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Minute

1 EXECUTIVE SESSION

2 WEDNESDAY, MARCH 27, 1985

3 U.S. Senate

4 Committee on Finance

5 Washington, D.C.

6 The committee met, pursuant to notice, at 9:30 a.m. in  
7 room SD-215, Dirksen Senate Office Building, the Honorable  
8 Robert Packwood (chairman) presiding.

9 Present: Senators Packwood, Roth, Danforth, Heinz,  
10 Symms, Grassley, Long, Bentsen, Moynihan, Baucus, Boren,  
11 Bradley, Mitchell and Pryor.

12 Also Present: Senator Pete Wilson; Mr. Claude  
13 Gingrich, Ms. Doral Cooper, U.S. Trade Representative staff;  
14 Mr. Thomas D. Gallagher, Director, Office of Congressional  
15 Liaison, U.S. International Trade Commission, Washington,  
16 D.C.; Michael Stern, Esquire, Minority Chief of Staff; Messrs.  
17 Ted Kassinger, Len Santos, John Colvin, Professional Staff  
18 Members.

19 (The press release announcing the hearing and the  
20 prepared written statement of Senator Grassley follow:)

March 27, 1985

STATEMENT BY SENATOR LLOYD BENTSEN

Mr. Chairman, I intend to vote against the resolution on unfair Japanese trade practices today.

I have the utmost respect for the Chairman of the Trade Subcommittee and I think he knows that. We have worked together on far too much legislation for him to think otherwise. And I would anticipate that in the future we will act in concert on many, many issues.

But not today.

When I look at our trade deficit -- a deficit that will go over \$160 billion this year -- and then I look at what this administration is doing about it, I just want to throw up my hands in disgust.

The last thing we need to spend our time on is this resolution, another plea from Congress, begging this administration to do something that, first, we know they will not do and, second, would have only a minimal effect on the trade deficit if they did it.

We all know the two primary causes of our recent string of record-setting trade deficits: a dollar bloated 40 percent by huge federal deficits in the years since 1980. This gives foreign companies a 40 yard headstart in a 100 yard dash to the marketplace. The second big problem is unfair trade practices, which have been growing in popularity everywhere but here over the past five years, as country after country replaces free trade with managed trade.

And what is the administration doing about these problems?

In the case of the dollar; nothing.

They deny that the federal deficit is even causing the bloated dollar. They would have us believe the dollar is overvalued because our economy is strong and the economies of other countries are weak. And, in any event they argue, the dollar isn't causing us any trade problems.

And what is the administration doing about unfair trade practices?

Until recently; nothing.

They have said that the United States should set an example and lead other countries by our example back toward free trade.

The problem is that other countries aren't following our example, they're taking advantage of it. They are following the example of Japan, seeking to exploit the markets of other countries while closing off their own.

In recent weeks the administration's attitude has changed. But only slightly.

Earlier this year the President put his prestige on the line by publicly urging Japan to open its market to four U.S. exports.

They've been getting worried recently that the Japanese are not going to respond and this would embarrass the President. So we've been hearing some unusual, open criticism of Japanese trade policies from the administration.

They've been egging us on, too. They want us to join them. But only up to a point.

Does anyone on this committee doubt what the reaction of the Reagan Administration would be if we passed trade legislation with some real teeth in it?

I know I don't

And what will we have accomplished if the Administration wins a victory in the current negotiations with Japan? The most they hope to gain is an increase of \$10 billion in U.S. exports to that country. But you know and I know

they'll be lucky to get a \$1 billion increase and that they will declare it a smashing victory if they do.

What the administration should be doing is working to develop a comprehensive trade strategy. They should be working to reduce the deficit and take the bloat out of the dollar and stop arguing that the federal deficit isn't the cause of that bloat.

And they should be working to turn around this disturbing trend toward unfair trade practices. I'm not talking only about the unfair trade practices of Japan, although I would wholeheartedly agree on the need for tough, bilateral negotiations that will let the Japanese know we mean business.

I'm going to oppose this resolution today, Mr. Chairman, because it boils down to only more talk, more pleading, more begging from Congress.

Back in 1901, Teddy Roosevelt advised us to "speak softly and carry a big stick."

He was referring to the need for an efficient Navy to enforce the Monroe Doctrine and not to foreign trade.

His advice, though, surely applies to the trade situation we find ourselves in today.

Our trade policy consists of a lot of shouting and little else. We rant, we rave, we grow red in the face and we threaten our trading partners with dire consequences. They are dire, but hollow, and our trading partners know this. So they respond with soothing words, calming gestures and empty promises to do better.

We need less volume and more resolve. Less talk and more action. We need to "talk softly and carry a big stick."

Thank you, Mr. Chairman.

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PM-JAPAN SKED 3-27

JAPAN TO MAINTAIN CAR EXPORT RESTRICTIONS

BY MARK KURAMITSU

TOKYO (UPI) -- JAPAN HAS DECIDED TO MAINTAIN VOLUNTARY RESTRICTIONS ON CAR EXPORTS TO THE UNITED STATES BY LIMITING SHIPMENTS TO BETWEEN 2.2 MILLION AND 2.3 MILLION UNITS, GOVERNMENT SOURCES SAID TODAY.

THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY, WHICH OVERSEES JAPAN'S FOREIGN TRADE, WILL NEGOTIATE WITH THE NATION'S 11 MAJOR AUTOMOBILE MANUFACTURERS ON QUOTAS FOR THEIR SHIPMENTS TO THE UNITED STATES FOR THE YEAR BEGINNING APRIL 1, THE SOURCES SAID.

THE OUTCOME OF THE NEGOTIATIONS WILL BE REPORTED BY INTERNATIONAL TRADE AND INDUSTRY MINISTER KEIJIRO MURATA AT A CABINET MEETING SCHEDULED FOR FRIDAY.

ACCORDING TO TRADE MINISTRY CALCULATIONS, JAPANESE CAR EXPORTS TO THE UNITED STATES WOULD REACH 2.7 MILLION UNITS IN FISCAL 1985 IF SELF-CONTROLS ARE TOTALLY LIFTED.

THE 2.2 MILLION TO 2.3 MILLION CEILING SET BY THE MINISTRY STILL REPRESENTS AN INCREASE OF ABOUT 25 PERCENT OR \$3 BILLION IN VALUE OVER THE CURRENT YEAR.

THE MINISTRY DECISION IS EXPECTED TO AROUSE STRONG DISCONTENT AMONG AUTO INDUSTRY LEADERS, WHO HAVE MADE CLEAR THEIR OPPOSITION TO THE GOVERNMENT POSITION ON THE CAR ISSUE.

THE JAPANESE AUTOMOBILE INDUSTRY, UNDER PRESSURE FROM WASHINGTON, HAS EXERCISED VOLUNTARY RESTRAINTS ON EXPORTS TO THE UNITED STATES SINCE 1981. THE CEILING FOR THE YEAR ENDING MARCH 31 WAS SET AT 1.85 MILLION UNITS.

THE REAGAN ADMINISTRATION EARLIER THIS MONTH SAID THE UNITED STATES WOULD NOT SEEK AN EXTENSION OF THE JAPANESE CAR IMPORT CONTROLS DURING THE YEAR BEGINNING APRIL 1.

JAPAN'S HUGE TRADE SURPLUS WITH THE UNITED STATES, AMOUNTING TO \$34.7 BILLION LAST YEAR, APPARENTLY WAS A FACTOR BEHIND THE MINISTRY DECISION TO CONTINUE VOLUNTARY CAR EXPORT CURBS, THE SOURCES SAID.

JAPANESE AUTOMAKERS, ASSERTING THEY WILL PRESERVE "ORDERLY MARKETING," HAVE CALLED FOR THE LIFTING OF THE VOLUNTARY LIMITS.

"IT'S NONSENSE. THE MATTER SHOULD BE LEFT TO THE DISCRETION OF AUTO MAKERS," SAID TAKASHI ISHIHARA, HEAD OF THE JAPAN AUTOMOBILE MANUFACTURERS' ASSOCIATION AND PRESIDENT OF JAPAN'S SECOND LARGEST AUTOMAKER, NISSAN MOTOR CO.

PROBLEMS ARE ANTICIPATED IN NEGOTIATIONS BETWEEN THE TRADE MINISTRY AND THE AUTO INDUSTRY TO SET QUOTAS FOR INDIVIDUAL MANUFACTURERS AS SMALLER PRODUCERS ARE CERTAIN TO DEMAND THAT THEY BE ALLOWED TO IMPLEMENT THEIR CONTRACTS WITH U.S. MAKERS.

MITSUBISHI MOTORS CO. SAID IT WANTS TO DELIVER 200,000 CARS A YEAR TO ITS AFFILIATE, CHRYSLER CORP. ACCORDING TO THEIR CONTRACT.

ISUZU AND SUZUKI ALSO WANT TO IMPLEMENT THEIR CONTRACTS, CALLING FOR DELIVERY OF 284,000 CARS TO GENERAL MOTORS, WHICH HAS A STAKE IN THE TWO JAPANESE CAR MARKETS.

UPI 03-27-85 10:00 AEST

SENATOR CHARLES E. GRASSLEY

March 27, 1985

A handwritten signature in black ink that reads "Charles Grassley". The signature is written in a cursive style with a large, prominent initial "C".

TRADE HEARING STATEMENT

MR. CHAIRMAN;

THE PERCENTAGE OF SUBSIDIZED PORK PRODUCTS BEING IMPORTED INTO  
THE UNITED STATES FROM THE EUROPEAN COMMUNITIES HAS INCREASED  
DRAMATICALLY DURING THE PAST YEAR, CAUSING MAJOR CONCERN TO U.S.  
PRODUCERS.

AS YOU ARE AWARE, A REQUEST WAS MADE FOR A 332 STUDY OF CANADIAN PORK IMPORTS LAST YEAR BY THIS COMMITTEE. PRESENTLY, THE DEPARTMENT OF COMMERCE IS IN THE PROCESS OF A COUNTERVAILING DUTY INVESTIGATION OF LIVE SWINE AND FRESH, FROZEN AND CHILLED PORK PRODUCTS FROM CANADA. YOU MAY ALSO RECALL THAT LAST SEPTEMBER THE SENATE UNANIMOUSLY PASSED A RESOLUTION CO-SPONSORED BY 40 SENATORS URGING THE ADMINISTRATION "TO AGGRESSIVELY PURSUE DISCUSSION WITH THE CANADIAN GOVERNMENT DIRECTED TOWARD RESOLVING THIS SITUATION AND...TO PROTECT THE ECONOMIC VIABILITY OF THE UNITED STATES PORK INDUSTRY."

WHILE IT MAY APPEAR THAT SOME RELIEF MAY BE COMING IN THIS  
AREA...UNFORTUNATELY, THE EUROPEANS ARE BECOMING A SIGNIFICANT  
SUPPLIER OF FRESH, CHILLED AND FROZEN (UNPROCESSED) PORK AS WELL.  
IMPORTS OF UNPROCESSED PORK HAVE INCREASED FROM 6.8 MILLION  
POUNDS IN 1982 TO 96 MILLION POUNDS IN 1984...A 14 FOLD INCREASE  
IN TWO YEARS. ALL OF THESE SHIPMENTS, OF COURSE, BENEFIT FROM  
MAJOR EXPORT SUBSIDIES, WITHOUT WHICH THE EC WOULD NOT BE  
COMPETITIVE IN THE U.S. MARKET.

IT HAS BEEN ESTIMATED THAT THE IMPORTS OF EUROPEAN PORK PRODUCTS  
HAVE COST AMERICAN PRODUCERS BETWEEN \$2.45 AND \$4.41 PER 100 WT.  
TOTAL REVENUE LOSS IS ESTIMATED TO EQUAL \$493 TO \$887 MILLION IN  
1984. THIS LOSS TO DOMESTIC PORK PRODUCERS DOES NOT INCLUDE THE  
DECLINE IN REVENUES FROM SALES LOST IN THIRD COUNTY MARKETS.

DOMESTIC PRODUCERS CANNOT AND SHOULD NOT BE ASKED TO COMPETE WITH  
FOREIGN GOVERNMENT TREASURIES PROVIDING DIRECT ASSISTANCE TO  
THEIR PRODUCERS. SENATOR DOLE AND I WOULD APPRECIATE YOUR

CONSIDERATION OF OUR REQUEST FOR THE PROMPT INITIATION OF A 332  
INVESTIGATION WITH RESPECT TO EC PORK SALES.

IT IS SUGGESTED THAT THE REQUEST FOR THE INITIATION OF THE 332  
INVESTIGATION DIRECT THE COMMISSION TO OBTAIN INFORMATION AND  
REPORT ON THE FOLLOWING MATTERS WHICH I WOULD LIKE TO SUBMIT FOR  
THE RECORD AND BE USED AS A GUIDE IN DRAFTING YOUR LETTER TO THE  
ITC.

YOUR EXPEDITIOUS CONSIDERATION OF THIS REQUEST WOULD ENABLE THE  
DOMESTIC INDUSTRY TO OBTAIN INFORMATION NECESRY TO SEEK RELIEF  
UNDER APPROPRIATE U.S. STATUTES FROM THE ADVERSE IMPACT OF EC  
PORK SALES.

THANK YOU MR. CHAIRMAN.



3. Description of U.S. and EC markets including levels and trends in consumption, production, and imports and exports of various pork products.

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4. The volume of trade between the United States and the European Community, including the relative percentage of the domestic market represented by EC imports. Trade figure should include all major products traded between these countries including fresh, chilled and frozen pork as well as processed products. New trends in such trade should be covered, including, in particular, the rapid increase in shipments of frozen pork from the European Community to the United States.

5. Description of the effects of tariffs, levies, quotas and health and sanitary regulations on trade in pork products between the U.S. and the EC. Trade regulations in other markets, such as Japan, which serve as third country markets for either of these countries should also be covered. In particular, the study should describe the impact of the Common Agricultural Policy on EC imports and exports of swine and pork products.

6. Description of the levels and trends of trade in pork products by both the EC and the United States to third country markets, including particularly Japan. The study should focus upon the impact of EC subsidized sales on U.S. third country sales, including the related prices of United States and EC pork in those third country markets as compared with the prices in the country of production.

7. Description of all national and European Community government assistance programs, including not only domestic subsidies but export subsidies affecting production of swine and pork products and export sales of such products. Domestic government assistance programs should include assistance which reduces fixed costs (such as direct grants, loan guarantees, forgivable loans, discounted interest rates and insurance rates, or start up assistance), assistance which reduces variable costs and assistance which enhances revenues (such as retroactive bonuses or other payments to processors, price support payments to growers or processors based on units sold, tax credits or exemptions, marketing or advertising assistance). With respect to export subsidies, the study should focus on the aggregate level of subsidies provided, the level of export subsidies in relationship to the domestic prices of the products to be exported, the effect of such subsidies on domestic production and the percentage of domestic production which is dedicated for export, the relationship between domestic prices and free market prices in world markets.

8. Analysis of the EC domestic and export subsidies in light of the provisions of the GATT Subsidies Code and, in particular, Articles 8, 10 and 11 of that Code. In addition, the question of whether pork products, processed and unprocessed, should be considered primary products for the purposes of Article 9 of the GATT Subsidies Code should also be considered.

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9. Description of competitive conditions relating to cost of production and sales, including such factors as production costs, transportation advantages and so forth.

THANK YOU, MR. CHAIRMAN.

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1 The Chairman. The Committee will come to order.

2 Until we get a few more members, I think, Pat, why  
3 don't we see if you and I can agree on the ITC studies,  
4 which are items 3, 4 and 5 on the agenda. I don't know of  
5 any objection to them. I don't know if anyone wants to come  
6 and even speak about them.

