, I am afraid.

If you have a successful round, it lays the necessary precondition down in attitudinal terms.

Senator DANFORTH. Now, could this be done and still be in compliance with the most-favored-nation principle?

Ambassador BROCK. Sure. Sure.

Senator DANFORTH. I don't know. I mean, obviously free trade agreements can be entered into; and it would seem to me that it could be done on a generic basis, but I don't know. I take it that a legal argument would be made against it.

Ambassador BROCK. Well, I guess I think most favored nation is observed more in the breach than the exercise thereof by most countries; but even so, it is a valuable concept, and there is reason to try to stick to it.

There are ways to do this, in my judgment, that are totally compatible with our international commitments.

Senator DANFORTH. As a person who has always put more emphasis on the importance of actual performance than on paper agreements and on enforcement rather than just getting more and more paper written, I think that this concept of GATT PLUS, as I understand what you are talking about and what the chairman has talked about, is really one of the most interesting ideas we have.

I would hope that you and others who are interested, some of whom are in this room, would work with us in developing some sort of program for carrying this out.

Ambassador BROCK. I would be more than pleased to do that. Thank you.

Senator DANFORTH. Thank you.

The CHAIRMAN. Thank you. Senator Grassley?

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

Senator GRASSLEY. Thank you, Mr. Chairman. I would ask permission to put an opening statement in the record.

The CHAIRMAN. That will be done.

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

Senator GRASSLEY. Thank you very much. Ambassador, Secretary, and Senator Brock; you have held all those different positions. I suppose you would admit that sometimes it is necessary, as a Senator, to take a more parochial view in negotiating these agreements and being involved in these discussions than if you were an Ambassador.

As Ambassador, you had to consider our national interest and even an international perspective. So, as you know, question exists about whether or not the General Agreement on Tariffs and Trade is the best route to go and what effect regional trading blocks might have on the GATT.

I would like to hear your views, particularly from your background as Special Trade Representative, on EC '92 and the North American Free Trade Agreement versus the General Agreement on Tariffs. Do you feel these efforts are the result of a failed multilateral trading system? Also, will these efforts, in fact, supplement the existing GATT system?

Ambassador BROCK. That is a good question. First of all, I should say that, when I represented Tennessee, I was never parochial.

Senator GRASSLEY. Never?

Ambassador BROCK. Never parochial, no. Whatever was good for Tennessee was good for the country, as far as I was concerned. [Laughter.]

Senator GRASSLEY. All right.

The CHAIRMAN. We are going to put you under oath in a minute here. [Laughter.]

Ambassador BROCK. Well, I could have said Texas; and then it would have been all right. Right? [Laughter.]

You know, in a perfect world, Senator, we wouldn't need those things; we just don't live in that kind of a world. So, what we have got in this imperfect world is a set of systems, both bilateral and multilateral, to help us construct the most predictable, logical, and fair method by which people can exchange goods and services and ideas and capital.

We started that construction as a consequence of the failure of the twenties which led to that depression; it wasn't just Smoot-Hawley, but that was a major part of the problem. It led to war, and we didn't want to repeat those mistakes.

So, we constructed the GATT to do the best we could on a system-wide basis among those people who were willing to sign the contract. Having done that, we came to the conclusion—at least, I did in the early 1980's—that that wasn't good enough, that we had to look at things like an Israeli Free Trade Agreement first, then a Canadian one.

And we talked to some other countries at that time who were not quite ready. The Europeans have come to the conclusion that they have been living in a very dangerous world, that they can't compete in that world with twelve countries with barriers between them impeding their flow of commerce, which is most of their exchange. Sixty percent of all their trade is with each other.

So, it makes a great deal of sense to create an economic open market in Europe. I don't fear that; I think that is a great opportunity. The danger——

Senator GRASSLEY. When you say you don't fear it, you mean that you don't fear an economic open market in Europe as a threat to the GATT arrangement?

Ambassador BROCK. Not really because it is being constructed in compliance with Article 24 of the GATT, which says that so long as it is a liberalizing effort and that no barriers or burdens are imposed on other countries, you can move in that direction but you do

have to substantially free up all trade. What that will do for us is to open up, frankly for U.S. firms, a huge, new, more flexible, more vital market.

No, I don't view bilateral agreements as a threat to the GATT any more than I view the Canadian and Mexican agreements as threats to the GATT so long as we meet that necessary standard of liberalizing substantially all trade and imposing no burden on any other country in the process of our actions.

If we do that, fine. The trouble—and this is the point that I think you can fairly make—is that regional trade blocks have the potential of becoming defensive and therefore negative and therefore dangerous to the GATT. That is what you have to avoid.

So, I guess my argument would be: The faster we can strengthen the GATT and expand its coverage and its competence and its disciplines, the more sure we are that these regional exercises will not take on a negative characterization. But we do have to watch it.

Senator GRASSLEY. So, we have to look at ways in which we can prevent these regional agreements from being defensive?

Ambassador BROCK. Precisely.

Senator GRASSLEY. Do you think that a GATT agreement, in and of itself, will do that or does there need to be something done about GATT to see that GATT is strong enough?

Ambassador BROCK. Something has to be done about GATT, but——

Senator GRASSLEY. I mean—above and beyond the negotiations that are going on now—does there need to be a restructuring of GATT in such a way that it will accommodate what could be defensive about the regional trading blocks?

Ambassador BROCK. If I felt we were going to stop improving the GATT after we completed or even if we have a successful round, I would be very worried. I do think it takes more than that, yes.

Senator GRASSLEY. Let me ask you a question on another point that we haven't heard yet today.

In their written testimony, several individuals mentioned the need to eliminate the problem of free riders or nations which benefit from the MFN clause of GATT without assuming any obligations of the system. Do you generally agree with that point of view? Do you see freeriders as a problem that needs to be taken care of?

Ambassador BROCK. Yes, I do. I really think that, unless we deal with the special and differential treatment, not overnight because you can't do it that fast, but on a regular, predictable basis—and one of the things we are talking about with GATT PLUS is precisely that effort—unless you deal with that, that is a cancer that will eat the system's heart out.

Senator GRASSLEY. Let me ask you to give a specific example of a country or countries which receive some benefit at a disadvantage to the United States, if you could think of one or two.

Ambassador BROCK. Well, I don't think it is a disadvantage to the United States for Brazil to have access for much of its product on virtually a zero-tariff basis or very low tariffs. What is of disadvantage to the United States is the Brazilian right under the GATT to exempt itself from any discipline and to say, if we are

going to impose an informatics decree, well, you can't sell your computers down here. And we don't have software protection.

The Senator from Montana was talking about the fact that we lose $60 billion worth of intellectual property per year. That is a phenomenal amount of loss for Americans, and it is simply because the GATT does not exercise the competence and the discipline to stop that theft. And that is what we are trying to do within this round—one of the things.

Senator GRASSLEY. Thank you, Senator Brock. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Ambassador BROCK. Mr. Chairman, before I leave it, I am not going to impose this on you, other than to leave it, but I just wanted you to see this. We have taken this chart to note the editorials. We have 587 editorials in behalf of this round, and eight against it. We, the MTN Coalition, have been clipping for about 6 months.

The CHAIRMAN. We would be glad to have it.

Ambassador BROCK. And I thought that was a fairly nice commentary on the excitement people have about opening up this system and doing more business around the world.

Thank you very much for your time and your patience. I appreciate it.

The CHAIRMAN. It is good to have you, Mr. Ambassador. We appreciated your testimony.

Next, we will have a panel of witnesses. Mr. Jack Valenti is chairman and chief executive officer of the Motion Picture Export Association of America. Mr. Frank Popoff is the president and chief executive officer of the Dow Chemical Co., in Midland, MI, on behalf of the Chemical Manufacturers Association. Mr. Jack Sheinkman is president of the Amalgamated Clothing and Textile Workers Union from New York, on behalf of the Fiber, Fabric and Apparel Coalition.

Mr. Valenti, if you would proceed?

STATEMENT OF JACK VALENTI, PRESIDENT AND CHIEF EXECUTIVE OFFICER, MOTION PICTURE ASSOCIATION OF AMERICA, AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, MOTION PICTURE EXPORT ASSOCIATION OF AMERICA, WASHINGTON, DC

Mr. VALENTI. Thank you, Mr. Chairman. I think the words I am going to speak here this morning are dangerous words because, as Oscar Wilde once wrote, "When one speaks the truth, one sooner or later is sure to be found out." It is on that premise that I proceed.

The truth is that the U.S. film and television industry is one of the glittering jewels in the American trade crown. We bring back to this country more than $3.5 billion a year in surplus balance of payment, at a time when that phrase "surplus balance of trade" is seldom heard in the corridors of this building or anywhere in the Congress.

The truth is that this superior trade prize is under assault on every continent, which is why we have to be eternally vigilant because, like virtue, we are always and at all times besieged.

We are hit hard with odious trade barriers like TV quotas, which exist in too many places on too many continents.

The truth is that the existence of these television quotas and the stealing of our property abroad is unacceptable. We thank you, Senator Baucus, for your letter which I think goes to the nerve edges of what this issue is all about.

The truth is our future is tied to a doctrine enunciated by Chairman Bentsen in February—and Senator Danforth alluded to that speech—in which he said essentially that countries selling goods freely in our market must give us equal access to their market.

We believe in that. We live by it. We may even have to die by it.

All I have said so far is the preface now to commitments that I want to make to this committee at this time.

First, we support fast track extension with a caveat that I will go into.

Second, we support a trade agreement with Mexico.

Third, we are very congenial to this innovative idea called GATT Plus. I think it needs to be explored.

Let me explain. Our support of fast track emerges from our firm belief that we must have some kind of disciplined code of conduct in this world, the trade world particularly, else friend and neighbor are going to be lashed to pieces by surly disputes, by bilateral squabbling, by what I think are squirming evasions of forked tongues and illusory promises, and, finally, the end of any kind of an attempt at international trade comity.

GATT is the only sane alternative that we can think of that would be an alternative to that kind of a surly world.

I think that, without any agreed upon rules of the trade game, all that is going to be left to anybody is the tooth and the tusk and the beak and the claw; and that is not a happy augury for the future.

So, we support the President, the Trade Representative, and those in Congress who believe that a civil discourse in trade is essential; and I think it has to be achieved through fast track. I don't know any other way to do it.

But—and here is our caveat, Mr. Chairman—our Government cannot and must not sign any compact, GATT or otherwise, that leaves in place and undisturbed these TV quotas. They have got to be phased out over a number of years.

Moreover, in the GATT right now, there is a section called "TRIPS," an acronym for issues dealing with intellectual property. We have to be very careful that any final compact includes protection for public performances, protection for sound recordings, and some kind of a dispute mechanism that works.

And also, TRIPS can't be used as a tool to intrude in our country with foreign concepts like moral rights, which collapse the traditional way we have in this country of "work for hire."

Now, this same caveat applies, I think, to the tripartite negotiations of Mexico, the United States and Canada. As you well know, Mr. Chairman, there is unhappily engraved on the forehead of the United States-Canada Free Trade Agreement a thing called a cul-

tural exclusion, which means movies, television, sound recordings, books, are exiled—thrown over the side, won't even be discussed, in that compact between those two countries.

Therefore, if Canada persists in this tripartite negotiation, that a cultural exclusion be part of that North American Free Trade Agreement, our Government must walk away from that table, or sign an agreement with Mexico only.

And finally, I think GATT PLUS does have a good ring to it. We want to be part of any group that you want to assemble to examine it further.

Finally, this world will become Boorish and sullen—at least in my judgment—unless there is some process to bring civility and discipline to the world trading arena. And GATT, to me, is the best that we know; and we ought to give it one more chance.

And I think we ought to have an agreement with Mexico. We have problems there, Mr. Chairman, but I think they are fixable in any kind of a negotiation.

I am totally fascinated with what I am saying, and I would like to go on; but that red light is up, and I will stop. [Laughter.]

Thank you, Mr. Chairman.

The CHAIRMAN. We will take the eloquence of your prose in its entirety in the record. [Laughter.]

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

The CHAIRMAN. Mr. Sheinkman, we are pleased to have you.

STATEMENT OF JACK SHEINKMAN, PRESIDENT, AMALGAMATED CLOTHING AND TEXTILE WORKERS UNION, NEW YORK, NY, ON BEHALF OF THE FIBER, FABRIC AND APPAREL COALITION

Mr. SHEINKMAN. Mr. Chairman, honorable members of the committee, I appreciate the opportunity to appear here and testify before this committee on the Uruguay Round.

I would request that my formal testimony be entered into the record.

The CHAIRMAN. That will be done.

Mr. SHEINKMAN. And I will now proceed in the summary form that was requested.

For 5 years now, we have been trying to negotiate a GATT agreement. The failure to negotiate one had nothing to do with fast track, as we all know; it got sort of thrown on the reefs as a result of the failure to deal with the issue of subsidies in agriculture.

But in the process of looking at the subsidies in agriculture, we also have to look at the question of subsidies and dumping and how that is enforced in terms of an international agreement.

We have had some examples of what happens when you turn over to an international agency the question of American interests in this kind of situation. Recently in Canada, under the free trade agreement, the issue came up whether pork was being dumped properly in the United States.

The ITC found it was a violation. The International Group found that pork was not the issue because it was processed pork coming into the United States; and, therefore, it was exempt.

Likewise, when you are dealing with the question of enforcement, you are dealing with the question of turning over to an international agency issues which are governed by our own trading laws. And to my mind, there is going to be a very serious question as to how that enforcement is going to take place under the proposals.

I would like to deal with one issue, which is very relevant, that has really not been dealt with in any of the debates that I have heard to date. We now absorb 60 percent of the Third World exports into the United States, far more than any of our developed trading partners.

The issue of labor rights in most cases is not considered to be a commercial item in any trading agreement, although we recognize it in the Super 301 bill that was passed in 1988. But it is, in the issue of competitiveness, a buzzword.

A recent study by Secretary Brock and Secretary Marshall pointed to the issue very carefully. Is the United States going to compete on the basis of low wages and a lower standard of living, instead of on the basis of productivity, quality, and flexibility? That is the key issue.

Last year, I had the opportunity to visit the Dominican Republic, along with my colleagues from the Inter-American Textile and Apparel Federation because, in a free trade zone, there were 100,000 workers laboring. The rights that are accorded Dominican workers do not apply to those workers in the free trade zone. Trade unionists cannot organize; workers are discharged arbitrarily.

I tried to get in, and I couldn't. I then formed in the Dominican Republic, by preparing a business card, the Amalgamated Manufacturing Company and went in with some of my colleagues to talk about the free trade zone as if I were an American manufacturer.

And this is what I found: excellent space, wages of 55 cents an hour, excellent facilities provided. And then, I asked them this following question: I have trouble with unions back in the States; am I going to have the same trouble here? They said: No, there is no problem; you see this gate? You can't get in it; we have the Army a half mile down the road. You don't have to worry about unionization.

Then, I was at an international meeting 3 years ago in Tokyo, where a representative of workers in Sri Lanka described a situation in a free trade zone there, where workers are earning $1.00 an hour; there are no hours set. Quotas are set, whether it takes 10 or 12 hours; making jeans sold in the American market at $35.00 a pair.

Now, you might ask yourself: What has this got to do with subsidies? Then, you look at China. A recent article in Business Week highlights it. Exports into the United States of apparel—and China is our major exporter—are made under forced labor conditions.

The USTR put the issue of worker rights on the bargaining table. I was in Brussels. We were told that, at that point, the issue of worker rights would not be part of the regular GATT agreement but would be a subsequent working group.

And as a negotiator, I can tell you that it is very difficult to get a basic GATT agreement now and then end up with a subsequent working group and hope to see it achieved.

I say to you, Senator Bentsen, you have written to The White House on the issue of worker rights and the environment insofar as it applies to the Mexican Free Trade Agreement.

And I say to you, sir, that it applies likewise to the GATT agreement. In my mind, that is as much of a subsidy as plants or pork; and if we are going to deal with the issue of subsidies, we now have an opportunity to deal with that issue.

On the issue of textiles generally, 60 percent of the American market now is involved in import penetration, despite the fact that textiles don't fall within the GATT rules. It will be put in the GATT and offered as a trading chip with some of the other agreements we are seeking.

And as Senator Hollings pointed out very graphically, there will be 1,400,000 jobs wiped out; this is not my prediction. And this is our undeveloped people in the United States; and we might ask ourselves: Where are these women, minorities, and people with little education going to work?

And that is a fundamental question that we have to deal with when we deal with the national interest. Thank you, Senator.

The CHAIRMAN. Mr. Popoff?

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

STATEMENT OF FRANK P. POPOFF, PRESIDENT AND CHIEF EXECUTIVE OFFICER, THE DOW CHEMICAL CO., MIDLAND, MI, ON BEHALF OF THE CHEMICAL MANUFACTURERS ASSOCIATION

Mr. POPOFF. Good morning. My name is Frank Popoff, I am President and CEO of the Dow Chemical Co. I am here on behalf of the Chemical Manufacturers Association, where I am vice chairman and member of the board of directors.

We certainly appreciate this opportunity to discuss the Uruguay Round and trade policy with you and to emphasize the need to encourage broad adherence to multilateral trade agreements.

CMA is a nonprofit trade association, whose 188 member companies account for about 90 percent of the productive capacity for basic industrial chemicals in the United States. CMA members are major exporters of chemical products.

Last year, our industry generated exports of $39 billion, opposite imports of $22.5 billion, netting a favorable balance of trade of $16.5 billion.

Efforts to liberalize U.S. trade policy directly benefit the U.S. chemical industry and the U.S. economy as a whole. We support liberalized trade, as in the United States-Canada Free Trade Agreement and current discussions to reach agreement with Mexico; but Canada and Mexico represent only a small portion of the global market for chemical products.

Worldwide, barriers to trade constitute a severe disadvantage to both producer and consumer. Multilateral trade disciplines are necessary in order to create export opportunities for U.S. chemical companies and to allow us to plan and invest.

The Uruguay Round offers the best hope to further liberalize world trade.

CMA actively supports the MTN as the best means to reduce and eventually eliminate all tariff and nontariff trade distortions. Our top three priorities for the Uruguay Round are: first, generally improved market access for U.S. producers; second, strengthen protection for intellectual property; and third, greater discipline over trade-related investment measures.

Unfortunately, several factors threaten to undermine these negotiations.

First, there is a clear need to address what Senator Bentsen aptly calls the free rider problem. All countries, developed and developing, must recognize the alternative to an effective multilateral trade discipline as chaos.

Countries can no longer sit back and rely on the GATT principle that trade concessions will be granted on a most-favored-nation basis.

Second, many issues in the Uruguay Round have taken on a new dimension. Former North-South issues have taken on a distinctly North-North character. The agricultural negotiations is a case in point and will come to conclusion only if developed countries are able to resolve their differences.

Additionally, there is one factor affecting the Uruguay Round that Congress is uniquely placed to address; that, of course, is the importance of a domestic trade policy.

Resolving some of our own trade policy considerations should help promote participation in the Round and ultimately lead to the successful conclusion of negotiations we all look for.

The pending extension of the President's fast track negotiating authority has brought the Round to a virtual standstill. Only by extending fast track can the United States fulfill its commitment to multilateral trade disciplines.

CMA urges Congress to allow for the extension of fast track negotiating authority for all trade negotiations.

Other aspects of the U.S. trade policy may also have an impact on our ability to reach a comprehensive multilateral agreement. U.S. interest in bilateral trade agreements, our trade remedies, and even export incentives and disincentives stand to have an impact on the Uruguay Round, at least at encouraging other countries to keep a weather eye on the benefits to be gained from a multilateral agreement.

The committee's continuing interest in developing a comprehensive trade policy should help ensure that the United States is ready to meet the challenges of a global economy.

In conclusion, the U.S. chemical industry's ability to positively contribute to the nation's economic well-being depends in great part on multilateral trade liberalization. It is incumbent on all of us, particularly the United States, to bring the important opportunity for eliminating foreign tariff and nontariff barriers to a successful conclusion.

Thank you all very much.

The CHAIRMAN. Thank you, gentlemen.

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

The CHAIRMAN. We will open it up to questions, with a 5-minute limitation on the members.

Mr. Valenti, you viewed Section 301 in the past to open up markets, to protect some of your intellectual property rights; and now, we are seeing the negotiators in Geneva and in Brussels talking about, insofar as dispute settlement mechanics, insisting that we use the dispute settlement mechanics of GATT first before resorting to Section 301.

As I understand it, the Administration says that they could do that only if there were clear enforceable rules, where one country couldn't block it as they have in the past.

Now, if you had a service contract that you thought was appropriate and that you could live with, do you think you could be living under a set of dispute settlement mechanics that were determined by a set of experts in Geneva?

Mr. VALENTI. If that dispute settlement was warranted and planked down with guarantees, and if it did not allow one or two countries to block it, and we scoured it pretty well, yes, we would try. I think it would worth a try.

I have made it clear to the USTR, though, that absent any kind of locked-in dispute mechanisms, without any leakage, we can't give up 301.

Now, I might add, Senator, that we have only filed one 301. We have used it as a threat, hanging with damoclean ferocity over somebody's head. They often say: Well, nobody ever explained it to me that way before.

We threatened Korea with a 301 and were able to open up that locked-in marketplace. We have filed one against Indonesia for patently and blatant neglect of protection of our property.

The answer to your question is yes; we would, but I want to see in writing, and I want to see it spelled out in detail before I would want to go along.

The CHAIRMAN. Mr. Sheinkman?

Mr. SHEINKMAN. Yes, sir?

The CHAIRMAN. You were talking about some of the disparity in labor costs. With our higher labor costs in this country, are we always going to be in a position where we are going to need quotas, protection on apparel, to keep those jobs in the United States?

Will we ever reach a point where we won't need that?

Mr. SHEINKMAN. We have already achieved that state to a certain extent, Mr. Chairman. In the last 10 years, we have had import penetration go from 30 to 60 percent in apparel; and it is moving along. And that will continue to grow, despite the fact that the American market is growing.

The industry has taken certain steps. I am very proud of the role my union played in establishing the Textile, Clothing and Technology Corp., almost a decade ago in an attempt to modernize our industry and make it more productive.

We have taken dramatic steps. My union in its collective agreement has no impediments to the introduction of new technology, even though it might result—and in some cases has resulted—in fewer employees, as a method of trying to deal with productivity.

As a matter of fact, we have a labor-management committee which is now presently dealing with the whole issue of how work is structured in the work place in an effort to deal with that problem.

But the problem is placed very dramatically by the following information. You take the shirt industry. It takes an American worker 14 minutes to make a shirt; a Korean worker, 21 minutes to make a shirt; an Indian worker, 23 minutes to make a shirt; and a Bangladesh worker, 25 minutes.

The disparity in wages using a dollar as a base would be 25 cents an hour as compared to $1.00 for an American worker; 23 cents for an Indian worker, and something like 11 cents. We could not in any way compete on that basis, despite our productivity.

What we have been trying to do is deal with the issue of on-time delivery, working with retailers; and the issue really boils down to a very fundamental question. Are we going to compete on the basis where we continue to lower the American standard of living, not because we are creating impediments to productivity? But what are the rules going to be governing?

Now, most of these Third World countries depress wages deliberately because, under the IMF and under the World Bank, they are told that they have to export in order to meet their foreign debt, which means that they are afraid that if they raise wages, those jobs will be shifted to another country.

We have got to deal with the issue, sir, of dealing with that issue of foreign debt, just as we dealt with it with Poland. We have got to deal with the issue of foreign debt in a different way, other than depressing wages.

And to my mind, if we continue to depress wages, we are going all engage in a race to the bottom; and we will be wiping out manufacturing, which is fundamental in my view, to the kind of services, other than banking and insurance, that is necessary to make this a first world country and a leader in the world.

The CHAIRMAN. Thank you. I see my time has expired. Senator Packwood?

Senator PACKWOOD. Mr. Valenti, I agree with you about the cultural exclusion clause in the Canadian Free Trade Agreement. I am not quite sure if I understood what you said in terms of these new negotiations.

Are you saying that if Canada does not agree to get rid of its cultural exclusion, vis-a-vis the United States, that they should not be a signatory, or we should not be a signatory with them to an expanded North American Free Trade Agreement?

Mr. VALENTI. That is correct; but first, I want to correct something. In my passion and zeal on 301's, I said that we had filed one against Indonesia; we are negotiating with Indonesia, but we filed the 301 against Thailand. Having said that, I will address your question.

Yes, I am saying precisely that. Our country should not sign a tripartite agreement if Canada insists on the cultural exclusion.

I might add, Senator Packwood, that just last Tuesday, I was at a meeting at The White House with the President there in attendance and Carla Hills and others; and I brought that up. And Carla Hills said—Ambassador Hills said—that we would have no compunction at all about signing an agreement only with Mexico and not signing it with Canada if they insisted on the cultural exclusion.

Senator PACKWOOD. Well, I want to make sure I understand—because you and I know it isn't cultural exclusion; it is just pure protectionism. They are not worried about cultural exclusion or protection in that sense.

They might be willing to say, well, we are not too worried about the threat of Mexico's invasion of our cultural identity. So, we are perfectly happy to sign the North American Free Trade Agreement, not upsetting the present deal between the United States and Canada; and we won't insist upon that as part of the tripartite agreement, but we want to continue it vis-a-vis the United States.

Mr. VALENTI. That is not good enough, Senator—not good enough at all.

Senator PACKWOOD. All right. Now, let me ask you a couple other things. Canada wants to reopen some things with the United States in the Free Trade Agreement. They want to reopen some lumber issues.

Are you suggesting that, if we are going to go into this debate on a tripartite North American Free Trade Agreement, all issues are up for renegotiation that we thought we had at one time settled in the negotiations with Canada?

Mr. VALENTI. If that agreement is opened up, I want to be first in line to say let's talk about this cultural exclusion and let's get straight on what is fair trade. I am not going to talk about free trade, as Senator Hollings did; but I certainly will talk about what Senator Bentsen talked about—that is, fair trade.

Senator PACKWOOD. But if it is not opened up, then you don't even want to sign with Mexico, unless it is purely a Mexican-American agreement?

Mr. VALENTI. Absolutely.

Senator PACKWOOD. All right.

Mr. VALENTI. Now, let me put it as simply as I know how. In any tripartite, they called it a North American Free Trade Agreement. We want no cultural exclusion, and we want the right to say that each of us should have full access to each other's marketplace, particularly in the matter of intellectual property.

Senator PACKWOOD. I agree with you on this subject completely. I just want to make sure that I understand. You are talking generally, and this is in your interest; but if we want to open this up, there are going to be a number of other things that other people want to open up in the Canadian-United States Free Trade Agreement under the rubric of this North American Free Trade Agreement.

Things that they didn't win at the time or lost at the time, they want to renegotiate. And it wouldn't be limited to purely cultural exclusion.

Mr. VALENTI. I think you ought to open it up for all other places where there are disputational views.

Senator PACKWOOD. All right. Well, there are a lot of those. [Laughter.]

That is the danger of opening it up.

Senator PACKWOOD. That is correct. That is what I was getting at. Mr. Popoff, I was intrigued; it is a $17 billion trade surplus?

Mr. POPOFF. $16.5 billion; yes, sir.

Senator PACKWOOD. $16.5 billion in just the chemical industry in 1990?

Mr. POPOFF. Yes, sir.

Senator PACKWOOD. How much of that is imports and exports?

Mr. POPOFF. We have a balance of about $38 to $39 billion of exports, $22.5 billion imports. So, you can see the byplay of trade that comes up with the number. Much of this is reciprocal trade; the net result is the $16.5 billion.

Senator PACKWOOD. Thank you. No other questions, Mr. Chairman.

The CHAIRMAN. Let me intrude just a minute. Let me say that I was quite concerned with the addition of the Canadians to this negotiation, that it might delay the process.

I was assured the Canadians were not talking about reopening the trade agreement that we had made with them. We will wait and see.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman. Mr. Valenti, I have some of the same concerns about reopening the United States-Canadian Free Trade Agreement. Are you saying that, if it is not reopened at all, your industry would be opposed to a North American Free Trade Agreement?

Mr. VALENTI. No, Senator, I didn't say that. As a matter of fact, we think that is fine.

Senator BAUCUS. But you wouldn't have the benefit of asking Canada to retract or back down on its cultural exemption?

Mr. VALENTI. I will put our position as simply as possible in declarative sentences. One, as I said in the presence of the President, our country should not sign any tripartite agreement that has any kind of cultural exclusion or any kind of TV quotas or any other barriers to the free and unhobbled movement of American films and television and home video.

Two, if one of the partners, i.e., Canada, insisted on having those kinds of barriers inserted into the agreement, then there should be no tripartite agreement and that we should work out a bilateral agreement with Mexico only.

Senator BAUCUS. All right. Thank you. Turning to the European Community, what advice do you have or what approach do you think the Administration should take in the GATT negotiations in order to force, if you will, the European Community to back off on its claim for quotas?

Mr. VALENTI. I don't know what we have to trade, but I have suggested to the Trade Representative and her staff that I am not suggesting an abrupt truncation of these quotas but, over a period of years, to phase them out reasonably, always in a descending curve until, at the end of this time, they would be gone.

So, I am suggesting a phase-out of the TV quotas. My own judgment is that, as new television stations come onstream—and I am told the number of hours available to Europeans is going to quadruple or quintuple in the next 10 years; I have heard that and do in part believe it—these quotas are unnecessary to begin with.

But as Senator Packwood says, they have nothing to do with culture. As I said to my European friends: Are you suggesting to me that a few episodes of "Dynasty" and "Dallas" and "Knots Land-

ing" are going to collapse 2,000 years of an individual nation's culture? Is that culture so shakily rooted, so flimsily anchored? If it is, then your culture probably doesn't deserve to be preserved if that is the kind of thing——[Laughter.]

But of course, that is ludicrous. We all know differently; it is commerce, not culture, that is at the root of all of this.

Senator BAUCUS. Right. Do you think in the interim it makes sense, under Special 301, to have the European Community placed on the watch list?

Mr. VALENTI. I do indeed, and I so endorse it.

Senator BAUCUS. Could you expand a little bit more about the problems your industry is having in Indonesia? There are some who say that perhaps Thailand or the People's Republic of China or other countries violate intellectual property, but maybe Indonesia not quite as much. What is your view on Indonesia?

Mr. VALENTI. The problem in Indonesia is piracy, but it is also access. It is 110 or 115 million people, or maybe larger than that. It is the only country in the world where we can't open an office.

We have just, after several years of negotiation—and their Ambassador here has been most inhospitable to these negotiations—we have now gotten permission to open a representative office. We can't sell anything but just to observe. Well, that is not acceptable either.

And we are working now to try to open up that marketplace, just to allow us to go in. Right now, we have to deal with a monopoly set up by the government—importers. They determine the importers, and we have to funnel all of our products through these few importers.

That is the way it was in Korea. The Korean walls have collapsed. We are now moving into a free marketplace, not without a lot of violence and intimidation, I might add; but that is going to be a very sunny market for American movies and television, now and in the future.

Indonesia is sealed off, hedgerows that we cannot penetrate. And that is the problem there.

Thailand is strictly total flagrant neglect of even the most simple kind of protection of our property, and that is why the 301 was filed against Thailand.

Senator BAUCUS. All right. Mr. Popoff, could you address in a minimum of time the importance of market access in the GATT negotiations, particularly zero-for-zero tariff options and so forth? Do you feel that that is getting enough attention in the negotiations?

Mr. POPOFF. We think it is the most critical issue. We have got little to bargain along these longs. Tariffs have come down considerably in the chemical industry; but market access is really the hallmark of what underpins our industry.

We are a new industry. We are of this century; and substitution is what we are all about. Indeed, we search the world for raw materials; we convert wherever there is a talented and trained labor force. We try to sell on the customer's doorstep. We do research wherever there are talented people.

And any impediments to trade eventually escalate the cost of delivering the final product to the ultimate end user. Market access is critical. If we add costs at every juncture, indeed the ability of

our production of pharmaceuticals, agriculturals, chemicals, plastics, whatever you may have, is impeded. Market access is critical.

Senator BAUCUS. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Rockefeller?

Senator ROCKEFELLER. Thank you, Mr. Chairman. Mr. Popoff, a philosophical question. It has been brought out that if we do do this, that there could be a loss of 1,400,000 jobs in textiles. We are asked as Senators to be both parochial and magisterial in our scope.

In my State, there are possible winners and losers that result from an agreement. If we fail to provide fast track authority, it is probably certain that the Europeans who are better financed than we are at the present time, in our race to subsidize agriculture and protect agriculture, will do better than we do; and certainly, intellectual property won't make the list, if we fail to allow the fast track process to continue.

On the other hand, if we approve fast track, there is that question—the moral question—that each decisionmaking American, and that includes you, must make. I am asking you because you gain from this.

How do you balance, in your own mind, the job loss on the one hand that a State or an industry might have to accept if we do pass this, as opposed to the larger consequences—the macro consequences—which might, in the long run, be better?

Mr. POPOFF. I am not sure that I am ready to accept the fact that multilateral trade accord would generate a total job loss. The GNP figures that I have seen——

Senator ROCKEFELLER. No, no. I want you to answer my question. I am not talking about a total job loss; I am talking about specific job losses within certain categories of industry, for example, apparel, glassware.

Mr. POPOFF. I see. I must concur with the previous comment that there has been a tradition in the United States for shifting jobs from industry to industry. The agriculture example, I thought, was particularly applicable.

We are dedicated, I think, to addressing total employment and hopefully upgrading all of the jobs in the process. The bottom line is the jobs that we really need to build in this country are the jobs that all of us aspire to, the jobs that indeed we can train our people to achieve.

On that basis, I would certainly substitute some of the jobs that we have discussed in the textile industry for the jobs that are industry-driven by technology and a whole host of other things can provide.

Senator ROCKEFELLER. You have, therefore, a full confidence that workers, even though they might be in their fifties and sixties, who have been working for example in footwear and apparel for 30 years, can in fact be trained for the types of jobs that you refer to, which are usually going to be——

Mr. POPOFF. No, sir, I don't have full confidence.

Senator ROCKEFELLER. So, therefore, how do you address that statement you just made?

Mr. POPOFF. I think in the remediation of our address to workers who are, for one reason or another, displaced from their work, we

have to find remedies where indeed the people who benefit must enable the people who have lost to essentially equilibrate their circumstances.

Senator ROCKEFELLER. And how do we do that? Is that through the expansion of welfare? I mean, it is easy to say that; how would you contemplate that happening?

Mr. POPOFF. No, I think there is a variety of ways to achieve it, beyond the already expanded welfare programs that we live with.

I think the best way to address that is, at age 60 and 65, to recognize the average working life of the U.S. employee and try at least to make the new generations of the workers on the work force better competent to address the issues that indeed will generate better employment in times to come.

Senator ROCKEFELLER. Jack Valenti, how would you address this dilemma?

Mr. VALENTI. Of job retraining?

Senator ROCKEFELLER. No. Of jobs that will be lost in fact, in the short term, versus potential macro-level gains in the longer term?

Mr. VALENTI. I can't speak to that, Senator. I just don't know the answer to that. I can only speak to you as it pertains to the industry that I have a modest claim to some knowledge; but I don't know enough about the total job loss and job gain in the whole macro arena. I don't know.

Senator ROCKEFELLER. Mr. Sheinkman?

Mr. SHEINKMAN. I don't think there is an answer right now, Senator. Right now, the Administration itself has not supported any retraining. There is nothing before the Congress even of the minimal kind of assistance that I call "burial insurance" that was the hallmark of previous trade adjustment assistance.

We have no meaningful training system in the United States to take care of workers; and I think that is a cardinal failure of our whole system, not to speak of the failure of our educational system in totality.

I once had a leather worker testify before the ITC who responded, in response to your question: What I am supposed to become—a doctor at age 50? And that is really a basic social issue that has to be dealt with. And I think that you have gotten to the core of a very fundamental question.

You take a look at what happened in Europe. Europe, in an attempt to integrate Third World countries, such as Greece, Spain, and Portugal, did it on a gradual basis, also tried to establish provided assistance of a financial nature, and also is in the process of negotiating a social charter, which is not even on the bargaining table in the GATT, let alone in the Mexican Free Trade Agreement.

That has already been taken off the table, not by the United States, but by Mexico; and President Salinas very cavalierly said: You know, we have a better label law in Mexico than in the United States.

He said that in a recent statement up at Harvard, when he was traveling around the country. And yet, he will not favor the inclusion of a social clause.

And if you go down to Guatemala, where one of my associates was sent, we have seen the growth of free trade zones and trade

unionists are killed regularly, you ask yourself the question: Where are we headed?

Senator ROCKEFELLER. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Danforth?

Senator DANFORTH. No questions, Mr. Chairman.

The CHAIRMAN. Senator Bradley?

Senator BRADLEY. Thank you very much, Mr. Chairman. Let me ask each of you: If fast track authority was not granted, what would it mean to your industry?

Mr. Popoff, if fast track authority for the Uruguay Round was disapproved and further progress in the Uruguay Round was impeded, what would that mean to the chemical industry?

Mr. POPOFF. Diminished growth, higher ultimate cost to the consumer, and probably the inability to finance some of the technological development that really has to be spread over a global cost base. Those three items come quickly to mind.

Senator BRADLEY. Would you repeat those?

Mr. POPOFF. The first one is diminished overall growth; second, higher costs to the ultimate consumer; and third, probably the inability to defray the costs of developing new technologies, which is massive and really should be spread over a global marketplace.

Senator BRADLEY. Would you expect the surplus that you maintain to decrease?

Mr. POPOFF. It has fluctuated from $12 to $15 or $16 billion over the years. I think we would keep it because of a peculiarity of our industry. It is a global industry.

The amount of capital investment that German firms have in the United States, that U.S. firms have in Germany, that firms have on an international basis is really leavening the advent of trade. We are all for a liberalized trade because we are all practitioners from all corners of the earth.

I think that would be a leavening factor that would say that the inherent U.S. capabilities that are built on—our raw material position in the United States, our market circumstances, the technological base—would probably continue to carry the day; but I am sure that the growth and the added possibilities would be diminished.

I would not advocate that we would be negative on trade by virtue of a failure to enact the GATT agreements; but I would say that growth would certainly be diminished.

Senator BRADLEY. Do you have any idea what dimension growth?

Mr. POPOFF. We have seen our growth grow at about, let's say, 1.5 to two times average GNP growth. So, that has been the growth multiple for the chemical process industry.

Senator BRADLEY. And that would be less?

Mr. POPOFF. It would certainly be decreased; probably it would come down to paralleling GNP growth.

Senator BRADLEY. Yes. Mr. Sheinkman?

Mr. SHEINKMAN. Senator Bradley, we would have to go back to the multifiber arrangement, which is due to expire in 1991. And under that multifiber arrangement, we have made our contribution as an industry to the question of trade, and particularly trade with developing countries.

We now constitute approximately 25 percent of the trade deficit in the United States; and import penetration will continue to grow despite the 36 or 37 bilateral agreements we have.

But by the same token, by proceeding on this basis, we would not allow a China, which is our major exporter to the United States, to dominate the market, which it can as a command economy, not having any of the freedoms let alone speaking of Tienemen Square in terms of what is transpiring, because as a result of this, we have seen some of the other Third World countries grow in trade as a result of having these bilateral agreements.

At the same time, import penetration will continue; and in response to Senator Rockefeller's question, this will enable for a much more orderly transition over a period of time, rather than demolish a large number of jobs in very short order.

Senator BRADLEY. So, even if fast track was not granted and we did not conclude a Uruguay Round, your sense is that there is still a large need for some kind of worker assistance because import penetration will continue?

Mr. SHEINKMAN. Yes, sir.

Senator BRADLEY. Mr. Valenti, if fast track authority was not granted and the Uruguay Round bogged down, what would be its impact on the motion picture industry?

Mr. VALENTI. Without question, Senator Bradley, the ascending curve of increased international revenues that we have been enjoying over the past decade would begin to wilt. Ten years ago, 22.1 percent of our total revenues were international. Today, it is 41.4 percent.

The growth arena in America's creative enterprise—movies, television, home video—is international; and in time, the kinds of quotas and barriers and unending trade cliffs we see would begin to bite and bleed and wound us and hurt bad.

Senator BRADLEY. So, from your perspective, fast track and a conclusion of the Uruguay Round is one of the most important things for the future of the motion picture industry?