7 But the thing we have to be careful of -- and I don't mind  
8 approving these -- but there is a limit as to how many  
9 studies the International Trade Commission can do. I think  
10 these are justified, and we'll request them.

11 Ted, do you want to make a few comments on them?

12 Mr. Kassinger: Yes, Mr. Chairman.

13 The first study is a request that Senators Grassley and  
14 Dole wish to make. It's a study of imports of pork products  
15 from the European Community. It follows a study done last  
16 year by the Commission at the request of the Committee on  
17 Canadian pork imports.

18 The second request is one sponsored by Senators Roth,  
19 Chafee and Symms. It would be an ITC study of the GATT  
20 dispute settlement mechanism.

21 The last item on the agenda is a request for a study  
22 proposed by Senator Long that would study the effects of  
23 the steel import restraint program on exports.

24 The Chairman. I have heard no objection from any of  
25 the members these days, have you?

1 Senator Long. Mr. Chairman.

2 The Chairman. Pat.

3 Senator Long. I would like to suggest a study that  
4 has been urged from my part of the country. There is a  
5 company that makes steel barrels and containers from steel  
6 products. And they would like a study.

7 Mr. Lang, suppose you explain that for us.

8 Mr. Lang. Senator, your study would ask the ITC to  
9 report on the export effects of the current steel import  
10 controls. The specific situation in Louisiana is a producer  
11 of barrels and containers for export made out of steel, but  
12 there are other situations that we are led to believe in the  
13 country that would lend themselves to this study as well.

14 The Chairman. I'm curious. Is their basic concern  
15 that the import limitations are going to increase the cost  
16 of their steel; thereby, making them less competitive in  
17 their export markets?

18 Mr. Lang. I believe that is their problem, Mr. Chairman.

19 Senator Long. He's trying to export -- he buys the  
20 steel and then he wants to export it. So hopefully a study  
21 might give us some indication of what we might do for our  
22 fellow here who has his cost higher because of steel  
23 limitations. I don't know what we can do for them, but the  
24 study might give us some ideas.

25 The Chairman. Well, as I said earlier, I don't want to

1 overburden the ITC. I think it is a very valid argument  
2 because almost all the time we hear complaints about the need  
3 for import protection. And, on occasion, we forget what it  
4 may do in terms of some of our exports as we increase the  
5 price of the product that goes into making them.

6 Senator Moynihan. Mr. Chairman, just to your point,  
7 being in complete agreement on these proposals.

8 I wonder if there is someone from the ITC who can give  
9 us some sense of what their capacity for this kind of work  
10 is; whether they would like to do more of it or less of it;  
11 are we giving them the resources they need. An enormous  
12 amount of pressure being directed toward that.

13 The Chairman. And we toss off these studies like this,  
14 and they are a fair degree of time, effort and personnel.

15 Senator Moynihan. Is there anyone here?

16 The Chairman. Anyone here from the ITC?

17 Mr. Kassinger: No, sir, I don't believe there is  
18 anyone here.

19 The Chairman. Somebody is standing up back there.  
20 You want to identify yourself.

21 Mr. Gallagher: My name is Tom Gallagher. I am the  
22 Director of the Congressional Liaison Office at the ITC.  
23 The Commission has the resources to do the studies listed on  
24 the agenda, so we have no problem doing those. As for the  
25 general adequacy of our resources to do Section 332 studies,

1 you might want to raise that question at our budget hearing,  
2 which is scheduled for next week.

3 Senator Moynihan. Mr. Chairman, perhaps Mr. Gallagher  
4 would be prepared to speak to the subject in issue. He has  
5 to have a problem. If we have you 1,400 of them, would  
6 there be no problem?

7 Senator Long. What I am requesting here is listed as  
8 number 4 on the list of studies that you are referring to.

9 Senator Moynihan. Russell, I'm only saying that it  
10 seems to me since we are directing a lot of attention to  
11 questions like this and it goes to the ITC, they might want  
12 to come in and talk to us about their research capacity.

13 The Chairman. And I think they will in the budget  
14 hearings next week.

15 What I have a feeling, Pat, is that they may suddenly  
16 get hit with a surge of requests for hearings as this  
17 issue of trade is just looming and booming and may come  
18 crashing down upon them just in terms of overweight.

19 Any objections to 3, 4 and 5?

20 (No response)

21 Senator Moynihan. I so move.

22 The Chairman. Without objection. And we have a quorum.  
23 We will ratify it.

24 Let's move onto the U.S.-Israel free trade agreement and  
25 discuss it until we get a few more people here. But I would

1 just as soon start discussing it so we get in the habit of  
2 starting on time.

3 Ted?

4 Mr. Kassinger. Mr. Chairman, we have the draft  
5 implementing bill that has been distributed to all the  
6 members of the Committee and discussed with their staff.

7 The Chairman. Let's go through the process so that the  
8 Committee members understand what we are going to do. We,  
9 technically, do not have a bill before us in the normal  
10 sense of a bill. We are going to talk about the draft bill;  
11 make suggestions as to changes. The House has made a  
12 suggestion as to one change. And we will then meet with  
13 them as if in conference, although it is not technically a  
14 conference, and we will then suggest to the Administration  
15 our changes. And, hopefully, they will accommodate us, put  
16 those changes in the bill, if there are any, and then submit  
17 us an actual bill, which goes on to our statutory fast track  
18 procedure and cannot be amended. Is that correct?

19 Mr. Kassinger. That's correct, Mr. Chairman.

20 The Chairman. So what we are discussing now are the  
21 suggestions we would like to make to the Administration,  
22 which we would hope they would accommodate us by putting  
23 into any bill they send to us.

24 Mr. Kassinger. That's correct.

25 The Chairman. Go ahead.

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Mr. Kassinger. Let me basically describe the draft bill, Mr. Chairman, and then we can discuss at least your amendment.

The Chairman. Hold on just a second. I see Senator Wilson here.

Pete, do you want to participate or comment now? I'm delighted to accommodate you.

Senator Wilson. Yes.

The Chairman. We didn't realize you were coming, but we are happy to have you. Why don't you go right ahead?

Does this relate to the Israeli free trade agreement?

Senator Wilson. Yes, it is, Mr. Chairman.

The Chairman. Good.

Senator Wilson. Mr. Chairman, I don't know whether at this point you are considering the so-called Frenzel amendment or whether you are talking about the fast track procedure.

The Chairman. We had just started the first 30 seconds of the explanation of the bill. We hadn't gotten to the Frenzel amendment yet.

Senator Wilson. All right. I would be happy to do whatever is more convenient for the Committee.

The Chairman. Is it the Frenzel amendment you want to speak to?

Senator Wilson. I have two problems. One is with the

1 Frenzel amendment. The other is with the fast track  
2 procedure. And not with the procedure itself, but with the  
3 definition of what items are covered by it.

4 The Chairman. Is this the fresh fruit, nuts and  
5 whatnot?

6 Senator Wilson. That's correct.

7 The Chairman. Why don't you address yourself to that  
8 because I think we have some other discussion and  
9 possibly some accommodation on the Frenzel proposal.

10 Senator Wilson. All right.

11 With respect to the fast track procedure, the legislation  
12 actually included a procedure that was similar to that in the  
13 Caribben Basin Initiative. But the definition was quite  
14 specifically altered from that contained in the CBI  
15 legislation.

16 And it was done so deliberately. There apparently has  
17 been some misunderstanding on the part of the U.S.T.R.  
18 with regard to that. But I don't understand exactly why.

19 The history of this, I think, is pretty clear. The  
20 language contained in both the Senate version and in the  
21 actual conference report was broader than the comparable  
22 language in the Caribbean Basin Initiative.

23 And as I understand it, U.S.T.R. today is proposing  
24 what they term a technical amendment, which they thought  
25 necessary to cure a drafting error. There was no error.

1 And, in fact, what was proposed was exactly what was  
2 agreed on in the Senate and agreed on in the conference, and  
3 actually the language in the bill. And, therefore, I think  
4 it is the law.

5 So what I am here to say is that a change to that would  
6 be contrary to the express will of the Congress and would  
7 not conform to the law.

8 The Chairman. Unless we change the law.

9 The issue, basically, that Senator Wilson is addressing  
10 himself to is last year we put on the fast track fruits,  
11 vegetables, nuts. And this bill limits itself to fresh  
12 fruit and vegetables and excludes nuts.

13 Am I correct, Ted?

14 Mr. Kassinger. That's correct, Mr. Chairman.

15 The Chairman. Pete, I appreciate it. I don't want to  
16 get to that issue now. I was going to take it  
17 chronologically, and we are just starting forward. But as  
18 you came in, I wanted to accommodate you as you got here.

19 Go ahead, Ted.

20 Senator Wilson. Thank you.

21 Mr. Kassinger. Mr. Chairman, just to briefly recount  
22 the substance of the proposed draft implementing bill. It  
23 would contain provisions approving the agreement and the  
24 statement of administrative action, a draft of which was  
25 distributed to the members yesterday and their staffs. It

1 would provide the President with tariff proclamation  
2 authority necessary to implement all the provisions of the  
3 agreement, except for the most import sensitive products.  
4 The President would have to come back for this fourth group  
5 of products and submit further authority after five years.  
6 That would be considered on a fast track basis to eliminate  
7 tariffs on those products.

8 And it would, in other principal part amend the  
9 provisions of the law relating to government procurements to  
10 authorize the President to carry out that part of the  
11 agreement that will open up more procurements to Israeli  
12 bidders.

13 The Chairman. Let me go through the most sensitive  
14 part. I think David has an interest in this.

15 The bill had sort of an internal contradiction in it.  
16 All tariffs on all items are to be off by 1995, but on the  
17 most sensitive items, they could not go off before 1990.  
18 But under the bill, would have required implementing  
19 legislation.

20 So, in essence, would have had an agreement with  
21 Israel that they go off by 1995, but they would not go off  
22 without implementing legislation.

23 In the House -- and, Ted, correct me if I don't state  
24 it right -- the only amendment -- I'm right so far, right?

25 Mr. Kassinger. Yes.

1           The Chairman. The only amendment in the House was the  
2 Frenzel amendment which changed that, and said we'll still  
3 stick with the 1995 date, but starting in 1990, the  
4 President could start moving those duties down toward  
5 zero basically as quickly as he wanted by simply advising  
6 us. It would take no implementing legislation.

7           Mr. Kassinger. It was phrased in a conditional way,  
8 Mr. Chairman. The President would first have to consult with  
9 the Finance and Ways and Means Committee and get the advice  
10 of the International Trade Commission.

11          The Chairman. But having consulted, he could do as he  
12 wanted, and it wasn't even a fast track situation. He could  
13 just do it.

14          Mr. Kassinger. That's correct.

15          The Chairman. Now that's what the House did, and that's  
16 the only amendment the House had in the bill, period. And  
17 that's the issue that Ted is talking about now. And it's  
18 open for Committee discussion as to what we want to do with  
19 it.

20          I would just as soon face that issue right now before  
21 we go on.

22          Senator Danforth. Well, could Ted explain what the  
23 Administration's bill has in it?

24          Mr. Kassinger. Yes, sir.

25          The Administration's bill would provide the President

1 with authority to proclaim the tariff reductions necessary  
2 to carry out the agreement, except for the fourth category  
3 of products, which is the most sensitive products.

4 Under the Administration's bill, in effect, the  
5 President -- in fact, the bill would provide the President  
6 with the authority to come back and propose a second piece  
7 of legislation that would be considered on a fast track  
8 basis.

9 Senator Danforth. So that's the bill as it now stands?

10 The Chairman. What did you say at the last?

11 Mr. Kassinger. The bill would authorize the President  
12 to submit a second piece of legislation to carry out the --

13 The Chairman. The reduction on the most sensitive to  
14 zero?

15 Mr. Kassinger. That's correct. Not a fast track  
16 measure.

17 The Chairman. All right.

18 Mr. Kassinger. I mean the legislation would be  
19 considered on a fast track.

20 The Chairman. Then I made a mistake in how I stated  
21 it.

22 Senator Pryor. Excuse me, Mr. Chairman. That  
23 would --

24 Mr. Kassinger. That's correct.

25 Senator Danforth. Ted, let me ask you -- or maybe

1 Claude. My recollection of the origin of this provision 1  
2 in the bill is that when the bill was being worked out on  
3 the floor of the Senate, two Senators had problems. And  
4 they were Senator Wilson and Senator Pryor.

5 And in negotiating their problems, Ambassador Brock  
6 agreed to what turned out to be the provision in the bill.  
7 Is that right?

8 Mr. Gingrich. That's correct, Senator Danforth.

9 Senator Danforth. And, in fact, I think that Ambassador  
10 Brock gave Senator Pryor a letter at the time which  
11 expressed his understanding of the matter.

12 Mr. Gingrich. Yes, that's correct.

13 Senator Danforth. And is the Administration now  
14 asking for any change in the language of the bill as it  
15 comes to us?

16 Mr. Gingrich. No. As Ted and the Chairman stated, we  
17 have submitted legislation which we believe carries out the  
18 commitment that was made specifically in the letter to  
19 Senator Pryor that Senator Wilson was also a part of.

20 Senator Danforth. Yes.

21 The Chairman. What you've got in your bill is a promise  
22 to go to zero by 1995, but you can't get there without  
23 legislation.

24 Mr. Gingrich. No. There are two different obligations.  
25 There's an international obligation with the Israelis to go

1 to zero by 1995. The only thing the legislation says is  
2 that we are authorized to do that with respect to all products  
3 except the sensitive products, and the bill simply says we  
4 will come back and ask you for the authority to carry out  
5 that final promise some time in the future.

6 The Chairman. But you need legislation to carry it out.

7 Mr. Gingrich. Yes, sir, we do. Right.

8 The Chairman. So that if we don't do it, we don't get  
9 to zero.

10 Mr. Gingrich. Right.

11 Mr. Kassinger. Without additional legislation.

12 The Chairman. Yes. It's not self-effecting, is what  
13 I'm saying.

14 Mr. Gingrich. That's correct.

15 The Chairman. David.

16 Senator Pryor. Mr. Chairman, for the purpose of  
17 legislative history, I think it might be advisable to put  
18 into the record at this point the letter from Ambassador  
19 Brock relative to the issue that you were just speaking of.  
20 If I might have permission to do that.

21 The Chairman. Without objection.

22 (THE LETTER FROM AMBASSADOR BROCK FOLLOWS:)

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3-27-85

THE UNITED STATES TRADE REPRESENTATIVE  
WASHINGTON  
20506

September 19, 1984

The Honorable David Pryor  
United States Senate  
Washington, D.C. 20510

Dear David:

You have inquired about the Administration's intentions with respect to the issue of bromine products in our discussions with the Government of Israel concerning a free trade area. Prior to initiating our consultations with the Government of Israel, we requested the International Trade Commission (ITC) to examine the entire range of American industries that might be affected by a free trade arrangement and to advise the President if such an agreement would have a significant adverse effect on any domestic industry. The ITC determined that a limited number of domestic producers, including a portion of the bromine industry, would be potentially adversely affected.

It is the Administration's intention not to proclaim or to reduce, in any manner, the applicable duties on the articles designated as sensitive by the ITC report at any time before January 3, 1988, at which time the proposed tariff reduction authority will expire. Before taking any further action with respect to any duties on these articles, it is the Administration's intention to request the ITC to determine the probable economic effect of such action.

I would also like to raise another issue which has been of concern to you. There is a genuine concern on the part of American businesses regarding the existence of export subsidy programs in Israel, both as to their generally trade distortive effect and as they related to the proposed United States-Israel Free Trade Area. I want to assure you that the Administration shares this concern.

As a result, a commitment by Israel to phase out and eliminate the maintenance of export subsidy programs in a relatively short period of time is viewed by the Administration as a precondition to the conclusion of a Free Trade Area Agreement between the United States and Israel. In addition, it is our expectation that such a commitment from Israel will serve as a basis for their signing the Subsidies Code.

Finally, let me assure you that the Administration intends fully to comply with the requirements and spirit of the law regarding consultations with Congress prior to and following submission of the proposed agreement for Congressional approval. As you know, before the agreement is submitted to the Congress the Administration must give 90 days notice of its intention to enter into such an agreement. After that period the Congress has an additional 60 days in which to consider any agreement and necessary implementing legislation. I believe this process will fully ensure that your concerns and those of other members will be taken into account before this agreement is put into effect.

Very truly yours,



WILLIAM E. BROCK

WEB:mtjc

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Senator Pryor. And I would like to say that our position at this point must be that of the Administration's, and that is to implement the spirit of the bill and to -- I guess at this point we should voice our concern to the principle language adopted by the House of Representatives. So I would hope that we would go forward with the Administration's language at this point.

Senator Wilson. Mr. Chairman?

The Chairman. Yes.

Senator Wilson. Mr. Chairman, in that same vein I would ask that the Committee accept as part of the record for an illustration of the legislative history the pages of the Congressional Record that reflect the colloquy between Senator Danforth and myself on that subject, which were found in the Record of September 19th, 1984 at pages S.11500 and S.11501. They, I think, reflect what the Administration proposal presently reflects, and not the Frenzel amendment.

The Chairman. Without objection, that will be part of the record.

(THE EXCERPT FROM THE CONGRESSIONAL RECORD FROM SENATOR WILSON FOLLOWS:)

Our amendment is procompetition. If adopted, it will serve as a reminder to foreign nations that their wines enjoy liberal access to the world's largest free market for wines and that we do expect some consideration for our wines to gain access to other markets.

The amendment has been substantially modified since it was first introduced by Senator WILSON and myself with Senators D'AMATO and MOYNIHAN. That bill was in fact a reciprocity measure and did require the President to act upon findings of different treatment of American wines in foreign markets.

The bill has been rewritten by the House Subcommittee on Trade and reported last week as H.R. 3795. It is drafted to provide a legislative basis for the commendable efforts recently undertaken by the Office of Special Trade Representative to obtain a reduction in the Japanese tariff on wine imports and a similar success in reducing nontariff barriers imposed by the European Community.

In its present form our amendment is endorsed by a major agricultural commodity producing association, the Soybean Growers, as well as the AFL-CIO.

A key provision of our proposal would encourage the President to establish a U.S. Wine Export Promotion Program. This is the spirit and the intent of our amendment—a concerted effort to seek opportunities for American wines in the wine-consuming markets of nonwine producing nations, such as Japan, Great Britain, Sweden, Norway, including such wine producing countries as West Germany, which consumes more than it produces for domestic use, and even France, the home of the great noble wines, a market in which we believe the best American wines can compete evenly with the extremely costly French chateau-bottled vintages.

I urge my colleagues to support our amendment.

I repeat, ours will not injure other commodities through threats of retaliation because in no way will our amendment limit, restrict or harm the imports of wine into the United States.

Mr. WILSON. Mr. President, I ask unanimous consent to have printed in the RECORD a "Dear Colleague" letter dated September 19, 1984.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

U.S. SENATE, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,

Washington DC, September 19, 1984.

DEAR COLLEAGUE: Today many American farmers are being hurt by subsidized imported processed agricultural products. Our farmers are efficient but cannot and should not be required to compete against the treasuries of foreign governments. Yet American farmers have been denied the right to petition their own government for relief from subsidized and dumped imports by a bureaucratic interpretation of our

trade laws. To remedy this situation, we urge that you support an amendment which would allow farmers to petition the International Trade Commission (ITC) for relief from this kind of unfair competition. Farmers must have the right to be heard when they are threatened by unfair competition.

The amendment would modify U.S. countervailing duty and antidumping laws to help ensure that complaints filed by U.S. agricultural industries with the International Trade Commission are given fair and uniform consideration. It would provide standing to agricultural growers in investigations involving processed agricultural products, provided that the growers allege injury as a result of imports of such processed agricultural products. The amendment fully comports with GATT interpretation and the legislative history of U.S. import relief statutes, both of which establish that standing should not be so narrowly defined as to prevent consideration of an investigation. The ITC has itself ruled in several previous cases that growers should be considered part of the domestic industry. Because the Commission's treatment of growers has been inconsistent, however, this amendment is necessary to ensure uniformity and fairness to our agricultural producers.

The amendment also defines "processed agricultural products" using the definition as it appears in the GATT and permits the refiling of petitions to ensure that former petitioners benefit from these statutory changes.

We hope that you will cosponsor this amendment. Farmers should not be denied access to laws designed for their protection if they can make a case that they are being injured. American farmers are hurting. We must take positive steps to ensure that they do not have to contend with unfair competi-

Sincerely,

PETE WILSON,  
THAD COCHRAN,  
BILL COHEN,  
ALAN CRANSTON,  
JESSE HELMS,  
WALTER D. HUDDLESTON,  
DAVID L. BOREN.

Mr. WILSON. Mr. President, I ask unanimous consent that Senators DOLE, HELMS, HUDDLESTON, COCHRAN, and COHEN be added as cosponsors to the amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. WILSON. I am pleased to announce support from the National Council of Farmer Cooperatives, the American Farm Bureau, and the American Soybean Association. I believe that this amendment has been cleared on both sides. I move its adoption.

Mr. DANFORTH. Mr. President, I have examined this amendment.

Mr. BENTSEN. Mr. President, I have no objection to the amendment.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from California.

The amendment (No. 4287) was agreed to.

Mr. DANFORTH. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. BENTSEN. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

AMENDMENT NO. 4288

Mr. WILSON. Next, Mr. President, I should like to move to consideration of the Israel Free Trade Act. Specifically, Mr. President, I send an amendment to the desk and ask for its immediate consideration.

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk read as follows:

The Senator from California (Mr. WILSON) proposes an amendment numbered 4288.

Mr. WILSON. Mr. President, I ask unanimous consent that reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

At the appropriate place in the bill, add the following:

"Sec. Adverse Economic Impact Study.

"At the end of subsection (b) of section 102 of the Trade Act of 1974, add the following new paragraph:

"(A) Prior to negotiating a trade agreement for the elimination or reduction of duties imposed by the United States, the President shall request of and receive from the International Trade Commission a determination as to each article about which the President intends to negotiate, which is or is likely to be imported into the U.S. upon implementation of any such agreement, and about which the International Trade Commission has received substantial allegations, whether or not the importation of such article is likely to cause a significant adverse impact on the industry in the United States producing such article. Each such determination, and the reasons therefore, shall be transmitted to the Congress.

"(B) The President shall have no authority to negotiate a trade agreement for the elimination or reduction of any duty imposed by the United States on any article about which an affirmative determination is made pursuant to subparagraph (A).

"(C) Notwithstanding the provisions of subparagraph (B), not prior to five years after entering into a trade agreement pursuant to the provisions of this subsection, the President may request of the International Trade Commission a review of the affirmative determinations made pursuant to the provisions of subparagraph (A). If, at that time, the International Trade Commission makes a negative determination as to an article so reviewed, the prohibitions in subparagraph (B) shall not apply to such article. If, at that time, the International Trade Commission makes an affirmative determination as to an article so reviewed, the prohibitions in subparagraph (B) shall remain in effect as to such article."

Mr. WILSON. Mr. President, it may not be necessary to offer this amendment. What I really wish to do is to express my concern and the concern of many of my colleagues regarding the negotiations with the Government of Israel on the establishment of a free trade agreement.

I am a supporter of the agreement, and so testified before the Finance Committee. However, I do have some reservation over aspects of the agreement affecting commodities which the U.S. International Trade Commission has found to be import sensitive.

It is my understanding that the U.S. Trade Representative has expressed the U.S. position that articles which the ITC has found to be import sensitive will not be subject to duty-free import for 5 years. At the end of the 5 years, the ITC will review these articles to determine if they remain import sensitive. In the mind of this Senator, and others, it is not clear as to what will then happen regarding those articles which are found to still be import sensitive.

It does not make sense to eliminate tariffs on goods, when that elimination will, according to the ITC, have significant adverse economic impact on the U.S. industries producing those goods. According to ITC standards, "significant adverse impact" means that U.S. output will significantly decline, producers will go out of business, and a significant proportion of the workers producing the goods will be left unemployed.

Mr. President, as I have said, I support a free-trade agreement with Israel, but that bill should not be one that will almost immediately occasion the need for relief through filing under section 201 of the Trade Act by U.S. industries which have been found by the ITC to be import sensitive. The agreement will benefit both countries, but only if we can take care to assure that any burden occasioned by the bill shall not fall on any one group of people or industries.

It is my position that the ITC should have continuing review responsibility, at 5-year intervals, over articles which are likely to be affected by a free-trade agreement. Should the ITC make a finding that goods were no longer import sensitive, the President would have the authority to negotiate duty reductions on them. However, if the ITC found continued sensitivity, the President would have no such authority.

Mr. DANFORTH. Mr. President, if the Senator from California will yield, I should like to express my full support for the position he is taking. We must proceed carefully with regard to any tariff agreement. Certainly industries which are subject to significant adverse economic impact from increased imports of the goods they produce should not be subjected to the elimination of duties on those goods. I have in mind in this case, for example, certain agricultural products and bromine chemicals. It is my intention, and I will press this point in the Conference Committee for inclusion in the statement of managers, that as long as the ITC finds that certain goods are import sensitive, it would be inappropriate to reduce duties on them.

I would note that any agreement with Israel negotiated under the authority of this bill must be sent to the Congress for legislative action. I would further note that, as the Senator and I have discussed, the authority under which the Israel free-trade agreement will be negotiated will expire in a little

more than 3 years. As a result, any reductions in tariffs on import sensitive articles, beyond those initially agreed to, could only be negotiated with new statutory authority. I make these points to make clear that there will be other opportunities for the Senator to press this point, as the need arises, and to assure the Senator that no further tariff reductions would be made without full congressional consideration.

Mr. WILSON. Mr. President, I thank the distinguished floor manager for his support on this matter and for his willingness to work with me on an issue that is of great importance to the State of California, as well as many other regions of the country.

Mr. CRANSTON. Mr. President, I wish to associate myself with the remarks of my colleague from California with respect to import sensitive crops.

Mr. QUAYLE. Mr. President, I would like to discuss an aspect of the trade bill that deals with import sensitive products. I want to assure the Senator from Missouri that I am an admirer of his accomplishment in compiling a complex piece of legislation and in bringing it to the Senate floor for consideration. I believe that the United States must take thoughtful action to improve its trade situation and that this legislative body must make corresponding adjustments to trade laws and custom rules. This is essential if we want the economy to continue to improve. I specifically endorse the initiatives to reduce barriers to exchange of services and goods between the United States and its already great trading partners, Israel and Canada.

However, I am concerned about the need to develop a clear understanding of what is entailed in the grant of negotiating authority to the office of U.S. Trade Representative [USTR] and what its implications are for certain product categories. It has been said that the United States, Israel, and Canada all will benefit from establishing these free trade agreements [FTA's]. Now while this is true in a general sense and it is true for the vast majority of products, it is not true across the board. The question is, what would be done about those few products that would be suddenly and severely impacted by the establishment of new FTA's.

Already, in the United States, there have been hearings before the International Trade Commission [ITC] and the Interagency Trade Policy Staff Committee [TPSC] relating to the impact of the proposed FTA with Israel. Several industries, including some from the agricultural and natural resource industries in my State, have argued they will suffer "significant adverse impact" if duties on Canadian or Israeli imports are reduced or eliminated precipitously.

It is my understanding, and this is what I would like to have clarified, that, if the ITC finds these claims to be true, that Ambassador Brock has

given personal assurances, that products that fall into this narrowly drawn category would receive special and appropriate consideration during negotiations. Furthermore, if need be, that duties could be frozen for up to 5 years and that at the end of this period of time, renegotiations would occur under advice of the ITC about the future status of these products.

It seems to me, if the free-trade area is intended to benefit the economies of all three countries, there is no reason why those few sensitive industries that will be hurt by this arrangement should not have special adjustments made. It also seems to me that it would not be in our best national interest to reach an international agreement for the benefit of our export industries, only to harm other U.S. producers.

The concept that I am asking the Senator to affirm is a narrow one and would include only those industries that have been deemed by the ITC to be sensitive to duty-free Israeli imports. As the Senator from California has pointed out, it is not clear what will happen to products still deemed import sensitive after 5 years. It is my understanding that in this regard the President will seek the advice of the ITC after this period has passed and that we can expect the administration to show the same sensitivity at that future point in time to products that fall into the ITC-defined sensitive category. This is to say that there will continue to be negotiating room regarding import sensitive products. In other words, the U.S. position should neither imply that all products will be duty free at some point in the future nor imply that products identified as sensitive will remain dutiable indefinitely. It says what it means, that problem products, which are expected to be very few, will remain negotiable and that ITC findings will have significant impact on the U.S.'s negotiating positions.

An approach of this sort is consistent with the General Agreement on Tariffs and Trade [GATT] which permits free trade areas that cover "substantially all" of the goods traded between countries that have agreed to such an arrangement. This language indicates that the originators of GATT correctly recognized that, if FTA's were negotiated, there could be a need for special considerations related to sensitive products. In this case those products would be identified by the ITC.

My understanding of the proceeding colloquy is that USTR would have the type of authority, reiterated above, under provisions of the bill.

Mr. WILSON. Mr. President, I withdraw the amendment.

The PRESIDING OFFICER. The amendment is withdrawn.

1           The Chairman. Ted, refresh my memory. When does this  
2 whole fast track process come up for renewal? I mean the  
3 general legislation.

4           Mr. Kassinger. The authority to use the fast track  
5 for tariff agreements expires January 3rd, 1988.

6           The Chairman. What I was going to suggest was an  
7 alternative, and I hope it's acceptable. And that's that  
8 after December 31st, 1989, when we are into these last five  
9 years, that the President can submit to us these tariff  
10 reductions to get us to zero on a fast track basis, bearing  
11 in mind there may be no fast track basis when we get there  
12 if this whole concept is not extended.

13           And I would assume that if then the Administration wants  
14 to keep our goodwill on this fast track basis, they would  
15 accommodate us at that time and before they submitted it,  
16 they would have discussions with us as to whether or not they  
17 should do it.

18           But in any event, the law would be self-effecting no  
19 later than 1995 so that the promise that we have stated that  
20 we are going to get to -- zero by 1995 -- is indeed in the  
21 law, but the President cannot do it on his own initiative  
22 without coming to us.

23           Senator Pryor. I wonder if the President under those  
24 circumstances the President has to submit a bill on a  
25 procedural change in the language?

1           The Chairman. Under the amendment that I have, he would  
2 have to submit a fast track bill. And if they follow the  
3 procedures they have been following so far, they would  
4 consult with us first. And, indeed, if we didn't pass it,  
5 we just turned it down, what you would have is your tariffs  
6 would go to zero but not until 1995. It would be a bill on  
7 a fast track system we could not amend, but if we turned it  
8 down, the duties would just stay where they were. But there  
9 would be the promise and the guarantee that we would get to  
10 zero by 1995. And I think in good faith that ought to be in  
11 the legislation some place.