Mr. VALENTI. Yes, I would say so. As I said, some kind of discipline process, procedure, and rules—GATT is the only alternative that I see. So, let's give it a try is what I say because, absent GATT, we are going to slug it out in a brutal one-on-one, mono 301's and that sort of thing; and it is not a pleasant way to spend one's life.

Senator BRADLEY. I thank all three of you.

THE CHAIRMAN. Gentlemen, that has been very helpful. I know the members have other questions to ask. I would ask that they submit them in writing to the witnesses and that you respond to them. It has been very helpful; thank you.

Our next panel will consist of Prof. Robert Hudec, professor of law, University of Minnesota, Minneapolis, MN; Hon. Ernest Preeg, who is occupying the William Scholl Chair in International Business at the Center for Strategic and International Studies, Washington, DC; and Mr. Clyde Prestowitz, president of the Economic Strategy Institute, Washington, DC.

Gentlemen, we are pleased to have you and those of you who have appeared before this committee before.

Mr. Prestowitz, would you proceed, please?

STATEMENT OF CLYDE PRESTOWITZ, PRESIDENT, ECONOMIC STRATEGY INSTITUTE, WASHINGTON, DC

Mr. PRESTOWITZ. Thank you very much, Senator. I heard a statement last night, which I think applies in this discussion of the Uruguay Round. Someone said the definition of insanity is to continue doing the same old thing the same old way and expect new results.

I would like to make two points with regard to the Round and the fast track.

The first is that we have been negotiating in the Uruguay Round pretty much on the same basis, in the same way that we have negotiated the Tokyo Round and the Rounds before it.

And while in all those cases we anticipated and were promised growth and greatly increased exports and opportunities and an end of trade frictions, in fact we have seen a multiplication of trade frictions, increasing size of the U.S. trade deficit, and in fact the erosion of important U.S. industries.

As things now stand, as the Uruguay Round now stands, if the deal were concluded tomorrow, we have been told that the major obstacle is the European subsidies on agriculture. If the Europeans tomorrow were to agree to remove those subsidies—and we are told that if they did so, a deal could quickly be concluded—that deal in all likelihood would result in an immediate increase of the U.S. trade deficit of somewhere between $15 and $25 billion.

Now, I would like to suggest that that is not an acceptable result, that at a time when we have——

The CHAIRMAN. Did I understand you to say an increase?

Mr. PRESTOWITZ. An increase in the U.S. trade deficit, yes, of $15 to $25 billion.

At a time when have a $100 billion lingering trade deficit and a recession, it seems to me that it is important for you, the Congress, to use this last leverage that you have of approval or disapproval of the fast track to insist that the Administration come to you with a program that will assure you that the U.S. trade deficit will not increase as a result of the Uruguay Round.

The second point I would like to make is that even if you get such a deal—let's assume that we get an ideal result and there is no increase in the U.S. trade deficit, and we get what we are asking for in intellectual property protection and so forth—the truth is that the Uruguay Round, even under those circumstances, will not solve our trade problems.

The Round is not even addressing the question of industrial targeting, of active industrial policies; and it does not address the question of structural asymmetries. It does not touch what is the fundamental problem that underlies most of our trade frictions; and that is that the standards of national treatment and most-favored-nation treatment are inherently disadvantageous to the most liberal society, namely us.

And the reason for that is that, under national treatment, we agreed to grant to foreign companies investing and operating in the United States the same rights that we grant to an American citizen.

So, for example, a foreign auto company that wants to sell in the United States is able to take advantage of our antitrust laws to im-

mediately sell his cars through the existing dealer network that has been established over the years by General Motors, Ford, and, Chrysler. That is national treatment; we grant it to them.

In return, other countries, like Korea or other countries, tell us they will grant us national treatment. But under their national treatment, our auto producers are not able to sell through their existing dealer networks.

Now, when we complain about that, they say, no, it is not fair; we are giving you national treatment. Our antitrust laws don't operate the same way your antitrust laws operate; and they are correct. They don't.

You cannot say that this is unfair; but you don't have to be a rocket scientist to figure out that, if the producers in one country can easily sell in their country and in our country, while our producers cannot sell in their country, over a period of time, they will have more volume, lower costs; and they will tend to gain in this competition.

Therefore, it is imperative that, at the same time that you ask the Administration to come to you with a more detailed explanation of how they are going to conclude a round that does not result in an increased U.S. trade deficit, there also has to be some provision.

You should demand from the Administration that they come to you with a plan to proceed beyond the Uruguay Round to address the question of how we are going to deal in the future with the structural asymmetries, with the fundamental flaws of the GATT, with the industrial policies of other countries, that inherently put our industry at a disadvantage.

This gets us into the question of GATT PLUS, and I think that the point here is that the nations that want to proceed with deep integration of their economies must address the necessity of similarity and harmonization of the legal, structural, and social environments.

Thank you.

The CHAIRMAN. Professor Hudec, if you would proceed, please?

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

STATEMENT OF PROF. ROBERT E. HUDEC, MELVIN C. STEEN PROFESSOR OF LAW, UNIVERSITY OF MINNESOTA, MINNEAPOLIS, MN

Professor HUDEC. Thank you, Mr. Chairman. In my written statement, I have addressed a number of the issues that have been discussed today with regard to the problem of the free rider. I think, in the time that I have before you now, I could make the most useful contribution if I just focused on one of the points; and perhaps others could come up in the course of conversation.

The CHAIRMAN. Let me say that I want more than that in your written statement or later If you want to amplify it, I would appreciate that because I would like your counsel on it, in addition to what you are able to say in the short time here.

Professor HUDEC. Thank you, Mr. Chairman. I would be glad to do that.

What I would like to do now is to describe the origins of the free rider problem as they occurred with regard to developing countries in the 1960's and 1970's, how conditions have in fact changed since then, and what these current conditions mean in terms of how we ought to go about trying to solve the problem of free riders today.

One of the things I would like to do is to take issue with the pejorative connotations that attach to this notion of free rider when we talk about developing countries. In my view, this is not a case where developing countries have been manipulating the most favored nation clause to their advantage for 30 years. This is not a case where we are entitled to feel outrage at the current legal imbalance in GATT. Think is not a case where we ought to be looking to discrimination against developing countries as the first way of curing the problem.

I can begin by agreeing that there is indeed a rather serious imbalance in GATT legal discipline today between developed countries, on the one hand, and developing countries, on the other. How did it get that way?

It did not happen from GATT's inception. During the first decade of GATT, there was actually a great deal of attention paid to the legal obligations of developing countries. The situation we see in front of us today is one that was created in the 1960's and the 1970's.

In my view, there were four major factors that caused that legal imbalance to develop. Two were reasons why developing countries felt compelled to resist trade liberalization. Two others were reasons why developed countries, including the United States, supported that process.

Now, the developing country reasons are familiar to you. One was simple chaotic economic policy—overvalued exchange rates, rapid inflation, and the rest. When internal policy is chaotic, trade liberalization is very difficult for governments; it multiplies the chaos.

The second reason was economic development policy. During that period, the wisdom of the day, which was supported by many Western economists, taught that economic growth could be achieved by import substitution. Many governments believed this. Those that did, viewed trade liberalization as a sacrifice of economic growth.

There were also two developed country contributions to this policy, which we probably would like to forget today.

One came from the cold war struggle, to bring the newly independent developing countries into the Western camp and into GATT. The sales pitch used for that purpose was a pure and simple offer of a free ride. We told developing countries: You are going to get many benefits if you join the GATT; you don't have very many obligations to undertake, and those obligations which you do undertake have lots of easy escapes, if they ever gets in your way.

The second reason why developed countries supported this process of free riding had to do with the developed country campaign, which was mounted in the 1960's and into the 1970's, demanding increased access because of their development needs. Developed countries, including the United States, supported that objective. But time after time they were unable to deliver on trade access in the key sectors like agriculture, textiles, and other labor-intensive

products. And so, quite simply, developed countries tried to buy off these demands by giving the one thing that could be given, namely more legal freedom.

In sum, what I am saying is that the current imbalance that you see in legal obligations in the GATT is not some kind of nefarious cheating or devious manipulation of the MFN clause. It is the result of an open policy process that lasted for 20 years, in which the developed countries participated willingly and indeed, in some cases, with encouragement.

Now, the importance of all this is what it means for today's situation, and what we do about it. Today, it is quite clear that these conditions have changed, very substantially.

On the developing countries' side, in one country after another—as the chairman mentioned in his opening statement—you do see changes in economic policies toward a more open, market-oriented economic policy: Mexico, Chile, Brazil, Argentina, the Philippines, and so forth. The internal economic policy is becoming market-oriented in these large countries. Trade liberalization is now becoming viewed as a necessary part of that policy. A great deal of unilateral liberalization that has taken place.

On the developed countries' side, today's hearing is one indication of the difference in developed country policy. There is no longer a cold war. Developed countries are no longer feeling guilty about asserting GATT values. Very significantly, the items that have been put on the agenda of the Uruguay Round are the most attractive package for developing countries of any in the history of GATT negotiations to date.

What this means, I am suggesting, is that conditions are now right for a meaningful negotiation, containing lots of developing country participation.

Developing countries have already taken the first step. There is a seat change in the participation of developing countries in this Round as compared with the Kennedy Round or the Tokyo Round. They are at the table; they have agreed to negotiate some very sensitive subjects; and they have already made a number of concessions on those subjects.

What we see at the present time is an impasse in the negotiations with developing countries. The offers have stopped; there are lots of points on which we disagree. But quite frankly, if I were a developing country at this point, I think I would be holding back my offers, too, until I saw what was coming in areas like agriculture and in textiles.

In sum, what I think we really need to be talking about, in terms of the participation of developing countries, is more talk about carrying through on our offers and less talk about discrimination against people who don't participate.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Preeg?

[The prepared statement of Professor Hudec appears in the appendix.]

STATEMENT OF HON. ERNEST H. PREEG, WILLIAM M. SCHOLL CHAIR IN INTERNATIONAL BUSINESS, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, WASHINGTON, DC

Mr. PREEG. Thank you, Mr. Chairman. It is a great pleasure for me to appear before this committee.

I was also asked to concentrate my initial comments, as well as my written statement, on the free rider problem of developing countries in the GATT. However, I will separate my remarks a bit from the written presentation and proceed, using most of my time from where Bob left off.

I agree with him on the origins; but the fact is that we do have a free rider problem for developing countries in the GATT. It became a much more important problem during the 1980's as many developing countries have become more competitive and more advanced.

The question is: What do we do about it? My answer is: We should have a comprehensive response. It should not be either the GATT system or some bilateral managed trade approach.

It should be three mutually supportive tracks, if you will, the multilateral GATT negotiation, regional free trade agreements such as with Mexico, and a number of targeted bilateral objectives, particularly where we don't have any multilateral commitments to work from. And that should continue to be our policy looking ahead.

In my paper, I list five important specific objectives in the Uruguay Round to this effect. Lowering and binding tariffs in the GATT can be very important for traditionally highly protected and fast growing developing country markets.

There is also the big loophole, as it is referred to, with respect to balance of payments reasons for selective restrictions in developing countries, and so on..

My concern is that we don't let these opportunities slip by in the Uruguay Round while we become too concentrated on agricultural problems with the EC and other such issues.

I also believe, moving beyond the Uruguay Round, that there is another objective of having at least a couple of developing countries graduate in the GATT to full industrialized country status. Two countries stand out—South Korea and Singapore. By any reasonable standard, they are industrialized countries.

I understand that South Korea now wants to be a member of the OECD. Good. A good graduation present, when they graduate in the GATT.

I also see a United States-Mexico Free Trade Agreement as having a very positive impact on the GATT system of commitments because a major newly industrialized country under President Salinas' leadership is saying: The way for development in Mexico is a firm commitment to free trade; rather than the traditional special and differential approach in GATT, saying: Any trade liberalization should be very slow; it should be selective, and it could be reversed next year.

So, I see all of these initiatives, as well as some very important bilateral objectives we have, such as for intellectual property, as being mutually reinforcing; and that is what our strategy should be about.

Certainly, to carry this out, we do need a successful Uruguay Round; that is at the center, the multilateral foundation, if you will. And therefore, we certainly need the extension of the fast track.

If I have another minute, though, since Bob in effect took the first half of my presentation and did it probably better than I could, let me just comment very briefly on GATT PLUS because it came up a couple times this morning.

I have, contrary to some earlier presentations, some reservations about it on two counts. One is definition, and second is timing.

On definition, it is not clear which countries we are talking about or which areas of policy we would be building on; the obvious question is the European Community because usually we are starting GATT PLUS with the United States, the EC, et cetera.

And agriculture, if that is going to be one of the objectives, how can we do it beyond the Uruguay Round when this is the problem in the Uruguay Round? If it is to phase out tariffs and quotas, certainly the EC, for understandable reasons, is the least prepared to phase out all of its tariffs. The Common External Tariff is its cement—its visible, symbolic basis.

So, I have questions about both the membership and the substantive objectives of GATT PLUS that need to be elaborated. With respect to timing, I think it could distract us now from the Uruguay Round at hand, which will be over in the next year or two; it could also distract us from some regional free trade agreements.

I also believe the United States-Mexico agreement is of fundamental and far-reaching importance to the United States; and therefore, until we can get better clarification on this and get beyond the Uruguay Round, we shouldn't get too distracted, if you will, in some configurations post-Uruguay Round.

Thank you, Mr. Chairman.

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

The CHAIRMAN. It seems to me that what we are talking about on the GATT PLUS, what I have heard in the way of suggestions, is a positive thing, an additional reward if you participate. It is not a matter of punishing other countries; but if you are ready to take this additional step, then you will join up in this group.

Mr. Prestowitz, you have been talking about some of this. What countries would you think would qualify in the beginning? You have heard Mr. Preeg talk about the problems in the European Community on agriculture. As a practical matter, would you have Japan in it?

Mr. PRESTOWITZ. Probably, at this moment, no country qualifies. I think qualification is more by intent than by existing structure because all the countries, ourselves included, have structures that at the moment would not be perfect for a GATT PLUS regime.

Let me make two points. One is that the European Community, as it has struggled over the past 30 years to become a truly integrated market, has found that to do that, one, there had to be a super national commission—the European Commission—to guide that and adjudicate it.

And secondly, they have found that they have had to develop essentially similar legal regulatory and economic policy structures.

In fact, they are now saying that, in order to have a truly integrated market, they have to have a common currency.

When the GATT was established, the idea was that it would be accompanied by a world trade organization that would be a kind of super national body and that that world trade organization would have the power to impose, if you will, a level playing field—a common regime on the players.

And indeed, it was envisioned that the world trade organization would be able to discipline surplus countries as well as deficit countries. Of course, it didn't come off in 1948; but it seems to me the problem you face is that the multilateral trading system is eroding and falling apart.

The Uruguay Round is dealing with fringe issues, not with the core issues. So, if we proceed with the Uruguay Round without considering a further step, it is almost inevitable that there is going to be disappointment with the Uruguay Round and then a growing lack of credibility of the multilateral system, and I fear great danger of a splintering and a movement towards a regional approach.

I think it is telling that in the telecommunications negotiations, the U.S. negotiating team took the position that MFN is not good enough. The Europeans offered MFN in telecommunications; the Americans said no because, under MFN, given the structure of our market, it will be open,

Given the fact that markets like the French market are State monopolies, they will remain de facto closed, even if you extent MFN. So, the United States said: We have got to have the same regime.

Well, if that is true in telecommunications, it is true in many, many other areas. And I think that the qualification for a GATT PLUS is a commitment by countries that are interested in maintaining a movement towards integrated markets to deal, over a period of time, with the very tricky issues of one country having a State monopoly in telecommunications and the United States having a relatively open telecommunications market—one country having one set of antitrust rules and another country having another set of antitrust rules.

It is not unfair. It is not a matter of zapping them with 301 and saying that they are unfair; but the fact is they create inequities that disadvantage one player or the other. And I think that what we are looking for is countries that would say, yes, that is a real problem; let's move in a direction of a world trade organization to deal with those problems.

The candidates would be the EC countries; in fact, I think the EC model is instructive. The EC is doing within the EC what, in the long period of time, inevitably will have to be done among the world's broader major trading nations.

So, the candidates would be the EC countries, the United States, Canada, possibly Japan and others that wanted to join that club.

The CHAIRMAN. Mr. Preeg, we have had seven negotiations of the GATT, and each time we have bargained something away insofar as protectionism or tariffs or nontariff barriers. And now, we are down to having 99 percent of ours bound; and our average tariff is around 4 percent.

You don't get a lot of credit for things past when you get into these negotiations. We don't have a lot left that we can put on the table. How do we bring about concessions that would give us credit for what we have done in the past? How do we do that?

Mr. PREEG. Well, very briefly, it is assurances of continued market access to the United States, as well as what are still some residual and some important restrictions we have.

Much of the broader negotiation of the last few years has been to obtain greater access and more even access for U.S. exports in other markets, developing or developed, in return for some greater security to our market, meaning less threat, if you will, of a bilateral restriction on our part, or a unilateral approach to negotiating market access.

So, we still have the U.S. market as the most attractive and most important market for many of our trading partners.

The CHAIRMAN. Senator Packwood?

Senator PACKWOOD. You remember, Mr. Chairman, when you took us to Montreal a couple years ago, just prior to some further GATT negotiations; and we broke up into little groups. I was in the services section, and there was an American banker there complaining to the Thai representative about inability to bank in Thailand.

And he said: We want national treatment. And the Thai representative said: We don't let our own nationals have national treatment. [Laughter.]

And I suppose that illustrates the problem. Indeed, there is no discrimination; they treat their own citizens as badly as they treat everybody else. And I assume that banking is a monopoly of some kind, and the favorites of the government get to do it; and there is no favor of Japan over the United States or the United States over Britain over Germany. Nobody gets in.

Is that the ultimate problem we face on the free rider? If we open up our banking system totally, then the Thai banker can come here and bank; but we can't go there, and they are not discriminating against us. They just don't let anybody do it. And that is the problem we have to resolve.

Mr. PRESTOWITZ. Yes, I believe that is right. Yes, sir.

Senator PACKWOOD. Gentlemen, do you agree?

Mr. PREEG. Well, the problem is there; it is in services certainly, but it is also in goods. It is almost across the board.

Professor HUDEC. In every case where we have most favored nation treatment, there is a precondition that there be a certain set of basic rules that all the players and beneficiaries of that most-favored-nation treatment must observe.

A lot of the sectors that we are talking about now are areas in which we have no agreements at all. We are talking about services and the various subareas of services. I think it is a legitimate position to say that, before we have any agreements that have things like MFN clauses or national treatment, the members of that agreement who are going to enjoy that benefit have to come up with a certain minimum commitment that we can work with.

Senator PACKWOOD. Thank you, Mr. Chairman. I have no other questions.

The CHAIRMAN. Thank you. Senator Baucus?

Senator BAUCUS. Mr. Prestowitz, I was intrigued with your position, if I understood it, that if there is a successful Uruguay Round, as it seems to be unfolding, that we would have a $10 to $15 billion trade deficit.

As I understand it, that is partly because of discriminatory national treatment standards and other structural problems. Are you fundamentally saying that, at least in your view, because the GATT is "process-oriented" and other countries are less concerned with the process, that their societies are less legalistic, and are more sort of results-oriented, that we are a bit naive in thinking that this Round is going to turn out to be as good as many people think.

But rather, we have to find some other tools and mechanisms to focus on some of these other mercantilistic, if you will, approaches in other countries? Is that what you are basically saying?

Mr. PRESTOWITZ. Well, the figure I used was $15 to $25 billion; and actually, it comes out of the—I am sure you have heard Ambassador Hills talk about the benefits of the Round; she uses a figure like $1.1 trillion in GNP gains.

But the econometric model that the Administration used to come up with that figure for GNP gains actually indicates that the trade effect would be an increase—an incremental increase—in the U.S. trade deficit of $15 to $25 billion. And what I was suggesting was that, insofar as the negotiation of the current Round is concerned, the position of the Administration is, in fact, very process-oriented.

It is unconcerned with what happens to our trade deficit as a direct result of the negotiation; and it is essentially asserting that somehow it will all work out for the good in the end and not to worry about the immediate negative impact on the trade deficit.

I believe that we can negotiate in the remaining months of negotiation so that we do not have to have that kind of a negative impact; but that will only happen if you force the Administration to do that.

If you give them the blank check, it is not going to happen.

Senator BAUCUS. Can you list the one, two, three, or four main actions you think our negotiators should take so as not to achieve the result that you think might otherwise occur?

Mr. PRESTOWITZ. Well, I think first of all in the area of textiles, the position the United States in textiles is that we ought to do away with MFA and totally liberalize textiles. The practical result of such a position will be that China will take over the U.S. textile market as indeed it is already doing.

I think, therefore, that any liberalization of the textile trade ought to be founded upon a condition which is that countries which are major apparel exporters, like China or Thailand, may not be able to protect their own markets for fabrics, for example.

I mean, the irony is that those who are greatly increasing their exports of apparel to us are protecting and promoting their own fabric markets. So, there has to be a quid pro quo there.

I would argue that, in the services area, we need really to negotiate for reciprocity. I think that MFN is not going to work because of the structural differences in the market. So, there has to be essentially a reciprocal arrangement in any of the services deals that we make.

On the trade law side, I fear that we will wind up with a regime which gives lesser protection to U.S. intellectual property than we have now.

The problem is that even if we achieve success in getting certain countries to introduce better intellectual property laws, the existence of a law says nothing about the ability to get it enforced or go to court. Many of the countries that we deal with have adequate laws.

Japan has perfectly adequate patent law. The problem is trying to get a court ruling on it. You can't get it done, and this is the same problem that exists elsewhere.

So, I would argue that, in intellectual property, there should be some kind of an international tribunal by which we could be assured that we would be able to get adequate adjudication.

There are a number of areas where we have not been very aggressive in asking for reduction of tariffs. Mr. Popoff mentioned some in chemicals. We really haven't been very aggressive in pushing reduction of tariffs in some key spike areas. I think we should do that.

Senator BAUCUS. But you are not saying we should abandon the GATT as a consequence?

Mr. PRESTOWITZ. No, no. I am not saying we should abandon the GATT. I feel that we need to recognize that the GATT is flawed, but it is what we have. What I am suggesting is that if we don't deal with the flaws, we are not going to have it.

Senator BAUCUS. What about provisions like Super and Special 301? Do we keep them? In your view, I assume we should keep those because they are useful leverage.

Mr. PRESTOWITZ. Reluctantly, I would say yes. They are a useful leverage; however, the more you use them, the less useful they are.

Senator BAUCUS. All right. Thank you. Senator Danforth?

Senator DANFORTH. Mr. Prestowitz; when we went through the Tokyo Round legislation, what we did was to use that as an opportunity to change our procedures with respect to subsidy cases and dumping cases. And that was the quid pro quo with the Carter Administration at the time.

We could do that again, when the Administration comes to us with their proposal. We could say: Look, here is what we would like to do; and try to work out something with respect to GATT PLUS. This could be done by legislation, couldn't it—GATT PLUS?

Mr. PRESTOWITZ. Yes.

Senator DANFORTH. In other words, we could unilaterally say: GATT is fine, but here is our higher standard; and we could spell out what that standard is in statute.

Mr. PRESTOWITZ. Yes, you could do that.

Senator DANFORTH. Would you recommend that we do that?

Mr. PRESTOWITZ. Something along those lines, I would, yes. I think what I would like to suggest is maybe a categorization of trade. We treat trade in an undifferentiated manner, but there are different kinds.

I mean, for example, when we do a deal like the FSX with Japan, that is totally managed trade. It always will be; the rules of the GATT are not going to apply to that. When we ship Douglas fir from the West Coast to Ecuador and buy bananas, that is the clas-

sical kind of factor endowment based trade that Adam Smith and David Riccardo were talking about and writing about.

And the rules of the GATT were really devised to handle that kind of trade, and they do, more or less.

The difficulty really comes in the kind of trade that arises in machine tools, semiconductors, automobiles, aircraft, where the question of who is the leader, who has the comparative advantage, is not a matter of which country has the most sunshine or which country has the most raw materials.

It is really a matter of policy; and there, you have the problem that countries decide, for one reason or another, that they need to make something. The Europeans have decided that it is very important for them to make airplanes. The Japanese want to make semiconductors and computers and optical fibers and so forth.

And once you have a country that has a targeting program—an active industrial policy—the conditions of GATT-based free trade do not exist, will not exist. And so, your choice is either to accuse them of being unfair and have endless structural impediment negotiations, threaten to retaliate, which they know you are never going to do, and watch your industry erode; or it is to apply some different set of rules.

I would argue that we need to identify the criteria. We know that an industry like the aircraft industry, with the Europeans and the Japanese and the Koreans pursuing active industrial policies, we know those conditions; we know we are not going to have free trade.

So, we ought to create a category of industry where we say: Right, that is the aircraft industry category or it is the airline category—whatever it is. And in that category, these are the rules that we will apply to that trade.

Senator DANFORTH. Now, could we do that consistent with international law? Or are we going to be in noncompliance as soon as we do that?

Mr. Hudec, you might have an opinion.

Mr. PRESTOWITZ. I mean, it is a tricky question, as I know you know; but I believe that it is under Article 23 of the GATT. Under the subsidies code of the GATT, I believe there is room to do that and be in compliance with international law.

Senator DANFORTH. Do you agree, Mr. Hudec?

Professor HUDEC. Only partly. I think that if the idea of a GATT PLUS is that you are going to be denying benefits to members who do not participate in the organization, then you are bound by the GATT most-favored-nation clause with regard to the subject matter of the GATT. And you cannot do that.

Senator DANFORTH. He is not saying denying benefits.

Professor HUDEC. No——

Senator DANFORTH. He is just saying extending special benefits.

Professor HUDEC. Well, that is the same thing as denying. What the MFN clause says is that if you give a special benefit to one person, you have to give it to them all. And so, those who are not participating in the agreement would not be getting most-favored-nation treatment.

Now, let me add that what we are talking about when we say "the subject matter of the GATT" is not intellectual property; it is

not services; it is not investment; it is trade in goods. So, the problem is confined in that area.

To the extent that people are talking about solutions in those other areas that would involve things other than most favored nation treatment, there is no legal impediment to do that now, except I suppose I should add that there are some FCN treaties—treaties of friendship, commerce, and navigation, which exist and which have some MFN clauses in them that would have to be looked at.

Senator DANFORTH. Could I ask one more question?

Senator BAUCUS. Yes.

Senator DANFORTH. Mr. Prestowitz, if we were to do this, what kinds of additional benefits could we offer as a carrot for open markets and for fair trade?

Mr. PRESTOWITZ. Well, part of the additional benefit would be the lack of harassment. I mean, at the moment, in many cases as you know, there are continual dumping cases and 337 cases and threats from Congress and so forth.

And one of the benefits to our trading partners, as well as to us, would be that that would be obviated.

The other thing is that, aside from benefits, I think we also have to think in terms of denial of benefit. That is why I said Article 23 of the GATT because, in my view, the industrial policies of many of our trading partners effectively annul the concessions that they have made in trade negotiations.

So, what I was trying to suggest was that where we might go is in the direction of—where nations are committed to adopting a similar antitrust policy, a similar regulatory policy, and they have the same rules on industrial trade, subsidies, and so forth.

To get there, you are going to have to have some transition period in which a categorization of trade, as I suggested, I think would be a mechanism to get there.

Senator DANFORTH. Thank you.

Senator BAUCUS. Thank you very much, all of you. This has been very helpful, and we thank you for taking the time to come and join us. The hearing is recessed.

[Whereupon, at 11:58 a.m., the hearing was adjourned.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED

PREPARED STATEMENT OF SENATOR MAX BAUCUS

One of our key objectives in the Uruguay Round is securing protection for U.S. intellectual property overseas. The term intellectual property means copyrighted, patented, and trademarked material, such as books, films, recordings, and pharmaceuticals. The U.S. is the world's leading producer and exporter of intellectual property.

Unfortunately, many other nations do not adequately protect intellectual property. In much of the developing world there is widespread piracy of U.S. films, recordings, and pharmaceuticals. The ITC has estimated that this piracy costs the U.S. $60 billion in lost exports each year.

SPECIAL 301

In the 1988 Trade Act, we included a provision—known as Special 301—to promote protection of U.S. intellectual property overseas. The provision had the dual purpose of promoting the Uruguay Round intellectual property negotiations and, in the interim, protecting intellectual property through bilateral agreements.

Special 301 required the Administration to identify those countries that tolerate the most egregious piracy of intellectual property by April 30th of each year. USTR is then directed to begin negotiations with those countries to stop the piracy. If those negotiations fail, USTR is directed to retaliate against that country's exports to the U.S.

In my view, the Administration has not yet implemented the law. No countries have been identified under Special 301 in either 1989 or 1990. Several countries have been issued warnings, but no action has been taken. We can no longer get by with warnings. It is time for the Administration to implement Special 301.

LETTER ON SPECIAL 301

Today I am transmitting a letter to the Administration that is signed by more than one quarter of the U.S. Senate. This letter urges the Administration to implement Special 301. Specifically, the letter asks that cases be initiated against the four countries that tolerate the most egregious piracy—Thailand, the Peoples' Republic of China, India, and Indonesia. The letter also requests action against Mexico unless it promptly implements its commitments to improve intellectual property protection. Finally, it asks that the EC's quotas on TV programs receive attention under Special 301.

CONCLUSION

This Committee worked very hard to complete the 1988 Trade Act. But we must see to it that the Act is enforced. We must insist on full implementation of Special 301.

Piracy of U.S. intellectual property is costing U.S. exporters many billions of dollars each year. We cannot continue to tolerate piracy.

We must send a strong signal to the countries that tolerate piracy that the U.S. will insist upon protection of intellectual property. The way to send that signal is to initiate Special 301 cases at the end of this month.

And if progress on intellectual property protection is not forthcoming in the Uruguay Round, further steps should be taken next year.

Attachment.

United States Senate
COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

April 17, 1991

The Honorable Carla Hills
U.S. Trade Representative
600 - 17th Street, N.W.
Washington, D.C. 20506

Dear Ambassador Hills:

We are writing to urge you to implement aggressively the Special 301 provisions of the 1988 Trade Act.

We are concerned about the continued foreign piracy of, and denial of market access to, U.S. intellectual properties such as movies, books, recordings, computer software, and pharmaceuticals. The continued illegal acquistion and use of the fruits of our creative industries has a pernicious effect on these industries. The International Trade Commission has estimated that foreign piracy of intellectual properties costs the U.S. $60 billion in lost exports each year, an amount that could have reduced our 1990 trade deficit by over half. Similarly, trade barriers denying market access to U.S. intellectual properties are responsible for billions in lost revenues which could also significantly reduce our trade deficit.

The means to address and counter these problems are embodied in the Special 301 section of the 1988 Trade Act. By April 30th of each year, Special 301 requires that you identify those countries that tolerate the most egregious piracy of intellectual property or close their markets to creative exports as "priority foreign countries." Section 301 cases are then to be initiated against those countries to increase the protection of intellectual property within the priority countries.

To date, the Administration has chosen a less strict interpretation of Special 301. Instead of identifying "priority foreign countries" the Administration has placed a number of countries on watch lists. While the watch lists have been useful in convincing some nations to mend their ways, they have accomplished very little with certain countries, specifically India, Indonesia, People's Republic of China, and Thailand.

It is our good fortune that this country has reached a level of development where our creative and intellectual resources can be fully realized for domestic consumption as well as for consumers around the world. To ensure that this capability is sustained, we urge you to identify the following four nations, India, Indonesia, PRC, and Thailand, as "priority foreign countries" by the statutory deadline. By taking this action you will clearly indicate that the U.S. will enforce its trade laws and deal with nations that do not respect U.S. intellectual property rights.

Further, you should seriously consider action against Mexico, unless it carries out its commitments to pass new intellectual property protection.

Finally, a strong case can also be made for taking action against the European Community's quotas on imports of U.S. created television programs. Indeed, United States Trade Representative action against the EC's broadcast quota will send an important signal of U.S. resolve to those who seek to exempt "cultural" or creative industries from GATT, NAFTA or other trade agreements.

As always, thank you for your attention to this matter, which is a critical component in our continuous efforts to secure a promising future for U.S. intellectual property rights and expanding U.S. export trade.

Sincerely,

PREPARED STATEMENT OF WILLIAM E. BROCK

THE IMPORTANCE OF INTERNATIONAL TRADE

Trade is not a zero-sum game. We can make the pie larger.
—Trade liberalization leads to economic expansion which leads to greater international prosperity.
—Without continued trade liberalization, protectionist forces will take over (Bicycle theory).
International trade has been growing since the creation of the GATT in 1945.
—World trade in merchandise grew at a 5% rate in 1990 compared to 7% in 1989. Services, however, climbed 12% to a new high of $770 billion. In dollar terms, world trade reached $4.2 trillion.
The United States is increasingly dependent on exports.
—U.S. exports of goods increased in 1990 by 8.5%. If services exports are added, the United States is the world's largest exporting country.

THE GROWTH OF U.S. EXPORTS

[Chart at end of statement]

THE GROWTH OF U.S. EXPORTS SINCE 1980

[Chart at end of statement]

THE IMPORTANCE OF EXPORTS TO GNP GROWTH

[Chart at end of statement]

THE URUGUAY ROUND OF GATT NEGOTIATIONS

The Round commenced with the Punte del Este Declaration in 1986.
Ambitious but achievable goals were established.
—Reduction and elimination of tariff and non-tariff barriers.
—Inclusion of new areas such as services, intellectual property and investment.
—Agricultural reforms.
—Institutional reforms such as a more effective dispute settlement mechanism to improve the GATT system.
Montreal Mid-Term Review in 1988.
—Significant progress was made in many areas.
Brussels Meeting in December 1990.
—Failure of the EC to concede the need for agricultural reform led to suspension of negotiations.
—Cairns Group and other developing nations unwilling to proceed without agricultural reform.
Nonetheless, a successful conclusion of the Round is within grasp.
—Other countries are coming to appreciate the need for a comprehensive package.
—Four years of difficult and complex negotiations should not be abandoned.

GATT REFORM

—A successful Uruguay Round could lead to further improvements in the GATT system.
Currently, the GATT system is divided. There is an "Inner" and "Outer" GATT.
—OECD countries have already assumed the full benefits obligations of the GATT (Inner GATT).
—LDCs with different levels of development can derogate from the GATT through the Balance of Payments provision and licensing provisions. (Outer GATT).
GATT PLUS
—GATT Plus would encourage nations, particularly the Newly Industrializing Economies (NIEs) to make a greater commitment to the international trading system.
—Would eliminate the problem of "free riders," nations which benefit from the MFN clause of the GATT without assuming any of the obligations of the system.
—Would bring in about 500 million people from the more advanced developing nations.

—GATT Plus, which included some preferential trade arrangement, would provide additional incentive for other countries to join and would encourage trade liberalization.
—A specific mechanism would be established to graduate countries to GATT Plus.
—The United States cannot be the only industrialized country to make concession in order to benefit the international trading system.

THE CURRENT GATT SYSTEM

[Chart at end of statement]

THE EXPANDED GATT SYSTEM

[Chart at end of statement]

U.S.-MEXICO-CANADA FREE TRADE AGREEMENT

Mexico has been undertaking significant political and economic reforms under President Salinas' leadership.
—A trade agreement with Mexico would assure the continued success of the Mexican reform process.
The United States and Canada signed an FTA in 1989.
—We should build on this agreement to create a North American Free Trade Agreement (NAFTA).
A NAFTA would create a market of over 360 million inhabitants with a combined GNP of over $6 trillion.
—By comparison, the European Community consists of 324 millions inhabitants and a combined GNP of $4.2 trillion.
Bilateral and trilateral arrangements supplement the multilateral trading system.
—Such regional FTAs are not protectionist trading blocs, but more economically integrated units which promote efficiency and lead to further growth of the trading system.

U.S. EXPORTS TO MEXICO

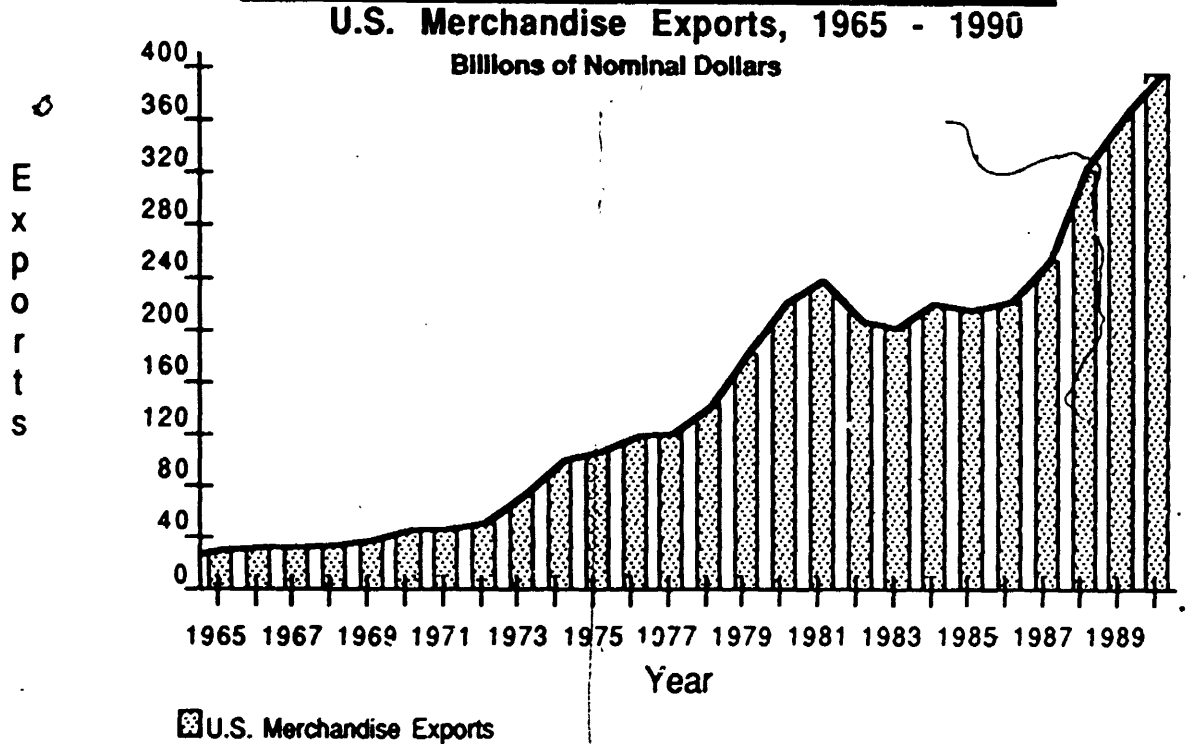
[Chart at end of statement]

THE IMPORTANCE OF EXTENDING THE FAST TRACK NEGOTIATING AUTHORITY

—Other countries will refuse to negotiate with the United States if Congress can amend agreements beyond recognition.
—Assures Congressional involvement by providing for consultation and notification between Congress and the Administration.
—Enables the United States to speak internationally with one voice.
—The process has worked effectively in implementing the Tokyo Round, and the FTAs with both Israel and Canada.
—The fast track process is a *joint* partnership between the Executive and Legislative branches of government that dates back to 1974.
Failure to extend "fast track" procedure will have a negative effect beyond trade issues.
—Political *as well as economic leadership in the world will be jeopardized if the United States cannot negotiate constructively with allies.*
—Latin American countries supportive of the Enterprise for the Americas Initiative (EAI) will view failure of fast track extension as a rejection of desire to improve U.S.-Latin American relationship.
Widespread support exists for extension.
—Over 700 newspapers from around the country have written of their support.
—Supportive editorials come from every state in the union.
—CONGRESS SHOULD CONTINUE TO WORK WITH THE ADMINISTRATION IN GOOD FAITH AND RENEW FAST TRACK NEGOTIATING AUTHORITY!