12           Senator Pryor. This would be a difference from the  
13 Frenzel language to the degree that rather than automatically  
14 in the category core or in the six to 10 year period on the  
15 question where Frenzel would automatically allow the  
16 President, I assume, to --

17           The Chairman. He has to consult with us, but then he  
18 can do it anyway. And he can do it at that stage by  
19 administrative fiat.

20           Senator Pryor. Your position, Mr. Chairman, would be  
21 to require the President to submit to the Finance Committee  
22 and Ways and Means or the Congress as a whole?

23           The Chairman. He would have to submit us a bill. And,  
24 of course, it would come to Ways and Means and Finance, but  
25 it would go like any other fast track bill. It would have to

1 be approved by Congress. And if not, he would not be in a 1  
2 position to at that stage reduce the duties. But at the end  
3 of the line, they would go, in that case, abruptly to zero in  
4 1995. There might be no change from 1990 to 1995, but you  
5 would go to zero on the effective date.

6 Mr. Kassinger. Mr. Chairman, may I clarify something  
7 that's implicit in what you just said. Part of the  
8 Administration's bill would provide the President with  
9 authority to send up the legislation on a fast track basis.

10 This means that it would amend the effective date of  
11 that -- of the current tariff authority on a fast track so  
12 that it would, in effect, extend beyond 1988 for the Israeli  
13 agreement. That would allow the President to send up --

14 The Chairman. Whether or not we extend the general  
15 fast track legislation.

16 Mr. Kassinger. Exactly. We would need to preserve  
17 that from the Administration's bill.

18 The Chairman. Comments on the amendment.

19 Senator Wilson. Excuse me, Mr. Chairman. You are  
20 asking for comments on the Frenzel amendment?

21 The Chairman. No. On the amendment I'm suggesting.

22 Senator Wilson. Oh, all right. I would still have a  
23 problem with that. The basic point that was under  
24 discussion in the colloquy that I had with Senator Danforth  
25 on the basic assurance provided by the U.S. Trade

1 Representative in his letter to Senator Pryor really related  
2 to the fact that those items that were deemed by the ITC to  
3 be import sensitives and were found in a continuing way to  
4 have that status would not be subject to the provisions that  
5 govern the rest of the bill. And would actually, because of  
6 their special import sensitivity, require a special  
7 legislative grant of authority for the President to  
8 negotiate.

9 And that was the purpose of the letter to Senator Pryor.  
10 That was the purpose of the assurance given by Senator  
11 Danforth to me. And it arises out of the fact that there is  
12 a special sensitivity.

13 It doesn't say that there will not be -- that Congress  
14 will not grant that authority, but it does say that Congress  
15 will at least have to be consulted, and that there will not  
16 automatically be authority without consideration of that  
17 sensitivity.

18 The Chairman. The amendment I am offering is saying  
19 that in good faith -- and it's a compromise between what the  
20 House has added with the Frenzel language -- that there will  
21 be in the law a promise that we will get to zero in 1995 so  
22 that those who are dealing with us will not have to wonder  
23 if the Congress between 1990 and 1995 is, indeed, going to  
24 fulfill its agreement.

25 And I think in fairness when you are dealing with

1 international partners, you ought to have a promise that  
2 you are going to achieve what you have promised.

3 Further comments on the amendment?

4 Senator Danforth. Well, Mr. Chairman, as far as I am  
5 concerned the question is whether Senator Wilson and Senator  
6 Pryor are satisfied because Senator Wilson has pointed out  
7 the colloquy that I had with him on the floor, and Senator  
8 Pryor was a party to very lengthy negotiations with  
9 Ambassador Brock and worked it out with him.

10 That is my sole concern. Whether they think that your  
11 amendment is consistent with what they think the commitments  
12 were.

13 The Chairman. David?

14 Senator Pryor. I wonder if I could ask Mr. Lang of  
15 the Minority Staff to describe what may be a concern that we  
16 have and a possible way now to deal with the language you  
17 have.

18 Mr. Lang. Senator Pryor, I think I understand your  
19 concern. Under the Chairman's proposal, the President would  
20 first, as I understand it, be empowered to proclaim zero  
21 rate duty in the fourth category of tariff cuts at the  
22 end of the 10 year period.

23 Second, if the President wanted to stage those tariff  
24 cuts down during the fourth category period -- that is, the  
25 last four years of the agreement -- he could send up a fast

1 track bill to do that. That would require the Committee to 2  
2 create sort of special fast track for that kind of bill since  
3 the general fast track authority under the Trade Act expires  
4 January 3rd, 1988.

5 But for the second part of what I have described, the  
6 special fast track, the Administration would both have to  
7 have the fast track authority renewed after January 3rd,  
8 1988 and send up a bill.

9 If they could not get the fast track authority renewed  
10 after 1980, then the bill to phase in the fourth category  
11 tariff cuts would be treated at that time as regular  
12 legislation subject to all the infirmities of regular  
13 legislation.

14 I hope I've described it accurately.

15 The Chairman. Let me first make sure I understand the  
16 difference between what David initially had a problem with  
17 in the letter from Ambassador Brock and the colloquy  
18 between Senators Wilson and Danforth.

19 Mr. Lang. Yes, sir.

20 The Chairman. What you wanted, David, was not going to  
21 zero in these first five years. And, indeed, this bill  
22 achieves that.

23 The colloquy between Senator Wilson and Senator Danforth,  
24 as I recall, Senator Wilson didn't want them to go to zero  
25 at all under any circumstances.

1 Senator Pryor. Correct.

2 Senator Wilson. Mr. Chairman, it would be more  
3 accurate to say that what we wanted was in the event that  
4 there is a continuing import sensitivity -- that being a  
5 classification determined by ITC investigation -- that  
6 there would not be an automatic grant of authority to the  
7 President to negotiate downward, but that that would be given  
8 only after due consideration by the Congress.

9 If I understand your proposal, Mr. Chairman, you're  
10 suggesting a procedure in which Congress would be consulted  
11 in a way that would allow us only to say yes or no after  
12 negotiations. And I think with respect to this special  
13 fourth category that are import sensitive a better procedure  
14 and more deliberate one, one that would allow for some  
15 tailoring to particular need, would be the procedure that  
16 would allow us a broader discretion and not simply voting  
17 up or down on what is a done deal, a negotiated agreement  
18 offered by the President when we have only the choice of  
19 taking it or leaving it.

20 Senator Danforth. Well, that is not my understanding.  
21 That was not my understanding.

22 The Chairman. Yes.

23 Senator Danforth. My understanding was -- I really  
24 need Claude to -- it's a little bit fuzzy in my mind. But  
25 my understanding is the difference between -- that the bill

1 in its present form reflects the understanding that I had  
2 with Senator Wilson and that Ambassador Brock had with  
3 Senator Pryor.

4 And that the difference between the bill in its present  
5 form and the Packwood amendment is that if the Congress does  
6 not give approval sometime between the fifth year and the  
7 tenth year, then under the Packwood approach, the tariff would  
8 go down to zero at the end of 10 years.

9 The Chairman. That's correct.

10 Mr. Gingrich. That's correct.

11 Senator Danforth. And under the bill it would not. In  
12 other words, under the bill, the tariff would continue in  
13 perpetuity unless Congress acts.

14 Mr. Gingrich. That's correct. That's the essential  
15 difference.

16 Senator Danforth. And it isn't the form of fast track  
17 legislation that's at stake. It's a question of what would  
18 Congressional inaction result in.

19 Mr. Gingrich. Yes, sir.

20 Senator Danforth. Now it's my understanding that the  
21 bill in its present form does reflect the understanding that  
22 I had with Senator Wilson.

23 Mr. Gingrich. That's correct.

24 Senator Danforth. And does reflect the understanding  
25 that Ambassador Brock had with Senator Pryor.

1 Mr. Gingrich. Yes. We believe that it precisely  
2 carries out the understanding that we had with Senator Pryor,  
3 that was submitted to Senator Pryor in the letter.

4 Senator Danforth. And that the Chairman's proposal,  
5 while, you know, it might be laudible, does not reflect the  
6 understanding that I had with Senator Wilson.

7 Mr. Gingrich. The Chairman's proposal goes beyond, as  
8 you have described. It takes it to zero, at the ninth or  
9 tenth year -- I'm not sure which. I have to take a look at  
10 the dates -- but in that sense it goes beyond in that it by  
11 law says that the sensitive products go to zero at the end of  
12 10 years.

13 Senator Danforth. Yes.

14 The Chairman. Are we ready to vote?

15 Clerk, call the roll.

16 The Clerk. Senator Dole?

17 The Chairman. Aye, by proxy.

18 The Clerk. Mr. Roth?

19 Senator Roth. No.

20 The Clerk. Mr. Danforth?

21 Senator Danforth. No.

22 The Clerk. Mr. Chafee?

23 (No response)

24 The Clerk. Mr. Heinz?

25 Senator Heinz. No.

1 The Clerk. Mr. Wallop?  
2 (No response)  
3 The Clerk. Mr. Durenberger?  
4 (No response)  
5 The Clerk. Mr. Armstrong?  
6 (No response)  
7 The Clerk. Mr. Symms?  
8 Senator Symms. Aye.  
9 The Clerk. Mr. Grassley?  
10 Senator Grassley. Aye.  
11 The Clerk. Mr. Long?  
12 (No response)  
13 The Clerk. Mr. Bentsen?  
14 (No response)  
15 The Clerk. Mr. Matsunaga?  
16 Senator Matsunaga. Aye.  
17 The Clerk. Mr. Moynihan?  
18 (No response)  
19 The Clerk. Mr. Baucus?  
20 Senator Baucus. Nay.  
21 The Clerk. Mr. Boren?  
22 Senator Boren. Nay.  
23 The Clerk. Mr. Bradley.  
24 (No response)  
25 The Clerk. Mr. Mitchell?

1 (No response)

2 The Clerk. Mr. Pryor?

3 Senator Pryor. No.

4 The Clerk. Mr. Chairman.

5 The Chairman. Aye.

6 Senator Baucus. Mr. Chairman, have you announced?

7 The Chairman. No.

8 Senator Moynihan. I want to vote no.

9 The Chairman. Do others want to be registered? What  
10 count do you have, Susan?

11 The Clerk. I have five yeas, eight nays.

12 Senator Pryor. Mr. Chairman, I think that we could  
13 resolve this. I think we can accommodate the concerns of  
14 Senator Wilson and mine if we simply from your amendment --  
15 and I'm sorry I had to vote no on it because I may have  
16 indicated to you that it was all right, but I subsequently  
17 found something that was concerning -- if we can simply take  
18 out the special fast track that your amendment would imply  
19 in the six to 10 year period.

20 If we can remove that, and go back to the language or  
21 the intent of the Administration, I think we may have --  
22 Senator Wilson doesn't agree. I think that would accommodate  
23 my concern about --

24 The Chairman. All you want to do is get rid of the fast  
25 track, but you would still go to zero in 1995, if we did

1 nothing in the interim.

2 Senator Pryor. I might be wrong, but I think the whole  
3 intent of this agreement, I guess, is to go to zero in 1995.  
4 I think that's what our agreement is. Am I right or wrong?

5 The Chairman. No, that's the assumption.

6 Senator Pryor. Right.

7 The Chairman. But at the moment, the amendment is  
8 defeated. And David, I will get back to you in a bit.

9 Ted, let's go on with the rest of it.

10 Mr. Kassinger. That's the only amendment you had, Mr.  
11 Chairman. There may be other amendments Committee members  
12 have.

13 The Chairman. Let me very quickly while we have got a  
14 quorum here take a look at items 3, 4 and 5 on the agenda  
15 which were ITC reports. Before we had a quorum, there was  
16 no objection to adopting those. And I would like to ask if  
17 there are any objections now to items 3, 4 and 5, which  
18 are requests for ITC studies. On those three are there any  
19 objections?

20 Senator Grassley. There isn't any objection, but I  
21 want to thank the Committee for going ahead with that. And  
22 I have a statement. I was absent at the time it came up.  
23 I have a statement I want to put in the record in support of  
24 it.

25 Senator Baucus. Mr. Chairman?

1 The Chairman. Max and then Bill.

2 Senator Baucus. Mr. Chairman, I would like to, if we  
3 could, have another 332 study on the amount of EC beef that  
4 is being dumped and subsidized, particularly being dumped  
5 into Canada. Canada has a reciprocal beef import law which  
6 operates worldwide. That is, if Canadian imports are  
7 drastically increasing, the effect of Canadian law is to  
8 cut down on U.S. beef that goes into Canada. And the fact  
9 is that the U.S. beef in 1985 is going to be half that's  
10 imported to Canada -- it's going to be half of what it is  
11 in 1984 because of the amount of beef that Ireland is  
12 subsidizing and dumping into Canada.

13 The figures, very briefly, are about -- in 1984 -- 40  
14 million pounds of beef from Ireland that were sold into  
15 Canada. And as a result under Canadian laws, in 1985,  
16 only about 6 million pounds will be allowed in. In the  
17 United States 42 million pounds of American beef were  
18 exported to Canada in 1984. And as a result of Canadian  
19 law, U.S. beef is going to be cut in half down to 21  
20 million pounds.

21 It just seems to me that ITC should study that one, too,  
22 so that we have a better idea of the degree to which Irish  
23 beef subsidies adversely affect U.S. --

24 The Chairman. I have no objection to that. The ITC  
25 Congressional Liaison is here. Their budget is up next week.

1 Senator Baucus. Correct.

2 The Chairman. And we said at the time we want to pose  
3 some questions to them as to how many studies they can do,  
4 because I have a feeling they are going to start to be  
5 inundated with studies as --

6 Senator Baucus. I hope --

7 The Chairman. I have no objection to including this.  
8 Bill?

9 Senator Bradley. Mr. Chairman, I would also like to  
10 propose the ITC to do a study about what is the feasibility  
11 and the implications of converting the quota system that  
12 we have -- those products in which there are quotas in which  
13 we have on a country-country basis. If we converted that  
14 into a global quota and provided a domestic auction for  
15 countries that wanted to have access to our markets. Could  
16 we have them do a study on that as well?

17 The Chairman. Do you have that phrased a little more  
18 specifically?

19 Senator Bradley. Well, I don't have it written, but  
20 I -- let me see if I can state it specifically. Let the ITC  
21 do a study about the feasibility and the implications of  
22 converting the quotas that now exist on products in a  
23 country by country basis, converting that to a global quota.

24 In other words, right now what we do, say, in textiles  
25 is we say this country, that country, this country, has this

1 much. What I would like to do is convert it to a global  
 2 quota. That there will be no more than X amount allowed  
 3 into the United States. And then I would like to have them  
 4 look at the feasibility and implications of auctioning that  
 5 right to import to the United States. There might end up  
 6 being some revenue for the Government at a time when we  
 7 are looking for ways to reduce the deficit.

8 The Chairman. I wanted to make sure I understood your  
 9 idea. I've heard the auctioning idea before. And not just  
 10 on quotas, but generally on imports.

11 Mr. Kassinger. Mr. Chairman, you have asked, in fact,  
 12 U.S.T.R. to perform exactly that kind of study in the  
 13 textile sector, which seems to be the most obvious one to  
 14 do it. I wonder if we could get -- perhaps it would be  
 15 useful to get that study before we have a duplicative one  
 16 done by the ITC.

17 Senator Packwood asked the U.S. Trade Representatives  
 18 Office in early February to conduct a study of the  
 19 feasibility of setting up an import licensing system for  
 20 textiles that would be auctioned, so that licenses would be  
 21 auctioned to the highest bidder, in effect. And to study  
 22 not only the feasibility administratively, but also the  
 23 revenue effects.

24 The Chairman. All you are suggesting is wait for the  
 25 U.S.T.R. to finish before we ask the ITC to undertake a

1 similar study.