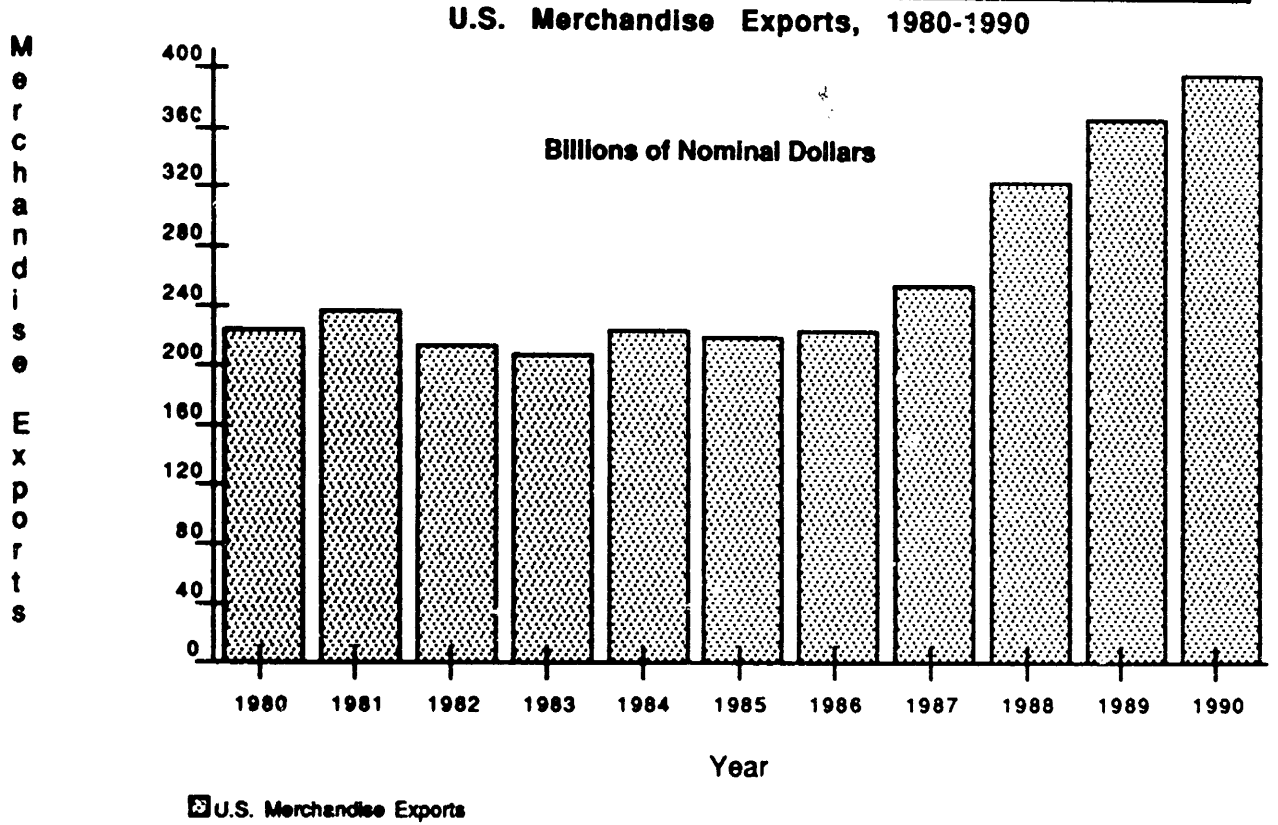
Attachments.

The Growth of U.S. Exports



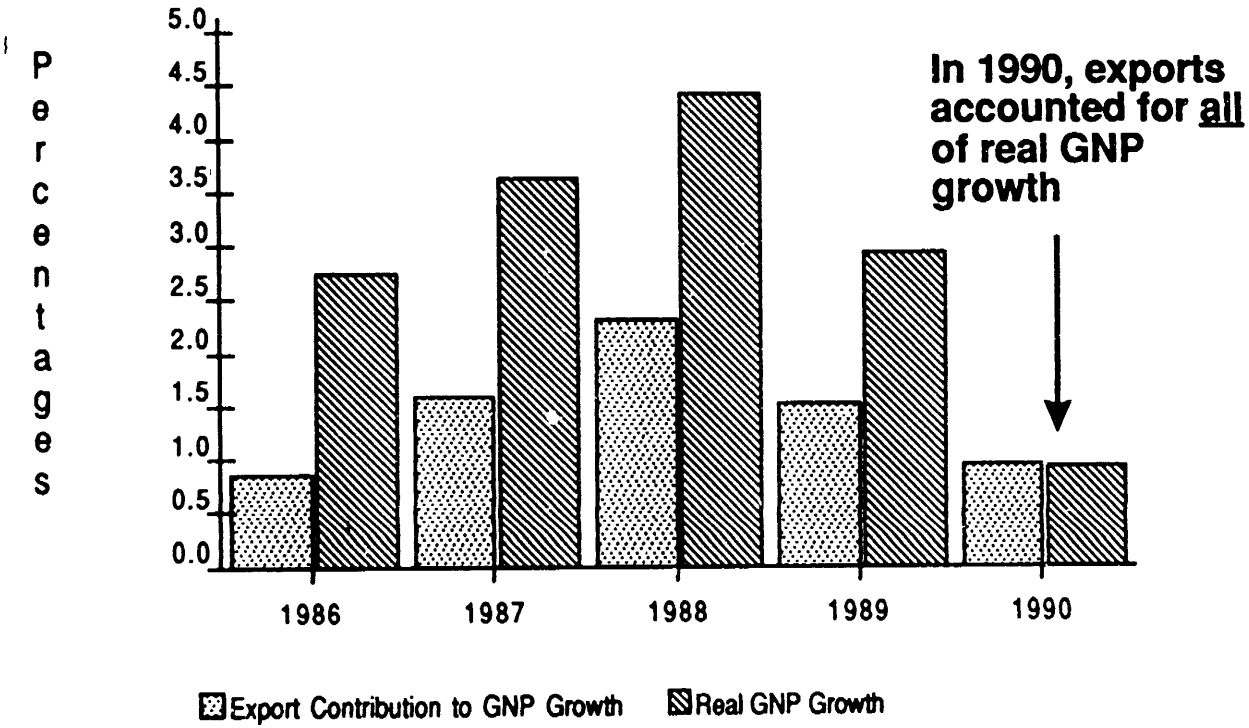
Source: Economic Report of the President 1991 Table B-20
Prepared by Applied Business Economics

The Growth of U.S. Exports Since 1980



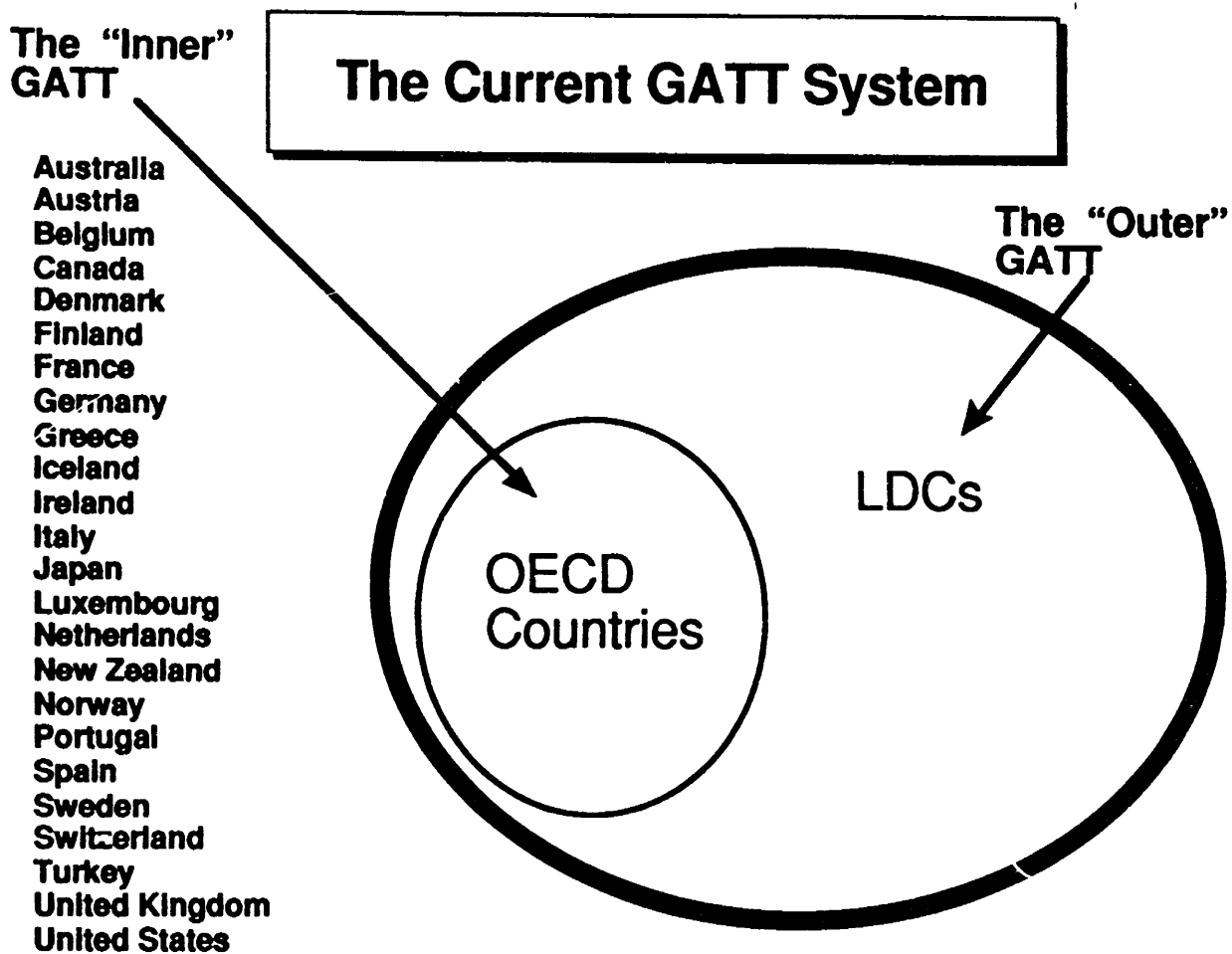
Source: Economic Report of the President 1991 Table B--20
Prepared by Applied Business Economics

The Importance of Exports to GNP Growth

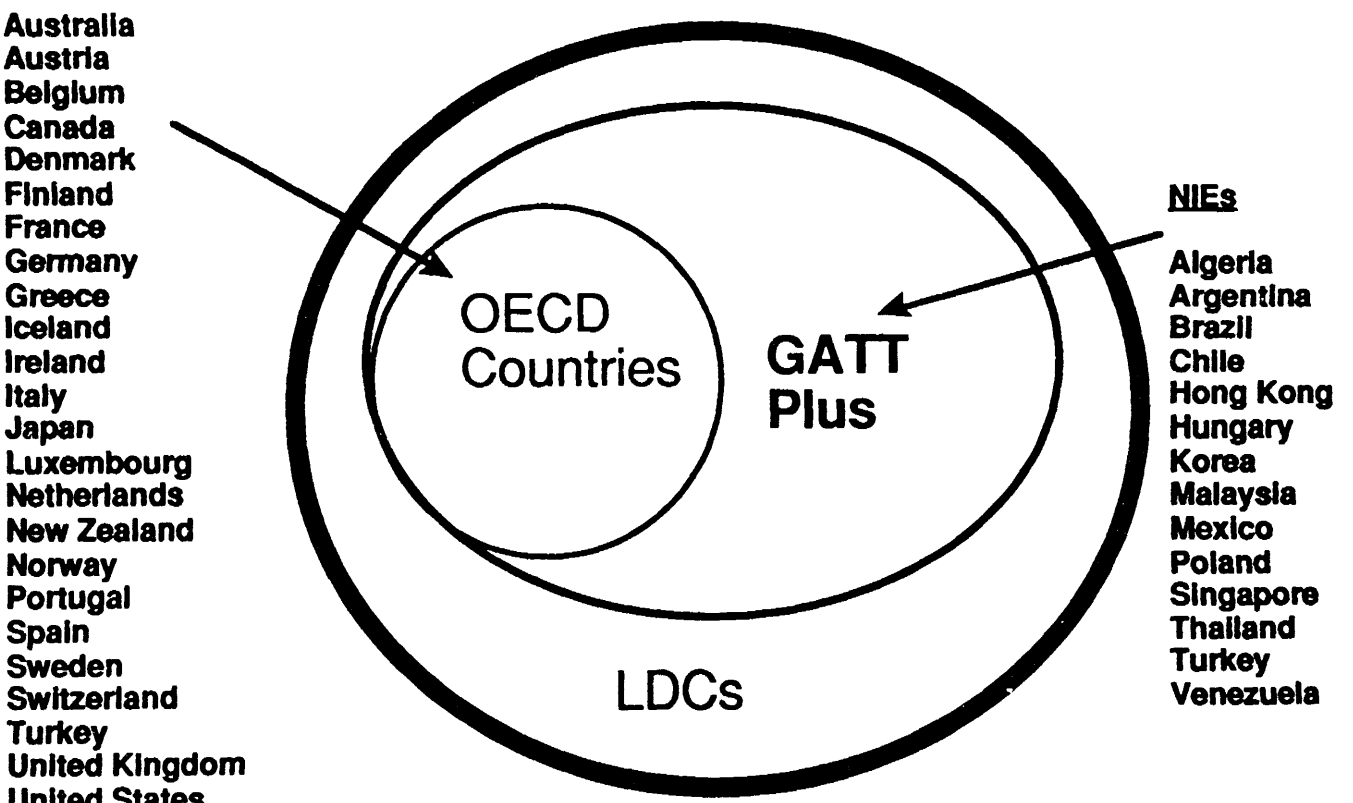


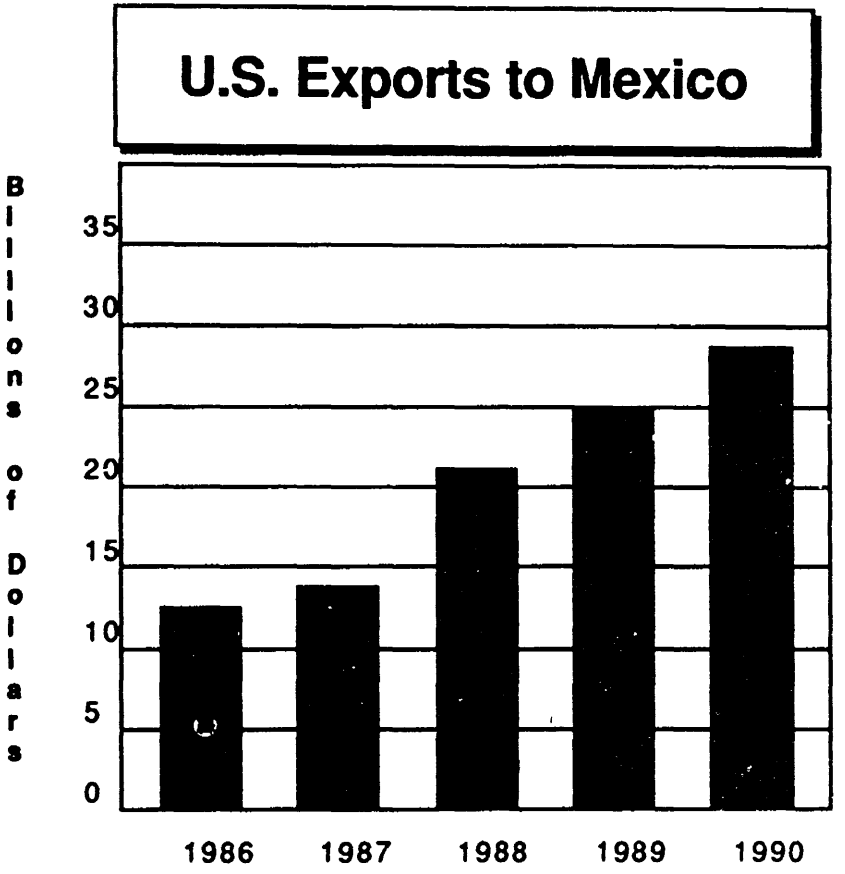
Sources: Economic Report of the President 1990, Table C-2 and 1991 Table B-2
Prepared by Applied Business Economics

The Current GATT System



The Expanded GATT System





Mexico is the fastest growing market for U.S. exports.

Source: Department of Commerce, International Trade Administration
Office of Mexico

PREPARED STATEMENT OF LLOYD E. CLINE

My name is Lloyd Cline. I am a cotton producer from Lamesa, Texas and a past president of the National Cotton Council. I currently serve as chairman of a special committee of the Council which deals with trade matters. The National Cotton Council is the central organization of the United States cotton industry. Our members include producers, ginners, oilseed crushers, merchants, cooperatives, warehousemen and textile manufacturers. While a majority of our industry is concentrated in 17 cotton producing states, stretching from the Carolinas to California, the downstream manufacturers of cotton apparel and home furnishings are located in virtually every state.

The industry and its suppliers, together with the cotton product manufacturers, account for approximately one job of every thirteen in the United States. Annual cotton production is valued at more than $5 billion at the farm gate. In addition to the fiber, cottonseed products are used for livestock feed and cottonseed oil is used for food products ranging from margarine to salad dressing.

While cotton's farm gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the business revenue generated by cotton and its products in the U.S. economy is estimated to be in excess of $50 billion annually. This number takes on greater significance when it is realized that cotton stands above all other crops in its creation of jobs and its contribution to the U.S. economy.

Our industry has been deeply concerned about the potential adverse impact of the Uruguay Round of GATT negotiations on our industry. We have registered our concerns through the Agriculture Trade Advisory Committee (ATAC) for Cotton, in testimony to the International Trade Commission, and later before the Subcommittee on Department Operations, Research and Foreign Agriculture of the House Committee on Agriculture, and in a detailed letter to the United States Trade Representative and in testimony. The response from Ambassador Hills was not reassuring.

GATT WILL AFFECT U.S. COTTON UNIQUELY

Our industry is unique in that any multi-lateral trade agreement will adversely impact us in two ways: first, the loss of Section 22 quotas governing imports of raw cotton could result in uncontrolled surges of imports which would de-stabilize domestic markets, disrupt and increase the cost of operating the cotton program and reduce farm income. Second, the further liberalization of textile and apparel imports is projected by the American Textile Manufacturers Institute to result in imports accounting for over 85 percent of domestic textile and apparel consumption by the year 2000 and over 90 percent by 2001.

USTR points to a relatively low growth rate in textile imports over the last four years and asserts that U.S. market growth in the years ahead will be sufficient to offset import growth. The U.S. cotton, textile and apparel industries can take no comfort from this unsupported conjecture about market growth because:

• *There is no reason to expect import growth to remain at the relatively moderate average levels of the past four years.* Textile import growth has always been characterized by uneven growth. Several years of double-digit percentage growth has been followed by a year or two of reduced growth rates (see Exhibit I, appended). But the trend has been decidedly upward and there is certainly no reason to expect that more liberal trade provisions would reduce the growth rate. If anything, one should expect a faster rise as trade rules are liberalized.

Ambassador Hills contends that rigorous action to enforce our rights under bilateral agreements has been responsible for moderating textile import growth to an annual rate of 2.1 percent since 1986. As Exhibit I shows, import growth has been moderated for short periods in the past. Examples are 1973-75, 1979-80 and the more recent period, 1988-90. It is interesting to note that each of these periods of moderation in textile import growth coincides with a weak U.S. dollar. The shaded bands in Exhibit II (appended) illustrate quite well the correlation between a weak dollar and moderation in textile imports. A strong dollar tends to produce the opposite result, as seen in Exhibit III (appended).

It seems far more likely that a weak dollar, more than stepped up enforcement of U.S. rights under the MFA, is responsible for the recent, temporary moderation in textile import growth. And any objective assessment would lead to one to expect a resumption of high levels of textile import growth—even with continuation of the current MFA, and especially under more liberal trading rules.

• *There is no reason to expect U.S. market growth sufficient to offset the growth in textile imports.* The long-term trend in net domestic fiber consumption (1972-90) in the U.S. approximates 1.8 percent (Exhibit IV, appended). The rate of consumption

has risen well above the trend in recent years, but it has done so in the past as well. Examples are 1972-73 and 1976-79. It would have been a mistake to project future growth using the 1973 consumption spike as the basis. And it would be equally foolhardy to use this recent spike in consumption as the basis for projecting future growth.

In the absence of express reasons to assume otherwise, the expectation should be for the rate of consumption to return to a level near the trend line.

As Exhibit V (appended) shows, a simple projection of domestic textile mill fiber consumption and textile imports to the year 2001 suggests a growing penetration of the U.S. market by imports. It was a combination of MFA-allowable import growth rates in excess of domestic market growth and circumvention of those liberal MFA quotas that permitted textile imports by 1990 to capture over 60 percent of the domestic apparel market.

USTR has not convinced the cotton industry that the domestic textile market will grow fast enough to offset increased imports under new GATT rules. Mr. Chairman, we remember all too well the whopping 328 percent growth in cotton textile imports over the last fifteen years—growth that came while the textile industry was being unfairly called one of America's most protected industries. We're not willing to accept USTR's insupportable speculation that U.S. market growth will be sufficient to offset textile import growth.

Since over 50 percent of U.S. cotton production is sold to domestic textile mills, continued growth in imports will further displace U.S. cotton. Over 80 percent of the cotton in textile imports is estimated by USDA to be from foreign sources, the equivalent of 4 million bales. This displacement of U.S. cotton is already equal to 50 percent of U.S. domestic cotton mill use.

So any increase in imports of cotton products represents lost sales opportunities for U.S. producers which cannot be easily replaced through increased exports. That is because the largest exporters of cotton textiles to the U.S. are also among the largest cotton producing and cotton exporting countries. As such countries—many of them LDCs—expand their export markets for cotton textile products they will simultaneously expand their raw cotton production to accommodate their growing textile and apparel industries.

NON-SIGNATORY COUNTRIES AND LDCS

The U.S. industry is deeply concerned that two countries with non-market based, centrally planned economies—the Soviet Union and the Peoples Republic of China—will account for nearly 45 percent of foreign cotton production during the current crop year. Neither of these countries is presently a signatory to the GATT. While U.S. government representatives indirectly assure us that both will be anxious to join the GATT, no specific rules or timetables have been developed which would govern their entry. Not only do these countries represent a potential threat to our raw cotton industry, the People's Republic of China is the largest exporter of cotton textile and apparel products to the United States.

Another concern is the continuing insistence that less developed countries receive special treatment in any GATT agreement. Exhibit VI (appended) shows how foreign cotton production is divided among (1) China and Russia, both non-GATT signatory countries, (2) less-developed GATT signatory countries, and (3) other foreign signatory countries. The data make it quite clear that U.S. cotton's principal foreign competitors are either non-GATT signatory countries or LDCs, for which GATT apparently will provide special concessions. As indicated by the narrow solid band at the top of the chart, only a small fraction of cotton production outside the United States would be affected by GATT. The U.S. cotton industry can hardly be expected to embrace a GATT agreement when the U.S. is the only major cotton producing country in the world bound by its terms.

AGGREGATE MEASURES OF SUPPORT: UNVERIFIABLE, UNENFORCEABLE

The United States' initial position in the negotiations would have required the elimination of all market-distorting domestic and export subsidies and would have expanded market access through the conversion of quotas to tariffs (known as tariffication). Later the U.S. modified its position to support a 75 percent reduction in domestic subsidies and a 90 percent reduction in export subsidies and import tariffs. In December 1990, in Brussels, U.S. negotiators once again modified their position, expressing strong interest in a proposal requiring reductions of 30 percent in export subsidies and internal supports and minimum guaranteed market access.

The proposal, known as the Hellstrom 30-30-30 paper, was ultimately rejected by Japan and the EC. In every instance, the reduction of internal subsidies would be

based on a measurement known as Aggregate Measure of Support (AMS). In theory, every country was to calculate an AMS for every commodity and submit it to the GATT. Unfortunately, not all countries have submitted data, and even more unfortunately, the U.S. has no reliable way to verify how the AMS' were, or will be, calculated. Further, no method has been developed to calculate AMS' for non-market economies such as the Soviet Union and China, or even for countries with mixed economic systems such as Pakistan, Egypt and Turkey—all significant cotton producers. So, if the negotiations ultimately produce an agreement, they will do so based on the promise of subsidy reductions which the U.S. cannot verify.

The only conceivably appropriate use of an AMS commodity-specific approach to measuring trade distortion or subsidies is in market economies. Measuring internal support and external barriers is sufficiently difficult in market economies where each country has usually developed its own unique institutions and arrangements. Finding consistent treatments of these varying country situations requires substantial resources.

A distinguishing characteristic of market economies is the amount and quality of information normally available because business enterprises need the information for decision-making. This contrasts notably with non-market economies where information is far less important, and, as a consequence, far less available and accurate. Thus, valuing subsidies such as fertilizer and other agricultural inputs in non-market economies is virtually impossible on a commodity-specific basis.

The World Agricultural Outlook Board and Foreign Agricultural Service of USDA have a demanding task in estimating specific crop production by country. An AMS approach to establishing commodity-specific internal support by each country requires tremendous amounts of information on cultural practices, input distribution systems, allocation mechanisms, marketing channels and exchange rates for non-market economies. This kind of information is simply not available for non-market economies and most LDCs. In countries that practice input subsidization, calculation of an AMS requires knowledge of specific input use by commodity. In most cases total input use and the amount of subsidy for all commodities in a country is, at best, a gross approximation and for individual commodities, an impossibility. A market economy distills the vast information pertinent to a market into single statistic, price—a process that is lacking in non-market economies.

In the absence of solid information for most of U.S. cotton's foreign competitors, one conjectural AMS is as valid as another. This calls into question the entire premise of the current GATT agricultural talks. Without reliable information on the relative values of the policy actions of competitors, U.S. cotton is going to be placed at a severe disadvantage.

Pakistan provides a good example of how difficult it will be for the U.S. to assure compliance by signatory countries. The stated objective of Pakistan's agricultural intervention is to generate foreign exchange and protect the income and employment of exporting industries such as textiles. (See Government Intervention in Pakistan's Cotton Sector, by Gary Ender, Agriculture and Trade Analysis Division, Economic Research Service, USDA, Staff Report No. AGES 9041.) Under this directive cotton output has doubled over the last ten years, as seen in Exhibit VII (appended). Pakistan has used cotton to earn foreign currency and supply a growing textile industry.

To maintain both the flow of foreign exchange and the market share of its exports, Pakistan formed the Cotton Export Commission (CEC). The CEC purchases cotton from ginners and other agents, sets aside enough cotton to service domestic mill demand and exports the remainder. On balance, the CEC has incurred an operating loss from trading, indicating that Pakistani cotton is sold on the world market at a loss.

The price the Pakistani farmer receives is not a market price but a price determined by another government body, the Agricultural Prices Commission. This price is low compared to the world price for cotton. The cotton price can be kept low and producers can still realize a profit because the government supports many of the input prices. For example, the government covers much of the cost of fertilizer. It also subsidizes irrigation costs (virtually all of Pakistan's cotton is irrigated) by building, operating and maintaining the irrigation network, as well as paying all of the cost for establishing wells. In addition, the Agricultural Development Bank of Pakistan supplies production loans at below market interest rates and agriculture is exempt from paying income taxes.

These are a few of the policies that have been documented but are very difficult to quantify in monetary terms because of uncertainties about the currency exchange rate which is set by the government. The inability to fully document or quantify the amount of government intervention in Pakistan's agriculture lies in

stark contrast to the U.S. where trade distorting policies have been quantified in our published aggregate measure of support (AMS).

Documentation of trade-distorting polices in foreign countries is therefore the second problem. We believe the current GATT proposal would force U.S. cotton producers to reduce their support unilaterally because trade-distorting measures by our competitors cannot be adequately determined.

So farm, proposals under consideration include no protection from, or redress for, damage to U.S. cotton producers, or to the textiles and apparel industries, caused by illegal, subsidized shipments to third countries. When an LDC such as Pakistan, or a non-GATT signatory such as China, sells raw cotton or manufactured textiles and apparel under subsidy to a third country, the U.S. cotton industry will be adversely affected but will be helpless to curb or prohibit such practices. Even if the U.S. closed its markets to a offending country, it could not force other countries to do so. The U.S. has never effectively dealt with countries that accepted illegal, subsidized trade from an offending country.

The reality is that GATT parties have not demonstrated the political will to isolate or even significantly restrict such trade. Under a GATT shaped by the current negotiations, China and LDC's will have a free hand while the U.S. government will insist on strict adherence for U.S. firms. The result will be the loss of international trade for many U.S. industries with no compensation to these industries or meaningful protection for the employees.

REVERSE SUBSIDIES

In addition to our grave concern about the concept of partially reducing subsidies—which are not uniformly calculated and cannot be verified—the U.S. cotton industry is also deeply concerned about so-called "reverse" subsidies which are not being addressed in the negotiations. U.S. producers are faced with limitations on benefits, environmental and conservation rules and labor laws which do not exist in many other countries. Yet, U.S. negotiators continue to contend that a partial reduction of subsidies would represent a victory for U.S. commodity producers, even though countries with high subsidies will have a significant advantage if no adjustments are made for "reverse subsidies."

IMPACT ON SUPPLY/PRICE STABILIZATION PROGRAMS

In addition to what will clearly be inequitable and unilateral alterations in domestic supply and price stabilization programs for cotton, U.S. cotton producers would loose Section 22 import quotas with no concessions by other countries. It bears repeating that U.S. cotton's major competitors are either non-signatory countries or they may be exempt from GATT provisions by virtue of LDC status.

In spite of the National Cotton Council's cautions, the ITC and USDA have used a combination of base year selection and certain assumptions about domestic cotton policy to conclude that the tariff equivalent of Section 22 quotas necessary to maintain cotton imports at current levels would be zero. The ITC and USDA have not proposed a method to compensate U.S. producers and processors if a foreign-exchanged starved, inflation-riddled, less-developed-country dumped cotton in the U.S. at below market prices. Unfortunately, all known trade remedies provide inadequate relief, if any at all, and only after the damage is done.

EXPRESSION OF INDUSTRY CONCERNS HAS DRAWN INADEQUATE RESPONSE

The cotton industry would prefer not to be placed in the position of opposing the proposals of our government. However, our serious questions about the potential adverse impact of the agreement have drawn very general "trust-me" responses. Specific questions about safeguards, verification, participation by China and the Soviet Union, and the treatment of LDC's are met with the response that the agreement is only a framework and specific issues have not been addressed.

Recent U.S. government analysis contends that the so-called Hellstrom 30-30-30 proposal would not require adjustments in the U.S. cotton program in the near future. However, a closer look reveals that USDA's underlying assumptions include very high set-asides, unrealistically high market prices, and a base year which may not be acceptable to other countries.

So, if an agreement is struck, would cotton producers be required to divert large acreage even though the 1990 farm bill links set-aside to a stocks-to-use ratio and competitors could plant fence-row to fence-row? Will cotton producers have to endure larger triple base cuts to ensure compliance with an agreement which doesn't affect any other cotton producing countries? And, what about the Soviets and China—how will the U.S. operate its programs if they are outside the GATT?

Who can guarantee that the elimination of import quotas to be replaced with zero tariffs will not result in significant dumping, depressed prices and increased budget outlays? And is it prudent for the U.S. government to accept provisions that may jeopardize the agricultural crop that leads all others in its creation of jobs and its dollar contribution to the United States economy? Cotton producers understand that some agricultural products might gain if the GATT succeeds but cotton, peanuts, dairy, wool and the textile and apparel industries are simply too important to sacrifice for questionable gains in other areas.

We deeply regret that the USTR and USDA have not been willing to address our concerns. For four years, we have quietly attempted to signal our concerns through the appropriate channels so as not to undermine our negotiators. And yet our concerns go unanswered. We marvel at the success of other industries, such as civil aviation and shipping, who have apparently succeeded in convincing the USTR to leave them out of the services agreement.

We sincerely appreciate this opportunity to voice our views and concerns.

Exhibit 1

Imported Textiles

All Fibers

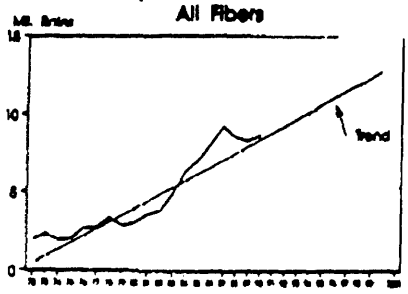


Exhibit 3

Imported Textiles

All Fibers

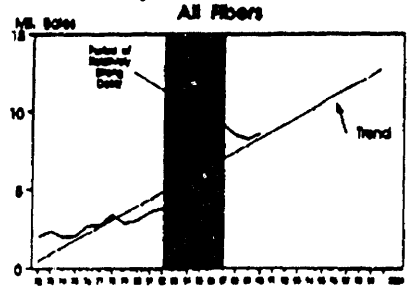


Exhibit 2

Imported Textiles

All Fibers

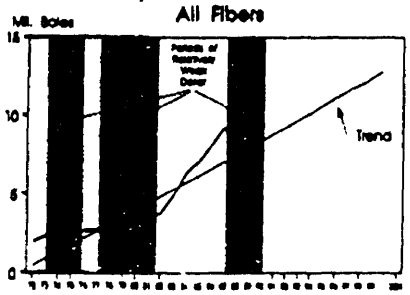


Exhibit 4

Net Domestic Consumption

All Fibers

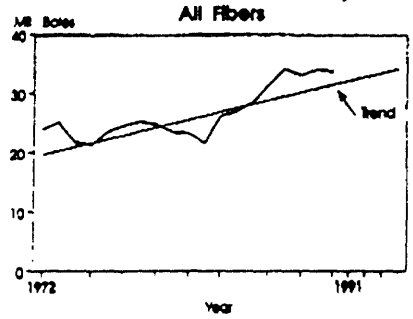


Exhibit 5

Comparison of U.S. & Imported Textile Manufactures

Bale Equivalents

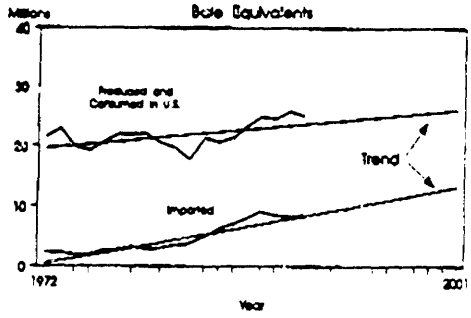


Exhibit 7

Pakistani Cotton Production

(Million Bales)

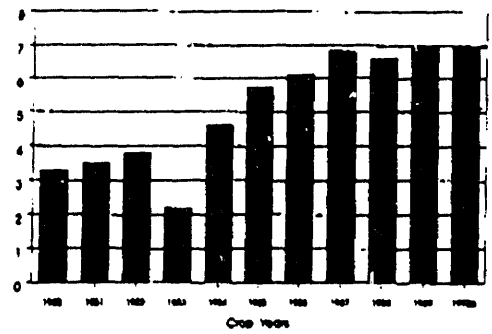
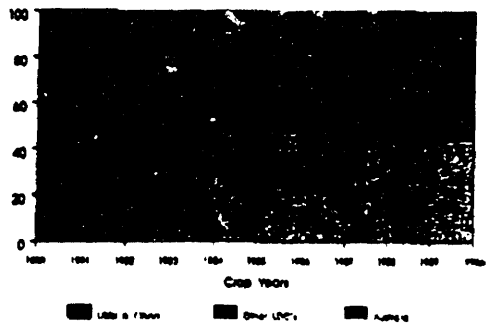


Exhibit 6

Share of Foreign Cotton Production

(Percent)



PREPARED STATEMENT OF DONALD V. FITES

Mr. Chairman, Members of the Committee: I'm Don Fites, Chairman of Caterpillar Inc. Today, I'm testifying before you as Chairman of the National Foreign Trade Council (NFTC). The NFTC is the oldest and largest association formed to address international trade and investment issues. Its 500 corporate members account for more than 70 percent of U.S. exports.

Before relating NFTC's recommendations on GATT issues, let me recount a recent incident. The story points up a misconception that for some time has plagued discussions of the GATT. Earlier this year, a reporter for one of America's largest and most prestigious newspapers called us saying that he wanted to write an article about the market access portion of the GATT negotiations. Specifically, he wanted to write about the U.S. initiative called the "zero-for-zero tariff proposal." We were delighted. The zero-for-zero initiative is one of our top corporate priorities.

As it turned out, the reporter wasn't allowed to write his article because an editor didn't feel the story would be newsworthy. "After all," the reporter was told, "everyone knows that this GATT Round is about agriculture, services, and intellectual property protection."

It's unfortunate, but the editor was just echoing what many think . . . that the GATT begins and ends with agriculture, services, and intellectual property protection. And because of that perception, enthusiasm for a new GATT agreement has appeared lukewarm within America's manufacturing sector. That appearance is deceiving.

So if you'll permit me, this morning I want to leave discussion of those "other" issues to my colleagues. I want to talk about just one subject market access! As chairman of one of America's largest net exporters, I know that improved "market access" is not only key to the Uruguay Round . . . it's the critical ingredient for bolstering America's export performance during the 1990s and beyond.

To further open foreign markets, GATT negotiations must succeed in a number of areas. Of course, the most obvious market access issue involves tariffs. But, lower tariffs won't benefit many American manufacturers unless there are new GATT rules to ensure that exports aren't restricted. Some of the areas that deserve attention include:

Government Procurement Practices: Access to a large overseas market—foreign government procurements—is today limited for U.S. heavy electrical, telecommunications, energy, and transportation firms by the exclusion of these sectors from coverage under the Government Procurement Code. What is particularly troubling about this phenomenon is that the U.S. market is wide open to foreign producers of these same products. The Government Procurement Code negotiation must be a priority if equity in market access is to be provided to U.S. exporters in these key sectors.

Unreasonable Technical Standards: Greater discipline and broader application of the "standards" code would prevent technical standards and certification processes from being used to limit legitimate competition. Progress in this area would help ensure that governments do not use the standards-setting process as a new barrier to trade.

Balance of Payment Rules: Measures taken by developing countries for balance of payments reasons (Article III) should be more disciplined. Restrictions on trade should be broad rather than product specific, should follow established guidelines, and should be limited to a specified period of time.

Cumbersome Rules of Origin: Negotiations to reduce non-tariff barriers should work toward eventual global harmonization of origin rules so that exporters can enjoy a more open and predictable trade environment and importers would be prevented from circumventing fair trade laws. A consensus should be achieved on the definition of "origin," on greater transparency, and on improvements in procedural due process.

Today, even antidumping rules are being used as barriers to U.S. exports. At least 27 nations have enacted antidumping laws . . . including Mexico, Korea, Brazil, and Argentina. Without improved GATT disciplines, antidumping actions could become the international "protectionist weapon of choice."

When I speak of antidumping reform, I want to be very precise. The issue is potentially a contentious one. NFTC's objective is that a new antidumping code provide greater transparency of procedures, better discipline over circumvention, penalties to discourage repeat dumping, and other changes to ensure antidumping calculations are fairer.

As we see it, American manufacturers . . . their customers . . . and employees are poised to the big winners if negotiators successfully craft a new GATT agreement that addresses these issues.

In a broader context, there are those who believe the risks associated with a new GATT are so great as to outweigh potential gains. We don't agree. In our view, the present international trade landscape largely represents trade rules of a past era . . . an era in which the United States was the world's only economic powerhouse and had the trade surplus to prove it. Although that era has long since ended . . . America's exporting manufacturers are still operating within the bounds of that old system.

Today—with a few notable exceptions—American markets for manufactured goods are open. Consequently, future U.S. market access concessions will likely be modest.

In contrast—while many of our trading partners have made impressive gains in productivity—their markets have only opened slightly.

Let me put it another way, when it comes to market access and the GATT . . . *the U.S. has already paid its dues . . . it's now time to collect!*

That's one reason why the National Foreign Trade Council has joined with the Zero Tariff Coalition to support the U.S. "zero-for-zero tariff proposal."

This initiative is about as straightforward as any GATT issue gets. Simply put, the United States has offered to eliminate import tariffs on the products of nine industrial sectors . . . so long as other countries agree to do the same. The sectors include: construction equipment, steel, non-ferrous materials, paper, wood products, electronics, pharmaceuticals, beer, and fish. Together, these proposed "Free Trade Sectors" account for about 30 percent of U.S. manufactured trade.

Any way you look at the zero-for-zero tariff proposal—it's not only fair, *it's a good deal for America.* For example, tariffs applied to Caterpillar-type products are about 2 to 2.5 percent in the United States . . . 4 to 11 percent in Europe . . . and over 15 percent in most developing countries. If the zero-for-zero initiative is successful, those tariffs would evaporate.

And what's true for the construction equipment industry is especially true for other zero tariff industries like semiconductors, paper, wood products, metals, and beer.

Before closing, I'd like to pass on a personal observation. There are a lot of estimates floating around Washington as to how much economic growth a new GATT agreement will generate . . . millions . . . billions . . . or even as much as a trillion dollars of growth during the next decade. I don't know what the correct number is . . . but I do know that whenever markets are opened, American manufacturers historically have benefited more than their greatest expectations.

The Mexican market is a current case in point. Since coming to office, President Salinas has stood up to "protectionists" in his country by ending many import restrictions. He opened the motor grader market in 1988 . . . reduced tariffs in 1989 . . . opened the diesel engine market in 1990. Anticipating these actions, we "guessed" that Cat exports to Mexico would increase by about $20 million. We were way off the mark. Last year Cat exports to Mexico nearly doubled . . . to $131 million.

To put $131 million in human terms, Cat exports to Mexico now generate work for 900 U.S. Caterpillar employees and 1,800 employees at the company's American suppliers.

Mr. Chairman, it's understandable that up to now, it's been new GATT areas commanding most of the world's attention. New areas often do. But for many NFTC members, the real GATT "pay off" will come by way of improved market access.

For these reasons, the NFTC urges the Senate not to interfere with the automatic two-year "fast track" extension of negotiating authority that was provided for in the Omnibus Trade Bill. Enacting fast track authority was the right decision in 1988. Preserving it is the right decision today.

That concludes my remarks. At this time, I'd be pleased to answer any questions. Thank you

Attachment.

CATERPILLAR INC.,
Peoria, IL, April 22, 1991.

Hon. LLOYD M. BENTSEN,
U.S. Senate,
Washington, DC.

Dear Senator Bentsen: Thank you for the "Texas hospitality" when I testified before your committee. During the proceedings, I was impressed by your commitment to increasing American exports.

In the course of Q&A, I responded to a question from Senator Daschle regarding the percent of Caterpillar costs represented by total labor and direct labor. I've since confirmed the exact percentages. They are: total labor 27.5 percent; direct labor 6.1 percent.

I hope the next time you're in Illinois, you'll stop by and see us.

Sincerely,

DONALD V. FITES.

PREPARED STATEMENT OF SENATOR CHARLES E. GRASSLEY

Thank you Mr. Chairman. I would like to commend you for holding the series of hearings we have had thus far on whether or not we should grant the President "fast-track" authority for the Uruguay Round and the U.S./Mexico Free Trade Agreement.

One of the responsibilities that we have in the Congress is to ensure our citizens the ability to be able to export their products into foreign markets should they desire. another is to make sure those markets are open to American producers when and if those decisions are made. In my opinion, fast-track is absolutely critical to negotiating that access for American exporters to be successful.

There is no question that many challenges and obstacles to successful agreements lie ahead in each of the areas mentioned. Nevertheless, not giving the President the authority to pursue the avenues of opportunity we have available, in my opinion, can only result in our forfeiting any hope of resolving the current differences with have with our foreign trading partners.

The world trading system is now vastly more complex than it was when the GATT was written in 1847. The negotiating agenda runs the gamut of U.S. interests, both in opening world markets and in establishing rules of fair play in areas vital to U.S. competitiveness. An open multilateral trading system is the best guarantee that U.S. export opportunities continue to expand into the next century. The Uruguay Round is the most important initiative to expand these opportunities.

In conclusion Mr. Chairman, I believe an extension of fast-track procedures is also necessary in order to negotiate a comprehensive north American free trade area between the united states, Mexico and Canada. If those negotiations are pursued in accordance with clearly articulated objectives, they could result in important commercial benefits for the United States. Thank you.

PREPARED STATEMENT OF SENATOR ERNEST F. HOLLINGS

Mr. Chairman, thank you for the opportunity to testify here today. I introduced S. Res. 78 on March 13, 1991. It is a resolution of disapproval of the extension of fast-track authority, as provided for in the 1988 Trade Act.

The Administration is waging an all-out campaign to obtain extension of fast-track authority until June 1, 1993. Why is fast-track such a high priority for this Administration? Bear in mind that Presidents have negotiated international agreements since the beginning of the Republic without fast-track authority. There was no fast-track for critical national security treaties with the Soviets—SALT I, ABM, INF and so on. These agreements were exhaustively debated by the Congress and stood on their own merits. It is true that the U.S. did not approve the SALT II treaty, but the Soviets continued to negotiate, they stayed at the table. In fact, according to the Library of Congress, "the overwhelming proportion of treaties receive favorable action within a reasonable period of time," and "most survive the process without proposed changes or conditions of any kind." "Approval is almost always expeditious . . . and is usually unanimous."

In contrast to fast-track procedures for trade agreements, debate on treaties is not limited and conditions may be attached in the process of the Senate's advice and consent. Treaties can be multilateral or bilateral. In fact, 89 multilateral agree-

ments have been approved since 1974 and some have involved economic issues. These treaties include the Berne Convention, the Wheat, Sugar, Rubber and Coffee Agreements, and treaties on patents and trademarks. In the consideration of these agreements, the Senate fulfilled its constitutional obligations in full and unfettered debate

It is in the area of trade agreements that the Congress has not been so faithful to the Constitution, which places the responsibility on Congress to "regulate commerce with foreign nations" in Article I, Section 8. How did the Founding Fathers treat this duty? Hamilton, Madison and Jefferson teamed together to pass the first bill through the National Congress on July 4, 1789, setting up tariffs on a list of 30 articles, beginning with steel. The British had implored the fledging nation to trade with what it could produce best—no tariffs, no barriers, free trade all around. Alexander Hamilton wrote his famous booklet, *Report on Manufactures*, basically telling England to bug off, we will not remain your colony.

Why hogtie the system of checks and balances? Why does the Administration seek a Congress on autopilot? The answer is obvious: The Administration feels that the Uruguay Round and the Mexican agreement may be so damaging to key sectors of the American economy and work force that these agreements will not stand up to debate. After all, these accords are the latest in a long line of agreements that have promised the magic of "free trade."

Let's be clear where America stands, 45 years since the end of World War II and the establishment of the GATT. Much has been attributed to the GATT. It has been, for developed countries, a good tariff-buster; perhaps because a tariff is so visible and easy to measure. However, GATT's record on non-tariff barriers is mainly a record of the U.S. trying to lead by example. After the Tokyo Round, trading as an example, helped to create the nearly trillion dollar trade deficit we ran in the 1980's. The other Asian economies have used the Japanese trading system as a model, not the U.S. And, every time someone in Congress tries to point this out and discuss our need for a more realistic trade policy, we get lectures from the Administration on Smoot-Hawley. In 1983, our colleague, the late Senator John Heinz, exposed this myth of Smoot-Hawley. Senator Heinz explained that the tariffs increased by the bill affected less than 1% of world trade, and that dutiable and duty free imports both fell in 1931 and 1932. Imports began to climb again in 1933. John Heinz was not defending Smoot-Hawley, he was pointing out that citing it in trade debates in the 1980's was misguided.

The Administration also keeps saying we must promote U.S. exports. Yes, our exports are growing, but since when? Since 1985, when the G-7 *governments* decided to depreciate the dollar. And while our exports are growing thanks to this government intervention, our incomes are declining thanks to non-intervention in other areas. Our answer to this? The Uruguay Round—an agreement to end barriers to trade in agriculture and services. We are surprised the Europeans are willing to take the heat by refusing to reduce agriculture subsidies, but they are. We are annoyed that countries want to protect their markets from U.S. services, but they do. We want to dismantle the few import programs we have in place, and we wish to make the world safe for U.S. multinationals to invest. Others want to weaken the only working trade statutes we have left: 301, 337, countervailing duties and, most importantly, antidumping. Our trading partners refuse to even negotiate on balance of payments reform, worker's rights, persistent global surpluses, and an import fee to fund worker adjustment and border tax measures, important objectives set out in the 1988 Trade Act. And what about protection for intellectual property? Some experts believe we may end up with an agreement signed by some countries, most likely those that are not the worst offenders. We win the battle, lose the war.

Now the Administration has declared that extension of fast-track is essential if we are to conclude a North American Free Trade Agreement with Mexico and Canada. Conclusion of a Free Trade Agreement with Mexico would mark the first time that two nations at such disparate levels of development have entered into such an agreement.

Are we to assume that unless we extend fast-track, President Salinas and his negotiating team will walk away from the bargaining table?

If they do, where are they going to go? To an EC preoccupied with reconstructing Eastern Europe? To a Japan that is pulling away from its international commitments? The fact is the Mexican government has nowhere else to go.

After almost two decades of economic mismanagement in Mexico, we all must applaud the significant economic reforms undertaken by President Salinas. I am also encouraged by the steps President Salinas has taken on the road to true democratization.

However, he faces a monumental task in rebuilding an economy that has been suffocated by mounds of debt, corruption and inefficiency.

In fact, since a majority of Mexican imports enter this country under special duty exemptions, it is apparent that what President Salinas needs is meaningful debt relief. What is driving the Free Trade Agreement is Mexico's desperate need to attract foreign capital in part to reconstruct its economy and in part to service its massive debt burden.

Mr. Chairman, a country that is in the process of democratizing should respect and understand our constitutional process, particularly since most economists, and the ITC, believe that for the foreseeable future the benefits to the U.S. economy of a Mexican FTA would be marginal. The costs, however, to the U.S. economy particularly with respect to jobs in the manufacturing sector and protection of the environment could be significant.

"Globalization" of production is terrific in theory, it makes for interesting reading in the *Harvard Business Review*, it props up the balance sheets for our multinational corporations, but it does nothing for unemployed textile workers, or the steel or auto workers who must find a new job paying 60% of their previous wages.

Before we rush into bailing out our big banks from imprudent lending practices, let the Congress ensure that workers in both countries have a safe place to work, clean air to breathe and clean water to drink. Let us ensure the Mexicans raise their standard of living rather than being forced to rely on cheap wages in order to compete.

Fast-track is a means to an end. It enables the President to secure enactment of flawed agreements by means of a gun-to-the-head approach. I may well join the majority in Congress in voting for these agreements. But we must first insure that they meet the test of strengthening America's industrial backbone, not weakening it. To that end, we should insist on the full, deliberate consideration intended by the Constitution.

I do not believe any of us envisioned in 1987 that an extension of fast track would be needed for the Uruguay Round. I doubt few of us had any idea that an extension would be requested to conduct trilateral negotiations on a North American Free Trade Agreement; and certainly, the prospect of an extension to allow negotiations on a free trade agreement with South and Central America did not occur to anyone.

What the 1988 Act contained was a new procedure—a grant of fast-track authority to the President *without* the necessity of securing passage of a statute granting that authority, in contrast to what was done in 1974, 1979 and 1988. Fast-track has traditionally represented the Congressional "carrot" to secure enactment of priorities of the Congress not necessarily shared by the Executive Branch. That leverage is forfeited in 1991, unless the House or Senate approves an extension disapproval resolution.

THE MYTH OF SMOOT-HAWLEY

• Mr. HEINZ. Mr. President, every time someone in the administration or the Congress gives a speech about a more aggressive trade policy or the need to confront our trading partners with their subsidies, barriers to imports and other unfair practices, others, often in the academic community or in the Congress immediately react with speeches on the return of Smoot-Hawley and the dark days of blatant protectionism. "Smoot-Hawley," for those uninitiated in this arcane field, is the Tariff Act of 1930 (Public Law 71-361) which among other things imposed significant increases on a large number of items in the Tariff Schedules. The act has also been, for a number of years, the basis of our countervailing duty law and a number of other provisions relating to unfair trade practices, a fact that tends to be ignored when people talk about the evils of Smoot-Hawley.

A return to Smoot-Hawley, of course, is intended to mean a return to depression, unemployment, poverty, misery, and even war, all of which, apparently were directly caused by this awful piece of legislation. Smoot-Hawley has thus become a code word for protectionism, and in turn a code word for depression and major economic disaster. Those who sometimes wonder at the ability of Congress to change the country's direction through legislation must marvel at the sea change in our economy apparently wrought by this single bill in 1930.

Historians and economists, who usually view these things objectively, realize that the truth is a good deal more complicated, that the causes of the Depression were far deeper, and that the link between high tariffs and economic disaster is much more tenuous than is implied by this simplistic linkage. Now, however, someone has dared to explode this myth publicly through an economic analysis of the actual tariff increases in the act and their effects in the early years of the Depression. The study points out that the increases in question affected only 231 million dollars' worth of products in the second half of 1930, significantly less than 1 percent of world trade; that in 1930-32 duty-free imports into the United States dropped at virtually the same percentage rate as dutiable imports; and that a 13.5 percent drop in GNP in 1930 can hardly be blamed on a single piece of legislation that was not even enacted until midyear.

This, of course, is not to suggest that high tariffs are good or that Smoot-Hawley was a wise piece of legislation. It was not. But it was also clearly not responsible for all the ills of the 1930's that are habitually blamed on it by those who fancy themselves defenders of free trade. While I believe this study does have some policy implications, which I may want to discuss at some future time, one of the most useful things it may do is help us all clean up our rhetoric and reflect a more sophisticated—and accurate—view of economic history.

Mr. President, I ask that the study, by Don Bedell of Bedell Associates, be printed in the RECORD.

The study follows:

BEDELL ASSOCIATES,
Palm Desert, Calif., April 1983.

TARIFFS MISCAST AS VILLAIN IN BEARING BLAME FOR GREAT DEPRESSION—SMOOT/HAWLEY EXONERATED

(By Donald W. Bedell)

SMOOT/HAWLEY, DEPRESSION AND WORLD REVOLUTION

It has recently become fashionable for media reporters, editorial writers here and abroad, economists, Members of Congress, members of foreign governments, UN organizations and a wide variety of scholars to express the conviction that the United States, by the single act of causing the

Tariff Act of 1930 to become law (Public law 361 of the 71st Congress) plunged the world into an economic depression, may well have prolonged it, led to Hitler and World War II.

Smoot/Hawley lifted import tariffs into the U.S. for a cross section of products beginning mid-year 1930, or more than 6 months following the 1929 "deepest point" here. Many observers are tempted simply to repeat "free trade" economic doctrine by claiming that this relatively insignificant statute contained an inherent trigger mechanism which upset a neatly functioning world trading system based squarely on the theory of comparative economics, and which propelled the world into a cataclysm of unmeasurable proportions.

We believe that sound policy development in international trade must be based solidly on facts as opposed to suspicions, political or national bias, or "off-the-cuff" impressions 50 to 60 years later of how certain events may have occurred.

When pertinent economic, statistical and trade data are carefully examined will they show, on the basis of preponderance of fact, that passage of the Act did in fact trigger or prolong the Great Depression of the Thirties, that it had nothing to do with the Great Depression, or that it represented a minor response of a desperate nation to a giant world-wide economic collapse already underway?

It should be recalled that by the time Smoot/Hawley was passed 6 months had elapsed of 1930 and 6 months had gone by since the economic collapse in October, 1929. Manufacturing plants were already absorbing losses, agriculture surpluses began to accumulate, the spectre of homes being foreclosed appeared, and unemployment showed ominous signs of a precipitous rise.

The country was stunned, as was the rest of the world. All nations sought very elusive solutions. Even by 1932, and the Roosevelt election, improvisation and experiment described government response and the technique of the New Deal, in the words of Arthur Schlesinger, Jr. in a New York Times article on April 10, 1983, President Roosevelt himself is quoted in the article as saying in the 1932 campaign, "It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something."

The facts are that, rightly or wrongly, there were no major Roosevelt Administration initiatives regarding foreign trade until well into his Administration; thus clearly suggesting that initiatives in that sector were not thought to be any more important than the Hoover Administration thought them. However, when all the numbers are examined we believe neither President Hoover nor President Roosevelt can be faulted for placing international trade's role in world economy near the end of a long list of sectors of the economy that had caused chaos and suffering and therefore needed major corrective legislation.

How important was international trade to the U.S.? How important was U.S. trade to its partners in the Twenties and Thirties?

In 1910, 66% of U.S. imports were duty free, or $2.9 Billion of a total of $4.3 Billion. Exports amounted to $5.2 Billion in that year making a total trade number of $9.6 Billion or about 14% of the world's total. See Chart I below.

CHART I.—U.S. GROSS NATIONAL PRODUCT, 1929-33

(Dollar amounts in billions)

	1929	1930	1931	1932	1933
GNP	$103.1	$90.5	$76.3	$58.8	$56.4
U.S. international trade	10.4	8.8	6.3	3.9	3.3
U.S. international trade percent of GNP	10	7.6	8.9	6.1	5.8

[1] Source: U.S. Department of Commerce of the United States, Bureau of Economic Analysis.

Using the numbers in that same Chart I it can be seen that U.S. imports amounted to $4.3 Billion or just slightly above 12% of total world trade. When account is taken of the fact that only 33%, or $1.5 Billion, of U.S. imports was in the Dutiable category, the entire impact of Smoot/Hawley has to be focused on the $1.5 Billion number which is barely 1.5% of U.S. GNP and 4% of world imports.

What was the impact? In dollars Dutiable imports fell by $462 Million, or from $1.5 Billion to $1.0 Billion, during 1930. It's difficult to determine how much of that small number occurred in the second half of 1930 but the probability is that it was less than 50%. In any case, the total impact of Smoot/Hawley in 1930 was limited to a "damage" number of $231 Million; spread over several hundred products and several hundred countries!

A further analysis of imports into the U.S. discloses that all European countries accounted for 30% or $1.3 Billion in 1929 divided as follows: U.K. at $330 Million or 7¼%, France at $171 Million or 3.9%, Germany at $255 Million or 5.9%, and some 15 other nations accounting for $578 Million or 13.1% for an average of 1%.

These numbers suggest that U.S. imports were spread broadly over a great variety of products and countries, so that any tariff action would by definition have only a quite modest impact in any given year or could be projected to have any important cumulative effect.

This same phenomenon is apparent for Asian countries which accounted for 29% of U.S. imports divided as follows: China at 3.8%, Japan at $432 Million and 9.8%, and with some 20 other countries sharing in 15% or less than 1% on average.

Australia's share was 1.3% and all African countries sold 2.5% of U.S. imports.

Western Hemisphere countries provided some 37% of U.S. imports with Canada at 11.4%, Cuba at 4.1%, Mexico at 2.7%, Brazil at 4.7% and all others accounting for 13.3% or about 1% each.

The conclusion appears inescapable on the basis of these numbers: a potential adverse impact of $231 Million spread over the great array of imported products which were Dutiable in 1929 could not realistically have had any measurable impact on America's trading partners.

Meanwhile, the Gross National Product (GNP) in the United States had dropped an unprecedented 13.5% in 1930 alone, from $103.4 Billion in 1929 to $88 Billion by the end of 1930. It is unrealistic to expect that a shift in U.S. international imports of just 0.2% of U.S. GNP in 1930 (or example ($231 Million on $14.4 Trillion) could be viewed as establishing a "precedent" for America's trading partners to follow, or represented a "model" to follow.

Even more to the point an impact of just 0.2% could not reasonably be expected to have any measurable effect on the economic health of America's trading partners.

Note should be taken of the claim by those who repeat the Smoot/Hawley "villain" theory that it set off a "chain" reaction around the world. While there is some evidence that certain of America's trading partners retaliated against the U.S. there can be no reliance placed on the assertion that those same trading partners retaliated against each other by way of showing anger and frustration with the U.S. Self-interest alone would dictate otherwise, common sense would intercede on the side of avoidance of "shooting oneself in the foot," and the facts disclose that world trade declined by 18% by the end of 1930 while U.S. trade declined by some 10% more or 28%. U.S. foreign trade continued to decline by 10% more through 1931, or 53% versus 43% for world-wide trade, but U.S. share of world trade declined by only 18% from 14% to 11.3% by the end of 1931.

Reference was made earlier to the Duty Free category of U.S. imports. What is especially significant about those import numbers is the fact that they dropped in dollars by an almost identical percentage as did Dutiable goods through 1931 and beyond: Duty Free imports declined by 29% in 1930 versus 27% for Dutiable goods, and by the end of 1931 the numbers were 52% versus 51% respectively.

The only rational explanation for this phenomenon is that Americans were buying less and prices were falling. No basis exists for any claim that Smoot/Hawley had a distinctively devastating effect on imports beyond and separate from the economic impact of the economic collapse in 1929.

Based on the numbers examined so far, Smoot/Hawley is clearly a mis-cast villain. Further, the numbers suggest the clear possibility that when compared to the enormity of the developing international economic crisis Smoot/Hawley had only a minimal impact and and international trade was a victim of the Great Depression.

This possibility will become clear when the course of the Gross National Product (GNP) during 1929-1933 is examined and when price behaviour world-wide is reviewed, and when particular Tariff Schedules of Manufacturers outline in the legislation are analyzed.

Before getting to that point another curious aspect of the "villian" theory is worthy of note. Without careful recollection it is tempting to view a period of our history some 50-60 years ago in terms of our present world. Such a superficial view not only makes no contribution to constructive policy-making. It overlooks several vital considerations which characterized the Twenties and Thirties:

1. The international trading system of the Twenties bears no relation to the interdependent world of the Eighties commercially, industrially and financially in size or complexity.

2. No effective international organization existed, similar to the General Agreement for Tariffs and Trade (GATT) for example for resolution of disputes. There were no trade "leaders" among the world's nations in part because most mercantile nations felt more comfortable without dispute settlement bodies.

3. Except for a few critical products foreign trade was not generally viewed in the "economy-critical" context as currently in the U.S. As indicated earlier neither President Hoover nor President Roosevelt viewed foreign trade as crucial to the economy in general or recovery in particular.

4. U.S. foreign trade was relatively an amorphous phenomenon quite unlike the highly structured system of the Eighties characterized largely then by "caveat emptor" and a broadly laissez-faire philosophy generally unacceptable presently.

These characteristics, together with the fact that 66 percent of U.S. imports were Duty Free in 1929 and beyond, placed over-

all international trade for Americans in the Twenties and Thirties on a very low level of priority especially against the backdrop of world-wide depression. Americans in the Twenties and Thirties could no more visualise the world of the Eighties than we in the Eighties can legitimately hold them responsible for failure by viewing their world in other than the most pragmatic and realistic way given those circumstances.

For those Americans then, and for us now, the numbers remain the same. On the basis of sheer order of magnitude of the numbers illustrated so far, the "villian" theory often attributed to Smoot/Hawley is an incorrect reading of history and a mis-understanding of the basic and incontrovertible law of cause and effect.

It should also now be recalled that, despite heroic efforts by U.S. policy-makers its GNP continued to slump year-by-year and reached a total of just $55.4 billion in 1933 for a total decline from 1929 levels of 46 percent. The financial collapse of October, 1929 had indeed left its mark.

By 1933 the 1929 collapse had prompted formation in the U.S. of the Reconstruction Finance Corporation, Federal Home Loan Bank Board, brought in a Democrat President with a program to take control of banking, provide credit to property owners and corporations in financial difficulties, relief to farmers, regulation a stimulation of business, new labor laws and social security legislation.[1]

So concerned were American citizens about domestic economic affairs, including the Roosevelt Administration and the Congress, that scant attention was paid to the solitary figure of Secretary of State Cordell Hull. He, alone among the Cabinet, was convinced that international tade had material relevance to lifting the country back from depression. His efforts to liberalise trade in general and to find markets abroad for U.S. products in particular from among representatives of economically stricken Europe, Asia and Latin America were abruptly ended by the President and the 1933 London Economic Conference collapsed without result.

The Secretary did manage to make modest contributions to eventual trade recovery through the Most Favored Nation (MFN) concept. But it would be left for the United States at the end of World War II to undertake an economic and political role of leadership in the world; a role which in the Twenties and Thirties Americans in and out of government felt no need to assume, and did not assume. Evidence that conditions in the trade world would have been better, or even different, had the U.S. attempted some leadership role can not responsibly be assembled. Changing the course of past history has always been less fruitful than applying perceptively history's lessons.

The most frequently used members thrown out about Smoot/Hawley's impact by those who believe in the "villain" theory are those which clearly establish that U.S. dollar decline in foreign trade plummeted by 66 percent by the end of 1933 from 1929 levels, $9.6 billion to $3.2 billion annually.

Much is made of the co-incidence that world-wide trade also sank about 60 percent for the period. Chart II summarizes the numbers.

CHART II.—UNITED STATES AND WORLD TRADE, 1929-33

(In billions of U.S. dollars)

	1929	1930	1931	1932	1933
United States:					
Exports	5.2	3.8	2.4	1.6	1.7
Imports	4.4	3.0	2.1	1.3	1.5
Worldwide:					
Exports	33.0	*26.5	18.8	12.9	11.7
Imports	35.6	29.1	20.8	14.6	*12.5

* Source: U. Department of Commerce of the United States, League of Nations, and International Monetary Fund.

The inference is that since Smoot/Hawley was the first "protectionist" legislation of the Twenties, and the end of 1933 saw an equal drop in trade that Smoot/Hawley must have caused it. Even the data already presented suggest the relative irrelevance of the tariff-raising Act on a strictly trade numbers basis. When we examine the role of a world-wide price decline in the trade figures for almost every product made or commodity grown the "villain" Smoot/Hawley's impact will not be measurable.

It may be relevant to note here that the world's trading "system" paid as little attention to America's revival of foreign trade beginning in 1934 as it did to American trade policy in the early Thirties. From 1934 through 1939 U.S. foreign trade rose in dollars by 89% compared to world-wide growth of 15%. Imports grew by 68% and exports climbed by a stunning 93%. U.S. GNP by 1939 had developed to $91 Billion, to within 88% of its 1929 level.

Perhaps this suggests that America's trading partners were more vulnerable to an economic collapse and thus much less resilient than was the U.S. In any case the international trade decline beginning as a result of the 1929 economic collapse, and the subsequent return by the U.S. beginning in 1934 appear clearly to have been wholly unrelated to Smoot/Hawley.

As we begin to analyse certain specific Schedules appearing in the Tariff Act of 1930 it should be noted that sharp erosion of prices world-wide caused dollar volumes in trade statistics to drop rather more than unit volume thus emphasizing the decline value. In addition, it must be remembered that as the Great Depression wore on, people simply bought less of everything increasing further price pressure downward. All this wholly apart from Smoot/Hawley.

When considering specific Schedules, No. 5 which includes Sugar, Molasses, and Manufactures Of, maple sugar cane, sirups, adonite, dulcite, galactose, inulin, lactose and sugar candy. Between 1929 and 1933 import volume into the U.S. declined by about 40% in dollars. In price on a world basis producers suffered a stunning 60% drop. Volume of sugar imports declined by only 42% into the U.S. in tons. All these changes lend no credibility to the "villain" theory unless one assumes, erroneously, that the world price of sugar was so delicately balanced that a 28% drop in sugar imports by tons into the U.S. in 1930 destroyed the price structure and that the decline was caused by tariffs and not at least shared by decreased purchases by consumers in the U.S. and around the world.

Schedule 4 describes Wood and Manufactures Of, timber hewn, maple, brier root, cedar from Spain, wood veneer, hubs for wheels, casks, boxes, reed and rattan, toothpicks, porch furniture, blinds and clothespins among a great variety of product categories. Dollar imports into the U.S. slipped by 52% from 1929 to 1933. By applying our own GNP as a reasonable index of prices both at home and overseas, unit volume decreased only 6% since GNP had dropped by 46% in 1933. The world-wide price decline did not help profitability of wood product makers, but to tie that modest decline in volume to a law affecting only 6½% of U.S. imports in 1929 puts great stress on credibility, in terms of harm done to any one country or group of countries.

Schedule 9, Cotton Manufactures, a decline of 54% in dollars is registered for the period, against a drop of 46% in price as reflected in the GNP number. On the assumption that U.S. GNP constituted a rough comparison to world prices, and the fact that U.S. imports of these products was infinitesimal, Smoot/Hawley was irrelevant. Further, the price of raw cotton in the world plunged 50% from 1929 to 1933. U.S. growers had to suffer the consequences of that low price but the price itself was set by world market prices, and was totally unaffected by any tariff action by the U.S.

Schedule 12 deals with Silk Manufactures, a category which decreased by some 60% in dollars. While the decrease amounted to 14% more than the GNP drop, volume of product remained nearly the same during the period. Assigning responsibility to Smoot/Hawley for this very large decrease in price beginning in 1930 stretches credibility beyond the breaking point.

Several additional examples of price behaviour are relevant.

One is Schedule 2 products which include brick and tile. Another is Schedule 3 iron and steel products. One outstanding casualty of the financial collapse in October, 1929 was the Gross Private Investment number. From $16.2 Billion annually in 1929 by 1933 it has fallen by 91% to just $1.4 Billion. No tariff policy, in all candor, could have so devastated an industry as did the economic collapse of 1929. For all intents and purposes construction came to a halt and markets for glass, brick and steel products with it.

Another example of price degradation world-wide completely unrelated to tariff policy is Petroleum products. By 1933 these products had decreased in world price by 82% but Smott/Hawley had no Petroleum Schedule. The world market place set the price.

Another example of price erosion in world market is contained in the history of exported cotton goods from the United States. Between 1929 and 1933 the volume of exported goods actually increased by 13.5% while the dollar value dropped 48%. This result was wholly unrelated to the tariff policy of any country.

While these examples do not include all Schedules of Smoot/Hawley they clearly suggest that overwhelming economic and financial forces were at work affecting supply and demand and hence on prices of all products and commodities and that these forces simply obscured any measurable impact the Tariff Act of 1930 might possibly have had under conditions of several years earlier.

To assert otherwise puts on those proponents of the Smoot/Hawley "villian" theory a formidable challenge to explain the following questions:

1. What was the nature of the "trigger" mechanism in the Act that set off the alleged domino phenomenon in 1930 that began or prolonged the Great Depression when implementation of the Act did not begin until mid-year?

2. In what ways was the size and nature of U.S. foreign trade in 1929 so significant and critical to the world economy's health that a less than 4% swing in U.S. imports could be termed a crushing and devastating blow?

3. On the basis of what economic theory can the Act be said to have caused a GNP drop of an astounding drop of 13.5% in 1930 when the Act was only passed in mid-1930?

[1] Beard, Charles and Mary. New Basic History of the United States.

Did the entire decline take place in the second half of 1930? Did world-wide trade begin its decline of some $13 Billion only in the second half of 1930?

4. Does the fact that duty free imports into the U.S. increased in 1930 and 1931 and in 1932 at the same percentage rate as dutiable imports absolve the Smoot-Hawley Tariff from the charge of the decline in U.S. imports?

5. Is the fact that world-wide trade declined less rapidly than did U.S. foreign trade prove the assertion that American trading partners retaliated against each other as well as against the U.S. because and subsequently held the U.S. accountable for starting an international trade war?

6. Was the international trading system of the Twenties so delicately balanced that a single hastily drawn tariff increase bill affecting just $231 Million of dutiable products in the second half of 1930 began a chain reaction that scuttled the entire system? Percentage-wise $231 Million is but 0.05% of all of 1929 world-wide trade and just half that of world-wide imports.

The preponderance of history and facts of economic life in the international area make an affirmative response by the "villain" proponents an intolerable burden.

It must be said that the U.S. does offer a tempting target for Americans who incessantly cry "mea culpa" over all the world's problems, and for many among our trading partners to explain their problems in terms of perceived American inability to solve those problems.

In the world of the Eighties U.S. has indeed very serious and perhaps grave responsibility to assume leadership in international trade and finance, and in politics as well.

On the record, the United States has met that challenge beginning shortly after World War II.

The U.S. role in structuring the United Nations, the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund, the Bretton Woods and Dumbarton Oaks Conferences on monetary policy, the World Bank and various Regional Development Banks, for example, is a record unparalleled in the history of mankind.

But in the Twenties and Thirties there was no acknowledged leader in international affairs. On the contrary, evidence abounds that most nations preferred the centuries-old patterns of international trade which emphasized pure competition free from interference by any effective international supervisory body such as GATT.

Even in the Eighties examples abound of trading nations succumbing to nationalistic tendencies and ignoring signed trade agreements. Yet the United States continues as the bulwark in trade liberalization proposals within the GATT. It does so not because it could not defend itself against any kind of retaliation in a worst case scenario but because no other nation is strong enough to support them successfully without the United States.

The basic rules of GATT are primarily for all those countries who can't protect themselves in the world of the Eighties and beyond without rule of conduct and discipline.

The attempt to assign responsibility to the U.S. in the Thirties for causing the Smoot-Hawley tariff set and thus set off a chain reaction of international depression [illegible] is a conscious mis-reading of history, a repeal of the basic concept of cause and effect and a disregard for the principle of proportion of numbers.

It may constitute a fascinating theory for political mischief-making but it is a cruel hoax on all those responsible for developing new and imaginative measures designed to liberalize international trade.

Such constructive development and growth is severely impeded by perpetuating what is no more than a symbolic economic myth.

Nothing is less worthwhile than attempting to re-write history, not learning from it. Nothing is more worthwhile than making careful and perceptive and objective analysis in the hope that it may lead to an improved and liberalized international trading system.

PREPARED STATEMENT OF ROBERT E. HUDEC

Mr. Chairman, I want to thank you for the opportunity to appear before the Committee today. I wish to note that I am appearing in a personal capacity, and not as a representative of the University of Minnesota.

I have been asked to address the problem of ensuring the full participation of GATT members in the Uruguay Round agreements. The problem is known colloquially as the "free rider" problem. The main concern, today as in the past, is that GATT's Most Favored Nation (MFN) provision, which requires that trade advantages given to one GATT member be given to all, will induce some countries to stand aside in negotiations, in the belief that they can obtain the benefit of market opportunities granted by other countries simply by relying on the MFN clause.

THE GATT EXPERIENCE

GATT—and, indeed, the postwar consensus on international trade policy—is built on two central principles that are in conflict. One is the MFN principle which says that all GATT member countries should be treated the same. The other is the reciprocity principle, which says that members who do not pay should be treated differently than members who do pay.

The reason for GATT's attachment to these conflicting principles is that both represent important truths. As a general rule, discriminatory treatment makes a mess of commercial relations—economically, politically and administratively. Discrimination almost always begets more discrimination, and drives commercial diplomacy into the back room. On the other hand, governments the world over will almost always prefer to avoid taking unpopular trade policy decisions if they can obtain the same foreign market opportunities without doing so.

How has GATT been able to pursue both the MFN and reciprocity principles simultaneously? For the central participants, the main answer has been that key participants cannot ride free, because without their participation the entire negotiation will usually collapse. When the negotiation involves a solid *quid pro quo,* they will pay because that is the only way they can obtain the benefits offered.

It is true that GATT has in the past failed to reconcile these two principles in the case of its smaller member countries, with the result that they have managed to free ride on the MFN principle. But it would be & mistake to view the past as an accurate indication of today's Uruguay Round problem. Conditions prior to 1980 were significantly different. First, that was a time when developing countries themselves were so committed to import substitution policies that trade concessions were resisted as a sacrifice of economic growth. Second, the subject matter of those earlier GATT negotiations contained few items of great interest to the smaller countries, such as agriculture or textiles. Third, those earlier negotiations took place under Cold War political conditions where Western developed countries were on the defensive because they had done little to provide real market opportunities in aid of economic development. And finally, for a considerable time the unfair advantage to small countries was more theoretical than real, because few developing countries were able to export significant amounts under them.

The conditions in the Uruguay Round present a much better chance of full participation by the major developing countries. Since the Tokyo Round, most of these developing countries have adopted significantly more market-oriented economic policies, and now need the contribution of the Uruguay Round concessions to consolidate those new domestic policies. In addition, the Uruguay Round agenda contains more significant benefits for developing countries than ever before—assuming they can be brought to fruition. On the other side, the developed countries are clearly applying far more pressure for meaningful contributions than ever in the pact. The message of dissatisfaction sent by the conditional MFN policies of the Tokyo Round has been heard clearly, a: has the current message concerning the central importance of developing country contributions on the New Issues. Moreover, developed countries have by now worked free from the particular political constraints imposed by the policy failures of the 1960's and 1970's.

So far, developing countries have participated more thoroughly and more vigorously in the Uruguay Round than in any prior Round. This does not mean that the free rider problem has been solved. It does mean, however, that we stand a very good chance of solving the free rider problem in the good old-fashioned way—by making sure that the entire negotiation offers a solid *quid pro quo* for all key participants, one that will not be achieved at all unless all contribute. That is still the best solution—the only really satisfactory one.

DENIAL OF BENEFITS

The conventional antidote to any free rider problem is to look for ways of denying benefits to those who do not pay. GATT experience with such a policy response, generally known as "conditional MFN" has been mixed.

GATT itself followed a conditional MFN practice at its inception, denying the benefit of GATT tariff concessions to all ITO members who did not pay the price of admission by negotiating concessions. This was a deliberate policy, done over considerable protest from outsiders. The experience suggests that conditional MFN may serve a positive purpose at the outset of an agreement, by helping to establish some minimal condition of membership in the legal community.

On the other hand, GATT has generally rejected a, conditional MFN approach in the subsequent rounds of bargaining under the original agreement. To be sure, GATT has permitted governments to manipulate tariff structures for this purpose, creating highly artificial subdivisions of tariff items so that the products of the nonpaying party are not covered by the concession. But outright discrimination, while permitted for certain other purposes (such as promoting Europe postwar recovery), has never been permitted as a bargaining tool.

The reason for this aversion, I believe, is a twin danger to the problem of the free rider—namely, the problem of abusive bargaining power. The power to deny MFN treatment is the power to inflict harm. Take, for example, a case in which Country A offers a zero tariff on Product A in exchange for a zero tariff from Country B on Product B. Country B may find no value in a zero MFN tariff on Product A, because it is already selling as much as it can under the present tariff. But, if B can be called a free rider for refusing to deal and thereby be denied the benefit A's zero tariff given to its competitors, B will in effect be forced to give a concession on Product B, not in exchange for a reciprocal benefit, but simply to avoid harm to its existing trade.

The lesson is that the power to deny MFN treatment is a dangerous bargaining weapon, one that can as easily be used to frustrate the reciprocity principle as to protect it. GATT has wisely rejected it in ordinary negotiations.

PRACTICAL CONSIDERATIONS

Assuming that some threat to deny benefits is ultimately believed to be necessary, what are the options, and what are their advantages and disadvantages?

The threshold question will be the overall means chosen to implement the Uruguay Round agreements. In the Tokyo Round, governments decided to treat each major set of new rules as a separate "Code," with each Code being adopted separately by whichever countries chose to subscribe. This time around, there appears to be some dissatisfaction with this so-called *a la carte* approach. Consideration is being given to presenting governments with a single package agreement containing all the Uruguay Round agreements—what might be called the *plat du jour* approach. An even more sweeping idea, not yet a proposal to my knowledge, calls for an agreement containing existing GATT agreements as well—in effect, offering governments a choice to accept everything in the Uruguay Round or leave GATT.

I do not believe the gains from an all-or-nothing approach justify its disadvantages. The fact that the *a la carte* approach leaves GATT members with varying legal rights and obligations is not as great a problem as it might seem. Although it has sometimes created conflict over which dispute-settlement mechanism applies to a controversy, that problem can be resolved by establishing a unified dispute settlement procedure competent to adjudicate all legal rights between parties.

The first disadvantage of the all-or-nothing approach is that it would seem to involve a rather massive violation of the MFN obligation, on all matters where GATT or FCN treaties apply. Second, I doubt whether it is really in any country's interest to create a 100-member institution to administer each and every one of the Tokyo and Uruguay Round agreements. Many of the new agreements, such as the Tokyo Round Procurement Code and all the New Issues agreements in the Uruguay Round, will require a considerable period of legal development. It makes more sense to manage that development with the smallest possible group of directly interested countries. consider how cumbersome it would be, for example, if the expansion of the Tokyo Round Procurement Code had to be negotiated and ratified by a 100-member committee, three fourths of whom had no interest whatever' in the matter.

In reality, the *a la carte* method is not as chaotic as it looks. The case-by-cage approach forces the leading governments to think hard about which other governments are essential to & fair and balanced package in each case, and to bargain about that. In the Tokyo Round, many developing countries were pressed hard to

join the Subsidies Code, and did, but were not deemed essential members of the Procurement Code, and so weren't.