2 Senator Bradley. As I understand it, this study is  
3 related to only textiles. Is that right?

4 Mr. Kassinger. That's correct.

5 Senator Bradley. And I was thinking of a little  
6 broader general application. But I can certainly wait.

7 When was the U.S.T.R. study to be finished?

8 Mr. Kassinger. I don't think we have a target date, but  
9 I will check for you, Senator, and we will get back to you.

10 The Chairman. I wonder if I might also request this of  
11 the Committee, because I'm trying to play in good faith with  
12 the International Trade Commission.

13 If you have suggested studies, if you could let me know  
14 ahead of time so I could talk with you and talk with them and  
15 see how many they can digest. It would help.

16 Further amendments?

17 Senator Roth.

18 Senator Roth. Mr. Chairman --

19 The Chairman. Was there any objection to adopting  
20 the studies?

21 (No response)

22 The Chairman. Without objection.

23 Senator Roth.

24 Senator Roth. Mr. Chairman, the amendment that I will  
25 offer, I think has already been discussed in some detail by

1 Senator Wilson. It involves the listing of so-called  
2 sensitive products. What I am doing is to offer an amendment  
3 to delete Section 982 from the implementing legislation.

4 This would bring the list of products eligible for the  
5 special procedures for gaining provisional relief when  
6 petitions for import relief are filed into conformity with  
7 the Trade Act of 1984.

8 The Trade Act specifically lists the products that are  
9 eligible for the special procedure that we've already been  
10 discussing. And this include: live plants, vegetables,  
11 fresh mushrooms, edible nuts and fruits, fresh cut flowers  
12 and concentrated fruit juices.

13 However, in the implementing legislation, there is a  
14 so-called technical amendment -- in fact, it's a substantive  
15 amendment -- which narrows this product list by restricting  
16 vegetables and fruits to fresh vegetables and fruits and  
17 eliminating nuts.

18 Mr. Chairman, I believe this agreement was to be  
19 negotiated within the perimeters laid out by the Congress.  
20 The Congress specifically and consciously included a broader  
21 range of products, sensitive products, than is included in  
22 the implementing legislation.

23 We consciously rejected the use of the list from the  
24 Caribbean Basin Initiative, which is a basis for the  
25 Administration's changes. What I'm proposing to do is to

1 make the implementing legislation conform with the basic  
2 legislation. And I would, at this time, if you agree, ask from  
3 Senator Wilson any further comments he may care to make.

4 Senator Wilson. Thank you very much. Mr. Chairman,  
5 Senator Roth has, I think, quite adequately indicated the  
6 concern that I have, and I do thank the Chairman for his  
7 graciousness in allowing me to earlier make these comments.

8 That is true. The CBI procedure is the same, but the  
9 definition of what it includes was different. And it is  
10 that broader definition that Congress, in fact, enacted, that  
11 we wish to see in the law.

12 The Chairman. Bill?

13 Senator Roth. Mr. Chairman, I would move the adoption  
14 of my amendment.

15 The Chairman. You want to adopt exactly what we had  
16 in the bill with all of the definitions which does go beyond  
17 fresh fruit and vegetables?

18 Senator Roth. Yes.

19 The Chairman. Senator Danforth.

20 Senator Danforth. Mr. Chairman, here is what is at issue,  
21 as I understand it, in this amendment. There was a  
22 recognition when this bill was on the floor that for import  
23 relief, Section 201 of the Trade Act relief, perishable  
24 goods are in a different position from non-perishable goods.  
25 That if you provide import relief for perishable goods in

1 the usual time frame, it may be too late.

2 And that is why it was agreed when we considered this  
3 on the floor to provide a special fast track for perishable  
4 goods. The Administration -- this is my understanding, and  
5 Claude, correct me if I'm wrong -- the Administration agreed  
6 to that fast track.

7 Senator Wilson then submitted language to the  
8 Administration. In fact, the language as submitted included  
9 some items that were not perishable along with some that  
10 were. And it included fresh fruits and vegetables which are  
11 perishable and it also included nuts and canned vegetables  
12 and canned fruit and dried fruit, which are not perishable.

13 So it was a kind of -- I don't know, I guess it was in  
14 the nature of an oversight on the part of U.S.T.R. in  
15 reviewing the amendment. Is that a fair statement?

16 Mr. Gingrich. Senator Danforth, that is a fair  
17 representation of what occurred. We simply did not realize  
18 until after the fact the breadth of the amendment. It wasn't  
19 until several days later when we got to reading the details  
20 of the legislation that we discovered the breadth of it.

21 Senator Danforth. The purpose of providing for fast  
22 track 201 relief is to take care of those goods which would  
23 spoil if they didn't get fast track. In fact, the language  
24 was -- it was as though, Mr. Chairman, the language -- there  
25 is going to be fast track relief for meats, milk, fresh fruit,

1 fresh vegetables, shoes, flowers, and so on. I mean there is 3!  
2 one item in there, you know, which is clearly not  
3 perishable. But it's just inserted sort of like an Easter  
4 egg along with everything else.

5 And I don't know what the Committee wants to do on it,  
6 but it's my view that the relief was really intended to be  
7 fast track relief for items that are clearly perishable.  
8 And while it is true that in the legislation itself and the  
9 amendment that was agreed to by the Administration, there  
10 were some other items inserted in with the perishable  
11 items. That really was not what the amendment was supposed  
12 to be.

13 The Chairman. And I think we ought to consider now, as  
14 we consider this legislation, whether we want perishable to  
15 mean perishable.

16 Senator Danforth. Well, I think that it should. I  
17 mean, really, I think that to include nuts and canned goods  
18 and so on among perishable goods is not what fast track  
19 relief is supposed to be for and not what was understood at  
20 the time, although it was technically in the list.

21 Senator Wilson. Mr. Chairman, let me argue to the  
22 contrary. If we are going to make this decision, if the  
23 Committee is going to make this decision, based upon a  
24 definition of what is perishable, let me suggest that there  
25 is no particular time frame given to perishable, as I

1 understand it. And what we are talking about is, as the  
 2 Committee well knows from your experience with these 201  
 3 proceedings, that the fact is that from the time that a  
 4 surge first appears in these imports, one that is capable  
 5 of warranting 201 action until the papers are actually put  
 6 in order for the submission, as much as six months may  
 7 elapse.

8 Now in my view, that means that to err on the side of  
 9 a very narrow definition that has in mind something that will  
 10 spoil overnight really doesn't go to the basic purpose of  
 11 the provision.

12 And I would say that nuts are perishable. Dried fruits  
 13 are perishable. Industries, for that matter, are perishable.  
 14 And what we are really talking about is a procedure which  
 15 is useful or can be useful, but is very time consuming. And  
 16 it was in recognition of the length of time that is involved  
 17 in the ordinary proceeding that this definition was  
 18 constructed.

19 I think that was the purpose, and I think it's the  
 20 proper purpose. So I would support Senator Roth's amendment.  
 21 I think that it is a proper and fair thing, and not one  
 22 inconsistent with the broader goals of this legislation.

23 The Chairman. Further discussion on the amendment of  
 24 Senator Roth?

25 (No response)

1 The Chairman. All those in favor of the amendment  
2 will say aye.

3 (Chorus of ayes)

4 The Chairman. Opposed, no.

5 (Chorus of nos)

6 The Chairman. Nos appear to have it.

7 Want a roll call, Bill?

8 Senator Roth. Yes. I'd like to have the roll called.

9 The Chairman. Clerk, call the roll.

10 The Clerk. Mr. Dole?

11 (No response)

12 The Clerk. Mr. Roth?

13 Senator Roth. Aye.

14 The Clerk. Mr. Danforth?

15 Senator Danforth. No.

16 The Clerk. Mr. Chafee.

17 (No response)

18 The Clerk. Mr. Heinz.

19 Senator Heinz. Pass.

20 The Clerk. Mr. Wallop?

21 (No response)

22 The Clerk. Mr. Durenberger?

23 The Chairman. No.

24 The Clerk. Mr. Armstrong?

25 (No response)

1 The Clerk. Mr. Symms?  
2 The Chairman. No.  
3 The Clerk. Mr. Grassley.  
4 Senator Grassley. No.  
5 The Clerk. Mr. Long?  
6 Voice. No.  
7 The Clerk. Mr. Bentsen?  
8 (No response)  
9 The Clerk. Mr. Matsunaga?  
10 (No response)  
11 The Clerk. Mr. Moynihan?  
12 Senator Moynihan. No.  
13 The Clerk. Mr. Baucus?  
14 Senator Baucus. No.  
15 The Clerk. Mr. Boren?  
16 Senator Boren. No.  
17 The Clerk. Mr. Bradley?  
18 Senator Bradley. No.  
19 The Clerk. Mr. Mitchell?  
20 Senator Mitchell. No.  
21 The Clerk. Mr. Pryor?  
22 Senator Pryor. No.  
23 The Clerk. Mr. Chairman.  
24 The Chairman. No.  
25 Senator Heinz. Mr. Chairman?

1 The Chairman. Senator Heinz.

2 Senator Heinz. Mr. Chairman, because there is an  
3 agricultural commodity involved here that may pose a  
4 conflict of interest for me, I'm going to vote present.

5 The Clerk. One yeah, 11 nays, one present.

6 The Chairman. The amendment is not agreed to.

7 Senator Mitchell.

8 Senator Mitchell. Thankyou, Mr. Chairman.

9 Mr. Chairman and members of the Committee, when this  
10 legislation was before the full Senate last year in  
11 September, I drafted and prepared to submit amendments  
12 dealing with the possible effect of this agreement on  
13 certain domestic industries; specifically, textiles, apparel,  
14 footwear and other leather related products.

15 I met on several occasions with the Trade Representative  
16 and members of his staff. And upon receiving a letter from  
17 Mr. Brock dated September 20th, 1984, which provided me with  
18 certain assurances in writing, I withdrew the amendment and  
19 did not offer it on the floor of the Senate.

20 I regret to say that the commitment made by Mr. Brock  
21 in writing was not honored, and the agreement now contains  
22 provisions that are directly contrary to the assurances  
23 provided in that letter.

24 The Chairman. Is this the multi-year problem?

25 Senator Mitchell. Yes. Textiles and shoes.

1 I have before me the letter, which is a matter of  
2 record in this Committee. I won't read the whole thing  
3 although it's not very long. But I would like to read just  
4 the pertinent provision.

5 The first point is that Mr. Brock acknowledged and I  
6 quote: "That textiles, apparel, footwear and other leather  
7 related products are among the most import sensitive American  
8 industries."

9 He then went on to say that this sensitivity would be  
10 taken into account in the negotiation and that, and I quote:  
11 "It is the intention of the Administration to phase in  
12 U.S. duty reductions on such sensitive products over a  
13 multi-year period and more gradually than in regard to other  
14 products."

15 The other concern I expressed was over the existence of  
16 export and domestic subsidy programs in Israel. And the  
17 Trade Representative acknowledged. He said, "I want to  
18 assure you that the Administration shares this concern."  
19 And then he said, and I quote again: "As a result, a  
20 commitment by Israel to phase out and eliminate the  
21 maintenance of export subsidy programs in a relatively short  
22 period of time is viewed by the Administration as a  
23 pre-condition to the conclusion of a free trade area  
24 agreement."

25 Now what has happened, Mr. Chairman, and members of the

1 Committee, is that duty reductions on all footwear and  
2 leather related products and on many textile and apparel  
3 products will occur in four years or less while a  
4 substantial export subsidy program in Israel will be phased  
5 out in six years.

6 That means that the phrase "over a multi-year period"  
7 as contrasted with the phrase "in a relatively short period  
8 of time" has been interpreted by the Trade Representative  
9 that over a multi-year period is a shorter period of time  
10 than the phrase "a relatively short period of time."

11 Now I dare say that there is not a person in this  
12 country, indeed in the English speaking world, who would  
13 interpret those phrases in the manner in which the Trade  
14 Representative has now come to interpret them.

15 And I think it is indisputable on its face that the  
16 provisions of the agreement directly contradict and do not  
17 adhere to the written commitment which I received from the  
18 Trade Representative last September.

19 (CONTINUED ON NEXT PAGE)

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22  
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25

1           Senator Mitchell. I support the concept of a free  
2 trade agreement with Israel. I think it will provide  
3 substantial mutual benefit.

4           But as we all recognize and acknowledge, as every  
5 trading nation in the world recognizes, there are some  
6 industries in every country that are import sensitive and  
7 for which certain steps must be taken to provide some interim  
8 protection. That's part of our law. It's part of Israel's  
9 law, it's part of the law of every country that is involved  
10 in the GATT agreement.

11           The trade representative, having acknowledged that  
12 these are among the most import-sensitive industries, then  
13 provides for the phase-out over a period that is shorter than  
14 that with respect to other products, which by itself violates  
15 the first commitment, and then proceeds to agree to this  
16 continuation of the export subsidy program over a longer  
17 period of time than phase-out.

18           And I might say to my colleagues that that has a  
19 direct effect on American industries, because as we all know,  
20 in American industry, seeking relief under the trade laws,  
21 bringing an action based upon the dumping of products or the  
22 existence of subsidies in other countries, has to prove  
23 injury to the domestic industry if the other country, the  
24 exporting country, is a signatory to the GATT Subsidies Code  
25 and therefore has no domestic subsidies. The injury test is

1 lost if they are signatories to the code.

2 So what we have here is a situation where Israel  
3 will have the benefit of being able to continue a significant,  
4 although not all, export subsidies for a period of six years  
5 while domestic manufacturers will have to prove injury.

6 So what you have for our manufacturers is the worst  
7 of both worlds, a situation which I don't think is with  
8 precedent, and a direct violation of this commitment.

9 This is a very small item in a broader problem that  
10 we face, gentlemen, and that is, this government, the United  
11 States Government, the Executive and the Legislative Branches,  
12 are now pursuing an economic policy that is having as its  
13 effect if not its intent the de-industrialization of America.

14 American manufacturing jobs are in flight --  
15 overseas. Hundreds of thousands of jobs that were previously  
16 performed by Americans are now being performed in other  
17 countries, and they are being replaced with lower-paying  
18 service jobs in this country.

19 As my colleague Senator Moynihan has said on  
20 another occasion, American capital can go overseas, machinery  
21 and equipment can go overseas, people cannot go overseas.

22 Senator Moynihan. Would my colleague yield for a  
23 moment?

24 Senator Mitchell. Yes, sir.

25 Senator Moynihan. Didn't the President, as we

1 understand, solve that problem at the Gridiron on Saturday  
 2 evening, when he said with respect to the Middle West, "We  
 3 should keep the grain and export the farmers"? Is that an  
 4 idea? Should we explore this?

5           Senator Mitchell. Well, what I think we have to do  
 6 is to deal with the problem here, and that is -- I don't  
 7 want to suggest that this agreement in and of itself is a  
 8 major contributing factor to that. Israel is a small country  
 9 with a relatively modest economy. But this is another step  
 10 in that direction.

11           And the American shoe industry now has 25 percent of  
 12 the domestic market. Three out of every four pair of shoes  
 13 purchased in this country is made overseas -- a decline from  
 14 an 80 percent position when the GATT agreement was signed  
 15 nearly a quarter of a century ago.

16           Hundreds of thousands of American jobs have been  
 17 lost. Those that have been retained are at lower pay. Not a  
 18 week in this calendar year has gone by but that one or more  
 19 shoe factories in America has closed. And I know Senator  
 20 Heinz and Senator Danforth know the effect, in whose states  
 21 the industry exists as it does in mine.