Assuming the Uruguay Round follows the same a la carte approach as in the Tokyo Round, what considerations should be taken into account when considering denial of benefits to nonsignatories in particular agreements? The following points may seem obvious, but I believe they are worth noting:

1. In some cases the free rider problem will be less trouble than the non-MFN solution to practice to deter it. The Tokyo Round valuation code comes to mind as an example. It would of course be desirable to have all countries follow the same valuation rules, but not, I would suggest, at the cost of forcing the U.S. Customs service to administer two sets of valuation rules for U.S. imports. Other persuasive technics are less effective, they would be the superior tactic.

2. There are some disadvantages to the positions of nonsignatories that do not involve denial of MFN treatment. Nonsignatories acquire no right to participate in the reporting, investigating, and other procedures of the Code. Certain types of benefits, such as the primarily process-oriented rights granted under the Standards Code, are of little use without such procedural rights. In addition, nonsignatories acquire no direct legal rights to the benefits promised in the Code. MFN rights give no voice in how Code obligations are interpreted1 administered or modified. Judging by the many complaints of outsiders to the Tokyo Round Codes, these MFN-consistent disadvantages are a source of considerable discomfort1 and thus give some bargaining leverage in themselves.

3. The MFN obligation is a creature of international agreement. It applies only where existing agreements say it applies. A conditional MFN approach to any trade measures covered by GATT would violate U.S. legal obligations. On the other hand, the GATT agreement does not require MFN treatment on government measures outside the sphere of GATT. Thus, it was legally possible to adopt a conditional MFN approach in the Tokyo Round Procurement Code, since government procurement restrictions are specifically exempted from GATT. In the Uruguay Round, the GATT MFN obligation would not apply to the New Issues agreements on services, TRIPS and TRIMS. However, MFN obligations in some U.S. FCN treaties do cover these non-trade subjects.

4. As noted above, there would not appear to be a major objection in principle to a conditional MFN approach to initial membership in a New Issues agreement. I would seriously doubt however, that denying MFN treatment would do much to stimulate greater participation in those agreements. To my knowledge, most developing countries do not value the commercial benefits offered by developed country obligations in these agreements as much as the protection they are being asked to give up. What is needed to maximize developing country contributions, therefore, is the promise of benefits in the trade area.

5. A parallel problem in the New Issues agreements, particularly to the Services agreement, is the problem of assuring adequate participation in the future. These agreements will need to grow by adding new obligations as members become ready for them. The need to expand will present the same problem the GATT itself experienced in the Tokyo Round, when many participants declined to join efforts to expand GATT obligations, necessitating the Code device. Except for the Procurement Code, the Tokyo Round Codes were subject to the GATT MFN obligation, which meant that new benefits of the Codes had to be extended to nonsignatories. In the Subsidies Code, where the leading governments believed wide participation was essential, they found it necessary to threaten, and to some extent carry out, violations of GATT's MFN obligation in order to induce necessary parties to subscribe.

The issue is whether that same problem should be avoided in the Services Code by providing a conditional MFN approach for future additions. I believe not. First, as noted above, it is doubtful that denial of MFN treatment would be an effective incentive in this case, given the comparative value developing countries place on such rights. Second, even if conditional MFN were effective, this is one of those cases where honoring the MFN principle tends to protect the reciprocity principle. Additional developing country obligations in the New Issues agreements should be bargained for with a real *quid pro quo*. The power to threaten discrimination is not a substitute for such bargaining.

6. A final possibility for employing a conditional MFN approach on particular subjects is, of course, the possibility of simply excluding those subjects from Uruguay Round agreements. Airline services has been mentioned in this connection.

To repeat, the MFN principle is solely a creature of agreement. If the subject is not already covered by GATT or some other FCN obligation, leaving it out of Uruguay Round agreements will leave it free from any MFN obligation.

In my view, it would be better to deal with problem areas by this means of selective withdrawal rather than by weakening the MFN obligations agreements covering a whole sector.

PREPARED STATEMENT OF DEAN R. KLECKNER

The American Farm Bureau Federation, the nation's largest organization of farmers and ranchers, appreciates this opportunity to present its views on the administration's request for an extension of fast track negotiating authority.

Trade is extremely important to American agriculture and will become even more so in the future. A large percentage of many U.S. commodities is exported, and our overall trade surplus in competitive agricultural products is now $23 billion. Even so, our products continue to face serious and unacceptable obstacles in world markets. Foreign import barriers and export subsidies are widespread, and subject largely to ineffective international rules.

Despite the apparent failure last December in Brussels substantial progress has been made in the Uruguay Round agricultural talks. For example, there now exists broad international support for stronger and clearer rules on import and export measures affecting farm trade. A consensus was reached last year on the overall objective of "progressive and substantial" reductions in such practices. In particular, nearly all countries have now recognized the need for especially deep cuts in export subsidies, as the most distortive practice in world agricultural trade.

An important step has also been taken toward multilateral acceptance of a code to prevent health and sanitary standards from being used as unfair and unjustifiable barriers to agricultural trade.

Unfortunately, without the participation of the European Community, this "progress" will not lead to a successful conclusion in the Round. The recent acceptance by the Community of GATT Director General Arthur Dunkel's statement on agriculture is a positive sign, but its true meaning will only be known after nations begin to iron out concrete commitments on import barriers and export subsidies. We understand that these technical discussions began last month in Geneva.

On the basis of this progress, Farm Bureau supports extension of the administration's negotiating authority under the terms established in the Trade Act of 1988. We believe that American agriculture has a great deal to gain from a successful agreement and a great deal to lose from giving up on the effort at this time.

Our support for the final Uruguay Round package will ultimately depend on the benefits achieved for American exports in return for the concessions made by the United States. We will not accept any result in which U.S. farmers are asked to give up more than they receive from other countries.

If the Uruguay Round fails, American agriculture will lose a major opportunity to open and develop export markets for future U.S. agricultural output—output which is almost certain to outpace domestic demand in the years to come. Failure to generate new export markets for our products will put increased pressure either on farmers' incomes or future Federal budgets, or both.

In addition, existing ineffective GATT rules will remain in place and continue to offer little redress for agricultural exporters facing unfair subsidized competition. As a result trade relations between the EC and other countries will become even more strained—and some fairly serious trade skirmishes could result.

Farm Bureau also supports extension of fast track authority for negotiations toward a North America free trade agreement. We will only support an agreement resulting from those negotiations, however, if such negotiations provide for fair and equal competition in agricultural trade. Factors that must be considered include enquiry in regard to environmental regulations, quality standards, food safety concerns and other regulations. The agreement should also contain "snap-back" tariff safeguards, a dispute settlement body and a tariff reduction schedule.

Rejection of Presidential negotiating authority at this time would be tantamount to prejudging the outcome of both negotiations. American agriculture has much to gain from successful and equitable trade agreements, and Farm Bureau urges that they be pursued.

ILLUSTRATIONS OF THE NEED FOR REFORM IN WORLD AGRICULTURAL TRADE

Barriers to U.S. agricultural exports exist in varying degrees in virtually all countries and products. The U.S. Department of Agriculture publishes an annual report on these restrictions and the trade losses that they cause (Trade Policies and Market Opportunities for U.S. Farm Exports).

The European Community is without question the worst offender. The EC's agricultural market is almost completely insulated from world supply and demand forces. Foreign competition is viewed by the EC as something to be avoided with import barriers and to be beaten with export subsidies. The U.S. has lost sales both in the EC market as a result of the highly protectionism variable import levy—a mechanism for which there is no clear GATT discipline.

The U.S. has also lost agricultural markets in other countries as a result of the EC's export subsidies. With export subsidies, *and only with export subsidies,* the EC has become one of the world's largest exporters of a wide range of products—from grains, to livestock products, to sugar, to dairy, to fruits and vegetables. The EC spends annually $10 to $12 billion in direct payments to exporters to enable them to undercut more competitive foreign farmers. With that $10 to $12 billion, the EC exports around $30 billion in farm products. Again, GATT rules on agricultural subsidies are vague and largely ineffective.

Following are some specific examples of problems Farm Bureau remains hopeful will be addressed in the Uruguay Round agricultural negotiations. It is not intended to be an exhaustive list.

Wheat and Feedgrains

The EC sells about 21 million tons of wheat and flour on the world market, representing 21 percent of world exports. All of this product is subsidized. EC wheat exports are now 5½ times what they were in 1978/79. Over that period, wheat exports by other countries have remained stagnant.

The EC's switch to being a large net exporter of all grains has displaced a cumulative total of 260 million tons of exports from other countries over the past 12 years. Over the same period, the cumulative amount of grain production foregone in the United States through acreage reduction programs has been about 220 million tons.

Over time, a GATT agreement could reduce over-production in the EC, provide increased access for U.S. grains in Europe and elsewhere, and substantially reduce subsidized EC competition in third country markets.

Failure to obtain an agreement on trade distorting subsidies would mean a continuation or worsening of current trade problems in the grain sector: subsidies and marketing boards determining trade patterns, non-tariff barriers and preferential arrangements keeping U.S. products out of foreign markets, and United States continuing to be treated as both a residual supplier to the world market and the world's surplus manager.

Beef

Export subsidies have allowed the EC to become the world's second largest exporter of beef. Prior to 1974, the EC was a net importer. A reduction in the EC beef mountain would raise world prices and open up markets to unsubsidized producers in other countries.

The GATT talks would reduce tariffs and other barriers on high quality beef in Japan, Korea, and a number of other countries. Acceptance of the sanitary and phytosanitary agreement in the Uruguay Round would help prevent use of unjustified health regulations as trade barriers.

Pork

Import restrictions in such countries as Japan and Korea limit U.S. exports of pork. EC export subsidies are used to outcompete U.S. pork products in a number of foreign markets. The EC even subsidizes pork into the U.S. market. Improved GATT rules on export subsidies could resolve this problem as well as the problem of subsidies on Canadian pork shipments to the U.S. by requiring substantial reductions in such subsidies.

Oilseeds

Since 1980, the EC has expanded oilseed production by over four-fold (from about 2.7 million metric tons to about 12 million metric tons). This happened because oilseeds are supported at far above world market prices. In the case of soybeans, the EC price ranges from US$13-16 a bushel, nearly three times the U.S. price. EC processors are given subsidies so they will not import foreign oilseeds. These subsidies have cut in half U.S. soybean exports to the EC.

A GATT agreement would establish clearer international rules on such subsidies in the agricultural sector. The U.S. won a GATT dispute settlement case against EC processor subsidies as indirect trade barriers, but the EC is trying to use its "rebalancing" proposal to retain import protection in a more direct form.

Dairy

The EC has switched from being a net importer of dairy products to a net exporter. Today between 40 and 60 percent of all dairy exports come from the EC, with subsidies typically well over 100 percent of the international market price. In other words, the EC pays exporters an amount equal to the market value of the product to undersell more competitive foreign producers. Right now, the EC's price support for cheese is about $316 per cwt, about three times that of the United States. But this high price does not prevent them from exporting into the world market and even into the U.S. market, since any price difference is offset by the export subsidies.

No change in U.S. dairy protection would be acceptable unless these subsidies were substantially reduced. The reduction in import barriers in countries such as the EC, Canada, and other European markets, combined with reduced export subsidies, would raise market prices for dairy products.

Sugar

The EC sugar program has enabled the EC to become, next to Cuba, the world's largest sugar exporter, to the detriment of many developing countries that depend on sugar for essential foreign exchange. The EC exports as much sugar as the United States produces. U.S. sugar import restrictions were reintroduced in 1978, the year after the EC became a net sugar exporter.

The removal of a substantial portion of this over-production from the world market would raise world market prices. U.S. sugar quotas have already been converted to tariffs and would be subject, therefore, only to tariff reductions in line with reductions in import barriers in the EC and other importing countries.

Rice

Over half of U.S. rice is exported. A number of potentially good markets for U.S. rice are either closed or restricted. These include Japan, where rice imports are prohibited, Canada where tariffs are high and the EC where variable levies prevent price competition.

The Uruguay Round held out the best possibility for opening the Japanese rice market without resorting to bilateral dispute settlement. In addition, elimination of import restrictions in Canada and the EC alone could increase U.S. rice exports by more than $100 million annually, according to USDA.

Horticultural Products

In November of last year, fruits and vegetables became the United States' largest agricultural export sector, surpassing both grains and oilseeds. Even if this development is temporary, it does indicate the export growth potential of products in the sector.

Specialty commodities may have the most to gain from reduced trade barriers in other countries, both from the standpoint of more open markets for U.S. exports and expanded alternative markets around the world for foreign products that otherwise are shipped to the United States. Examples of products that would benefit from reduced trade barriers in various markets include: apples, pears, prunes, raisins, citrus, and nuts.

Eastern Europe

The developments in Eastern Europe lend urgency to the agricultural trade talks. Without meaningful a-cultural reform, these countries may have no alternative but to play the same game as the EC—and the world does not need any more misguided domestic and trade policies in the farm sector. The emerging democracies in Eastern and Central Europe should not enter a world of agricultural trade distortions propped up by a set of ineffective GATT rules.

FARM BUREAU'S VIEW OF A GOOD URUGUAY ROUND AGRICULTURAL AGREEMENT

Four basic principles have guided Farm Bureau's involvement in the Uruguay Round of trade negotiations. These same principles will guide our evaluation of a final GATT agreement. A good agreement would be one which:

1. Allows all nations to provide income support to their agricultural sectors as they see fit, as long as such support does not disadvantage farmers in other countries.
2. Eliminates or substantially reduces export subsidies as a means of disposing agricultural surpluses in the world market.
3. Offers new or expanded market opportunities for U.S. farm products in foreign markets.

4. Eliminates the use of fabricated sanitary standards to restrict trade unjustifiably.

The following is a brief review of each of these guidelines.

Domestic Support: This area of the trade talks may be the most controversial. Few farmers, whether they live in Europe, Japan or the United States, are particularly excited about the prospect of relinquishing even part of their support programs.

Farm Bureau believes a GATT agreement that would effectively and forcefully address the two other key areas of the negotiations—export subsidies and import barriers—would go a long way toward resolving the major problems in world agricultural trade. If export subsidies were abolished, countries that now use them to dispose of surplus production would be forced to curtail the internal support programs that cause the surplus. Likewise, permitting additional imports would require countries to adjust internal supports to make domestic commodities more competitive and to avoid building unmarketable government stocks.

Although we place relatively greater emphasis on export subsidies and import barriers in the trade negotiations, we recognize that domestic programs cannot be totally ignored. Internal supports have been known to be used to circumvent commitments made in the other two areas. For example, the EC has no direct import restrictions or export subsidies on soybeans. However, the EC supports soybean production at three times the world price, and pays processors the difference so they will buy Community, rather than imported, soybeans. The effect is the same as applying a tariff on imports at the border.

A good GATT outcome would be one in which subsidizing countries agree to utilize price and income support mechanisms that avoid stimulating over-production. As you know, most U.S. programs tie support payments to producer commitments on acreage set-asides and conservation plans. We have long felt that adoption by the EC and other countries of similar set-aside/deficiency payment systems would represent a major and lasting improvement in world farm markets. Apparently, the Commission of the EC now agrees; unfortunately, a number of EC member states still do not.

While many American farmers already have submitted to farm support reductions since 1986, commensurate sacrifices by other countries have been few. Credit must be given in the negotiations for adjustments undertaken by countries that already have brought about more market-orientation in the sector. We believe other countries have farther to go in this regard, and the Uruguay Round offers the opportunity to obtain such commitments on a multilateral and binding basis.

As we have said on many occasions, Farm Bureau will not support a GATT agreement unless the overall package is clearly beneficial to American agriculture. This may require adjustments in some areas, including internal supports, that some farmers will find troublesome. Most countries will be facing similar domestic concerns. Therefore, there will have to be mechanisms implemented to avoid unacceptable disruptions for farmers. Proposals to minimize disruptions have included: a lengthy phase-in period, increased reliance on direct income supports or conservation programs, and greater use of producer-financed (i.e. no-net cost) programs. Serious discussion of these concepts has not yet begun in Geneva, so there is no way to know which might be acceptable alternatives to current trade-distorting programs.

One additional point should be stressed. The EC until recently has refused to negotiate specific commitments on its import barriers and export subsidies. The EC's position has been to talk about an "aggregate approach" to the agricultural negotiations. Under this strategy, the focus would be almost exclusively on internal supports. Import and export practices—at least those of the EC—would be disciplined only as an indirect result of reductions in internal supports.

One reason for this strategy is that the EC really does not want its variable levies and export subsidies to be prevented from doing their job—avoiding price competition between domestic and foreign commodities. Another reason is that it wants U.S. deficiency payments on the negotiating table. As the main farm trade culprit (in the view of most other countries), the EC sees this as a means of deflecting some criticism to the United States and away from EC programs. It also has the beneficial side effect, from the EC's point of view, of increasing concerns about the negotiations within the U.S. farm community.

If the objective of the GATT talks were to eliminate farm supports, as some seem to believe, Farm Bureau would have withdrawn its support long ago. We simply want costs of farm supports to be borne by each country, not transferred to farmers in other countries though lost export sales, lower prices and higher program costs.

Export Subsidies: Our statement contains a number of examples of damage done to American trade interests by foreign export subsidies (above). We view export subsidies as the most distortive practice in world agricultural trade. Clearly, a good

Uruguay Round agreement would be one which eliminates the use of export subsidies in agriculture (as has already been done in industry). An agreement that only reduces export subsidies would not be acceptable if that implied any remaining export subsidies were legitimate or incontestable. In other words, countries must retain the right to file GATT objections to any subsidies that remain after the negotiations, and the total abolishment of export subsidies should continue to be our ultimate objective.

An agreement without meaningful disciplines on export subsidies would be of no value to American agriculture.

Market Access: A good Uruguay Round agreement would (1) establish clear GATT rules and disciplines on the use of variable import levies, and (2) lower or remove other forms of barriers to U.S. farm exports. As mandated by Congress (Section 1132 of the 1985 Food Security Act), the Department of Agriculture publishes an annual report on foreign barriers to U.S. farm products. This list is long and comprehensive. It will grow no shorter unless the Uruguay Round succeeds in establishing effective procedures to reduce import protection in this sector.

Many of the barriers identified by USDA are imposed on high-value products—the type of products on which the U.S. has placed special market promotion emphasis in recent years. Unfortunately, there is little point in promoting U.S. products, if they cannot enter a market because of government restrictions.

The EC's variable levy is one of the most purely protectionist measures in existence today. Its purpose is simple: to force up the price of imported products to at least the level of domestic products to prevent price competition. Levies can reach levels of 100 percent *ad valorem* or more. U.S. exports to the EC of commodities subject to variable levies have fallen dramatically since the introduction of that device over two decades ago. There is currently no explicit GATT rule on variable levies. A good agreement would be one which places an upper ceiling on the level of levies and ratchets them down over a transition period.

It is unlikely that other countries would agree to lower their import restrictions, if the U.S. refused to negotiate its own import barriers. Although over 90 percent of U.S. farm imports are currently subject only to tariffs, some U.S. farmers would face increased competition from imports after a successful trade round. We fully expect, therefore, that safeguards will be built into any agreement to enable reintroduction of temporary import controls, if imports increase too rapidly and begin to undermine a country's domestic market.

In addition, the lowering of trade barriers in other markets, and the substantial reduction in foreign export subsidies, would largely eliminate the problem of unfair or diverted products entering our market. Farm Bureau policy clearly states that we will not support an agreement that would replace Section 22 quotas, for example, with another form of import protection without equivalent commitments on equally important trade barriers and subsidies in foreign countries.

Sanitary and Phytosanitary Standards: A number of recent and unfortunate incidents have brought home to American farmers the growing problem of trade barriers taking the form of health and sanitary regulations. In each case, hard facts have taken a back seat to scare tactics, emotion and politics in raising consumer concerns about products imported from the United States. As traditional trade barriers are negotiated away, opponents of foreign competition are using questions about the safety of a foreign commodity as an effective substitute. Despite having one of the safest food supplies in the world, the United States has faced foreign government restrictions or consumer rejection of a number of products based on unfounded health claims (e.g. the EC's hormone ban and Korea's ludicrous claim that U.S. grapefruit may be contaminated with Alar).

A good Uruguay Round agreement in this area would be one that requires countries to implement health and trade regulations on the basis of sound science. Farm Bureau would not support an agreement that would result in a lowering of U.S. standards on imported products. And we do not believe this is the intent, or would be the outcome, of a GATT agreement. To the contrary, the thorough international reporting requirements, and the increased transparency in standards-making required in a GATT agreement, would no doubt result in improved food safety worldwide.

The dispute-settlement mechanism would allow countries to challenge standards, such as the EC's hormone ban, on the basis of all relevant scientific evidence and testimony. It would not force any country, including the United States, to abandon or weaken a standard that it legitimately believes is necessary to protect its consumers, its agricultural sector, or the environment.

Farm Bureau hopes this run-down of key issues clarifies our objectives in the negotiations. The world needs to continue to make advances toward freer and more

open trade or it will risk sinking into protectionism and trade wars. The biggest loser of all would be American agriculture.

In the final analysis, Farm Bureau's farmer and rancher members will judge whether our overall objectives have been sufficiently met. If fast track is not extended, however, any opportunity to achieve those objectives will be lost.

PREPARED STATEMENT OF MERLE MCCANN

Mr. Chairman, members of the Committee, I am Buck McCann, a soybean farmer from Carson, Virginia. I am President of the American Soybean Association (ASA). ASA is a national nonprofit organization representing U.S. soybean farmers with members in 29 states. ASA seeks to increase the opportunities for U.S. farmer profitability through its market development, research, government relations and trade policy programs.

We are pleased that you have invited our views on the General Agreement on Tariffs and Trade (GATT) Uruguay Round trade negotiations. ASA has been closely following these negotiations, which unfortunately ended in a deadlock last December. A successful agreement would expand overseas market opportunities for U.S. soybeans and ASA favors resuming the talks.

Soybeans and soybean products, chiefly meal and oil, are a major U.S. agriculture export. In recent years these products have accounted for around 15% of total U.S. farm exports by value. Nearly one half of U.S. soybeans are exported in one form or another to a host of destinations, although our main customers are the European Community (EC), Japan, Taiwan, Korea, the Soviet Union and Mexico.

Export markets are key to the prosperity of soybean farmers. Without these sales, the price of soybeans would drop and many producers would be forced to shift to other crops. There would clearly be a painful adjustment process in our agricultural community that would affect many crops.

The 1980's witnessed an unfortunate decline in the position of U.S. soybeans in world markets. At the same time, world trade in soybeans and soybean products grew over 20%. In 1979, we supplied 84% of the soybeans sold in international markets, 42% of the soybean meal, and 37% of the soybean oil. We were the number one world supplier of all three products. The picture is vastly different today. The United States is the third supplier of soybean meal, with 17% of world exports, behind Brazil (32%) and Argentina (22%). We are the fourth supplier of oil (15%), behind Argentina (30%), the EC (28%) and Brazil (17%).

The declining position of U.S. soybeans in world markets was brought about by a combination of factors. The 1985 Farm Bill set a loan rate that served as a floor for producers in Brazil and Argentina. Growers and processors in those countries have benefited from government subsidies and, in the case of Argentina, a differential export tax, still in effect, stimulates exports of soybean meal and oil.

The 1990 Farm Bill included several provisions which should help to alleviate these problems. First the marketing loan, with an effective support of $4.92 per bushel, will eliminate the guaranteed price that provided a floor for competitors. Second, the planting flexibility provisions will allow farmers to shift as much as 25% of their base acreage to soybeans and other crops, depending on market signals.

While the European Community has remained a key market for U.S. soybean farmers, its oilseed regime has eroded market opportunities. The EC provides sky-high deficiency payments to its farmers. For example, the EC support price for soybeans in the 1990 crop year was the equivalent of $13 per bushel, more than twice the average price of $5.79 per bushel received by U.S. farmers. The EC's oilseed system is complex. Deficiency payments, equal to the difference between a target price and an EC calculated world market price, are channeled through the processors. The amount they receive from the EC exceeds what they pass on to farmers. The result is that they can buy internal oilseeds below world market prices, discriminating against U.S. and other foreign suppliers.

In the decade from 1977-87, oilseed output in the EC-10 (not including Spain and Portugal) jumped ten fold, from one million metric tons to 10.5 million metric tons. Current production of the EC-12 is around 12 million metric tons, and is expected to expand considerably this year with the additional rapeseed output in the former East Germany. According to EC Agriculture Commissioner Mac Sharry, the 1991 EC oilseed program is expected to cost $5.5 billion. This is just over half the total CCC farm program costs projected by USDA for fiscal year 1992.

To reverse this negative trend, ASA initiated a Section 301 complaint against the EC's unfair oilseed regime in late 1987. Our case was referred to the GATT. Finally,

in December 1989, a GATT dispute settlement panel ruled the EC regime illegal. The panel determined that deficiency payments could no longer be made through oilseed processors and that the system must not nullify the EC's zero-bound tariff on soybeans, soybean meal and protein products. Top EC authorities agreed to comply with the panel recommendations in the 1991 crop year, which is now beginning.

On March 7 those same Community officials reneged on their promise, claiming that agriculture policy reform and the deadlock in the Uruguay Round are impediments to meeting their GATT commitments. ASA is urging the Administration to pursue diplomatic means to persuade the EC to undertake the required reforms. If the Community fails to respond positively, retaliation against EC exports to this country is the only alternative. Failure to retaliate would show a lack of resolve by the U.S. in this and other 301 cases, as well as undermine the United States negotiating stance in the GATT round.

American soybean farmers are efficient producers and studies by USDA and others conclude that they will benefit from a reduction or elimination of foreign trade restrictions and subsidies. However, U.S. soybean farmers cannot counter the massive government subsidies of the European Community or unfair trade practices, such as Argentina's differential export tax. It is for these reasons that ASA has been a strong supporter of U.S. efforts in the Uruguay Round.

The goal of the Uruguay Round for agriculture is substantial, progressive reductions in trade distorting support and protection. The EC's oilseed regime clearly distorts trade by subsidizing internal production and processing. On the other hand, we believe the U.S. soybean marketing loan, since it is set well below the long run equilibrium price of soybeans, should not have implications for U.S. GATT obligations. Achievement of the Uruguay Round aims would go a long way in eliminating unfair competition and open new and expanded markets to American soybean farmers.

On the eve of the December ministerial meeting, the gap between the U.S. and EC positions remained wide. As a close observer of the Round, ASA realized that the many differences would be hard to bridge. For example, the EC insisted on rebalancing, which would have imposed import duties on soybean, soybean meal and other protein products. Rebalancing is clearly inconsistent with the aims of the Uruguay Round and would render moot the GATT panel's decision against the EC oilseed regime. The EC, supported by Japan and Korea, remained unwilling to make significant changes in its protectionist agriculture trade policies and the negotiations ended in a deadlock.

The United States position has been that it would not agree to resume the talks without a commitment from all GATT countries to negotiate on the three key areas in agriculture: Internal supports, export subsidies and import barriers. ASA understands and supports this position. Commitments in all three areas are necessary, or concessions in one area could be undercut by offsetting changes in another area.

A few weeks ago the EC announced that it would negotiate reductions in each of the three key areas, opening the possibility of resuming the talks. When the Uruguay Round was launched in late 1986, negotiators believed that four years would be sufficient to conclude these complex negotiations. ASA believes that U.S. negotiators worked hard to meet that deadline. Unfortunately, other GATT members refused to make the compromises necessary to reach a mutually-acceptable agreement.

It would be short sighted to discard the progress that has been made during the four years, however. Our negotiators are ready to return to the table to conclude the talks as quickly as possible. Ambassador Hills recently told ASA representatives that congressional fast track authority is necessary for her staff to effectively carry out these complex multilateral negotiations. Given the potential benefits of a successful settlement for soybeans, ASA supports extension of the fast track authority.

ASA believes that an acceptable settlement on agriculture is still be attainable, although the negotiations will be tough. Recent European consideration of fundamental reform of their Common Agriculture Policy is a hopeful sign. What the EC will do and when remains to be seen, but the talks may serve to hasten the process.

A satisfactory GATT agreement for U.S. soybean farmers must result in substantial cuts in trade distorting support and protection in the three areas: Export subsidies, border measures and internal supports. The disciplines required of the United States must be equally applicable to all GATT signatory countries and must be enforceable. There should also be adequate safeguard measures to protect producers from import surges due to short term market disruptions.

In a November 2 letter to former Secretary Yeutter, ASA joined other U.S. farm groups in saying that no GATT agreement is better than a bad one. That position has not changed. ASA supports our negotiators' efforts to conclude the talks soon,

but our position on a final GATT agreement will depend on whether it meets the overall interests of U.S. soybean producers.

In conclusion, ASA believes that a GATT agreement holds promise for American soybean farmers, depending of course on its details. Inclusion of rebalancing is totally unacceptable, however, and would force ASA to oppose any GATT agreement in the strongest possible terms. Last, it is imperative that EC officials keep their personal commitment to Ambassador Hills to implement the results of the GATT panel report for the 1991 crop. Failure to do so would demonstrate a lack of EC commitment to the GATT and, we believe, undermine the entire Uruguay Round negotiating process.

Prepared Statement of Frank Popoff

I. INTRODUCTION

The Chemical Manufacturers Association (CMA) welcomes this opportunity to discuss issues arising in the Uruguay Round of Multilateral Trade Negotiations being conducted under the auspices of the General Agreement on Tariffs and Trade (GATT). The Finance Committee's focus on the Round is particularly important in light of the renewed opportunity to complete the negotiations, and the debate over extension of the President 's "fast-track" trade negotiating authority.

CMA is a non-profit trade association whose member companies represent 90 percent of the productive capacity for basic industrial chemicals in the United States. The chemical industry has been a strong supporter of the Uruguay Round. The chance of a new multilateral agreement holds great promise for removing the tariff and non-tariff barriers which hamper international trade. In 1990, the U.S. chemical industry returned a $17 billion trade surplus, built on a strong export component.

Despite the chemical industry's excellent export record, there is cause for concern. Our traditional strength in exports is threatened by foreign tariff and non-tariff barriers, and to some extent by contradictory domestic policies. The industry's interest in fostering a successful conclusion to the Round, and securing fair access to the world market, prompts our appearance before the Committee today.

The "crisis" in the Uruguay Round is not simply a question of fostering global adherence to GATT disciplines. Many of the critical negotiating issues confronting the GATT negotiators are not traditional North-South matters, but are North-North issues. Faced with the prospect that developed countries are finding it difficult to agree amongst themselves, it is perhaps not surprising that developing countries have taken a cautious approach to the Uruguay Round talks.

The current debate over the extension of the President's fast track" authority points to an even more fundamental question: the importance of a comprehensive trade policy to U.S. interests. CMA suggests that the "free-rider" problems arising out of the Uruguay Round can be addressed not only in the context of the negotiations themselves, but also through elements of U.S. trade policy. In CMA's view, extension of the fast-track will promote broader participation in the Round, and will ultimately lead to a successful conclusion of the negotiations. Other aspects of U.S. trade policy beyond extension of the fast-track may also merit the Committee's attention as the Round continues.

II. URUGUAY ROUND OBJECTIVES

CMA has in the past testified on what the chemical industry believes to be the areas of principle concern in the Uruguay Round. The passage of four and one half years of negotiations has given us no reason to change the goals that we had for the Uruguay Round in 1986. The GATT was on the verge of a breakthrough in Brussels at the end of 1990 and the progress achieved tip to that point should not be abandoned.

CMA has believed from the beginning that the emphasis of the Uruguay Round should be on efforts to eliminate existing trade barriers and improve existing codes. To merely further reduce tariffs will not accomplish this goal. The trade barriers which concern CMA include denial of open and fair market access, ineffective protection of intellectual property rights and trade distorting investment practices. In addition, CMA has taken positions on issues covered by negotiations on dispute settlement, functioning of the GATT system, infant industries, natural-resource based products, preshipment inspection, safeguards and subsidies and countervailing measures.

During the course of the negotiations, CMA has worked with other chemical industry groups in Canada, Japan and Europe to create common positions on all the issues mentioned above. Members of the Committee and the Office of the US. Trade Representative are well aware of our avid pursuit of these issues here in Washington, Geneva and numerous other centers of government around the world.

CMA would like to elaborate on its principle objectives in the Uruguay Round, namely, market access (removal or reduction of numerous tariff and non-tariff measures coupled with the linkage of the two), greater GATT disciplines in the protection of intellectual property rights and improved ability to address trade related investment issues.

Although CMA believes that tariff negotiations should not be the primary objective for the Uruguay Round, tariff reductions could be accepted in exchange for improved access for chemical products in world-wide markets. The tariff negotiations should seek to reduce peak tariffs, harmonize and remove tariffs where practicable, and bind tariffs by a maximum number of Contracting Parties, over the broadest possible range of sectors.

In non-tariff measures, the chemical industry seeks removal of barriers, such as import quotas, and restrictive licensing programs aimed at chemicals.

In the area of intellectual property rights, a TRIPs agreement should protect product and process patents, and trade secrets. CMA further believes that abuses of compulsory licensing and working requirements are issues in need of discipline.

It is important to note the significant progress made in TRIPs to date. Despite their earlier reluctance to accept new disciplines in intellectual property, developing countries now seem willing to agree to TRIPs disciplines in exchange for improved rules in agriculture and textiles. All parties have recognized the need for developing countries to have adequate time to establish the necessary national laws and procedures to govern TRIPs. In those limited instances when it is necessary to impose compulsory licenses, intellectual property owners should be guaranteed adequate compensation. Provisions have also been established to enforce on a non-discriminatory basis all forms of intellectual property protection, both within countries and at their borders.

CMA also supports the negotiations on trade related investment measures (TRIMs) which addresses and limits the trade restrictive and distorting effects of such practices. We believe that present day TRIMs violate Articles III and XI of the GATT, but we are not convinced that the normal GATT dispute settlement procedures provide a practical solution to these problems.

III. ENCOURAGING URUGUAY ROUND PARTICIPATION

Despite progress in the negotiations, the problem of encouraging broader participation in the Uruguay Round remains. Generally speaking, developing countries have participated in the Round, particularly in agreeing to negotiate issues (such as TRIPs, TRIMs, and pre-shipment inspection) that they were initially reluctant to address. However, several disincentives may have the cumulative result of discouraging developing country involvement.

The overriding *incentive* for widespread Uruguay Round involvement remains the lure of enhanced economic and development opportunities. International trade is a significant development catalyst. Progress in certain developing areas has not been as rapid as we might have hoped, but there is no denying that international trade fosters development opportunities.

The primary disincentive to more active participation in the Round appears to be that progress on the package as a whole is linked to progress on the very issues most important to the developing world. Many developing economies are largely based on agriculture, textile and raw material production. These areas no longer reflect the largely North-South considerations they did in previous GATT negotiations.

The focus in the GATT has shifted somewhat, and many of the matters now being negotiated reflect North-North disputes. Few would disagree, for example, that the agriculture negotiations depend almost entirely upon the ability of developed nations to resolve their differences. The possibility that the developed countries might achieve a basic consensus in agriculture, and then force unrealistic compromises on the lesser-developed countries, is understandably daunting. In short, some countries may believe that they have more to lose than gain from participation in the Round.

The perception that the Round has failed to consider some crucial issues also serves as a disincentive to developing country participation. For example, the discussion on services trade has two distinct aspects. On the one hand, developed countries have focused on capital-intensive elements, particularly on the right of estab-

lishment. Developing country interest continues on access for labor-intensive services, such as construction.

The apparent disconnect between developed and developing country interests is also evident in the draft Final Act prepared for the Brussels Ministerial meeting, held in December, 1990. The draft would have allowed developing countries longer implementation periods, exemptions from certain commitments, increased technical cooperation, and a grace period for adherence to the negotiated agreements. Some developing countries, however, believe the provisions were an inadequate response. Again in the services area, the draft agreement contained no commitment by developed countries to provide preferential access to their services markets for developing countries. The stalemate in the agriculture negotiations has no doubt had an effect on the tariff negotiations, where agricultural, natural resources, and tropical products dominate the developing country agenda.

Another possible disincentive to developing country participation in the Round is the most-favored nation (MFN) principle. Although MFN is a powerful weapon, it also provides a useful shield to those countries who would sit back and reap the benefits of an international agreement with few, if any, concessions. The extent that MFN actually encourages countries to sit out the Round may be enhanced by rapid expansion in world trade, which has sometimes come at the expense of more fragile developing economies caught in the bind of trading raw materials to a slowing market for manufactured goods at rising prices.

Taken as a whole, these factors may undermine the ability to reach an agreement in the Uruguay Round. How then can the United States encourage participation, and assure that the "free-rider" problem in the GATT is minimized? In CMA's view, the United States Trade Representative has properly pursued a negotiating strategy that will help developing countries realize the benefit of mutual concessions on trade in goods and in the so-called "new areas" (i.e., TRIPs, TRIMs). CMA has continually focused on the need to link progress in tariffs (the one area in which the chemical industry still has something to "give") with the negotiations in other areas.

Assuming that a breakthrough in the agriculture negotiations is forthcoming, developing countries may be pursuaded that the Round can still take account of their development needs. Certainly, we can expect that additional calls for consideration of development issues, particularly flexibility in implementation, will be made before the end of the Uruguay Round. The challenge for the United States is similar to that facing the developing countries—how to maintain balance in the Uruguay Round negotiations.

There is one additional factor which affects the GATT negotiations, which Congress is uniquely positioned to address. Coming to grips with our own domestic trade policy, and the impact of U.S. policy on international trade, could very well provide a significant incentive to complete the Round.

IV. U.S. TRADE POLICY CONSIDERATIONS

There can be little doubt about the impact of U.S. trade policy on the GATT negotiations. With extension of the President's fast-track negotiating authority pending, the talks have ground to a halt. Other aspects of U.S. trade policy, such as growth in bilateral trade agreements, may create fears that the United States is willing to forego the benefits of multilateral trade disciplines.

Extension of the fast-track is a CMA priority, and we urge the Congress to act favorably on the President's request. Fast-track has been an important factor in promoting multilateral trade, particularly for those countries reluctant to negotiate trade agreements once with the Executive branch, and again with the Congress. Implicit in the fast-track negotiating mandate is recognition that international agreement requires concessions in some areas, balanced by progress in others.

The current fast-track debate is centered on the President's ability to pursue a bilateral free trade agreement (FTA) with Mexico. The potential effect of a U.S.-Mexican FTA has overshadowed the need for fast-track authority necessary to complete the Uruguay Round.

CMA supports negotiation of a U.S.-Mexico FTA. The benefits of a FTA will multiply in the long-run, particularly if Mexico is encouraged to continue its movement toward becoming a fully market-oriented economy. In CMA's view, there is clearly room for parallel initiatives, other than a free trade agreement, in which other policy interests in our relationship with Mexico can be pursued.

Bilateral trade agreements are certainly important to the U.S. chemical industry. Canada and Mexico are the industry's second and third largest markets, respectively. Holding progress on a multilateral GATT agreement hostage to bilateral trade considerations presents a serious risk, however. Important growth markets for the

U.S. chemical industry lie outside Canada and Mexico. The consequence of failing to extend the fast-track, and virtually dooming the prospect of a GATT agreement, could well create an increase in the trade barriers intended to be addressed in the Round.

The impact of other aspects of U.S. trade policy on the Uruguay Round also merits consideration. These policy elements are somewhat outside the scope of the Committee's current inquiry, but may nevertheless have an impact on the willingness of other countries to participate in the Uruguay Round. These policies include trade remedy laws, export incentives and disincentives, and managed trade solutions, such as voluntary restraint agreements. In particular, U.S. pursuit of bilateral trade options may have created the impression that we place little value in multilateral trade disciplines.

In short, there is no simple answer to addressing the range of issues raised in the Uruguay Round. The participation of other countries in the Round is dependent upon a host of factors, not the least of which is U.S. trade policy. We urge the Committee to continue its efforts to develop a comprehensive U.S. trade policy.

V. CONCLUSION

CMA welcomes the Committee's inquiry into issues arising from the ongoing Uruguay Round of Multilateral Trade Negotiations. There is no doubt that despite the incentive for economic development inherent in multilateral trade agreements, some countries may still remain outside the process. Assuring the broadest possible participation in the results of the Round will help assure that the benefits of free and fair trade inure to the U.S. chemical industry.

There are several disincentives to broad participation built into the Uruguay Round process. At the same time, U.S. trade policy (particularly the extension of the President's fast-track negotiating authority) has an impact on the willingness of other countries to seek a multilateral agreement. CMA urges Congress to extend the fast-track, and continue its efforts toward a comprehensive domestic trade policy.

PREPARED STATEMENT OF ERNEST H. PREEG

Mr. Chairman, I am pleased to appear before this committee to testify on the subject of the Uruguay Round and increased market access for U.S. exporters.

A successful Uruguay Round that strengthens the GATT multilateral trading system is a high priority U.S. interest, but only if it accomplishes broad commitments from others to open and secure market access for U.S. exporters. There are a number of aspects to this issue and I will limit my remarks to one particular problem area, namely the ability of developing countries to be "free riders" within the GATT system of mutual commitments and obligations.

So-called special and differential treatment, or S&D, for developing countries is deeply embedded in the GATT system dating back to 1965. Developing countries have not been required to provide reciprocal market access during periodic Rounds of negotiation, and can impose new trade barriers at any time for vaguely defined reasons of economic development. S&D was expanded in concept at the end of the Tokyo Round in 1979 and was incorporated by reference into the Punta del Este Declaration that launched the Uruguay Round in 1986.

This asymmetry in GATT obligations has grown into a major problem for the United States during the 1980s because the newly industrialized countries in Asia and Latin America have become highly competitive exporters as well as rapidly growing home markets for U.S. exports. These newly industrialized are unwarranted free riders in a trading system based on reciprocal access to markets, and the dichotomy in commitments tends to undermine the credibility of the GATT system as a whole.

The problem was recognized by the executive branch early on in the Uruguay Round. The definitive statement by acting Secretary of the Treasury M. Peter McPherson on September 14, 1988, warned that, "The cumulation of special exemptions and arrangements for developing countries through GATT's history has effectively removed LDCs from obligations under GATT's first principles—nondiscrimination, transparency, and reciprocity. Developing countries are members of GATT, but, for many, their membership is without substance." The Uruguay Round, from the U.S. point of view, was intended to change this unsatisfactory relationship.

The question now is whether the Administration is in fact giving sufficient priority to obtaining fuller GATT commitments by developing countries as part of a final Uruguay Round package. Central preoccupation with the European agricultural policy and with framework agreements of general principles for trade in services

and protection of intellectual property have tended to distract attention from hard and fast commitments by developing countries on access to their markets. S&D is alive and well.

At this point, we need a more clearly articulated and specified strategy for developing country participation in the GATT system. The strategy should be based on two concepts:

First, it is in the self-interest of developing countries to reduce their import barriers and to bind the lower levels of protection in the GATT against future increase. Successful economic development in Asia and Latin America in recent years has been based on a strategy of open trade and vigorous private sector competition. Twenty or even ten years ago, developing countries espoused a protectionist, "import-substitution" strategy at odds with the GATT. Today, by near consensus, the GATT approach is supportive, indeed fundamental, to successful development.

Second, the U.S. policy response for dealing with the free rider GATT problem should be comprehensive. Policy debate in terms of "either-or" questions—either the GATT or regional free trade or bilateral negotiations of one sort or another—is futile and misleading. There is no one simple answer to the exclusion of others. The reality of trade policy in the 1990s is that we are proceeding on three tracks—the multilateral GATT system, regional free trade initiatives and bilateral negotiating objectives that don't fit the gauge of the other two tracks. The policy challenge is how best to manage all three tracks in a mutually reinforcing way. This is especially the case with respect to enhanced market access in developing countries.

In this context, I would like to elaborate specific objectives in four areas: (1) The Uruguay Round, in greatest detail; (2) The GATT graduation issue; (3) Regional free trade in the Americas; and (4) Bilateral negotiating priorities.

1. THE URUGUAY ROUND

There are a number of specific Uruguay Round objectives that, if achieved, would greatly improve U.S. exports to developing country markets. Most important:

(a) Tariff Reductions Bound in the GATT. Many developing countries have very high tariffs. Substantial reductions, bound in the GATT against future increase, would help expand U.S. exports to their markets just as tariff reductions by industrialized countries generated trade expansion in the 1950s and 1960s. Some developing countries—such as Mexico, Venezuela, and the Philippines—have greatly lowered or are in the process of lowering their tariffs in the context of structural adjustment programs, but these lower rates are not bound in the GATT. GATT bindings at the lower rates should also be a U.S. objective in the Uruguay Round, particularly for industry sectors of prime U.S. export interest.

(b) The Balance-of-Payments Loophole. The most egregious anachronism of GATT S&D for developing countries are the provisions of Article XVIII that permit developing countries to apply selective import restrictions for reasons of balance-of-payments. Until last year, even South Korea used this pretext despite a large trade surplus. Import restrictions should only be considered when the balance-of-payments is in a crisis situation and in the context of an IMF supported financial stabilization program; even then restrictions should only be warranted on a comprehensive and not on a selective basis. The United States and other industrialized countries have been pressing for revisions along these lines in the 1979 GATT framework agreement on balance-of-payments related trade measures. Developing countries have resisted vigorously since this is their great loophole from GATT market access commitments, but we need to hold firm.

(c) A Comprehensive Safeguards Agreement. This is a Uruguay Round objective to bring wideranging bilateral quotas, currently outside the GATT, within specified GATT disciplines and procedures. It is a high priority developing country objective in the Round, and of central importance to the overall viability of the GATT system. The United States should insist that the provisions of a new safeguards agreement apply equally to developing countries. There is no justification for S&D exemption from criteria and procedures being negotiated in this area.

(d) A Textile Sector Accord. The gradual phaseout of the multi-fiber arrangement (MFA) for textiles and apparel is one of the most difficult commitments for the United States in the Uruguay Round, but it is necessary for a successful conclusion of the Round. At the same time, a textile agreement should include fully reciprocal commitments by developing countries, who are the most competitive exporters. Developing countries should also phase out their import quotas, and lower and bind their tariffs within GATT. This would be done in conjunction with the balance-of-payments and safeguards agreements described above.

(e) Trade in Services and Protection of Intellectual Property. U.S. objectives in these so-called new areas are well known, and I would only emphasize that frame-

work agreements of general principles and objectives are not enough. Increased market access for service industry and adequate standards for intellectual property protection are essential for trade expansion. At this point in the Uruguay Round there is a risk that only framework agreements will be achieved in the Round, leaving market access and standards for later. We should insist on firm commitments for the latter as well in the Round.

2. THE GATT GRADUATION ISSUE

There are no criteria in the GATT for defining a developing country, or for deciding when a country should "graduate" from developing to industrial country status. The graduation issue is not on the Uruguay agenda, and should not be. However, at this stage at least two countries—South Korea and Singapore—are industrialized countries by any reasonable standard, including comparison with the lower tier of OECD countries. The United States and other industrialized countries should consult with these two, and perhaps others, and urge them to declare themselves industrialized countries within the GATT. Transition measures in some sectors should not be a problem. An invitation to full membership in the OECD would be an appropriate graduation present. In any event, it should be politically attractive for such countries to become fully acknowledged members of the industrialized country grouping. The fact that even a couple of developing countries graduate to industrialized status would have a strong positive effect on the credibility of the GATT in terms of progressively more balanced commitments by all export competitive members.

3. REGIONAL FREE TRADE IN THE AMERICAS

The Enterprise for the Americas initiative, and a free trade agreement with Mexico in particular, is being examined extensively elsewhere, but there is a GATT connection relevant to this hearing. I believe a free trade agreement with Mexico would have a profoundly positive effect on the GATT system. It would constitute de facto graduation to reciprocal free trade between a major newly industrialized country and the largest industrialized power, covering over 70 percent of Mexican trade. The fact that President Salinas is boldly pursuing a free trade agreement as of critical benefit to Mexican development counters traditional developing country rhetoric in the GATT that trade liberalization by developing countries should be slow, piecemeal, and subject to reversal. There would likely be some special provisions in a U.S.-Mexico agreement related to Mexican development, but they should be greatly circumscribed compared with existing GATT free rider standards for developing countries.

4. BILATERAL NEGOTIATING PRIORITIES

The United States has been criticized, for the most part unfairly, for pursuing bilateral solutions to trade problems, such as within the provisions of Section 301 of the 1988 Trade Act. We have done this predominantly in areas of policy not covered by multilateral commitments—such as for intellectual property protection, service industry, trade-related investment issues, government procurement, and competition policy. How broadly we need to pursue the bilateral track in the future will depend, to a large extent, on what is accomplished in the Uruguay Round, and this is particularly the case for developing countries. They can't have it both ways. Either they need to undertake firm commitments on market access and dispute settlement within the multilateral GATT system or they will have to face these issues outside the GATT on a bilateral basis. The United States should carefully assess future priorities for bilateral negotiating objectives on this basis, utilizing the multilateral system to the extent it is reasonably responsive. If the objectives outlined above for the Uruguay Round are achieved, I believe there would be a greatly reduced need for bilateral initiatives on our part.

In conclusion, the comprehensive strategy outlined here, based on mutually reinforcing objectives at the multilateral, regional free trade, and bilateral levels, could substantially broaden access for U.S. exports in developing countries. The multilateral GATT framework is central and critical to the success of this strategy, but the existing practices of S&D treatment are increasingly unsatisfactory as the more advanced developing countries become highly competitive trading partners. The Uruguay Round is the opportunity at hand to rectify this situation. Without extension of the fast track authority, however, the Uruguay Round would abruptly end in total failure. I therefore support extension of the President's fast track authority.

PREPARED STATEMENT OF CLYDE V. PRESTOWITZ, JR.

I. SUMMARY

Before Congress agrees to renew the "fast track" procedures for the Uruguay Round of GATT multilateral trade negotiations, it must assess the progress to date and the prospects for final agreement. Congress must ensure that the agreement brings clear benefits to the United States by boosting economic output and reducing the trade deficit. And, equally important, Congress must ensure that the U.S. manufacturing sector is materially enhanced and not disadvantaged by changes in U.S. trade laws.

The agreement as it stands now is disadvantageous to the United States. The renewal of "fast track" may be the last chance for Congress to make a deal and set some criteria for the negotiations before the administration presents Congress with the final agreement. In exchange for a "fast track" extension, Congress should extract certain specific concessions and promises from the administration to improve the position of the United States.

II. POSSIBLE NEGATIVE EFFECTS

The Round as it now stands would cause a deterioration in the U.S. trade balance of at least $14 billion per year. Moreover, gains from the administration's top priority sectors in the Round—agriculture and services—will be marginal at best.[1] The United States needs to offset this potential deficit with substantial gains in other areas, such as market access.

The figures used by the administration to describe the likely benefits of an agreement are far too rosy. The administration is predicting that a Uruguay Round agreement would increase U.S. domestic output by $125 billion in the first year after its signing alone. But such an increase in GDP would require the impossible: as much as $500 billion in increased investment (a doubling of current investment levels). Indeed, the very academic study cited by the administration clearly indicates that the most likely Uruguay Round scenario could result in an increase in U.S. GDP of $18 billion, not $125 billion.

The administration also claims that a Uruguay Round agreement bringing the developing world into the global trading system could increase U.S. exports by $200 billion by the year 2000. ESI considers this level of sales possible only with final resolution of the persistent debt crisis and the end of inflation in most developing countries.

Lastly, USTR predicts that U.S. companies will reap a $60 billion gain from the tighter enforcement of intellectual property rights expected to be approved at the negotiations. But if Section 337, the statute currently governing foreign infringement of intellectual property rights, is dropped in accord with GATT regulations. Cutbacks USTR says will occur and if there is no comparable substitute clause replaced without an adequate substitute, U.S. industry will almost certainly suffer substantial losses. To date, no adequate substitute has been proposed; Congress should demand that USTR provide a concrete explanation of its proposals to replace Section 337.

Troubling, also is the fact that the administration overlooks several other components of a Uruguay Round agreement that could further widen the U.S. trade deficit. For example, if as currently seems possible U.S. trade laws that deter predatory trade activity—particularly those covering dumping and subsidies, are altered along the lines requested by our trade partners, the results could be dramatic: increased targeting by foreign governments' industrial policies and dumping activity by foreign companies that reduces the domestic market shares of many U.S. firms. This would translate into lost export opportunities and increased unfair trade activity at the expense of U.S. manufacturers.

Various countries have proposed several changes in antidumping and countervailing duty procedures. These proposals include a "public interest" test for dumping laws, an automatic "sunset" clause for dumping orders, changes in the calculation of the constructed value when determining the fair market price of a product, the use of life-cycle pricing and the averaging of sales prices of dumped imports to de-

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[1] The Department of Agriculture estimates that with complete elimination of world agriculture trade barriers, U.S. exports would only increase by $3 billion. Consequently, a one-third reduction in barriers would yield only $1 billion improvement in the U.S. trade balance. For services, the administration has no estimates. ESI estimated that if, as a result of the agreement, U. S. services exports increased by 10 percent a year, the U.S. trade balance would improve by only $2.7 billion.

termine when dumping has occurred, increasing the *de minimis* level of injury that the plaintiffs must show, requiring a "majority" of the domestic industry to support a petition (current law requires a "major" portion of the industry to support a petition), and raising the initiation standards.

Thus the U.S. trade deficit could rise by an additional $20 billion in the first year after the agreement is signed. If this figure is added to the additional $14 billion deficit that the agreement is virtually certain to yield, the total annual increase in the deficit would hit $34 billion—a rise of more than 33 percent. The attached charts tell the story well.

III. IMPROVING THE ROUND

Although Congress cannot, practically speaking, conduct its own negotiations with U.S. trade partners, it can establish conditions for the U.S. negotiating team. In exchange for granting an extension of fast track, Congress should extract certain specific concessions and promises from the administration. These should include commitments to:

(1) **Ensure that any agreement opens foreign markets—especially in developed countries and major newly industrialized countries—to U.S. goods as much as the U.S. market is open to foreign goods.** This must translate into real opportunities to improve the U.S. trade balance. Congress should make clear that any agreement that seems likely to increase the trade deficit will be rejected.

(2) **Allow no disadvantageous change in the effectiveness of U.S. trade laws,** a major interest of U.S. manufacturers, still the largest group of U.S. exporters. This would include resisting efforts to weaken U.S. trade laws, including Section 301, which offer some relief from foreign predatory trade practices. Further, any international dispute settlement mechanism should not prevent the United States from defending its interests unilaterally where necessary.

(3) **Ensure that changes in Section 337 do not significantly increase the vulnerability of U.S. industry to IPR-infringing imports.** The United States must maintain a capability equivalent to the current Section 337, (which prohibits the sale of imports that infringe on intellectual property rights of domestic producers) since effective worldwide enforcement of this code is unlikely, and the United States could continue to lose billions of dollars each year because of foreign piracy of intellectual property. U.S. negotiators should be required to push for effective enforcement of any international agreement, through an international tribunal dedicated to enforcing intellectual property rights. At the same time Congress should insist that USTR submit legislation for an equivalent substitute for section 337.

(4) **Demand reciprocity in the service sector.** Granting national treatment on an MFN basis is not in U.S. interests, as the position on telecommunications indicates. The United States must obtain the *de facto* ability to participate in other markets comparable to what foreigners obtain here.

(5) **Sign no agreement that does not end targeted industrial subsidies.** The European Airbus Program, the Japanese push in aerospace, supercomputers, and robotics, and the Korean efforts to build an aerospace industry are all fueled by direct subsidies and tax breaks. To achieve an acceptable Uruguay Round result, these must be outlawed.

(6) **Industrial targeting must be halted.** Many nations in Europe and Asia have active programs directed or coordinated by government aimed at developing particular economic structures. Wherever such programs exist the conditions for free trade are impossible to maintain. Thus U.S. agreement to a Uruguay Round deal must be contingent upon an end to such active industrial policy programs.

(7) **Do not entend MFA liberalization to non-market economies or to countries maintaining substantial protection of domestic markets.** As things now stand China will be the prime beneficiary of any MFA liberalization. It should not be. In the same manner, many countries that want to export textiles protect their domestic markets for fabrics and a wide range of other goods. They should not be rewarded for such practices.

(8) **Propose continuing talks on structural assymetries and an International Trade Organization.** The GATT currently does not address problems such as Japan's distribution system and France's state-owned companies. Yet these are more important influences on trade deficits than tariffs and quotas. To achieve truly integrated world markets they must be addressed.

Obtaining these commitments from the administration would help reassert Congressional prerogatives in establishing guidelines for trade policy and, more important, help ensure that the administration's top priority at the bargaining table is securing concrete gains for the U.S. economy.

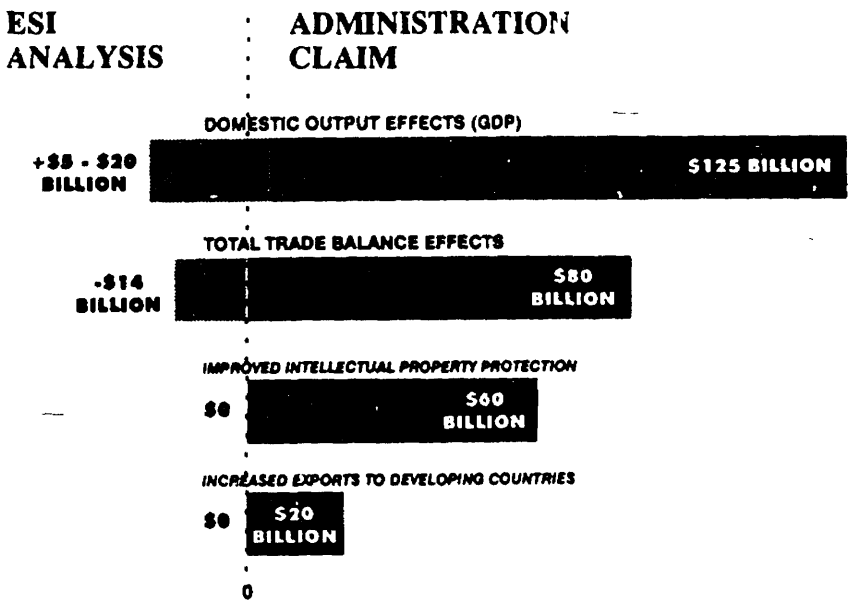
ANNUAL EFFECTS OF A URUGUAY ROUND AGREEMENT

[All numbers in billions]

	Administration figures			ESI Analysis
	Claim	w/ exclusions	Adjusted	
GDP Effects (change in domestic output)				
Reduction in Tariffs and Non-Tariff Measures	$125	$125	$18	+$5 to −$20
Trade Balance Effects (exports less imports)				
Reduction in Tariffs and Non-Tariff Measures				
All sectors	n/a	−$18	−$3	−$14
Agriculture	n/a	$3	$1	$1
Services	n/a	n/a	$2.7	$2.7
Manufacturing (implied)	n/a	−$21	−$6.7	−$17.7
Improved Protection of Intellectual Property Rights	$60	$60	$14	$0
Increased LDC Imports of U.S. Goods/Services	$20	$20	$0	$0
TRADE BALANCE TOTAL	$80	$59	$11	−$14

Administration Claim: Includes estimates presented by the administration in a New York Times op-ed piece, September 19, 1990.
Administration w/exclusions: Includes Administration Claim, plus trade balance effects of GDP scenario cited by administration, plus USDA agriculture estimate
Administration Adjusted: Includes previous categories GDP effects converted to most likely Uruguay Round scenario as cited in Australian study. Revised intellectual property and LDC export estimates
ESI Analysis: A more likely scenario.

ANNUAL EFFECTS OF A URUGUAY ROUND AGREEMENT



	ESI ANALYSIS	ADMINISTRATION CLAIM
DOMESTIC OUTPUT EFFECTS (GDP)	+$5 -$20 BILLION	$125 BILLION
TOTAL TRADE BALANCE EFFECTS	-$14 BILLION	$80 BILLION
IMPROVED INTELLECTUAL PROPERTY PROTECTION	*$0*	*$60 BILLION*
INCREASED EXPORTS TO DEVELOPING COUNTRIES	*$0*	*$20 BILLION*
TRADE BALANCE EFFECTS OF URAGUAY ROUND REDUCTIONS	-$14 BILLION	$80 BILLION

PREPARED STATEMENT OF JAMES D. ROBINSON III

Mr. Chairman and Members of the Committee: I'm pleased to be testifying today on behalf of the Advisory Committee for Trade Policy and Negotiations (ACTPN), which I chair.

I applaud the Committee's decision to hold two days of hearings on the GATT Uruguay Round negotiations. In accordance with the Committee's wishes, the majority of my remarks will focus on the Uruguay Round. However, since the recent ACTPN report on fast track also addressed the desirability of a North American free trade area. I intend to make a few remarks regarding that important negotiation as well.

As most of you know, the ACTPN has about 45 members: business leaders from a variety of sectors, agricultural representatives, and labor leaders. Since the Committee was first established by the Congress in 1974, it has provided private sector guidance to the U.S. Government on the development of trade policy and the conduct of trade negotiations. The nature of this guidance ranges from the general—such as supporting strong U.S. trade laws—to the very specific, such as developing detailed language on intellectual property protection. We've been providing advice on the GATT Uruguay Round for well over six years now, and will perform a similar service for the North American free trade discussions, as we did with the U.S.-Canada FTA, once the negotiations are under way.

My remarks today will draw heavily on the ACTPN report of March 1, which, as mandated in the 1988 Trade Bill, detailed our reasons for supporting an extension of fast track. It also offered our assessment of progress achieved in the GATT negotiations, and expressed support for continuing the Round and opening free trade talks with Mexico and Canada.

I will focus on the substance of the report in a few minutes. But first, I would like to tell you why the Uruguay Round is so important to American business.

ARE THE GATT NEGOTIATIONS WORTH PURSUING?

Rather than rely solely on abstract arguments, I'd like to get down to the bottom line: What does international trade do for you and your constituents? The numbers tell an impressive story. Let me take a couple of states as examples: the great state of Texas and my own state of New York.

Of all 50 states, *Texas* is this country's second largest exporter. Over the past three years, exports have shot up 63 percent—far outstripping the state's economic growth—and totalled $41 billion last year. Farm exports grew more than 72 percent over the same period. All that export growth translates directly into jobs. In 1986, the latest year for which such figures are available, exports generated almost 14 percent of manufacturing employment in Texas: 123,000 jobs. Given the sharp export growth since then, the figure is bound to be much bigger now. Not only that, but half of Texas' merchandise exports are in areas which tend to generate the highest skilled, most desirable jobs—sectors such as chemical products, machinery, and electronic equipment.

Clearly, Texas has a lot to gain from a successful Uruguay Round. As the nation's fifth largest agricultural exporting state, it will be an enormous boon to Texas if the GATT negotiations can achieve significant reform in world agricultural subsidies. A GATT intellectual property agreement would protect and promote the competitiveness of important industries like chemicals and computers, which currently suffer huge losses due to the lack of adequate intellectual property rights protection in foreign countries. Both manufactured and agricultural exports will reap benefits from a negotiated reduction in foreign tariffs and nontariff barriers. And the list goes on.

My own state of *New York* is the third largest exporter, and the story is very similar. Exports from New York have climbed 48 percent since 1987, reaching $29 billion last year. As in the United States generally, recent economic growth has been largely fueled by exports. And those exports are generating jobs—161,000 of them (or 13 percent of manufacturing employment) in 1986. Since that time, export-related employment has been growing faster than employment overall. Many of those jobs are high-skilled jobs, since over half of New York's manufactured exports are in sectors such as high tech, machinery, and transportation equipment. The state also enjoys strong trade in services. Even farm exports support thousands of jobs and farms in New York State; those exports have risen more than 30% since 1987.

In short, New York stands to benefit enormously from GATT agreements in a wide range of areas—tariff and nontariff barriers, intellectual property rights, investment, and agriculture. to name just a few. While there are no systematic data on services trade by state, it is estimated that New York and California together account for over half of all U.S. services exports—more than the exports of all other

states combined. So clearly the GATT services negotiations are yet another priority agenda item for New York.

I could cite similar statistics for other states, but I think I've made my point: International trade plays an important and rapidly growing role in the economy of this country. That gives all of us a vested interest in seeing that the world trade pie continues to row.

Let me support the argument with further observations about the role of trade in the *national* economy:

- Between 1985 and 1990, U.S. manufactures exports rose an astounding 90 percent, reaching $316 billion in 1990.
- The trend in services exports is just as dramatic. The 1980s saw an increase of more than 200 percent in cross-border sales of U.S. services to $115 billion.

Even more startling than the growth of U.S. exports is their role in the domestic economy.

- Growth in exports has accounted for a rising share of real economic growth in the United States. Just look at the numerical progression: Exports accounted for 14 percent of real growth in 1986; 35 percent in 1988; 43 percent in 1989; and last year, as domestic demand sagged. a staggering 88 Percent.
- Export-led growth is keeping our economy afloat in more ways than one. As I stated earlier, exports create jobs. A rule of thumb developed by the Economic Policy Institute indicates that roughly 30 American jobs are created for every $1 million in net exports. Of course, rising competition from foreign imports can and does lead to job losses in some sectors. But the results for the economy as a whole show a net gain: Preliminary numbers indicate that American jobs attributable to merchandise exports alone have grown from 5.6 million in 1987 to over 7 million in 1990.

That, in summary, is why the private sector strongly supports the continuation of the Uruguay Round negotiations. Given the vital importance of exports to growth and jobs in our communities and in our country, we need to keep those exports growing. That means eliminating foreign trade barriers and expanding foreign demand for American goods and services. In the business world we call that "growing the primary market." Both the Congress and the Administration, in close concert with the business community, have made growing the primary market a high priority in recent years.

We can and should continue that effort bilaterally—whether through free trade negotiations or bilateral talks or some other mechanism. But we should not forget the importance of *multilateral* reductions in trade barriers. In no other forum but the GATT do you have the opportunity to leverage the interests of 100-odd countries to open markets across a variety of sectors and geographical areas, expanding the world trade pie for everyone.

That's why the ACTPN strongly supports the extension of fast track procedures to finish the job we began four and a half years ago in Punta del Este. Failure by the Congress to extend fast track would deal a serious blow to our efforts to expand foreign markets for American products. Defeating fast track is a signal to the rest of the world that protectionism is okay. And if, as a result, the world starts sliding into a tit-for-tat, you-hurt-me-and-I'll-hurt-you trading environment, American business—and American workers—stand to lose more than we'd gain.

Why? Because with the globalization of markets from farm produce to finance, the web of interrelationships among American and foreign producers has become incredibly complex. We now have entire industries whose international competitiveness hinges on access to foreign as well as domestic components. Ask USTR why drawing up retaliation lists gives them such a headache: Half the items on the list have to be deleted because slapping on tariffs would hurt more Americans than foreigners! That's especially true in manufacturing.

WHY ARE THE FREE TRADE TALKS IMPORTANT?

Before moving to a discussion of fast track itself, let me say a few words about the importance of pursuing, parallel to the Uruguay Round, negotiations to open up markets here in North America. A North American Free Trade Agreement, or NAFTA for short, is an important component of the aggressive trade policy that the private sector and the Congress have been advocating for years. The private sector does not view the NAFTA as a substitute for agreements in the GATT; rather, we consider it a complementary market-opening initiative that, if successful, will bring net benefits to the United States in terms of exports and jobs.

Based on the rule of thumb—that 30 U.S. jobs created for every $1 million in net exports—Dr. Rudiger Dornbusch of MIT has estimated that over 144,000 new American jobs have been created since 1986 due to trade with Mexico. Even if the number is less than is generally assumed, the positive developments in Mexico over the last few years have undoubtedly generated benefits for American workers. Reputable economic studies on the likely impact of a free trade agreement with Mexico—whether it's the recent study done for the U.S. Department of Labor, or the ITC study, or the one by Peat Marwick—have all reached similar conclusions: on balance, a comprehensive North American free trade agreement will be beneficial for the United States and for American workers.

Of course, no one can deny that, as always, some industries will be adversely affected. The ACTPN believes that there will be a need for appropriate transition periods for certain sectors of the U.S. economy. It would also be reasonable to include an escape clause in the final agreement in the event a surge of imports is the substantial cause of serious injury.

WHY EXTEND FAST TRACK?

As I have stated repeatedly, the ACTPN members support an aggressive American trade policy. Three years ago, the private sector worked closely with the Congress for a comprehensive, aggressive international trade strategy, as embodied in the 1988 Trade Act. That strategy included strengthening U.S. trade laws, such as Section 301. It also included a renewal of fast track procedures to facilitate the negotiation and implementation of comprehensive bilateral and multilateral trade agreements.

The reasons cited in support of fast track procedures tree years ago are equally compelling today:

- There is still a clear and pressing need for fast track in order to persuade our trading partners to come to the negotiating table and to make difficult concessions. They just won't do it if they think the agreement will have to be negotiated all over again with the U.S. Congress.
- The careful constitutional balance struck between the President's authority to conduct foreign affairs and negotiate and Congress authority to regulate foreign commerce remains firmly in place.
- Importantly, at least from the perspective of the ACTPN, consultations between the private sector and U.S. negotiators have been frequent and substantive over the course of the Uruguay Round negotiations. We have no reason to think that will change.
- As to fast track itself, I know of no other legislative process where the private sector (and the Congress, for that matter) has a procedure that produces as complete and thorough participation.

The successful completion of the Uruguay Round has been a top priority for ACTPN members at least since 1985, when the ACTPN issued a lengthy report that helped establish U.S. objectives for the negotiations. ACTPN members, including labor union leaders, actively assisted our negotiators ill getting the Uruguay Round launched at the 1986 Ministerial in Punta del Este. Two years later, in November 1988, the ACTPN submitted to the U.S. government a comprehensive assessment of the "midterm" results of the negotiations, along with detailed objectives for each negotiating area. That report included separate analyses by each of the other trade policy advisory committees, which focused respectively on agriculture, defense, services, state and local government, investment, and labor. ACTPN also solicited the views of the major trade associations, and it has task forces on specific areas, such as intellectual property, industrial subsidies, and textiles. ACTPN members have participated with U.S. negotiators in all the GATT Ministerials, and have joined U.S. officials for meetings with foreign negotiators in Geneva. In short, the private sector has been continually, consistently watchful over these negotiations.

I should add that organized labor has also been actively involved in all these activities. They participated in Punta del Este and have continued to be active in the advisory process. They continued to be supportive afterwards, despite periodic expressions of concern about the course of the negotiations. You will note that the ACTPN's labor representatives dissented from the March 1 ACTPN report recommending extension of fast track. The bulk of the opposition appears to be related to the proposed North American flee trade negotiations rather than to the Uruguay Round—although they have some concerns there, too, for instance in textiles. The other ACTPN members, while sympathetic to those concerns, nevertheless feel strongly that they can and should be addressed without derailing the negotiations. After all, if we don't like the final outcome, we can always say no.

HAS THE URUGUAY ROUND REALLY MADE PROGRESS?

I've argued that the GATT negotiations are important to the private sector, and that they should be continued. One of the arguments used against an extension of fast track is the charge that the Uruguay Round has been a failure and should be allowed to die. The ACTPN strongly disagrees with that assessment.

It's true that the negotiating objectives laid out by Congress in the 1988 Trade Act, and detailed by the private sector in countless documents over the years, have not yet been fully achieved. However, the Uruguay Round is a monumental undertaking, and meaningful progress has been made in several areas. Accordingly, the ACTPN believes that fast track procedures should be extended to allow further negotiations in the Uruguay Round, with the hope that a successful conclusion can be reached. The other policy advisory committees concur in that view, with the sole exception of labor, as I've already noted.

As measured against the numerous reports issued by the advisory committees over the years, there has been continuing progress since the start of the Uruguay Round. This is especially true if one considers the complexity of the negotiations, the divergent interests of the 100-plus countries involved, and the fact that the objectives in the 1988 Trade Act were formulated a full two years after the Round was launched.

In particular, I am struck by the degree to which the enormous chasm between the industrialized and developing countries, which existed at the beginning of the Round, has shrunk in four years. Only a few years ago, most developing countries felt the way to achieve growth was by protecting their markets. Now, most of them want to become part of the world trading system. While there are still major differences in the various negotiating areas, it is clear that many developing countries, particularly the Newly Industrialized Countries (NICs), are now more committed than ever to achieving meaningful agreements in a number of areas, especially agriculture. Many developing countries will now acknowledge, for example, that agreements in the so-called "new areas"—services, investment, and intellectual property—are appropriate, possible, and even desirable.

At the same time, all of us recognize that a large number of critical issues still need to be resolved in order to achieve acceptable agreements. Rather than cover everything, let me highlight a handful of important issues. You can refer to the full ACTPN report for details.

Agriculture. The U.S. and the Cairns Group of smaller agricultural exporting nations continue to keep the pressure on the European Community to liberalize its Common Agricultural Policy. The standoff at the Brussels Ministerial last December was finally broken on February 10, when the GATT Director General announced that everyone, including the EC, had agreed to negotiate to achieve binding commitments in each of three key areas: internal supports, market access, and export subsidies. The EC is currently engaged in a bitter internal political battle to reduce domestic supports. Although it remains to be seen how much progress can be made, the ACTPN remains hopeful that an acceptable agricultural agreement is still attainable.

Market Access. The U.S. manufacturing sector in particular stands to benefit substantially from the achievement of tariff-cutting commitments, including "zero-for-zero" sectoral proposals and 33 percent tariff reductions on the majority of U.S. industrial exports—not to mention the reduction of barriers in government procurement. Good, substantive agreements in these areas would result in a significant liberalization of world industrial trade and would contribute to an increase in U.S. manufacturing exports. Because of the standoff in Brussels last December, U.S. negotiators have not yet obtained specific commitments from our trading partners, although they are now engaged in request/offer negotiations with about 40 countries. There is a strong basis for believing that we can yet obtain concrete commitments on tariff and nontariff barriers, as well as in other areas, such as textiles, tropical products, and natural resources.

New Issues. As I indicated, considerable progress has been made in clarifying the issues and narrowing differences with respect to services, intellectual property, and investment. Although substantive differences remain, there are grounds to believe that the U.S. may still be able to negotiate landmark agreements in these three areas.

Services provide a good example. Last December we were quite disappointed with the lack of progress on services. I participated in the Brussels Ministerial, and it was clear to me that there are still a lot of tough issues that need resolving. However, I am encouraged by the high priority being given by USTR to negotiating

market access commitments in services. I am also encouraged by the progress made toward achieving a strong annex on financial services.

Subsidies and Antidumping. Even in subsidies and anti-dumping, where the negotiations have been quite contentious, we can point to areas of progress. For example, despite some serious flaws, the current subsidies draft recognizes, for the first time, that certain domestic subsidies can be so distortive that they should be banned altogether. In antidumping, the ACTPN fully supports efforts to reach an agreement without undermining the effectiveness of U.S. antidumping remedies.

Institutional Mechanisms. Finally, GATT institutional mechanisms have been strengthened by the creation of a mechanism to review countries' trade policies on a regular basis. Significant improvements were made in the GATT dispute settlement process following an interim agreement reached in December 1988. The ACTPN is urging U.S. negotiators to continue seeking improvements in GATT mechanisms, provided the United States can retain its ability to use domestic law to address unfair and injurious trade practices by foreign governments.

LET'S KEEP THE URUGUAY ROUND ON THE FAST TRACK!

The task of reaching comprehensive agreements in all areas covered by the Uruguay Round is enormously complex. Let's not forget that the Tokyo Round, which was far less complicated, required a full six years to complete. By contrast, this Round has attempted to negotiate the most difficult—and most important—set of trade agreements in history in just four.

Frankly, I don't see any down side to giving our negotiators more time. We applauded Ambassador Hills' decision to hang tough in Brussels. We want her to continue aggressively pursuing a level playing field for American exporters. We all know we're not going to get everything we want, but we've got a fighting chance to get a substantial portion of it. And if we don't—well, there is nothing in fast track that says we must accept the unacceptable. The Congress and the private sector retain the ability to reject any agreement we think inadequate—and believe me, the ACTPN won't hesitate to do just that.

Let's play this game out to the end. It makes no sense to pull the rug out from under our own negotiators. The United States has too much at stake to call it quits now.

PREPARED STATEMENT OF JACK SHEINKMAN

Chairman Bentsen and members of the Finance Committee: I welcome this opportunity to give our views on the fast-track procedure for continuation of the Uruguay Round.

Almost everyone involved in these negotiations in both the Executive and Legislative branches states by rote that GATT negotiations are impossible without fast-track authority. But the U.S. has negotiated a number of multinational agreements without "benefit" of fast-track. If the agreement is in the nation's interest, the Administration should be able to demonstrate this simply on its merits. If Congress doesn't understand trade-offs, then no one does. But Congress needs to retain the fundamental Constitutional right to ask for changes if one or several parts are thought to be especially harmful while accepting the majority portion that is beneficial. The Senate has previously done so on arms control agreements that in the end produced a better overall agreement.

I've been asked in the past, "But isn't this what a trade union does when it presents a new contract to its members—they can only vote it up or down?" While our negotiations are somewhat different, we do make sure our negotiating committee includes all sections, areas or divisions that will be affected. To have an Executive Branch do all the negotiating but then have a Legislative Branch do the voting on an agreement where they never sat at the table would be unthinkable for us. More importantly, the difference is we do not sacrifice the jobs and economic welfare of one group of workers for another. While groups of members have different priorities, we don't negotiate agreements where cloth cutters must give up their jobs to sewers. But the Administration's Uruguay Round position is that textile and apparel workers give up their jobs to makers of sophisticated scientific instruments or wheat growers. This is an unacceptable deal. The nation and the world would be better off if we continued maintenance of a managed, semi-open regime in textiles while we negotiate opening other markets, which are basically closed.

Just as democracy and people's right to have a voice in their own destiny has an inherent attraction toward which people seek to move, is it not so with free trade? If that's so, most nations will move there without having it crammed down their

throats. The reality is that it's not so great for everyone—that there's a lot of losers and very unequal distributions of benefits which need to be mitigated or prevented by restraining some of that openness.

This Committee and your colleagues on the Ways and Means Committee don't just "consult" with the Administration on major domestic economic legislation. You fight through and vote on every amendment. Now, when the international stakes are greater than domestic initiatives, you content yourselves with secondary, indirect roles which can be ignored in many vital areas.

The fast-track process discourages and/or even prevents Congress from getting the full benefit of input of our vastly diverse domestic interests. The overwhelming sentiment I hear outside of Washington is "the deal's cut and dried, so there's no point in getting involved—we can't get it changed." The symbolism of the process subverts its content.

We are being asked by the proponents of the Uruguay Trade Round to believe that simply liberalizing trade will lead to enhanced and efficient capital flows, substantial growth and development for Third World countries, and benefits in the trillions of dollars for the developed nations. We, in the labor movement and the textile/apparel industry, are skeptical. Increased trade is undoubtedly an important part of economic advancement. But trade alone, especially without necessary preconditions, will hardly suffice to alleviate economic stagnation or sustain meaningful, long-term economic development.

As the debate over a Mexican-U.S.-Canadian Free Trade arrangement has highlighted, many more factors must be considered along with simply reducing economic barriers at national boundaries. There has to be a coordinated, integrated system of ensuring greater equity in trade balances; major debt relief must be provided for countries strangled by repayment obligations; and a process to institute world-wide environmental, social and humane labor standards has to be established. As Chairman Bentsen's letter to the President raised these issues vis-a-vis Mexico, why don't these criteria also apply to the Uruguay Round?

Poverty continues to be the greatest trade barrier of all. Unless the larger context is addressed as part of any Uruguay Round negotiations, the end result could lead to retarded economic development and an undermining, rather than strengthening, of the long-term competitiveness of the United States. We don't allow the free market to run rampant in the U.S.; why should we allow it for the world?

Monopoly practices are considered an abuse of power and distortion of the market in the U.S.; GATT is silent on monopoly. Human exploitation is not deemed an acceptable element of competition in the U.S. We set child labor restrictions, provide a floor to poverty by mandating minimum wages, allow collective actions through labor unions to counterbalance corporate power and raise living conditions, and prevent government abuse of dissent by legislating human and personal rights. GATT completely ignores these vital competitive factors as if they are irrelevant in the market place.

The U.S. Customs Service is right now investigating whether several products exported from the People's Republic of China are being produced under slave labor conditions. No where in the Uruguay Round discussions are sanctions being discussed for that government-established unfair trade practice.

My son has just recently written me about Thailand's new government destroying all public sector unions. While he has worked as a relief worker in the border refugee camps, he is very concerned about the standards for workers in that country. Thailand is enjoying an economic boom due to foreign investment and mushrooming of export industries, but very little of the wealth generated filters down to the majority of the population. Eliminating unions only insures living conditions will stay at their current miserable level.