22           Now, we are told that shoes are not a big item with  
 23 respect to Israel. If that is so, then I ask: If they don't  
 24 make a lot of shoes, if they are not going to sell a lot of  
 25 shoes in this country, what is the harm in putting shoes in

1 the fourth stage? What is the harm?

2 That is a rhetorical question, and you will get a  
3 chance to answer that later -- all of them, Ms. Cooper, with  
4 whom I've discussed this and for whom I have the highest  
5 respect.

6 (Laughter)

7 Senator Mitchell. But there obviously isn't. If  
8 they do plan on engaging in substantial production, then we  
9 need the protection; and if they don't plan it, then they are  
10 not injured in any respect. Not injured in any respect.

11 Now, the only argument that has been made to me by  
12 the Trade Representative's Office is, they are concerned that  
13 if we make one change the whole agreement will unravel.

14 Well, the essence of that then is, gentlemen, that  
15 the consultation process with this committee is a nullity; it  
16 is a charade; it is a farce.

17 The Chairman. Well, in fairness it isn't, because  
18 we've done this before and made suggestions, and indeed the  
19 previous administrations have exceeded the suggestions we have  
20 made.

21 I think you've got an honest difference of opinion  
22 with whether "multi-year" and "speed" is the same thing in  
23 terms of phasing out of the subsidies, versus what they call  
24 "multi-year" which is three years. But I don't think in this  
25 sense there was a difference of opinion; I just think they are

1 willing to give Israel basically an extra three years to phase  
2 out the subsidies.

3 Senator Mitchell. Do you mean a life sentence?

4 The Chairman. Israel is going to have basically an  
5 extra three years to phase out the subsidies -- about three  
6 years -- as opposed to the three-year phase-out on the multi-  
7 year. That's the end of the "multi-year".

8 Senator Mitchell. Well, that's assuming you define  
9 "multi-year" narrowly to mean three years.

10 The Chairman. Three years, yes.

11 Senator Mitchell. I think all of us understood it  
12 to be 10 years. I mean "multi-year" is three or more.

13 The Chairman. Well, I am not sure I have ever heard  
14 a definition before, but to me "multi" just means more than  
15 one.

16 Senator Mitchell. Well, all right. But I will read  
17 you what the sentence says: "Over a multi-year period and  
18 more gradually than in regard to other products." And the  
19 fact is, there are other products that are being phased out  
20 over 10 years.

21 I think if you read that sentence fairly, with no  
22 straining, just taking the words in their ordinary English  
23 meaning and applying them to the context of this agreement,  
24 you can come to no conclusion other than that these products  
25 should be in the stage that goes over 5 to 10 years. And I

1 don't think any other interpretation is fairly possible.

2 I understand that the argument will be made, but I  
3 just find it very, very distressing. And I just want to say  
4 that we are now going to come up to the problem of a free  
5 trade agreement with Canada in the very near future. This  
6 deals with -- I don't know what the volume of trade is with  
7 Israel; \$3 billion?

8 Ms. Cooper. Three billion.

9 Senator Mitchell. Three billion. Canada, it's  
10 \$120 billion?

11 Ms. Cooper. Yes.

12 Senator Mitchell. One hundred twenty billion. And  
13 as far as I am concerned, based on this experience, these  
14 written assurances really are not worth the paper they are  
15 written on.

16 I for one, and I would urge other members of the  
17 committee, will proceed with great caution -- great caution --  
18 when we talk about further free trade agreements, and you get  
19 this kind of assurance, and it obviously is dishonored. It  
20 obviously is dishonored.

21 I just don't think there can be any rational  
22 argument.

23 Now, their response is, "We did the best we could."  
24 But of course that is not honoring the commitment. The  
25 commitment was not to "try"; the commitment was not to "do the

1 best we could"; the commitment was to "do this." And the  
2 commitment has not been honored.

3 If they had said, "Frankly, look, we do not know if  
4 we can do this, but we will try and will make our best  
5 effort," that's one thing. And I would accept the result as  
6 having been in compliance with that. But that is not the  
7 commitment. And the commitment was not kept. And I must say  
8 it is a matter of great distress to me now.

9 Having said all that, I want to say that I recognize  
10 where the votes are in this committee on this issue. The  
11 textile and shoe industries are not broadly-based in this  
12 country, and several of my colleagues I know are deeply  
13 concerned about this.

14 I will make one more point, Mr. Chairman, before  
15 I conclude.

16 One of the requirements, as I understood it before  
17 we proceeded on this, was that we would get a draft bill, and  
18 we would get a statement of administrative action.

19 The Chairman. And you re-emphasized that point in  
20 the hearing last week.

21 Senator Mitchell. I re-emphasized it, and you told  
22 me that we would not proceed on this agreement until we had  
23 that statement of action.

24 Well, the first point is that we got part of it as  
25 late as yesterday afternoon, and my understanding is that we

1 do not now have it all, particularly with respect to the  
2 statement of administrative action on rules of origin from  
3 Customs.

4 That poses a very serious problem for the possibility  
5 of transshipment of goods, textiles, and shoes that are  
6 produced in other countries, sent to Israel, and then back to  
7 this country.

8 The Chairman. George, I didn't mean to mislead you;  
9 we have had this mark-up on; it was scheduled yesterday and  
10 I moved it to today. I didn't mean to give you the impression  
11 last week that we weren't going to have this mark-up until  
12 we had their statement of actions, because I didn't expect  
13 that we would have their administrative statement of actions  
14 within the week.

15 Senator Danforth. Mr. Chairman?

16 The Chairman. Jack?

17 Senator Danforth. Mr. Chairman, I think that  
18 Senator Mitchell has made a good point with respect to the  
19 rules-of-origin problem and the fact that we have been waiting  
20 for the Customs Service to tell us how they plan to implement  
21 the law.

22 We did expressly, in the bill last Fall, cover this  
23 question of rule of origin and the problem of a possible  
24 diversion in shoes similar to what we have experienced in  
25 textiles. And I think that it is of some concern.

1 I wonder -- we have a quorum now, and you want to  
2 do whatever is done on this. I don't know if we report it  
3 out, or whatever the formality is for this; but I wonder if  
4 there is any way that we can reserve judgment on the matter  
5 until we hear from the Customs Service, without having a whole  
6 new mark-up.

7 Could we agree to whatever we are going to agree to  
8 on a conditional basis, with the understanding that we have  
9 to be satisfied that the Customs Service is going to implement  
10 this in an appropriate fashion?

11 The Chairman. Jack, I am reluctant to, especially  
12 on the country-of-origin. I think the point George raises,  
13 although I am going to oppose it, is a valid point for him,  
14 and he has raised it all along; nobody has been blind-sided  
15 on this. But I think that is a different issue than your  
16 point-of-origin issue.

17 Senator Mitchell. Mr. Chairman, I make the point-of-  
18 origin in relation to the two products which I have discussed  
19 because they are products in which those are a critical  
20 nature.

21 The Chairman. I understand that; but you would  
22 make that point even if there was no point-of-origin issue.

23 Senator Mitchell. Oh, yes.

24 The Chairman. On those products.

25 Senator Mitchell. Right. They are dual issues,

1 I understand that, but they are related with respect to these  
2 products.

3 Senator Danforth. Well, as I understand it, the  
4 point-of-origin question is a much larger -- I mean, that  
5 really is the issue with respect to shoes. It's not the  
6 amount of shoes that are going to be produced within Israel;  
7 it's the possibility that Israel would become a conduit for  
8 shoes that are made who knows where.

9 Senator Mitchell. That is a very significant part  
10 of the problem. I agree with the Senator's assessment.

11 Mr. Kassinger. Senator Mitchell, can I just clarify  
12 one thing?

13 The Chairman. Yes, Mr. Kassinger.

14 Mr. Kassinger. Annex 3 to the agreement contains  
15 precisely the rules of origin that are required in the bill,  
16 and the statement of administrative action incorporates by  
17 reference those rules.

18 Now, what is missing is that the Customs Service will  
19 implement these rules, as the Senator said. But in substance  
20 they are in the agreement and have been supplied to the  
21 committee.

22 Senator Mitchell. Oh. All right.

23 Senator Moynihan. Would Mr. Kassinger describe them  
24 to the committee?

25 The Chairman. Ted?

1 Mr. Kassinger. In essence, Senator Moynihan, the  
2 rules establish criteria which establish a minimum value and  
3 a minimum amount of work that must be performed.

4 Senator Moynihan. Is it a uniform minimum?

5 Mr. Kassinger. Yes, sir, it's 35 percent, value-  
6 added. That's correct.

7 Senator Moynihan. Thirty-five added?

8 Mr. Kassinger. Yes, sir. That's correct.

9 Senator Moynihan. Thirty-five percent value-added;  
10 that is, if 35 percent value is added to Israel, then it  
11 qualifies as an Israeli problem?

12 Mr. Kassinger. Well, in addition, and correct me if  
13 I'm wrong, the product has to undergo a substantial trans-  
14 formation.

15 Senator Moynihan. Right.

16 Mr. Kassinger. There has to be a real manufacturing  
17 process.

18 Senator Moynihan. Not just a price tag.

19 Mr. Kassinger. Yes, or a price tag that was gold-  
20 leafed and was 35 percent of the value. That would not  
21 qualify. They would actually have to do something to the  
22 product.

23 Senator Moynihan. Is that the system of normal  
24 GATT practice, 35 percent?

25 Mr. Kassinger. It is consistent with the rule we

1 established in the generalized system of preferences and the  
2 Caribbean Basin Initiative.

3 Senator Moynihan. Thank you.

4 The Chairman. Further amendments? Senator Heinz?

5 Senator Heinz. Mr. Chairman -- excuse me, George.

6 Senator Mitchell. Do you want to talk on this  
7 point, or do you have a different point?

8 The Chairman. No, he has a different one.

9 Are you going to offer an amendment?

10 Senator Mitchell. Well, Mr. Chairman, I think I  
11 will. I recognize where the votes are, but I feel so strongly  
12 about this.

13 I should point out to the members of the committee  
14 that these are the first and third largest employers of  
15 persons in my State; so we are dealing with tens of thousands  
16 of persons.

17 I will offer a limited amendment, not all of the  
18 products. And let me say just before I do that I think even  
19 the Trade Representative's Office will agree that in certain  
20 areas of textiles there have been substantial surges in the  
21 last two years; in sheets, pillowcases, and other products  
22 there have been dramatic increases in imports.

23 I acknowledge, as Senator Danforth points out, the  
24 problem of country-of-origin as a significant part of the  
25 problem. There is not now a substantial production of

1 footwear in Israel, although the situation in just two years 54  
2 has reversed from 4-to-1 our exporting to them to 4-1 reverse,  
3 and as I have said, the footwear industry has been totally  
4 devastated. They received exemptions from prior agreements  
5 such as the CBI. We sought an exemption here; that was not  
6 possible for anybody.

7 I really and truly understood, in all sincerity,  
8 that when we got this letter they would be in whatever the  
9 last category was, and they are not.

10 So I offer an amendment that provides that footwear  
11 and then four narrow areas of textiles --

12 I have given Ms. Cooper the TSUS numbers. They  
13 basically are what is called "poly-wool blend fabrics, knit  
14 bathing suits, cotton sheets and cotton pillowcases." All  
15 of those to be placed in the fourth category.

16 I might say that category is described as products  
17 in this category are identified by "import-sensitive" in the  
18 context of this agreement.

19 The Chairman. Well, now we are getting to the very  
20 guts of the amendment, because these were serious items in  
21 debate in terms of a quid pro quo. I would oppose the  
22 amendment, but is there discussion on the amendment?

23 (No response)

24 The Chairman. If not, then will the Clerk call the  
25 roll on the amendment?

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Clerk. Mr. Dole?

(No response)

Clerk. Mr. Roth?

(No response)

Clerk. Mr. Danforth?

Senator Danforth. No.

Clerk. Mr. Chafee?

(No response)

Clerk. Mr. Heinz?

Senator Heinz. Aye.

Clerk. Mr. Wallop?

(No response)

Clerk. Mr. Durenberger?

Senator Durenberger. No.

Clerk. Mr. Armstrong?

(No response)

Clerk. Mr. Symms?

Senator Symms. No.

Clerk. Mr. Grassley?

Senator Grassley. No.

Clerk. Mr. Long?

The Chairman. Aye.

Clerk. Mr. Bentsen?

(No response)

Clerk. Mr. Matsunaga?

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(No response)

Clerk. Mr. Moynihan?

Senator Moynihan. No.

Clerk. Mr. Baucus?

Senator Baucus. Yes.

Clerk. Mr. Boren?

Senator Boren. No.

Clerk. Mr. Bradley?

Senator Bradley. No.

Clerk. Mr. Mitchell?

Senator Mitchell. Yes.

Clerk. Mr. Pryor?

Senator Pryor. Aye.

Clerk. Mr. Chairman?

The Chairman. No, and Senator Grassley voted no.

(Pause)

Clerk. Five yays, seven nays.

The Chairman. The amendment is defeated.

Senator Heinz?

Senator Heinz. Mr. Chairman, when we had our hearing on this subject a few days ago, I raised the issue of the problem of commitments once having been made, in order for us to extend the injury test under the subsidies code, the problem of those commitments being kept, and what discipline there should be, might be, and needs to be in order to fashion

1 a rational trade policy.

2 The broad issue of course is on what terms we'll  
3 acknowledge other countries' accession to the Subsidies Code.  
4 And of course the significance is that, if we accept their  
5 accession, they get an injury test which imposes an additional  
6 burden on the domestic manufacturer or petitioner.

7 We have had a significant number of problems, of  
8 two kinds: One, just simply telling us that they are not  
9 going to observe commitments once made -- we have been talking  
10 about those kinds of commitments here on the Israel Free Trade  
11 Zone -- and just plain cheating on the commitments.

12 We need to remember that when this country extends  
13 the injury test to a non-signatory of the Subsidies Code,  
14 that there is an immediate benefit to the country obtaining  
15 that injury test, and therefore there is an immediate penalty  
16 or risk taken by our domestic industries in those areas where  
17 they will yet subsidize competition.

18 Typically, it takes a rather long time for those  
19 subsidies to be phased out. And letting countries renege or  
20 cheat not only hurts the industries -- and both Senator Long  
21 and I have bills in on this subject -- but it undermines the  
22 credibility of our trade policy and of our negotiators.

23 There are two kinds of examples that I am talking  
24 about here. Let me give you just a couple of examples of  
25 countries that have already reneged; namely, Spain, New

1 Zealand, and Brazil.

5

2 Spain announced that it would not meet its phase-out  
3 commitments of December 31st, 1984. New Zealand announced it  
4 would not meet its phase-out commitment ending March 31st. And  
5 as to Brazil, that agreement has been renegotiated two or  
6 three times, as they have simply failed to live up to their  
7 commitments.

8 As to future cases, almost any less developed  
9 country, but I have in mind particularly Indonesia which  
10 allegedly lied to Commerce case investigators and is arguably  
11 simply unprepared bureaucratically to police any agreement  
12 that they might make, or may not even be honest enough to do  
13 so, is going to be a threat and a problem.

14 Now, I have got to tell you that I am not very  
15 happy about the Administration record on this issue. The  
16 Indonesian agreement was red-flagged by a number of us. I  
17 called the then-USTR Bill Brock, told him about the problems  
18 that I thought there were going to be with the Indonesian  
19 agreement. He signed it 10 minutes later, after I warned him  
20 of the problems.

21 Then, Mr. Chairman, you, Senator Long, Senator  
22 Danforth -- excuse me, Mr. Chairman. Senator Long, Senator  
23 Danforth and I then wrote to Ambassador Brock asking him not  
24 to sign any more agreements until the committee had a chance  
25 to review our policy. And two days after that he signed the

1 agreement with the Philippines.