The issues of national environmental and health standards—equally valid social values with that of economic efficiency—have certainly been cited for their comparative advantage effect by American companies and groups advocating these concerns. In the U.S., we require all enterprises to adhere to set standards, thus eliminating this as a factor of competition. But it remains another area where GATT's silence is deafening.

Finally, in the U.S. economy, if you are in hock too deeply, you can declare bankruptcy and start afresh. In the various GATT rounds, "special and differential" treatment is accorded poor nations and nations with real or so called balance-of-payment problems. This merely allows Third World nations to violate GATT obligations and encourages them to over-develop labor intensive export industries, which doesn't alleviate their debt problems. In the process they destroy such industries in the developed countries to whom they are forced to export; only debt forgiveness will free up resources for investment and improved internal development.

Congress tried, in a limited fashion, to address some of these issues when it debated and passed versions of the 1988 Trade Act in 1986 and 1987. Even though never enacted, both the House and the Senate set some firm commitments as being required to be achieved as part of future trade negotiations. That initial attempt can provide some useful guidance now when you are considering whether to extend fast-track authority.

Congress should *mandate* that certain specific goals need to be a part of the completed package that results from this Round. The labor movement has demanded since 1974 that human and labor rights be made a part of all international trade agreements. While USTR has tried to get labor rights put on the table, it has never really insisted that it is a necessary component of any final agreement. The U.S. (in effect) got up from the table in Brussels over subsidies to pork and plants—why can't it do the same over the subsidy of people's subjugation? This Committee should require that the internationally-accepted ILO codes be included in any Uruguay Round conclusion. We know of no better way to help make the benefits of the Round flow to the people who need it the most.

Likewise, Congress should limit negotiating discretion so as to better insure that our trade deficit does in fact decline, rather than simply leaving it to a faith that somehow it will all work out. Trade with low-wage manufacturing countries plays a large and growing role in the overall U.S. trade deficit. During most of the last decade, low-wage manufacturing exports to the U.S. have accounted for more of the deterioration in the U.S. trade balance than has Japan. What if our trade deficit gets worse rather than better? We can't be left to just grin and bear it.

A system like the Multifiber Arrangement (MFA) has resulted in a better balanced growth for the community of nations and prevented domination of the world market by one or a handful of dominant suppliers. Without an MFA system, investment and jobs in textiles will no longer be an engine of development and distributor of wealth. Most everyone in the industry believes China will drive the vast majority of other exporters out of the market with the demise of the MFA. And this is a country with whom we already have a $10 billion trade deficit, our third largest of all trading partners. None of the nations in the following table would have textile exporting capacity were it not for MFA restraints on the big prior suppliers.

MFA—INDUCED NEW CLOTHING EXPORTERS, U.S. IMPORTS OF CLOTHING

[Millions of Square Yard Equivalents]

	1984	1990
Bangladesh	24	263
Mauritius	8	57
Maldives	0	6
Nepal	3	21
Burma	6	44
United Arab Emirates	8	59
Costa Rica	33	126
Jamaica	10	91
Guatemala	3	64

SOURCE: U.S. Department of Commerce, Major Shippers Report

Free trade does not automatically result in economic advancement. I would argue that actual experience suggests the opposite. The Asian success stories came about due to carefully controlled management of their economies, by protecting their markets from damaging outside competition, by keeping wages artificially low, and by tightly directing investment and heavy use of government subsidies. If East Asia is the inspiration, then the free trade model is wrong.

Given these circumstances, the U.S. must adopt a more differentiated negotiating approach. The principle of the initial request-offer system for tariff cuts has not been followed through effectively and should be reconsidered. While we have opposed tariff cuts in most product areas of textile and apparel, we know some cuts will be made. We certainly feel it would be wrong to extend any cuts on an MFN basis. The request-offer principle of direct bilateral reciprocity is greatly preferable to universal reductions.

The U.S. currently has three basic duty rates; GSP, MFN, and non-MFN. Why can't such a system of reward and punishment be incorporated into GATT tariff commitments?

In the Tokyo Round, the benefits of a U.S. injury test on subsidized exports were accorded to only those countries who either were signatories to the subsidy code or signed specific subsidy restraint agreements. While we feel the Reagan Administration vastly abused its discretion on these subsidy agreements with developing countries, this model does point to something that ought to be thought through. For example, while it would not overcome the great damage of what's on the table now in textiles and apparel, we certainly feel that China and the Soviet Union, as non-GATT members, should not be given any liberalization agreed upon in this Round.

Congress should request a specific commitment at this time from the Administration that nations outside of GATT, or those who specifically fail to implement the agreed disciplines in any of the 15 negotiating areas, do not receive entry to our market on any new liberalized terms.

In essence, we fail to understand why President Bush on the one hand protests vigorously, and vetoes, any legislation which limits his powers and discretion on issues of foreign policy or action, but now seems perfectly willing to lose all discretion and power in the foreign trade area. It is absurd to hand over our nation's economic destiny to the gnomes of Geneva!

CONCLUSION

Over the last 20 years the U.S. has borne the greatest costs to liberalize the world trading system. Our $900 billion foreign debt is an enormous contribution to other nations' wealth. We currently import about 60 of all developing country manufactured goods exported to industrialized countries.

The Uruguay Round has to mark a turning point. We have a right to expect much greater accountability from the developing countries and a more equitable burden sharing by our industrially developed trading partners. The international trading rules must be better balanced in terms of trade liberalization versus the right to act against unfair or otherwise injurious trade. Thus, Congress needs to mandate minimal necessary conditions as part of any continuing negotiating authority.

A good start was made by adding denial of labor rights as an unfair trade practice under Section 301 actions. Likewise countries that prevent workers from organizing or exercising basic human rights can be denied GSP or CBI benefits. While these latter benefits are unilaterally extended privileges, the principle should be incorporated into all GATT agreements.

The recess in Brussels offers an opportunity to make these kinds of needed changes in the negotiating mandate Congress gave the President. Full and explicit Congressional oversight at the end and a much more broadly based private sector advisory system must be instituted. An immutable track with the freight train bearing down on us is unacceptable. Because otherwise when the finished agreement comes back, it will be too late.

PREPARED STATEMENT OF LELAND SWENSON

Thank you, Mr. Chairman.

My name is Leland Swenson. I serve as president of the National Farmers Union and am testifying today on behalf of the Farmers Union's nearly 300,000 farm and ranch families, all of whom stand to be affected in one way or another by the topics which are the subject of this hearing.

Given the importance of these issues to Farmers Union members, American agriculture in general and all other citizens of this country, I want to commend you and the Senate Finance Committee for holding this timely hearing as Congress debates the merits of "Fast Track" authority for the multilateral trade negotiations taking place under the General Agreement on Tariffs and Trade (GATT) and other trade negotiations affecting the North American continent.

The issues before this committee in regards to extension of "fast track" authority, the GATT negotiations themselves and a possible North American free trade agreement or U.S.-Mexico free trade agreement are both broad and complex. Let me focus first on the most pressing issue before the U.S. Congress—extension of "fast track" authority for the conduct of the trade negotiations.

During the Farmers Union convention held last month in Philadelphia, PA, our delegates made our position on "fast track" clear when they passed a special order of business urging Congress to reject an extension of the "fast track" authority. A copy of that special order of business is included in the appendices to this testimony.

The National Farmers Union is opposed to extension of "fast track" authority for the GATT and other trade negotiations for a number of reasons. We believe it is bad

public policy that sets an unfortunate precedent which might be applied to other issue areas as well. We believe it diminishes the ability of affected parties to make a meaningful contribution to the negotiations. We believe it increases the likelihood for negotiation and adoption of trade agreements damaging to the interests of the U.S. Finally, the Farmers Union does not believe extension of "fast track" authority is necessary, as alleged, for the continuation of the GATT negotiations or any other trade negotiations.

Somehow or other, the immediate past U.S. administration and the present administration sold many members of Congress, much of the American press and some of the American public on what became a commonly accepted adage that our negotiating partners would not sit down to the negotiating table without the limitations imposed by the "fast track" authority. The cliche that "fast track" is absolutely necessary to the conduct of negotiations is about as valid as another idea that was commonly accepted notion a few centuries ago—namely that the world was flat. The truth is neither adage can stand much scrutiny.

The truth of the matter is that the U.S. has conducted successfully a large number of very important multilateral international agreements and treaties, sometimes on even more complex and contentious issues, without "fast track" authority. For the record, I am including a list of those agreements and treaties, developed by Public Citizen, in the appendices to this testimony.

There is no reason to believe different conditions apply in regards to either the GATT negotiations or trade negotiations conducted with Mexico and/or Canada. Certainly, the Farmers Union finds it hard to believe the 100 plus nations involved in the GATT negotiations are going to wash their hands of four years of hard work and leave the table simply because "fast track" is not extended. They may threaten to do so at this time and we would expect them to as a negotiating ploy. In final analysis, it is difficult to believe they will not be present at the table given what is at stake if they are not there.

The Farmers Union acknowledges that denial of "fast track" will make the negotiating process more complicated for the administration. Without the blank check that "fast track" represents, the administration will have to consult more closely with the constituencies affected by the negotiations. It certainly will have to consult with the Congress on a more regular and deeper basis to insure that was is being agreed to is acceptable to Congress.

The Farmers Union believes that is a good idea. We believe it would make it less likely our negotiators will make mistakes which are damaging to U.S. interests. And we think it would make it more likely that any agreement brought back to Congress for approval will be a good agreement, rather than a bad agreement.

Certainly, the Farmers Union believes that denial of "fast track" authority is the best way to address an issue of extreme importance to you, Mr. Chairman, that of "free riders." As you have said, in an agreement as broad as that being negotiated in GATT, it sometimes happens that countries end up reaping the benefits without having to give much, if anything, in the process. The best way to stop that from happening is to deny "fast track" authority so that mistake can be corrected if it occurs. The possibility that Congress could take action to correct such a mistake makes it less likely it will occur in the first place.

The very fact that you worry about "free riders" points out one of the biggest problems with the "fast track" authority. It gives our negotiators a "blank check" that someone else fills in. It leaves Congress only with a decision as to whether or not to sign the check and pay the bill. "That's not the way our system of checks and balances is supposed to work or does work in other policy areas.

This brings us to the first major concern we raised over "fast track" earlier in our testimony. "Fast track" is a bad policy idea that deserves to die. It is bad public policy for the entire Congress to give up its birth right to debate and legislate on the major issues confronting the country. It sets an unfortunate precedent that could then be applied to other difficult issues which confront the Congress.

In regards to the issue before us, the Constitution of the United States speaks clearly that it is the responsibility of Congress "to regulate Commerce with foreign nations, and among the several states, and with the Indian Tribes." Congress should fully exercise that responsibility and not limit itself to a yea or nay vote to rubberstamp the actions of the administration.

On a final note regarding "fast track," the Farmers Union also believes the granting of "fast track" contributed to the near death of the Uruguay GATT round itself. In the case of our industry, agriculture, "fast track" gave the administration the right to seek on an international front an agenda it could not get Congress to agree to earlier. Because of "fast track" we believe the U.S. held to an unrealistic, ideological position on agriculture until the Uruguay Round had less than a year to go in

its allotted time span. We think the amended U.S. position on agriculture remained too unrealistic once again because of the blank check authorized under "fast track." And we think that the unrealistic expectations raised by "fast track" contributed to the deadlock at what was to be the concluding ministerial meeting of the GATT in December in Brussels.

Let me be clear. The Farmers Union does not believe "fast track" was the only thing that led to deadlock in Brussels. The too firm positions of all the parties involved—the European Community, Japan, the Cairns Group, the U.S. and others—was the main reason the round deadlocked in December. But, we believe "fast track" contributed to the deadlock as it raised expectations too high and led negotiators to fail to develop a realistic action agenda.

From the beginning of the Uruguay Round, the Farmers Union has been urging the U.S. administration to adopt a more realistic agenda for the agriculture sector of the negotiations. We have presented our recommendations in that regard previously to the administration and in testimony to both this session of Congress and the one which preceded it. A copy of those recommendations, included in the NFU's 1991 policy statement on international trade agreements, is attached.

From that statement, you will see that the Farmers Union believes the U.S. would be better served if the issue of agriculture were to be addressed in a new international agreement of its own rather than under the umbrella of the GATT. We still believe that is a better idea, but acknowledge the current U.S. administration is unlikely to embrace that idea given its philosophical and ideological makeup.

Still, the Farmers Union believes there are some issues in the area of agriculture on which progress can and should be made during the Uruguay Round of negotiations. We remain hopeful the Uruguay Round will successfully address the issue of direct export subsidies which have driven down world prices for grains and other products below levels justified by supply-demand fundamentals and which have been damaging to farmers throughout the world.

The Farmers Union also has supported, in principle, the concept of harmonization of health and safety standards so that they are not used as unjustifiable trade barriers. We remain concerned, however, that many times international health and safety standards are set at the lowest common denominator level and that the question of preemption of higher standards set by individual countries has not been fully resolved. We have high food safety standards in the U.S. and would not like to see them relaxed.

The Farmers Union's biggest concern over the Uruguay Round has been over the extent to which some participants want to set limits on domestic farm policy and price support activities and the tools necessary to make them effective programs. We believe the U.S. position in that regards is too extreme, as well as unrealistic, and needs major modification. In particular, we stand opposed to the elimination of current Section 22 authorities which are vital to the maintenance and operation of domestic farm support programs for such areas as dairy, peanuts and sugar.

In the case of a possible U.S.-Mexico Free Trade Agreement or trilateral North American Free Trade Agreement also including Canada, it is difficult to be very precise as to our concerns as we are looking at a moving target in regards to what kind of agreement we are talking about and what's on the table.

The Farmers Union does have some generalized concerns about the North American trade negotiations, based on what we know so far. We believe some producers in the U.S. fresh and processed fruit and vegetable sector will be severely damaged by such an agreement. We believe other sectors of American agriculture could suffer damage at some point in the future if we had an Alar-type scare develop due to lax pesticide regulation in Mexico.

In the area of grains trade, the Farmers Union believes that some of the predictions of a major increase in trade with Mexico are overblown. Certainly, if Canada were to be included in such an agreement, we are very skeptical U.S. producers would reap the benefits given certain advantages Canadian producers still have through the operation of the Canadian Wheat Board, rail subsidies and the competitive advantage Canadian producers have vis-a-vis their U.S. counterparts in the area of tax policy. A recent study by economists from Texas A&M University and the University of Washington showed Canadian grain producers with a definite competitive edge in that area. We recently sent copies of that study to members of the appropriate Congressional committees and would be willing to include a copy for this hearing record, if you so desire. We did not submit it with this testimony as it would put out testimony over the page limit set by the committee.

The Farmers Union also shares the concerns of many American workers about the possible negative effect a U.S.-Mexico Free Trade agreements could have on U.S. wage rates, working conditions and the American standard of living in general. If

some of those fears were to prove true, it could have an impact on consumer food buying habits for some elements of U.S. agriculture, especially the livestock sector.

In conclusion, Mr. Chairman, the Farmers Union has a number of concerns about our various activities in regards to trade, some of which parallel the same concerns raised by members of Congress. We do not believe those concerns will be adequately and honestly considered and addressed, if the "fast track" authorization is extended. We respectfully petition Congress to reject the Administration's request for extension of "fast track" authority.

The Farmers Union appreciates this opportunity to present our members views. I stand ready to answer any questions you, or members of this committee, may have. Thank you.

Attachments.

APPENDIX A

MULTILATERAL AGREEMENTS PASSED WITHOUT FAST TRACK

A CHRONOLOGICAL LIST OF TREATIES, CONVENTIONS AND AGREEMENTS APPROVED AND RATIFIED SINCE 1960[1]

AGREEMENT	NUMBER OF COUNTRIES	ISSUE AREA	RATIFICATION ADVISED	FAST TRACK
Antarctic Treaty	37	A	8-10-60	NO
Atmospheric Test Ban Treaty	116	A	9-24-63	NO
Outer Space Treaty	98	A	4-25-67	NO
Non-proliferation Treaty	140	A	3-13-69	NO
Latin American Nuclear-free Zone Protocol II	5	A	4-19-71	NO
Seabed Arms Control Treaty	86	A	2-15-72	NO
International Trade in Endangered Species Convention	106	E	8-3-73	NO
Biological Weapons Convention	107	A	12-16-74	NO
Convention for Safety of Life at Sea	70	T	7-12-78	NO
Environmental Modification Convention	60	E	11-28-79	NO
Psychotropic Substances Convention	91	L	3-20-80	NO
Fur Seal Treaty	4	E	6-11-81	NO
Latin American Nuclear-free Zone Protocol I	3	A	11-13-81	NO
International Coffee Agreement	76	T	7-27-83	NO
Customs Harmonization Convention	47	T	6-21-83	NO
Nice Trademark Agreement	28	T	11-27-83	NO
International Telecommunications Agreement	144	T	12-16-85	NO

Wetlands Convention	49	E	10-9-86	NO
Pacific Island States Fisheries Treaty	16	T	11-6-87	NO
Ship Pollution Convention Annex V	41	E	11-5-87	NO
International Wheat Agreement	46	T	11-17-87	NO
International Labor Organization Convention no. 144	44	W	2-1-88	NO
Ozone Treaty	31	E	3-14-88	NO
International Natural Rubber Agreement	25	T	9-7-88	NO

NOTES:

[1] Selected list of multilateral agreements.

KEY DEFINITIONS

AGREEMENT also includes international conventions and protocols to agreements.

NUMBER OF COUNTRIES refers to number of countries which have signed and ratified agreement.

ISSUE AREA refers to general subject of agreement: A=Arms control, E=Environment and conservation, H=Human rights, L=Law enforcement, T=Trade and commerce, W=Worker rights.

RATIFICATION ADVISED refers to date on which Senate approved treaty. The Senate cannot ratify treaties; it can only recommend to the President that he ratify them. Approval of a treaty requires a 2/3 majority of the Senate.

SOURCES:

Arms Control and Disarmament Agreements: Texts and Histories of the Negotiations, U.S. Arms Control and Disarmament Agency, 1990 Edition; *Treaties in Force: A List of Treaties and Other International Agreements of the United States in Force on January 1, 1990*, U.S. Department of State, 1990 Edition; *Congressional Quarterly Almanac*, Congressional Quarterly Inc., 1966-1990 eds.

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APPENDIX B

Special Order of Business

Adopted by Delegates to the
National Farmers Union's
89th Annual Convention
Philadelphia, Pennsylvania
March 6, 1991

OPPOSING EXTENSION OF "FAST TRACK" AUTHORITY FOR TRADE NEGOTIATIONS

The National Farmers Union, meeting in convention in Philadelphia, PA, urges the U.S. Congress to disapprove a Presidential request to extend the administration's authority to conduct trade negotiations under the General Agreement on Tariffs and Trade, or for any other trade agreement, under "fast track" procedures which set aside the normal rules of Congress for consideration of legislation.

The National Farmers Union believes the "fast track" authority for the conduct of trade negotiaitons to be the ultimate closed rule, limiting debate and Congressional action on trade matters of concern to all Americans, and therefore deserves disapproval.

The Farmers Union believes that trade agreements should be subject to full, unrestricted debate and modification by the Congress as any other matter of legislative action. Any restrictions on that debate and action represents an abrogation of the responsibilities and duties of the U.S. Congress.

APPENDIX C
NFU 1991 Policy Statement on International Trade Pacts

C. International Trade Agreements

The National Farmers Union recognizes that international trade agreements when properly crafted can be useful vehicles to lessen world trade tensions, increase development opportunities and economic growth rates and increase trade in goods and services for the betterment of humankind as a whole. The converse side, however, is that poorly crafted international trade agreemants potentially could heighten trade tensions, do serious damage to economies already in place and lower living standards of people living in the countries involved.

It is for that reason the Farmers Union believes the U.S. Congress should be a full partner in any international trade negotiations being conducted by the U.S. government to make sure that the agreement is properly crafted to meet its potential positive benefits and to avoid possible negative pitfalls.

In order to remain a full partner in the negotiating process, the U.S. Congress needs to jealously guard its rights and responsibilities under the U.S. Constitution to debate and draft legislation to foster and encourage our economy. The Farmers Union, therefore, urges Congress to avoid placing limits on its authority to debate and legislate, such as the "fast track" rules it approved earlier which are scheduled to expire on June 1, 1991.

The Farmers Union believes that denial of "fast track" rules, or similar restrictions, are especially important as the Uruguay Round of negotiations under the General Agreement on Tariffs and Trade (GATT) enters a new, extended phase and the U.S. government considers new free trade agreements with Mexico and other countries within the Western Hemisphere or elsewhere.

Special attention should be given to the Canadian Free Trade Agreement (CFTA), including but not restricted to an investigation into the formula and calculations being used within the CFTA to determine the level of agricultural subsides in each country. Implementation of the CFTA should be carefully evaluated by Congress before approving similar treaties with Mexico and/or other countries.

As the GATT negotiations on agriculture continue into a new, extended phase, the National Farmers Union remains concerned that the agriculture negotiations will do more harm than good for world farm producers if the emphasis remains, as some are advocating, on dismantling the domestic farm stabilization programs of the major exporting nations and other countries.

From the start of the current Uruguay Round under GATT, when the original U.S. proposal was laid on the table, the National Farmers Union believed that a better forum than GATT should be established to bring some order and stability on the global agriculture scene and that could deal with the inherent circumstances of the farming sector which make it difficult to treat it like the industrial goods or service industry sectors.

For that reason, the Farmers Union proposed that the international agriculture negotiations be moved from GATT to a new international agency to be called the General Agreement on Agricultural Production and Prices (GAPP) which would be charged with developing new international rules to pertain to agriculture. Under GAPP, negotiators from both exporting and importing nations would be given a clear mandate to develop new international rules on agriculture to accomplish the following:

1. to establish and maintain a price range for basic commodities fair to both producers and consumers;

2. to achieve the linkage of primary commodity prices to an index of manufactured goods as soon as practical;

3. to achieve broad responsibility for maintaining world grain and food reserves and to develop rules on their use and release into the marketplace;

4. to equitably share the burden of production cutbacks if production exceeds commercial, social, and developmental requirements;

5. to foster and encourage human-scale production in agriculture -- the family farm structure as contrasted with plantation agriculture or corporate agriculture; and

6. to encourage strong world economic growth rates so that the food-buying power of all people is enhanced.

The National Farmers Union still believes the GAPP proposal could be a viable alternative to the agriculture talks taking place under the GATT and that there is a unique opportunity present at this time to move the GAPP proposal, or a similar proposal, to a successful outcome provided the U.S. government were to take the lead in its advancement.

Recognizing, however, that the GAPP proposal appears unlikely to be embraced by the current U.S. administration, the Farmers Union believes positive program can be made in the present GATT negotiations if the U.S. government were to take a more realistic negotiating position. The Farmers Union believes a more positive U.S. GATT position would embrace the following general principles:

1. seek to eliminate and outlaw the use of export subsidies and other export dumping practices on agricultural products;

2. recognize the right of sovereign countries to develop their own domestic food policies, using tools such as our Section 22;

3. recognize the right of countries to develop and maintain domestic inventory management and/or basic domestic food security programs under Article 11 of GATT and further refine the rules for their operation;

4. establish guidelines for the establishment and maintenance of world food reserve stocks with rules as to their release in times of scarcity;

5. recognize the need for some developing countries to be allowed exceptions from some GATT rules when the overall impact of the exemptions is to spur economic development and their greater integration into the world trading partnership; and

6. seek greater harmonization of health and sanitation standards to the highest possible level while allowing countries to deviate from the international standards when the country can show its own standard was put in place for legitimate health and safety reasons.

PREPARED STATEMENT OF JACK VALENTI

The fundamental trade truth which provisions the actions and objectives of the Motion Picture Export Association of America can be summed up concisely: *"Countries selling goods freely in our market must grant us equal access in their markets."*

That crisply composed "first principle of trade' was so declared by the Chairman of the Senate Finance Committee, Senator Lloyd Bentsen, on February 28, 1991. We accept it. We believe in it. We live by it.

The MPEAA labors daily on every continent to make sure that American films, television programs and home video material can move freely and unhobbled around the world. It is not a casual task, nor is it an easy one. Each day we must be vigilant, for like virtue, we are each day besieged.

Nor is the work we do unattached to the long term public interest of this nation. The US visual entertainment industry returns to this country more than $3.5 billion annually **in surplus balance of trade.** At a time in our history when the phrase "surplus balance of trade" is seldom heard in the corridors of the Congress or in the conference rooms of the US Treasury Department, the US film industry makes one of the largest trade surplus contributions of any industry in the land.

More than that, the ample embrace of "core" copyright industries—motion pictures, television, music, publishing, computer software—adds over $173 *billion* to the US Gross National Product annually. In those lands beyond our shore, these core copyright industries gather some $22.3 billion in international revenues (in 1989), and have an annual growth rate *twice* the growth rate of the economy as a whole (in 1989, 6.2% vs. 2.98%).

So, the record is clearly illuminated: The US film/television/home video industry is a shining jewel in America's trade crown. Simply stated, what we do creatively in this country and export to all the world, captures the attention, the favor, and the patronage of viewers on every continent. Or to put it another way: If any other country in the known world had an industry so hospitably received throughout this planet, they would never allow it to be maltreated anywhere in the world.

That is why the US entertainment industry is committed to, lives by, and fights for Free Trade. Of the MPEAA member companies' total global revenues in 1990, some 41.4% came from international markets, ascending from 22% just five short years ago.

Lord Palmerston, the 18th century British first minister, once said that "England has no permanent friends, and England has no permanent enemies. But what England does have is permanent interests."

Our own national public policy rostrum has to be planked by permanent principles, which Palmerston's brief assertion so ringingly endorses. If the United States cannot or will not assemble its convictions in its intercourse with other nations of the world, and affirm its principles and permanent interests with authority and resolve, we will wake one morning to find our fair world shattered and our assets squandered.

Out of those convictions must come our permanent principle, so warranted by the Bentsen Doctrine of Fair Trade. Is it wrong to tell our trading partners, "We ask no more from you than the same freedom of action in your marketplace which your businessmen find so alluring and seductive in ours?" We cannot allow our trading partners to put part or all of their marketplace off-limits to American visual creative entertainment material. If they try, we must resist. If they insist, we must retaliate.

That is not "foreign bashing," though some commentators discomforted by truth so describe it. Nor is it "protectionist" though some lobbyists bewildered by logic so label it. What it really is, however, is the sanest, wisest objective for our country to seek, for it is armored against rebuttal and shielded from unreasoning assault. But these are dangerous statements for anyone to make. As Oscar Wilde once murmured, "When one tells the truth, one is sure sooner or later to be found out."

Now, we address some issues which this Committee confronts.

MPEAA SUPPORTS FAST TRACT EXTENSION . . . WITH A CAVEAT

MPEAA supports Fast Track Extension. With a caveat.

Let me explain.

We believe that there has to be some disciplined code of trade conduct in the world, else neighbors and friends will be lashed to pieces by bi-lateral squabbling, soured by endless disputes, the squirming evasiveness of forked tongues and illusory promises, and finally the end of even a modest attempt at international comity. Bilateral Free Trade Agreements make good sense. But even more sense is there to GATT. There is a process to GATT, procedures and rules by which nations can be

guided when there is a potential collision involving trading goods and services. Absent those approved regulations, there is nothing left save the tusk and the tooth, the beak and the claw.

That is why MPEAA supports the President and the US Trade Representative in their reach for this kind of civil discourse in trade.

We believe without Fast Track Extension, the world will soon slip into a kind of unamiable chaos. And yet our country must defend its industries from being absorbed and battered by barriers of every imaginable and mischievous design. Is it not wiser and better to try to achieve some reasonable concord *within* GATT than to give up *without* trying? If we fail, we fail. But it is surely worth the try. Fast Track Extension gives us a shot at that try.

But—and here is our caveat:

First, the Mexico Free Trade Agreement

At this moment Canada intends to enter the US/Mexico talks, to conclude a Tripartite Agreement. If that is so, then MPEAA pleads, and insists, that the US must never sign any Tripartite accord which includes the infamous "Cultural Exclusion" that so unsuitably is engraved on the forehead of the US/Canada Free Trade Agreement. By that 'exclusion' motion pictures, television programs, home video, books, recordings are all exiled from the US/Canada Agreement.

Therefore: If Canada persists in a demand that such an Exclusion be inserted into whatever final agreement is reached by Mexico/US/Canada, then the US must walk away, leaving that document unsigned.

The MPEAA has been assured by the United States Trade Representative that if Canada tries to implant its "cultural exclusion" into a Tripartite Trade Agreement, the US will sign an agreement *only* with Mexico.

Second, the European Community

Today, that twelve member-state Community is manacled to a maimed, disabled theory which honors restriction above public choice. The EC in October, 1989 passed a Broadcast Directive which put in play an EC-wide *television program quota system.* Article 4 of the Directive commands "a majority proportion of transmission time" be reserved for European works (excluding news, sports events, games, advertising and teletext services). This is gritty prose. Majority means over 50%, and that means "Quota," and Quota means Trouble in River City.

Why this EC quota? Its defenders, those who would build the siege walls, claim "Our culture is at stake!" Can this be true? Is a thousand, two thousand, years of an individual nation's culture to collapse because of the exhibition of American TV programs? Is the culture of any European country so flimsily anchored, so shakily rooted, that European viewers must be caged and blinded else their links with their honored and distinguished past suddenly vanishes like an exploding star in the heavens?

Or are these barriers more connected to commerce than culture? No matter. The Quota is there, it hangs with Damoclean ferocity over the future. And it will in time, as its velocity increases, bite, wound, and bleed the American TV industry. If we submit to the constrictions of this willful, contradictory Quota, we put to hazard the future of our value as a trade asset. Most assuredly these Quotas will shrink the estimates of where we might be in ten years if the European marketplace were as free as our own.

By the way, let me offer this confirmable fact.

No nation that I know of has truly lifted the level of quality in its creative arena as a result of trade cliffs or abrasive restrictions. Films and television programs are delicate creative enterprises. They fly on gossamer wings, mysteriously formed, easily shattered. No president, no prime minister can command a superior film to be made, nor can any Parliament force its citizens to watch a TV program they don't want to see. You cannot force-feed creativity any more than the European Parliament can mandate two dozen more Louis Malle's to be born or order ten Federico Fellini's to spring full blown from the forehead of a cabinet minister.

There is an Augustan imperial chord sounding in the EC directive. To suggest that Europe is so barren of creative talent that a muzzle must be placed on the creative voices of non-EC artisans is to mock and demean the great wealth of talent and cinema/TV skills that abound in Europe. In each of the twelve nations within the Community, there resides world-class, gifted film and television artists of the highest caliber. These superior craftsmen can compete with the best the world has to offer.

Therefore: Our country cannot and must not approve any GATT concord which leaves in place and undisturbed those unacceptable European Community TV

Quotas. They are alien to the very objective of GATT, which is to reduce trade tensions and break down trade barriers.

Our country should sign a GATT accord only if TV Quotas are phased out over a number of years with a specific guarantee of that implementation.

Third, protection of intellectual property.

A GATT agreement on trade-related aspects of intellectual property (TRIPS) must incorporate *and improve upon* international principles of copyright protection. The minimum requirements for a TRIPS agreement include protection for public performances, protection for sound recordings, and an effective dispute settlement mechanism.

A TRIPS agreement *must not* be used as a tool to replace contractual rights negotiated in the free marketplace in favor of European concepts of "moral" rights, "authors" rights, and "performers" rights. In the United States, these rights are effectively protected through collective bargaining and contractual agreements.

In particular, the American concept of "work-for-hire" which recognizes corporate authorship must be preserved in any TRIPS agreement. The U.S. system of copyright protection has nurtured the most successful and creative producers of intellectual property in the world. It need not, and must not, be abandoned.

WHAT ABOUT "GATT PLUS?"

Chairman Bentsen has requested views about a concept called "GATT PLUS." As we understand it, GATT PLUS posits the notion of a smaller assembly of nations gathering together to find agreement on a "more ambitious trade" concord.

As Chairman Bentsen describes it, each of these agreeing nations would offer each other premier trade benefits while those nations outside GATT PLUS would get only what the more modest overall GATT accord achieved, not the larger liberalization of trade proffered only to signers of GATT PLUS.

Under the GATT PLUS concept, there would be "no free riders," no playing cute on the turns by using the Most Favored Nation principle to take advantage of lessened trade barriers in other countries while keeping their own formidable trade hedgerows firmly cemented in place.

We support, in general, the GATT PLUS concept.

We would join any call to an assembly of those who would choose to explore this rather novel idea. Anything and anyone that actually tries to achieve the objectives of GATT will find the MPEAA ready to cooperate. The logic is plain. If GATT in its entirety fails to encircle within a final accord a solution to the dangerous "free rider" potential that clings to Most Favored Nation, then GATT's forty-year history of softening the sharp edges of trade disputes will have melted. If the larger GATT assembly fails, then why not examine the value of a smaller circle populated by nations who sniff the air to smell all too clearly the sour odors that come from a trade jungle? What is there to lose from trying GATT PLUS?

We must, however, point out that "the free rider" problem does not exist within the US film/TV/home video industry. Our market is totally open, absolutely free. There are no restrictions, no barriers, no quotas of any kind. What IS in our marketplace, however, is the most fierce kind of competition to win the eyes and ears of those who go the cinema and/or watch TV.

What we need most from our friends and trading partners are not any new trade concepts. Not at all. What we need, what we want, what we must have, if the playing fields are going to be level, is for other nations to dismantle the machinery of restrictions and quotas now in place, and agree not to build any new trade weapons whose aim it is to keep us out of their markets.

This is what we believe and support:

The world will become even more surly unless there is some process to bring comity and discipline to the world trading arena. GATT is the best that we know. We ought to give it a chance, lest without GATT, we turn back the trading clock. If that happens no one wins. We all lose.

And finally, when the hour is two minutes to midnight in Geneva and Mexico City, at that moment when the pens are poised to sign, if what we have wrought in GATT, or in the Mexico Free Trade Agreement, does not fit the design for fairness and reason, our government cannot be a signatory. It must put its pen back on the table. Unused.

COMMUNICATIONS

STATEMENT OF THE AMERICAN TEXTILE MANUFACTURERS INSTITUTE (ATMI)

This statement is submitted by the American Textile Manufacturers Institute (ATMI) on behalf of its member companies. ATMI is the national association of the textile mill products industry (SIC Industry 22). Its members are engaged in every facet of textile manufacturing and marketing and collectively account for more than 75 percent of the fiber consumed by the domestic textile mill products industry.

THE IMPACT OF THE URUGUAY ROUND ON THE U.S. TEXTILE AND APPAREL INDUSTRY

The fate of world textile and clothing trade appears sealed with the announced resumption on February 21 of the Uruguay Round talks. Of all the key negotiating groups, textiles is the most nearly complete and could be concluded relatively easily. That is not to say that textiles will be the first agreement to be concluded; because of negotiating dynamics, trade-offs and last minute bargaining may well make it one of the last agreements to be officially completed. It is possible, however, to estimate with considerable accuracy what the agreement will look like and, with some reasonable assumptions, its impact on the U.S. textile and clothing industry.

"GROWTH-ON GROWTH"

The phase-out proposal contains two main provisions that will affect the growth of imports into the U.S. The first is the "growth-on-growth" feature that increases the growth rates which exist in the 38 U.S. bilateral textile agreements. Average annual growth in those agreements is 3.96 percent and will increase to 7.04 percent during the 10-year phase-out. This will produce, at the very least, a 72 percent increase in current import quotas.

A particularly damaging aspect of this is that not all U.S. quotas are the 3.9 percent average. Some are one percent (a few are even less), some are 3 percent and many are 6 or 7 percent. One might expect that the lower growth rates apply to quotas on more sensitive, heavily import impacted products while higher growth rates are for less sensitive ones. With the exception of the one percent growth rates for wool (highly sensitive), this is not generally the case. The government has instead assigned growth rates based on the supplier country involved. Typically smaller suppliers or politically favored supplying countries get higher growth rates. For example, Pakistan and Indonesia have 7 percent growth rates on many quotas. Turkey has 6 percent rates (except for wool products) regardless of the sensitivity of the product involved. This means that when the growth-on-growth provision is applied, many import sensitive products with growth rates of 6 percent will increase 126 percent over the phase-out period.

The growth-on-growth feature of the Text is also damaging to domestic producers even in the cases where dominant Far East suppliers have lower than average growth rates. Because the quota levels of those suppliers are so large the growth-on-growth provision produces large absolute increases in the levels of import quotas of those suppliers. For example:

Supplying country	Growth rate percent	Product	Quota Limits		Increase
			1991	2001	
PRC	2.1	Cotton Printcloth (mil. sq. meters)	150	195	45
Hong Kong	2.0	Man-made Fiber Trousers (thou. doz.)	773	994	221
Hong Kong	0.5	Cotton Knit Shirts (thou. doz.)	4,614	4,916	303

PRODUCT INTEGRATION

The second feature of the phase-out plan that leads to rapid import growth is the so-called "product integration" provision. This requires the U.S. to "decontrol" at least 45 percent of its current imports during the phaseout according to the following schedule:

Beginning year	U S 1990 imports integrated
0	10%
5	15%
8	20%

Products integrated into the GATT in this manner cannot be "called" or returned to MFA-type quota control. The only remedy available to domestic producers if these uncontrolled products cause or threaten injury would be to use the "escape clause" procedures of Section 201 of the Trade Agreements Act of 1974. The spotty and largely unsuccessful history of domestic use of Section 201 is well-known and today Section 201 is not much of a remedy at all. In a classic example of its flaws, the U.S. footwear industry obtained modest 201 relief in the early 80's, but was unsuccessful in obtaining an extension. Even though the International Trade Commission (ITC) agreed that an extension was justified, the White House denied relief. Today, imports account for over 82 percent of the U.S. footwear market.

Moreover, while the Uruguay Round may produce some changes in Article XIX of the GATT (the international framework for Section 201), U.S. negotiators have indicated that Section 201 will remain fundamentally unchanged. Suffice it to say that once a product is "integrated," it is essentially beyond the reach of quotas or other import relief—regardless of subsequent injury to U S. producers and workers.

Another pernicious feature of product integration is the "central planning" aspect whereby importing governments would have to pick the product sectors to be "sacrificed." Every few years, the Administration must decide whether, for example, the U.S. umbrella industry, sweater industry, soft-sided luggage industry, neckwear industry, cotton broadcloth industry, or wool fabric industry will survive through the full phase-out or will be completely and instantly integrated into the GATT. This is an appalling provision of the Chairman's Text.

Should any bureaucrat be given this much power over the future of companies and workers? Moreover, how will businessmen in the domestic industry plan future investments not knowing whether they will "make the cut" and survive? They won't and failing to invest will accelerate the downward spiral for the industry. Why would the U.S. agree to such an insidious process? In any case, the Administration has done so and has sealed the fate of yet unnamed U.S. product sectors.

IMPACT OF ACCELERATED IMPORT GROWTH

The impact of the growth-on-growth and product integration provisions has been estimated in Table 1 and is shown graphically in Figure 1. The impact on domestic production and employment in textiles and clothing is devastating. During the 10-year phase-out, U.S. textile and clothing production will decline from 17.8 billion square meters to 3.0 billion and employment in the industry will drop to 302,000 workers from its current level of 1.7 million.

The analysis assumes U.S. market growth of one percent annually over the ten year phase-out. This assumption is based on several sources:

—An extrapolation of the 1974-1990 trend in market growth as shown in Figure 2.

—Estimates done by U.S. fiber producers using econometric models and other analyses to derive market growth projections for key sectors of the textile and clothing industry.

These estimates coincide with the rational expectation of slow growth in consumption of these products because of slow population growth and an aging population forecasted over the next decade.

However, even if market growth were to increase to two percent annually—an estimate considered "off the charts" by industry analysts, the Chairman's Text would still produce an extremely damaging result. Domestic production would decline to 5.8 billion square meters and some 1.1 million jobs would be lost. Even overly opti-

mistic projections of market growth cannot compensate for the damaging excesses of this agreement.

Secondary effects will be at least as damaging. A conservative one-to-one "ripple" effect could produce an additional 1.4 million job losses in supporting and supplying industries. Fiber producers will be especially hard hit since the domestic textile industry consumes more than half of the U.S. cotton crop and nearly all of the wool grown and man-made fibers produced in the U.S.

The analysis is based on import growth estimates which closely track estimates made by the U.S. Department of Commerce. These estimates are compared in Figure 3.

OTHER PROVISIONS

The Chairman's Text has several other features that are being touted by the Administration as major improvements over the MFA. None of these claims stands up to close scrutiny. The Administration claims that the Text's "cumulative disruption safeguard" feature will permit the U.S. to place quotas on disruptive products from more than one supplying country during the phase-out (except for products already integrated). The current MFA also permits this; cumulative market disruption has been a cornerstone of the MFA since its inception. The U.S. has chosen not to use it extensively and is now "paying" at the bargaining table to get it in the Chairman's Text. In any case, it will have little operational significance because the five agencies (State, Treasury, Labor, Commerce and USTR) on the Committee to Implement Textile Agreements (CITA) often have difficulty agreeing on one new quota. Why will they agree more readily to multiple quotas?

The Administration also claims that the provision relating to quota fraud involving transshipments is a major improvement. In fact, the U.S. can already act decisively and unilaterally—and sometimes does—against countries who circumvent quotas. Recent actions against Macau and the People's Republic of China show that if the political will is there, the mechanisms are in place at U.S. Customs to police the quota agreements. Again, the U.S. is paying for something it can already do.

Finally, the Chairman's Text is hailed by the Administration as opening markets in the developing countries which are now closed or severely restrict foreign textile products. But in fact, this provision has no teeth in it. For example, should the U.S. decide that India has not fulfilled its GATT obligations to open its market, the U.S. is entitled to protest to a group of countries which will comprise a Textile Monitoring Body (TMB). The TMB will decide whether the U.S. protest has merit. However, even if the TMB does agree with the U.S. (which is far from certain since some countries on the TMB are also likely targets for such complaints), India can object. The entire process would ultimately be decided by a vote of the GATT Council of some 100 countries, three quarters of which are developing countries and a majority of which have substantial restrictions themselves on imported textile products. Even if the U.S. protest were successful, the Text does not spell out the sanctions permitted to be applied against nonperforming countries (in this case, India).

Table 1.—ANALYSIS OF GROWTH RATES AND PRODUCT INTEGRATION SCENARIO FOR U.S. TEXTILE AND APPAREL IMPORTS AS FOUND IN CHAIRMAN'S TEXT OF 19 NOVEMBER 1990 (1990 ACTUAL IMPORTS)

[First 5 years has 10.0 percent uncontrolled growth, 0.6 percent controlled by textile safeguard mechanism; last 5 years has 7.5 percent uncontrolled growth, 0.5 percent controlled by safeguard, three step reintegration]

	Uncontrolled imports	Total quota available	Total controlled imports	Total imports	U.S. market	Imports as percent of U.S. market	U.S. domestic production	Domestic production employment
1990 Actual	4,922.2	9,084.6	7,267.7	12,189.9	30,264	40.28	18,074	1,757,000
1991	5,414.4	9,475.9	7,580.7	12,995.1	30,567	42.51	17,571	1,757,150
1992	5,955.9	9,918.3	7,934.6	13,890.5	30,872	44.99	16,982	1,698,182
1993	6,551.4	10,421.0	8,336.8	14,888.2	31,181	47.75	16,293	1,629,280
1994	7,206.6	10,994.4	8,795.5	16,002.1	31,493	50.81	15,491	1,549,074
1995	7,927.3	11,650.6	9,320.5	17,247.7	31,808	54.22	14,560	1,456,002
1996	10,548.5	10,565.0	8,452.0	19,000.5	32,126	59.14	13,125	1,312,535
1997	11,339.6	11,418.1	10,276.3	21,616.0	32,447	66.62	10,831	1,083,114
1998	12,190.1	12,396.6	11,156.9	23,347.0	32,772	71.24	9,425	942,453
1999	15,542.4	11,063.2	9,956.9	25,499.3	33,099	77.04	7,600	760,001
2000	16,708.1	12,511.8	11,260.6	27,968.7	33,430	83.66	5,462	546,158

Table 1.—ANALYSIS OF GROWTH RATES AND PRODUCT INTEGRATION SCENARIO FOR U.S. TEXTILE AND APPAREL IMPORTS AS FOUND IN CHAIRMAN'S TEXT OF 19 NOVEMBER 1990 (1990 ACTUAL IMPORTS)—Continued

[First 5 years has 10 0 percent uncontrolled growth, 0 6 percent controlled by textile safeguard mechanism, last 5 years has 7 5 percent uncontrolled growth, 0 5 percent controlled by safeguard, three step reintegration]

	Uncontrolled imports	Total quota available	Total controlled imports	Total imports	U S market	Imports as percent of U S market	U S domestic production	Domestic production employment
2001	17,961.2	14,199.6	12,779.6	30,740.8	33,765	91.04	3,024	302,376

Growth of uncontrolled trade
—1983 through 1989 uncontrolled growth = 10 6%/year
—Assumed uncontrolled growth rate = 10 0% for first 5 years and 7 5% for last 5 years of integration
—The other 0 6 for first 5 years and 0 5 percent for last 5 years is controlled using the new safeguard mechanism

Growth of controlled trade is based on current negotiating text
—Growth in first 4 years is 16% above present avg growth rate of 3 98% (4 62%)
—Growth in next 3 years is 21% above previous period's level (5 59%)
—Growth in final 3 years is 26% above previous period's level (7 04%)

Reintegration of products:
—Initial reintegration does not include products presently under quota and does not appear in analysis
—15 percent of 1990 controlled trade is reintegrated into uncontrolled in 1996
—20 percent of 1990 controlled trade is reintegrated into uncontrolled in 1999

Total imports = Sum of uncontrolled imports + controlled imports (which is assumed to be 80% of quota available for first five years and 90% for last five years)

Market growth = One percent per year in square meters

Employment:
—Domestic production employment projections based on 100,000 workers per billion SME production
—The average labor per square meter will not, in reality, reflect losses over time because it is likely that products with a high labor content will be affected by imports first

For this reason, the analysis of the impact of the Chairman's Text on U.S. production and jobs did not include projections of increased domestic production for export. Nonetheless, such an estimate was made in order to assess, at least theoretically, the impact of opening foreign markets. If textile and clothing exports from the U.S. in the 1990's were to increase 5 percent annually in real terms (a far greater increase than during any recent decade), after 10 years, U.S. production would be 2 billion square meters higher than reported in Table 1. This means 173,000 more U.S. workers would be employed but the result would remain a disaster for the domestic industry with 1.2 million jobs lost.

CONCLUSION

The major developing countries must find it difficult to believe that such a proposal as in the Chairman's Text has advanced nearly to full agreement. It is likely that never in their (or their U.S. consultants') wildest dreams did they envision such a capitulation by the developed countries. What started out five years ago at the beginning of the Uruguay Round with a simple statement that talks should begin to figure out how the MFA should be phased out and under what conditions now threatens the very existence of the U.S. textile and clothing industry. However, the Chairman's Text so favors the dominant, low-wage major Far East suppliers that the U.S. textile and clothing industry could be only one of the victims displaced by the likes of the PRC, India, Pakistan, etc. Mexico and smaller developing countries might wind up wishing this was all a dream.

THE MFA PHASE-OUT AND MEXICO

The phase-out of the MFA coupled with Uruguay Round reductions of U.S. tariffs on textiles and clothing will significantly reduce the value of the proposed Mexico/U.S. Free Trade Agreement (FTA). Moreover, the type of phase-out mechanism currently on the table and likely to be agreed to will be highly disadvantageous to Mexico.

To understand the impact of these developments on Mexico, it is necessary to look at the composition of Mexico's exports to the U.S. and the prices of those exports relative to other, and especially Far Eastern, suppliers. The major exports from Mexico to the U.S. currently by product category are in Table 2. Also shown are the major suppliers of these products to the U.S. Clearly, Mexico's current competition in the U.S. market is from the large Far East suppliers.

The Chairman's Text will permit products which remain under quota during the ten years of the phase-out to grow an average of 72 percent. It is true that Mexico generally enjoys higher annual quota growth rates than the major Far East suppli-

ers (6% vs. 1 to 3%). Thus, one might argue that Mexico will be relatively better off under the Chairman's Text. That is not necessarily the case if one considers the absolute increases resulting from the compounded growth effects on the very large Far East quotas compared to the relatively smaller Mexican quotas. (See Table 3.) Moreover, many Far East quotas are not only large, but are less than fully utilized, which increases the potential for surges of imports from the Far East.

Table 2.—MAJOR U.S. IMPORTS FROM MEXICO

Product Category	1990 Mil Sme	Mexico's rank	Other major suppliers
313—Cotton Sheeting	20.1	7	Pakistan (1)
			Taiwan (2)
			PRC (3)
			Korea (4)
			USSR (5)
			Hong Kong (6)
651—Man-made fiber nightwear	13.5	4	Dom. Rep (1)
			PRC (2)
			Taiwan (3)
652—Man-made fiber underwear	19.3	3	Hong Kong (1)
			PRC (2)

Mexico's relative competitiveness is illustrated in Figure 4 and shows that in several knit and woven clothing products, as well as in a basic cotton fabric, Mexico is a higher cost supplier than the dominant Far East supplier and, in some cases, than even suppliers in the Caribbean. In all of the examples, Mexico would still be a higher cost supplier on a duty-free basis.

Because U.S. textile and clothing tariffs will be cut in the Uruguay Round on an MFN basis, Mexico will be further disadvantaged in an FTA, since their margin of tariff preference will shrink.

The Chairman's Text also contains an especially damaging feature for Mexico—product integration. Importing countries will have to "integrate into the GATT" at least 45 percent of their current import trade in three stages *during* the 10-year phase-out. This means that Mexico will be confronted with intensified competition in the integrated products from the dominant Far East suppliers as soon as the Uruguay Round is implemented. That competition will escalate during the phase out. Importers in the U.S. could favor their already established Far East suppliers who will become increasingly free of quotas, rather than switch to a less-well established Mexican textile and clothing industry, even though duties with Mexico are being phased out. At the same time, Far East suppliers will be competing among themselves for the U.S. market and the likely winners will be the large, low-wage and primarily non-market economy, subsidized producers such as the People's Republic of China, India, Pakistan, and Indonesia. These economies are not substantially market-driven, especially in exporting where their main objectives are to earn foreign exchange and create jobs. They will not surrender market share easily to Mexico.

Table 3.—QUOTA GROWTH—MEXICO AND ITS MAJOR ASIAN COMPETITORS

Product category	1991 Growth rate, percent	Quota limit, units	
		1991	2001
219—Cotton duck fabric, mil. sq. m.			
Hong Kong	2.5	37.6	52.9
Mexico	6.0	14.0	31.2
313—Cotton sheeting, mil. sq. m.			
Pakistan	5.7	71.1	152.3
Mexico	6.0	25.0	55.7
315—Cotton printcloth, mil. sq. m.			
PRC	2.1	146.0	194.7
Mexico	6.0	45.0	100.2

Table 3.—QUOTA GROWTH—MEXICO AND ITS MAJOR ASIAN COMPETITORS—Continued

Product category	1991 Growth rate, percent	Quota limit, units	
		1991	2001
635—Women's & girls' man-made fiber coats, thou. doz.			
PRC	3.5	527	847
Mexico	6.0	129	288
652—Man-Made fiber underwear, thou. doz.			
Pakistan	2.0	3,905	5,138
Mexico	6.0	1,600	3,563

Source: U.S. Department of Commerce, Major Shippers Report and Summary of Agreements

Mexico's situation under an FTA and that of the Caribbean countries would be far better with continued or reduced quota coverage of the dominant Far East suppliers.

In spite of this, the Administration is seeking an extension of fast track authority to implement both the Uruguay Round and an FTA with Mexico. Yet the type of Uruguay Round textiles proposal the Administration supports is clearly inimical to Mexico's interests in an FTA.

CONCLUSIONS

The key results of implementation of the MFA phase-out proposal now being negotiated in the Uruguay Round will be:

- The U.S. textile and clothing industry over the next decade will essentially disappear as a major manufacturer and the largest manufacturing employer in the U.S.
- U.S. fiber producers—cotton, wool and man-made—will have to cope with the disappearance of their largest customer and will be seriously damaged.
- The PRC, India, Pakistan, Indonesia and other large low-wage, essentially nonmarket, subsidized economies will dominate the U.S. textile and clothing market with the PRC clearly the principal beneficiary.
- Mexico, even with a free trade agreement with the U.S., and smaller developing countries will lose market share in the U.S. to the dominant Asian producers.

The most incomprehensible aspect of these developments is that the U.S. government is not only going along with but is actively supporting this result. Perhaps the Administration has reasons why it wants to surrender its market to the truly undeserving textile producers such as China, India and Pakistan, but it is difficult to fathom what they are. These countries have slaughtered their own citizens, ignored and flaunted the rules and disciplines of the GATT, cheated on textile and clothing quotas, obstructed progress in the Uruguay Round and maintained markets closed to textile and clothing imports (as well as to many other products). It is almost impossible to assemble a more undeserving list of countries.

Because the Administration is supporting the Chairman's Text, ATMI has committed to fight the Uruguay Round outcome at every opportunity. ATMI is therefore opposed to the extension of fast track authority which is being sought by the Administration.

Figure 1

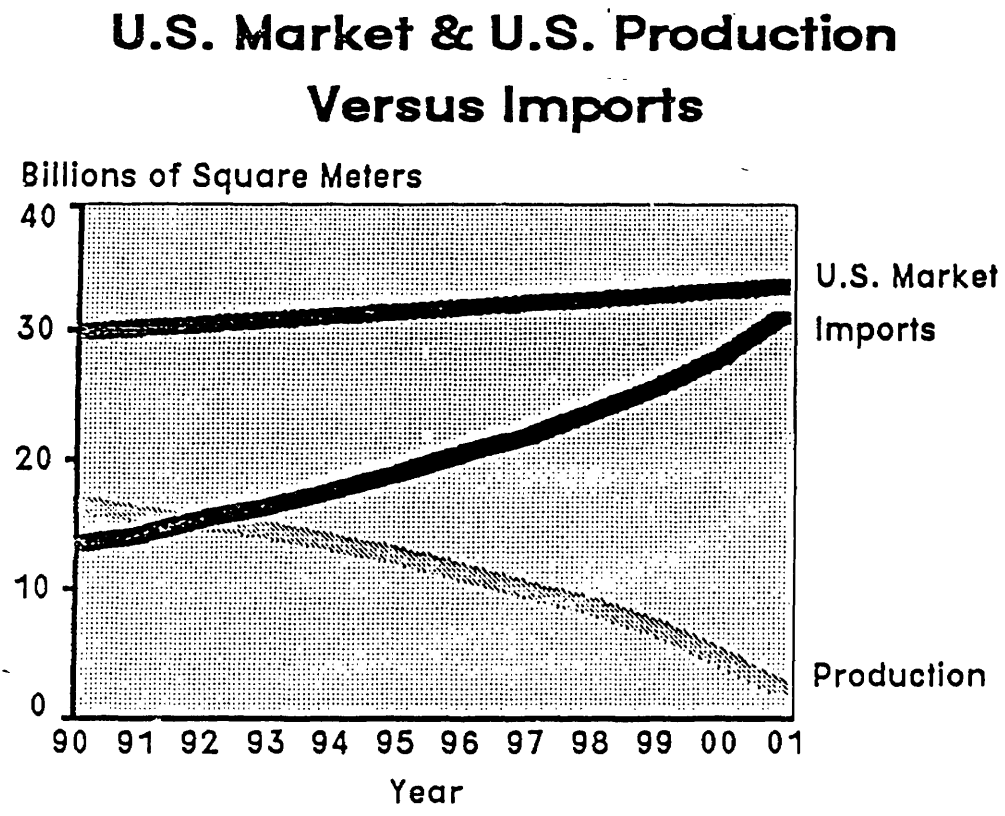

U.S. Market & U.S. Production
Versus Imports
Billions of Square Meters
40
30
20
10
0
90 91 92 93 94 95 96 97 98 99 00 01
Year
U.S. Market
Imports
Production

Figure 2

THE U.S. MARKET FOR TEXTILES
GROWING SLOWLY OVER TIME

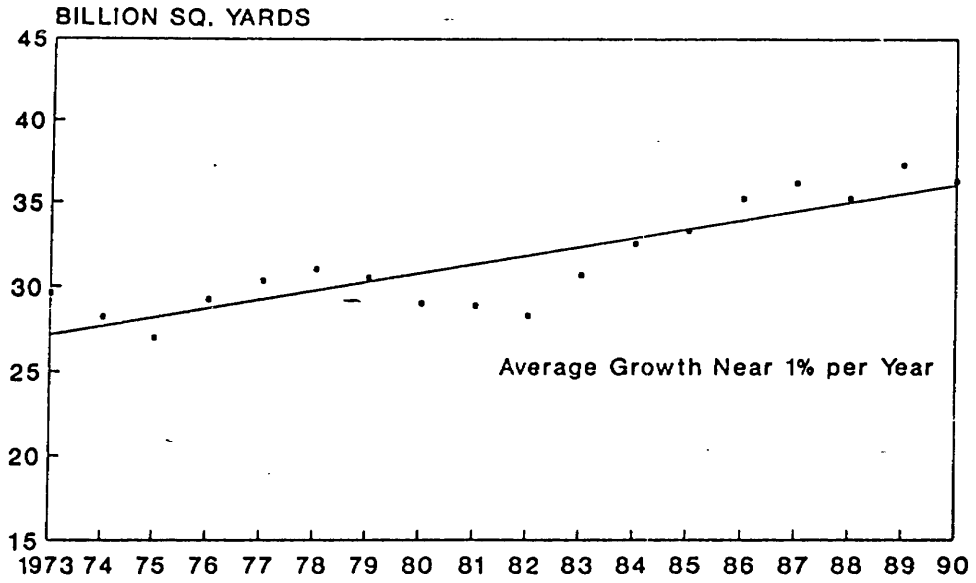


Figure 3

COMPARISON OF IMPORT PROJECTIONS UNDER URUGUAY ROUND TEXTILE PROPOSAL
DEPARTMENT OF COMMERCE AND ATMI

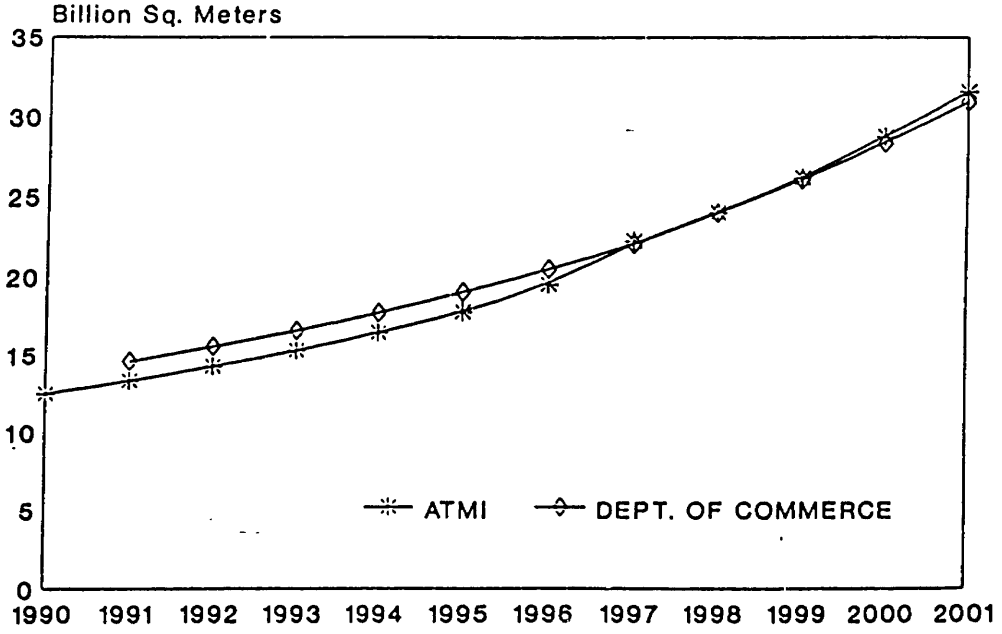
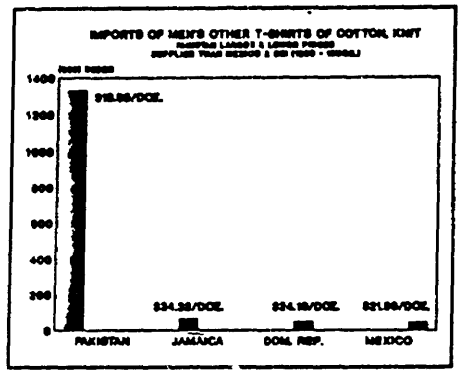
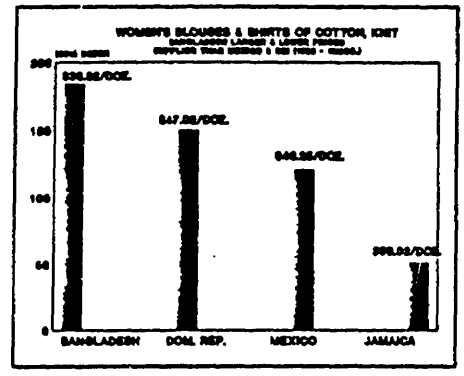
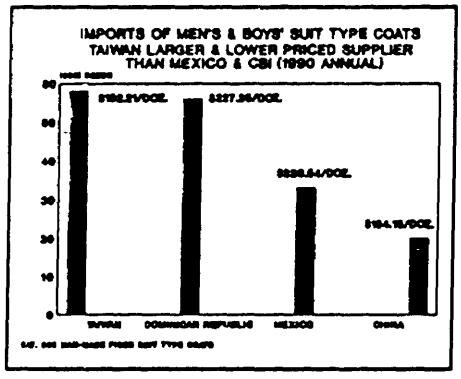


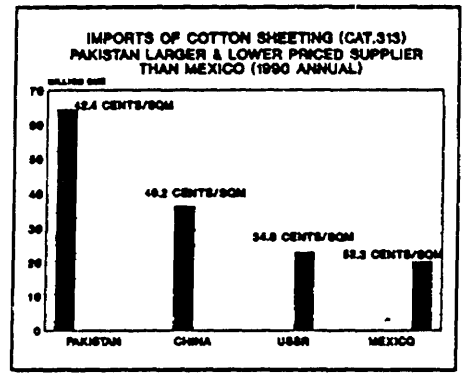
Figure 4

MEXICO'S RELATIVE COMPETITIVENESS IN CLOTHING EXPORTS









SOURCE: U.S. Department of Commerce
Bureau of the Census

STATEMENT OF FRED HUENEFELD

It is an open secret that right from the start in 1986 of Agriculture Secretary Clayton Yeautter's drive for free trade in the Uruguay Round of the GATT talks that he was representing the interests of Cargill and cohort companies in coercing the 100 member nations of the GATT to agree to give up their sovereign right to set their own policies to protect and foster their industry, agriculture and living standards. So far, many nations have refused to agree to such economic subjugation through the GATT process. This Administration is trying to set up a Hemispheric free trade zone to loot their own back yard.

As a farmer, as an American, as a citizen concerned with the welfare of all nations, I call for a holt in the drive to set up a Free Trade some between the United States and Mexico. I believe that such a pact would be deleterious to both our economies, and I am appalled by the glib way that those who are pushing hardest for this agreement, on both sides of the U.S.-Mexico border, are ignoring the consequences of the free trade provisions that have already been implémented piecemeal.

We are told under free trade, there will be more jobs created than lost, and investment funds will flow in. However, in less than two years, Canada has already lost more than 150,000 jobs, net, more than 1% of its work force, and has seen a net outflow of investment capital to the tune of Canadian $4 billion. It is reported that in the last 4 years, the lowering of tariffs is estimated to have already lost 77,000 jobs.

So-called free trade is in fact a doublespeak term for issuing a license-to-loot to a self-perceived elect group of swindlers, otherwise known as the mega-companies and banks that want to dominate all food, industry, and trade activities in President Bush's New World Order. These select private interests want the elimination of national barriers and boundaries to their practices of imposing usury and unfair, low prices.

Who are the members of this grouping? Some of the prominent names include ConAgra, Cargill, Louis Dreyfus, Archer Daniels Midland, Chase Manhattan Bank, Nestle, Citibank, and a few others.

Others, especially the UAW and other unions here and in Mexico, have documented the obvious fact, that this would open the door to a mass exodus of runaway shops, and this has already happened to a significant extent. But more profoundly, it will open Mexico to become nothing but a huge labor pool for low-wage assembly plants. We have already heard arguments, from Senator Albert Gore among others, that in the wake of the war with Iraq, we must apply what can only be called "technical apartheid" against the Third World. A free trade agreement would go far towards accomplishing this goal. It would tend to stall Mexican industry at a low level of technology, and reserve high technology industry for us.

I wish to note that those backing free trade ignore many points. To my knowledge, there is no example in modern world history of such an arrangement working between two countries whose levels of economic development are so disparate. The two most successful free trade schemes that I know of, the Customs Union among then sovereign German states in the 1830s, and the European Community, involved countries at least roughly comparable in their levels of economic development.

The Bush officials have repeatedly demanded that Mexico put the question of petroleum on the table as part of the free trade talks—most recently by former ambassador Charles Pilliod, last week in a conference in Acapulco with Carla Hills present. Just before President Bush pushed the button to start war in the Persian Gulf, he personally toured Mexico and South America to issue the edict; Your oil will be ours.

This is free trade in action. The freedom to loot and pillage.

The real reasons for the push for free trade is to provide rhetoric to cover for an imperialistic grab for oil and raw materials, and a desire to capitalize on Mexico's cheap labor to be able to batter U.S. labor into submission during the depression. It would seem that Administration planners have scenarios in which they think that U.S. and Mexican cheap labor will produce cheaply enough to undercut any possible economic growth in Western Europe, especially in their 1992 all-European market. Far from being a measure to bring prosperity, the Mexican-U.S. free trade deal is understood privately as a measure to help impose a permanent recession.

Finally, the best thing for our own economy would not be to export to Mexico those things that Mexico is capable of also producing, but to export those items, such as capital goods, high technology items, and heavy industrial items, to the extent we even have the means left to manufacture them. This would stimulate our own heavy industry sector, which is in the worst doldrums of any of our major in-

dustrial sectors, and would do more to revive our economy than any amount of light, consumer-oriented production in competition with Mexican workers.

We must commit to a trade policy based on parity prices—fair prices covering differing costs and returns on investment, for farm and industrial commodities and raw materials from all nations.

The free trade push has in reality been a cover for neo-colonialist practices that should be investigated and prosecuted under anti-trust laws. Instead, the Department of Justice has been deliberately protecting the lawlessness, doing the bidding of the Administration.

What's happening to the catfish farmers in Louisiana, who are selling their catfish for $1.99 a pound and Brazilian catfish being sold in Louisiana for $1.29 a pound, I ask you the question, "Which catfish are the poor folks going to buy?"

I give you a personal example of my cotton gin where the seed prices collapsed from $200.00 to $40.00 a ton four years ago, and I had to shut down my cotton gin on my own farm. And a thousand bales of cotton we had to take and gin somewhere else because I wasn't prepared to lose a hundred thousand dollars. That year the Union Oil Mill (cotton seed oil plant) lost six hundred thousand dollars and now has been sold by the farmers in Monroe, Louisiana, to a foreign group.

For these reasons and others I have no time to elaborate, I join my voice to those who say this Mexico-U.S. free trade accord is no good, not for either economy. It is tantamount to economic warfare. Under no conditions should it be approved.

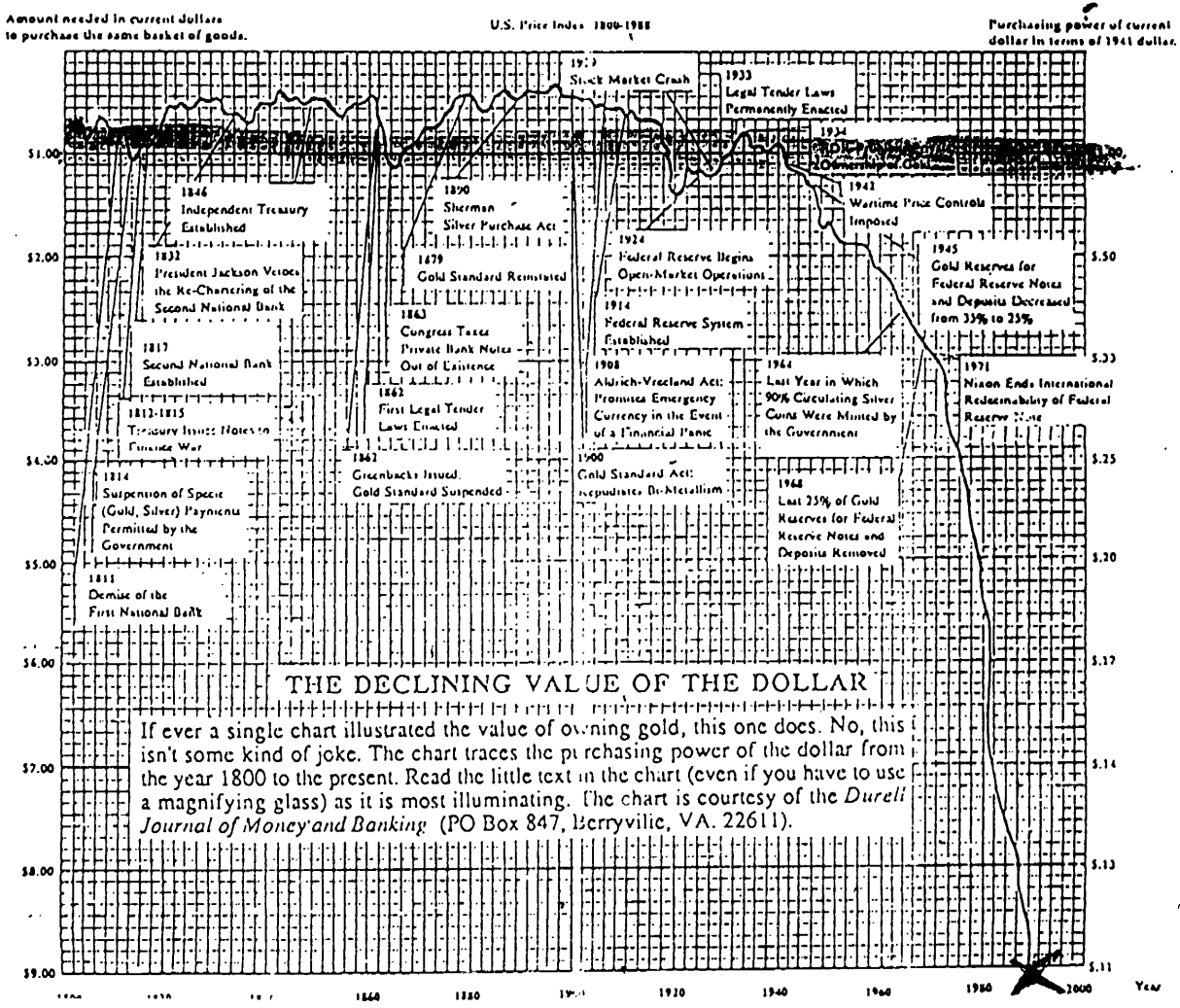
I have enclosed for the record some supporting information which I wish entered in the record.

In closing I quote former President of the United States, Abraham Lincoln. "If England builds the rails, they've got the money and we've got the rails; but if we build the rails, we've got the money and the rails."

Gentlemen, I suggest that you read the Report of the Manufacturers, written by Alexander Hamilton in 1791, and Henry Carey's Harmony of Interests, written in 1851. Also Economic Solutions are Possible by NORM.

Thank you very much. I will be glad to answer any questions at any time by any one.

Attachment.



THE DECLINING VALUE OF THE DOLLAR

If ever a single chart illustrated the value of owning gold, this one does. No, this isn't some kind of joke. The chart traces the purchasing power of the dollar from the year 1800 to the present. Read the little text in the chart (even if you have to use a magnifying glass) as it is most illuminating. The chart is courtesy of the *Dureli Journal of Money and Banking* (PO Box 847, Berryville, VA. 22611).

STATEMENT OF THE INTERNATIONAL LEATHER GOODS, PLASTICS, AND NOVELTY WORKERS' UNION, AFL-CIO

INTRODUCTION

The International Leather Goods, Plastics, and Novelty Workers' Union, AFL-CIO ("ILGPNWU") is headquartered in New York City. Nine thousand of our members live and work in the New York-New Jersey metropolitan area. We also have 3,000 Canadian members, and members throughout the U.S. and Puerto Rico. ILGPNWU members make handbags, as well as luggage and flat goods. These products are made primarily Of leather, plastic, and textiles.

The ILGPNWU opposes extension of the fast-track legislative procedures for the implementation of the Mexico free trade agreement and the Uruguay Trade Round. The ILGPNWU believes that if Congress grants an extension of the fast-track, it willingly abdicates its constitutional authority to regulate foreign commerce to the White House. This means that Congress will have no meaningful role or say in the negotiations if fast-track is extended, and U.S. workers will suffer the consequences as their jobs move to other countries such as Mexico.

The ILGPNWU fears the fast-track because it takes important policy and economic decisions out of the hands of Congress. The trade deal that will ultimately be presented to Congress for approval is shaped behind closed doors by a handful of faceless bureaucrats who answer to no one, certainly not the tens of thousands of workers who will be affected by their decisions. Then the negotiated package is presented to Congress under the fast track, and Congress has two choices: it can pass it or it can reject it. But in reality, Congress has only one choice, and that choice is to approve the agreement. Because if Congress fails to approve the agreement it will be accused of: (1) undermining the President internationally; (2) creating a foreign policy crisis; and (3) making the U.S. appear untrustworthy. Fast-track denies the American worker his due, and it, therefore, must be rejected by the U.S. Congress.

The ILGPNWU has serious concerns about the proposed NAFTA and the Uruguay Round. Our concerns are stated below. It is because of them that we believe that Congress cannot afford to extend the fast track.

MEXICO

Several weeks ago, the ILGPNWU submitted testimony to the Senate Finance Committee expressing its opposition to a U.S.-Mexico FTA. We pointed out that an FTA with Mexico will greatly exacerbate the already substantial unemployment in the handbag, luggage and flat goods industries. Since 1982, 14,200 U.S. jobs have been lost in these industries, representing a one-third decline in employment (see table 1). An FTA with Mexico would accelerate this trend as the jobs of ILGPNWU members in the U.S., Canada, and Puerto Rico move to Mexico because of cheap Mexican wages, lax environmental and labor standards, and the preferential tariff status that an FTA would confer on Mexican imports.

This scenario will be repeated in many other industries, particularly those involving substantial labor input. Where will the people who lose their jobs due to these agreements go? What will they do? Retraining is laudable, but the results disappointing. Studies show that despite retraining efforts, many semi-skilled workers end up with lower incomes than in the jobs they lost. With a third of the work force estimated to be semi-skilled and under-educated, the loss of these jobs presents a real problem to the displaced worker and to the economy.

URUGUAY TRADE ROUND

The ILGPNWU believes it will gain nothing from the "successful" completion of the Uruguay Trade Round. Furthermore, it is our view that it will not serve the best interest of U.S. manufacturing. In these negotiations, the United States has more than done its part to broaden U.S. market access. We find little evidence that this is being matched by other countries.

The U.S. has achieved few of the Uruguay Trade Round goals that Congress established in the 1988 Trade Act. Instead of imposing new disciplines on unfair trade practices, the U.S. appears to be losing ground in this area in the trade talks. We face a real possibility that U.S. trade laws may actually be weaker as a result of the GATT talks. Agriculture, services, investments and intellectual property rights, the four key areas of great importance to the United States going into the Round, have yielded very disappointing results to date.

Meanwhile, the U.S. continues to yield to developing country demands, while demanding little in return. The U.S. is giving up the Multifiber Agreement, which will destroy the U.S. textile and apparel industry, including U.S. producers of textile

handbags. This will mean more jobs lost to ILGPNWU members. The U.S. made a tariff offer that is far in excess of what was required of it under the GATT talks. Many developing countries have not tabled offers; of those who have tabled offers, many have not agreed to fully bind their tariffs.

The Administration has failed to demonstrate how the U.S. economy will benefit from the Trade Round based on the progress to date. In our view, there is not enough progress to warrant an extension of the fast-track.

CONCLUSION

Congress should have a broader role in these negotiations, which will have an effect on every man, woman and child in this country for years to come. Unfortunately, the greatest impact will be felt among those who can least afford it—the undereducated and underskilled worker, the minority worker, and the woman who heads her household. These are the people who are most likely to see their jobs lost as a result of deals cut in the Uruguay Trade Round and the Mexico free trade agreement. Since the profile of these workers fits many of ILGPNWU's members, we will be among the first to lose our jobs in the name of free trade. Congress has a responsibility to these workers to have a free and open debate on these trade agreements that will affect the lives of so many. Congress must face up to its responsibilities and not shield itself behind the fast-track.

THE PROCTER & GAMBLE CO.,
Cincinnati, OH, April 30, 1991.

Hon. LLOYD BENTSEN, *Chairman,*
Senate Finance Committee,
U.S. Senate,
Washington, DC.

Subject: April 17 hearing to review Uruguay Round commitments to open foreign markets

Dear Mr. Chairman: The Procter & Gamble Company has a strong interest in a successful conclusion to the Uruguay Round. It presents a number of opportunities to remove specific barriers to the expansion of our business abroad. It also will increase the application of the open, market-oriented economic policies that expand consumer income and, therefore, our ability to market our products. Achieving these benefits nevertheless, critically depends upon the Congress not rejecting the Presidents request for a two-year extension of the "Fasttrack" process for ratifying or rejecting trade agreements without amendment and within defined time limits.

While we see successful outcome to all fifteen areas of negotiation as being important, the following are of greatest significance to us:

—an agreement on trade-related investment measures that prohibits such trade-distorting actions as export requirements, local content requirements and trade-balancing requirements;
—a market access agreement that reduces approximately 700 specific foreign tariffs, as well as an array of nontariff barriers, particularly involving developing countries;
—an agreement on trade-related intellectual property that expands patent protection, prevents compulsory licensing abuses and ensures that U.S. can obtain royalties for technology transferred to international subsidiaries.

A number of the so-called "free riders," particularly in Latin America, have significantly opened their markets both to trade and to investment in recent years and are strengthening their intellectual property protection. It will, nevertheless, be appropriate to ensure that these gains are made permanent through GATT agreements. A redirection of the "special and differential treatment" accorded to less developed countries under Article XVIII is also needed so that it is used to support, rather than hinder, their economic development.

Because of these Latin American actions, countries that have not yet opened their markets are now under competitive pressure to do so, particularly as the pursuit of scarce investment capital becomes more intense. This pressure, however, is unlikely to be fully adequate and additional incentives will be needed to assure adequate participation. These incentives lie in providing the less developed countries with increased access into OECD markets for the products on which they have a comparative advantage. Therefore, market opening agreements on agriculture, tropical products and textiles appear essential to resolving the "free rider" problem.

Provided they have appropriate transition and adjustment provisions, agreements in these latter areas will also benefit the U.S. economy directly by encouraging more efficient use of our own economic resources.

In order for the President and his negotiators to "close" the negotiations with the "free riders," the latter must have confidence that the results will either be ratified or rejected in their entirety. If selective ratification by the Congress is possible, the "free riders" are likely to believe the provisions of greatest benefit to them, and their greatest incentive for full participation, will be at risk.

The Fasttrack procedure, moreover, provides for active Congressional involvement in agreeing to hold negotiations, in consultations as the negotiations proceed and in active participation in the drafting of the implementing legislation. This Company recognizes the importance of this Congressional participation, since it has benefited from it in the past and therefore looks forward to its continuation.

The Omnibus Trade & Competitiveness Act of 1988 contemplated an extension of Fasttrack if sufficient progress had been made during the course of the Uruguay Round. Final agreements have not yet been achieved in the areas of critical importance to us. Nevertheless, progress has clearly been made and there is sufficient basis for anticipating sound agreements, after further tough bargaining, that the extension should be granted.

Thank you very much for this opportunity to submit our views.

Very truly yours,

DAVID J. ELLIOTT, *Associate Director, International Trade.*

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