2 I know that the issue we are talking about here is  
3 broader than the Israeli Free Trade Zone, but I would like to  
4 know, Mr. Chairman, why we couldn't, particularly in view of  
5 the testimony we had at our hearings from the people who  
6 strongly supported the Israeli Free Trade Zone -- I am thinking  
7 of APAC and the other groups that were here, Mr. Dine and  
8 others -- why we couldn't add either my bill, S. 688, and/or  
9 Senator Long's bill S.695, to this legislation.

10 The Chairman. Technically you could -- technically.  
11 But I think it would be unwise for two reasons: one, in  
12 dealing with fast-track items, it wasn't meant, and the  
13 Senate certainly didn't mean it to apply to generally  
14 substantive legislation above and beyond the agreement. And  
15 if we start doing that, the whole fast-track process is going  
16 to break down; you know how jealously we guard our rights of  
17 extended debate. And it will be gone. I mean, that will be  
18 the end of it. Maybe there are some that would desire that,  
19 although I don't think the Senator from Pennsylvania is one  
20 who desires that, but that would be the inevitable outcome if  
21 we start adding substantive legislation outside of the  
22 agreement.

23 Senator Heinz. Mr. Chairman, let me ask this:  
24 What will the legislation, when we report it -- would it be  
25 in order to amend it with this legislation on the floor of

1 Senate?

2 The Chairman. It is not --

3 Senator Heinz. Or I should say "to attach it."

4 The Chairman. We don't report it.

5 Senator Heinz. Because it is not actually an  
6 amendment.

7 The Chairman. No, we don't actually report  
8 legislation. We are working on a draft bill. We finish our  
9 ideas here, we consult with the House, we suggest to the  
10 Administration what we think their bill should contain. But  
11 once the bill is offered, it is not amendable.

12 Senator Heinz. That is my understanding, too,  
13 Mr. Chairman.

14 But if we don't come to grips with it on this bill,  
15 and I understand your point, Mr. Chairman, about putting a  
16 broader, more substantive legislation on this particular  
17 bill, when will we deal with this issue?

18 The Chairman. I told Senator Mitchell the other  
19 day that it is my intention to hold rather extensive, broad  
20 trade hearings, because the issue has boomed so much just  
21 between last year and this year, the doubling of the adverse  
22 balance in one year and quadrupling in almost two years. And  
23 I intend to hold significant, lengthy hearings at the full  
24 committee level on a whole variety of trade issues, and this  
25 is clearly one of them.

But I think it would be inappropriate on this

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1 particular fast-track piece of legislation.

2 Senator Heinz. Well, Mr. Chairman, that may prove  
3 to be the judgment of the committee. On the other hand, the  
4 Trade Act of '78 -- I guess it actually got signed in '79 --  
5 was a very complex, very all-encompassing piece of legis-  
6 lation.

7 This looks like, as I understand your description  
8 of the very lengthy hearings, looks like the only train that  
9 is going to be coming through the station for a long time to  
10 come, and I don't want to be left on the platform, waiting  
11 "adios."

12 The Chairman. I didn't mean to give you that  
13 impression, nor did I intend for it to be a ruse for delay.  
14 But the world of change that has happened between '79 and now  
15 justifies good hearings and lengthy hearings. Everything that  
16 has gone before is almost irrelevant when you are looking at  
17 our trade deficit, and we cannot go on hemorrhaging like this.

18 In 1979 no one foresaw this kind of a deficit.

19 Senator Heinz. Let me ask one further question,  
20 Mr. Chairman. Substantively, have you had a chance to examine  
21 Senator Long's and my legislation?

22 The Chairman. I am familiar with both his  
23 legislation, which he has talked about before, and we got into  
24 this debate last year, as I recall, on the downstream subsidies  
25 on Mexico and natural gas.

1 Senator Long. Well, this is not quite the same  
2 thing, Mr. Chairman.

3 What I introduced, with Senator Heinz as a co-sponsor  
4 on the bill, is that the Administration would not give the  
5 injury test to non-GATT countries without giving the Congress  
6 a chance to react, to say Yes or No.

7 And I understand that this provision that makes it  
8 possible was passed in order to take care of Taiwan, in order  
9 that Taiwan would be given the opportunity to bypass the  
10 injury test, provided that they were substantially complying  
11 with the Subsidies Code and the rules under the GATT. And  
12 that is not the case with regard to Mexico and Saudi Arabia.

13 What I don't want them to do is to use the language  
14 that we passed for Taiwan to waive the injury test for Mexico,  
15 Saudi Arabia, or other non-GATT countries in such a fashion  
16 that we wouldn't get a chance to express ourselves on it.

17 The Chairman. Well, I can assure you that when we  
18 come to where we are talking about either free trade  
19 agreements with Canada or about Mexico and the downstream  
20 subsidies and whether they are subsidizing or meeting the  
21 GATT Code, that is not something that is going to be taken  
22 lightly.

23 I thought the arguments you raised last year about  
24 the downstream subsidies was an extraordinarily valid  
25 argument.

1 But Israel has agreed to end their subsidies, and  
2 Israel has always dealt with us in good faith, and their word  
3 has been good. I think they are entitled to the benefit of  
4 the doubt because of their past record of performance.

5 Senator Long. Well, I don't believe Senator Heinz,  
6 or either one, are complaining about Israel in particular.

7 Senator Heinz. Mr. Chairman, Senator Long is  
8 correct. I am not as much concerned by Israel as I am by the  
9 pattern of breaking of promises that other LDCs, not sign-  
10 atory to the Subsidies Code, have demonstrated on the record.  
11 And I am concerned about the ability of other LDCs, as I  
12 mentioned, such as Indonesia and the Philippines, to live up  
13 to their commitments for a variety of well-known reasons.

14 We are really being taken to the cleaners, and it is  
15 bad trade policy besides being grossly unfair to domestic  
16 American manufacturers. Other than that, I can't think of  
17 much wrong with it -- just bad trade policy and bad economic  
18 policy. And it's unfair.

19 Hence, Mr. Chairman, what I was really leading up  
20 to was an indication from you, substantively, of where you  
21 come out on whether the legislation that I proposed is good  
22 or bad, whether you are going to be able to support it.

23 The Chairman. John, I don't know where I am going  
24 to come out on it, and I am not going to commit myself to it  
25 now. All I think is that it is inappropriate on this

1 particular legislation, and we are going to ruin our whole  
2 fast-track procedure. I don't start with a bias on it, one  
3 way or the other.

4 I am starting to say that the trade issue has  
5 become so big that in this committee it is going to occupy  
6 I think as much time as the tax issue has involved in the  
7 past, and every one of us in every State. It doesn't matter  
8 if it is steel for you, or roses, or wood for me, or shoes for  
9 Jack Danforth, or textiles for George Mitchell; it is becoming  
10 a problem for this entire country, and it is going to have  
11 full hearings and fair hearings. I just don't want to make  
12 a commitment on it now, but I don't think it is appropriate  
13 here.

14 Senator Heinz. One last question, Mr. Chairman.

15 It was my impression from our hearings that the  
16 supporters of the free trade zone legislation for Israel were  
17 quite willing to support this amendment as a part of this  
18 process. I am not quite sure I see either what precedent  
19 we violate or what procedure we hurt by fast-tracking this  
20 particular amendment, which I don't think is terribly  
21 controversial.

22 The Chairman. All I am saying is I think we will  
23 lose the whole fast-track concept if we start to add to it  
24 legislation beyond the agreement.

25 Senator Heinz. I don't really understand why.

1           The Chairman. Because the fast track was only  
2 barely permitted. We went through the process we have, we  
3 recommended to the Administration particular suggestions to  
4 a trade agreement. If we start recommending to them things  
5 beyond the trade agreement, and I think that is what this is  
6 going to end up as, and then it is fast-tracked, then at that  
7 stage the Senate is going to say, "No more fast track. We are  
8 not going to extend this legislation; this is an attempt to  
9 get around what has been our long-established procedures."

10           Senator Heinz. Well, Mr. Chairman, I don't know if  
11 I agree with that. My sense is, you probably have enough  
12 people on the committee who are going to back you up on that;  
13 I am not going to press it.

14           But I do want to point out that this is a very  
15 urgent matter, and I hope that the needs for hearings  
16 comprehensively on the trade issue are not going to be used  
17 as an excuse not to deal with this issue on a timely basis.

18           The problem is that people are cheating now. And it  
19 is like saying, "Well, we are just going to study the issue of  
20 crime" while the criminals are running around loose. You  
21 know, if a criminal is running around loose, you arrest them,  
22 you try them, and if they are guilty you put them in jail.  
23 You don't have a study of how much more damage they might do  
24 if they were allowed to run around loose for a little while  
25 longer.

1           The Chairman. And all I am saying is, as far as  
2 Israel is concerned, we have never had any evidence in the  
3 past of them violating agreements with us. And as far as  
4 this particular bill is concerned --

5           Senator Heinz. We have no quarrel on that point,  
6 Mr. Chairman.

7           The Chairman. All right.

8           Senator Long. Let me just ask this: Is it possible,  
9 Mr. Chairman, for us to seek an agreement with the  
10 Administration that they will not use this language that was  
11 put in the law for the benefit of Taiwan to wipe out the  
12 injury test as far as these non-GATT countries are concerned,  
13 until such time as they told us what they are planning to do,  
14 and give us a reasonable period of time to act if we are not  
15 happy about that?

16           The Chairman. Mr. Gingrich? Ms. Cooper?

17           Mr. Gingrich. Senator Long, I do not think I could  
18 commit to that without checking with Ambassador Brock on that.

19           The Chairman. Well, at the moment you have no plans  
20 as far as you know, do you?

21           Senator Long. Well, we have telephones around here,  
22 don't we?

23           (Laughter)

24           Senator Heinz. Mr. Chairman, on that point, on  
25 Senator Long's point, Senator Long, Senator Danforth, the

1 hairman of the Trade Subcommittee, and I sent a letter to  
2 Ambassador Brock after they did the Indonesian deal where I  
3 predict we are going to rue the day -- they are just going to  
4 take us to the cleaners -- saying that we stipulated we did  
5 not want any more arrangements to be consummated without  
6 consultation with us. And two days later Ambassador Brock  
7 signed the Philippines Agreement.

8 This committee should exercise some responsibility  
9 for the conduct of our nation's trade policy. I fear that  
10 unless we do make a more concerted effort, we will become  
11 irrelevant to the process. I don't think that is the desire  
12 of any member of the committee.

13 So I would hope the Chairman will take Senator Long  
14 up on his suggestion.

15 (Pause)

16 Senator Moynihan. Mr. Chairman, could we join this  
17 discussion?

18 The Chairman. Yes, Pat.

19 Go ahead, Russell.

20 Senator Long. I am just saying that if we don't do  
21 anything about this matter here -- and I would like for  
22 Mr. Heinz to hear this -- we remain subject with no notice,  
23 just with no notice, just in picking up the newspaper, and we  
24 will find that the Administration has waived the injury test  
25 to various non-GATT countries, which could be very devastating

1 to a lot of people in these United States, something that is  
2 of very great concern to various members of Congress. And it  
3 is something that we really should be concerned about.

4 It is not my understanding that we passed that bill  
5 so that Taiwan had a benefit of this, that we intended it be  
6 given to Mexico and Saudi Arabia and maybe 50 other countries.

7 Is that your understanding about it, Mr. Montague?  
8 You know about that matter.

9 Mr. Lang. At the time the Trade Agreements Act was  
10 enacted, which was 1979, Taiwan could not be a member of the  
11 GATT. And therefore, the committee wrote in the provision  
12 under which non-GATT, non-Subsidies-Code countries could get  
13 a commitment for the injury test. And that would presumably  
14 be the provision under which the Administration would extend  
15 the injury test to other countries which would not sign the  
16 Subsidies Code but would enter into a separate subsidies  
17 agreement with the Administration.

18 The Chairman. Senator Moynihan?

19 Senator Moynihan. Mr. Chairman, I don't want to  
20 break into that conversation, but if it is included, you  
21 mentioned the question of hearings. I for one remember this  
22 committee thinks a very extended and serious set of hearings  
23 on this whole question is involved.

24 Much as we have difficulties with countries not  
25 keeping their agreements, and the Senator from Pennsylvania

1 is clear that that is the case in more than one instance, the  
2 single largest event that has happened since the 1979 Trade  
3 Legislation is an extraordinary movement in the exchange rate  
4 of the dollar. The Federal Reserve uses an index that begins  
5 in 1971 when the Breton Woods Agreements were ended and a  
6 floating exchange rate took place.

7 We had a dollar in 1979 when the legislation went  
8 through that was trading at 87 against a basket of LECD  
9 currencies. It has since gone up to 156 or 157, an increase  
10 of some 80 percent in four years.

11 The implications and the origins of this change in  
12 the exchange rates are as large as anything you could imagine,  
13 could declare or describe. And I would like to ask whether  
14 we can expect that in the course of these hearings we will  
15 have a very specific set of sessions on this question of the  
16 over-valuation of the dollar.

17 The Chairman. As a matter of fact, that hearing is  
18 set. Ted, what is the date on it?

19 Mr. Santos. Senator, the dates have not been  
20 finally set. We are talking about dates in mid-April.

21 The Chairman. And on this particular subject?

22 Mr. Santos. Yes, on exchange rates.

23 The Chairman. Yes.

24 Senator Moynihan. But could our enterprising and  
25 new staff give us a list of some of the names of persons who

1 may be asked to testify? I'm sure they would be interested  
2 in names we might suggest.

3 Senator Long. Could we have an understanding on  
4 the committee that we will seek to have an understanding with  
5 the Administration that they will not extend the injury test  
6 to these non-GATT countries without at least consulting with  
7 us and giving us an opportunity to act if we want to act?

8 The Chairman. Ted?

9 Mr. Kassinger. Senator, I don't have any comment  
10 on Senator Long's request of the Administration; that is for  
11 the Administration to decide.

12 I would just point out that the Administration may  
13 dispute whether that provision to which you referred only  
14 applies to Taiwan. And in fact, in the committee report of  
15 1979 they list a number of other countries, not including  
16 Mexico, to which it was applicable. But they may have other  
17 arguments about their ability to give the injury test to  
18 Mexico.

19 I just wanted to make that clear in terms of whether  
20 or not they should. Of course, it is up to the committee.

21 The Chairman. Well, Senator Long, I will be happy  
22 to say that I will speak personally to the President or the  
23 STR new ambassador, whoever that may be, indicating how  
24 strongly we feel about this issue and that we don't want them  
25 moving ahead precipitously or on their own without us. And

1 while they may have the legal power to do so, that indeed we  
 2 have strong enough feelings -- and their legal power comes  
 3 from the legislative authority we have given them -- and that  
 4 there is boiling a reaction, not just in this committee but in  
 5 the House and in the whole Congress, and that they are rowing  
 6 in troubled waters if they think there is not this growing  
 7 sentiment in Congress toward protectionism. I don't know  
 8 what other word to call it, but I don't mean it in a negative  
 9 sense; I mean it in the legitimate defend-thid-country sense.

10           Senator Long. Well, it seems to me that if we are  
 11 going to work out some kind of arrangement and some kind of  
 12 understanding with Mexico, we need this injury test every bit  
 13 as much as our friend over there in Geneva needs those  
 14 missiles in order to negotiate. If we don't have this to  
 15 negotiate with Mexico with, we've got nothing to negotiate  
 16 about.

17           So this is a big item for them, that they can  
 18 subsidize all they want to and just put American businesses  
 19 one after the other out of business more or less with  
 20 impunity.

21           Now, I know about this matter of proving injury;  
 22 but generally speaking, by the time a fellow can prove injury,  
 23 the only way to prove he is being hurt is to be broke and out  
 24 of business. At that point he is not going back into bus-  
 25 iness. But I would hope for the Chairman's assurance, and I

1 am not going to push the matter further. I will hope that we  
2 might could act on this at a future point.

3 The Chairman. Ted, I know we have got three  
4 technical amendments, but I want to see if there are any  
5 other amendments before we get to those three.

6 Senator Baucus. Mr. Chairman?

7 The Chairman. Senator Baucus.

8 Senator Baucus. I don't know about this amendment  
9 but I am going to suggest, although this is not technically  
10 the place because of the draft bill, some kind of report  
11 language, that this agreement is not to be a full precedent  
12 for any future free trade agreements, particularly with the  
13 country of Canada.

14 The Chairman. I think that point has been well made  
15 by everybody.

16 Senator Baucus. But I want to make sure that when  
17 the bill comes out it has very strong report language, very  
18 specifically making its points.

19 The Chairman. I will join you in that, and if it  
20 isn't satisfactory you can make separate views. But I share  
21 your views on it.

22 Ted, you have three technical amendments on rules  
23 of origin and most-favored-nation and on the GSP.

24 Mr. Kassinger. In regard to these matters, there  
25 will be three technical changes made to the 1984 Trade Act and

1 the 1974 Trade Act, and I can explain them briefly here.

2 The first deals again with this question of the  
3 rules of origin provision in the 1984 Law. There was some  
4 concern raised on the House side that the way it was phrased  
5 might mislead people into concluding that, because the  
6 agreement itself is not self-executing, if there was not a  
7 specific provision in the Law requiring these rules of origin  
8 to be met, that someone could somehow evade them. I am not  
9 sure that that concern is well-founded, but it is easily  
10 addressed by a slight change in wording in the statute that  
11 we passed in October.

12 The second concern is a drafting error that we made  
13 in the 1984 Act concerning a provision that Senator Long  
14 sponsored in the Senate. Senator Long was concerned at the  
15 time that the benefits of the Israel Agreement might be  
16 automatically extended to other countries by virtue of a  
17 number of treaties we have providing these countries,  
18 including Saudi Arabia, with unconditional most-favored-  
19 nation benefits.

20 There was a provision that was passed in the Senate  
21 and carried forward into the 1984 Law that was intended to bar  
22 the automatic extension of the tariff cuts in the Israel  
23 Agreement to other countries. Inadvertently, when we drafted  
24 the provision in the conference report, it came to apply to  
25 any trade agreement that might be negotiated, any non-tariff

1 barrier agreement that might be negotiated under the  
2 President's existing authority.

3 There would be an amendment in this bill that would  
4 correct that error and return it to the original provision  
5 sponsored by Senator Long.

6 Finally, there is an extremely arcane amendment in  
7 the Administration's bill that would allow the President to  
8 make changes made in the generalized system of preference  
9 annually by proclamation instead of by Executive Order, as the  
10 law now provides. And that simply is to allow the Inter-  
11 national Trade Commission, when it rewrites the tariff  
12 schedules, to reflect the Israel Agreement, to maintain in a  
13 single place the history of all changes made for preference  
14 programs.

15 The Chairman. Are there further comments on this  
16 subject? Because we have a resolution of Senator Danforth's  
17 that I want to get to.

18 (No response)

19 The Chairman. If not, at a subsequent time we will  
20 meet with the House. I am not going to offer any further  
21 amendments here; we will meet with the House and attempt to  
22 reconcile any differences we have -- and we have some -- and  
23 then recommend to the Administration our joint conference  
24 recommendations.

25 Jack, are you ready?

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Senator Danforth. Mr. Chairamn, I am.

Some weeks ago Senator Boren and I introduced S. Con. Res. 15, which took the position that the voluntary restraints on the importation of Japanese automobiles should be continued until such time as the United States was able to achieve equal access to the Japanese market for goods which we would like to export to Japan.

Subsequent to the introduction of that resolution, the Administration announced its position that the voluntary restraints should not be extended.

I did not agree with that position of the Administration. It was contrary to the position that Senator Boren and I took when we introduced S. Con. Res. 15. But the fact of the matter is that the Administration's announcement did overtake and moot out the resolution which we introduced.

Therefore, we have been working on a substitute resolution. It is offered here as a substitute for S. Con. Res. 15. It would be our intention down the road, whenever we get a House bill, and there is no House bill over here to put any trade matter on, and it would be blue-slipped therefore in the House if it ever got passed in the Senate.

So therefore, what we are doing now is offering a proposed substitute for S. Con. Res. 15, which takes the President at his word. When the President announced that he

1 was not going to favor the extension of the voluntary  
 2 restraints, he said, "In taking this action I hope that we can  
 3 look forward to reciprocal treatment by Japan concerning the  
 4 high level discussions underway between our countries in the  
 5 weeks and months ahead."

6 Well, what Senator Boren and I have attempted to do  
 7 in this resolution is basically to implement that expressed  
 8 hope of the President.

9 The bill would have the President act to negate the  
 10 increase in U.S. imports from Japan due to the expiration of  
 11 the VRA with an increase in market access for U.S. exports,  
 12 or, failing that, with offsetting action against U.S. imports  
 13 from Japan.

14 Now, Mr. Chairman, you mentioned earlier that the  
 15 trade deficit is getting out of hand, and indeed it is getting  
 16 out of hand. Last year it reached 37 billion with Japan. The  
 17 estimates of what we can expect as a result of lifting the  
 18 VRA is that there will be an additional increase in imports  
 19 from Japan of somewhere between 4 billion and 10 billion  
 20 dollars, depending on exactly what the Japanese choose to do.

21 The position taken by this resolution is that  
 22 37 billion is enough, and that if we are going to have more  
 23 cars imported as a result of the end of the VRAs we've got  
 24 to make up for that one way or another. We are not going to  
 25 be a doormat for the Japanese anymore. And that the

1 Administration therefore is charged to do one of two things: 7  
2 One, to gain actual access, not just negotiations or talk or  
3 prattle or promises, but actual access to the Japanese markets  
4 sufficient to offset those increased auto imports; or, if  
5 unable to do so, to take retaliatory action.

6 Now, that is the gist of the substitute resolution.  
7 I think Len Santos is prepared to explain it further.

8 The Chairman. I wonder if Senator Boren wants to  
9 say anything first?

10 Senator Boren. Mr. Chairman, I am very pleased to  
11 join with Senator Danforth in offering this substitute to our  
12 original resolution; I think he stated the case very well. We  
13 are losing a million jobs a year in this country because of  
14 the trade imbalance, which has grown from 10 billion back in  
15 1980 to almost 38 billion last year. There is every indication  
16 that with the action on the autos alone, that it will grow  
17 another 4 to 10 billion, as he said, probably at least four  
18 and a half billion this year.

19 We have talked and talked, and there doesn't seem to  
20 be much result from that. It is obvious from the report that  
21 Secretary Schulz issued back in October of 1984, assessing the  
22 implementation of impact with agreements that had been reached  
23 with the Japanese previously, that the progress is very, very  
24 limited.

25 I would just say that I don't think we can continue

1 on. We have had an assessment by our own Department of  
2 Commerce that there are \$10 to \$12 billion, at a minimum, of  
3 additional products from this country that the Japanese could  
4 be buying, where we are very competitive. With their natural  
5 market advantages for us, if we were not facing roadblocks  
6 in the telecommunications area, which has been under nego-  
7 tiation, with tobacco products, wood products, of course beef  
8 and other agriculture products, as is well known to the  
9 Senator from Montana and others around this table --

10 I just think it is time for us to take action. I  
11 think that is the only thing that is going to get results.  
12 The prior policy is obviously a failure; none of us want to  
13 see a trade war get under way. None of us want to see a cycle  
14 started that will restrict markets.

15 But I think, just as unilateral disarmament is not  
16 the way to get arms control negotiations started, I don't  
17 think that it works in the trade area as well. I think what  
18 we are going to see if we allow this to continue to happen is  
19 we are going to see the pressures build to such an explosion  
20 in this country that we really then will see damaging action  
21 taken that will begin to restrict world markets.

22 I think the entire world would be better served,  
23 and particularly the Japanese-American trading relations, if  
24 we took some firm actions now to demonstrate that we mean  
25 business, and if we can get this cycle turning in the right

1 way toward more openness in markets.

2 I think in the long run it will be much more  
3 constructive in terms of establishing genuine free trade and  
4 preserving world markets if we take action now.

5 It is sometimes better to communicate early, and I  
6 think we have all had that experience ourselves; if we bottle  
7 up our displeasure over some matter, and we see this in our  
8 personal relationships in trying to legislate together, there  
9 is a much more serious rupture of relationships on down the  
10 line than if we have candid conversation as we go and if we  
11 understand each other.

12 We have had conversations, and those haven't worked.  
13 So I think it is time we demonstrate we mean what we say.  
14 And I am in enthusiastic support of this resolution and am  
15 proud to join with Senator Danforth in offering it.

16 The Chairman. As it was introduced, I probably  
17 would have voted against it. I am going to support the  
18 resolution as it's amended for a number of reasons, one of  
19 which relates to an experience I had with the Japanese  
20 Economic Consol on 1969. I cannot remember his name, but at  
21 that time Oregon beef producers wanted to sell beef to Japan.  
22 I called in the young attache and asked why they couldn't  
23 buy beef -- they certainly weren't protecting an indigenous  
24 industry in the sense of their having a large beef industry.

25 He was very frank with me; he said, "Senator, the

1 reason is, yes, we can afford beef but it would soon be  
2 \$500 million to a billion dollars a year, and that's money we  
3 need to spend for oil. And with our balance of trade" -- now,  
4 this was 1969 -- "we cannot afford that."

5 That is an argument that made sense for Japan in  
6 1969. It does not make sense for Japan now. We have broken  
7 our pick trying to sell them beef, trying to sell them wood.  
8 They want to buy our logs so that they can mill them, in  
9 inefficient sawmills, 25,000 of them. And David, you haven't  
10 seen the likes of those mills in the United States in 20  
11 years. They are inefficient. We can beat them board-foot for  
12 board-foot or cubic centimeter for cubic centimeter, because  
13 we will cut to their standards, and they cannot match us. And  
14 they are protecting an inefficient industry.

15 I have reached the limit of my patience with them,  
16 if they are not going to be fair to us. I hate to think that  
17 that's what we are coming to, to an eye for an eye. But that  
18 may be the only language that is understood.

19 Senator Bentsen, and then Senator Baucus.

20 Senator Bentsen. Thank you, Mr. Chairman.

21 Mr. Chairman, I am going to vote against this  
22 resolution, and I am going to vote against it just because of  
23 what Senator Boren said: We have been talking and talking and  
24 talking.

25 I have the highest regard for the Senator from

1 Missouri; we have been together on many of these issues, and  
 2 we will be together on many in the future. But we have a  
 3 trade deficit of \$130 billion -- \$123 billion which will  
 4 probably go to \$160 billion. And when I look at what this  
 5 Administration has done on trade, I just throw up my hands in  
 6 disgust.

7 We talk about it maybe resulting in a trade war if  
 8 we start reciprocating. What do they think we are in? We are  
 9 already in a trade war.

10 Senator Danforth exercised great leadership, and I  
 11 tried to help him, and we passed a bill out of here that  
 12 gave the President the authority. He has not exercised it,  
 13 things he could do to try to reciprocate. But it is not  
 14 being done.

15 So we pass another resolution, and the Congress once  
 16 more pleads. I've been a free trader all my life, and in my  
 17 1982 campaign -- I've got a lot of automobile assembly plants  
 18 in my State -- they pushed me real hard to be for domestic  
 19 content, and I wouldn't do it. And I opposed domestic  
 20 content.

21 But my patience really is at an end. I think we are  
 22 going to have to go through this narrow tunnel of some  
 23 reciprocation to make them understand it.

24 The President spoke up when he had the Prime  
 25 Minister of Japan over here, and they had a very nice social

1 visit. The Prime Minister goes back to Japan, and now we  
2 hear the report that "the bureaucrats just won't let him do  
3 it." They won't let the Prime Minister of Japan open up the  
4 markets over there, and the bureaucrats say, "Prime Ministers  
5 come, and they go, but the bureaucrats stay on in Japan."

6 So they have been given the authority, and we pass  
7 another resolution, and nothing is done. I think it is time  
8 that we start mandating some of these things, calling for that  
9 kind of reciprocation. It is not enough to rant and rave and  
10 get red in the face and threaten our trading partners with  
11 dire consequences. They are dire, but our trading partners  
12 know we really are not going to do anything about it.

13 We had the same kind of thing, remember, on agri-  
14 culture when we went down to Egypt and we sent a billion  
15 dollars worth of wheat flour down there, and we really shook  
16 them up in the European Common Market for about a week, until  
17 they realized the State Department moved in and said, "Oh,  
18 you can't do that kind of a thing; look how you are going to  
19 disrupt foreign relations." And all of a sudden the European  
20 Common Market understood we really weren't serious about it,  
21 and we weren't going to continue that policy.

22 But, had we done so, had we used our agricultural  
23 surplus products to take on the European Common Market head-to-  
24 head in what they were doing in subsidizing foreign markets,  
25 and breaking the commodities market, we'd have brought them to

1 the bargaining table.

2 I don't like bilateral actions. I understand the  
3 problems with it. But they have been beating our ears off  
4 with bilateral actions -- the European Common Market has, and  
5 so have the Japanese. And we are going to have to take some  
6 of those kinds of actions.

7 They tell us, "Well, let's be a free trader, and the  
8 rest of the world will emulate us." Baloney. They are not  
9 doing it; they are taking advantage of that posture. They are  
10 not emulating us; they are emulating the Japanese, because  
11 they see their closed domestic markets to protect burgeoning  
12 industries. And Third World countries say, "Well, that's the  
13 way to do it." That is the example they are choosing.

14 I listened to my friend Russell Long and John Heinz  
15 a while ago talking about what some of the Third World  
16 countries were doing, and how injury tests were involved in  
17 it, and I was impressed.

18 If I understand the tenor of this resolution, I'm  
19 sympathetic to that, but it won't accomplish anything. And  
20 therefore I am going to vote against it, because I think we  
21 are going to have to start mandating those types of actions.  
22 I don't think the Administration will do it on its own.

23 Thank you.

24 The Chairman. Senator Baucus.

25 Senator Baucus. Mr. Chairman, I have a lot of

1 sympathy with the statements made by the Senator from Texas. 8  
2 In fact, I'm somewhat torn. I am tempted to vote against this  
3 resolution for exactly the same reason. He is right in what  
4 he says, and let me give you just a little example.

5 I was over in Japan a couple of months ago,  
6 subsequent to the meeting in Los Angeles of the President with  
7 Prime Minister Nakasoni where work in forest products was  
8 promised. I went through some of the sawmills and some of the  
9 plywood plants over in Japan, and it is true that they are  
10 really inefficient. They are very small compared to the  
11 plywood plants that I have gone through over here.

12 More important, I talked with Mr. Tanaka -- not the  
13 famous Mr. Tanaka but another Mr. Tanaka who is the director  
14 of the Forestry Agency in Japan. And through interpreters he  
15 had one message to give to me. He said their solidly,  
16 stolidly, and said, "My job is to protect Japanese sawmills  
17 and Japanese plywood plants." That's all he said.

18 I explained to him that the Prime Minister promised  
19 in Los Angeles to work out some way to reduce the tariffs and  
20 process forest products. He didn't want to hear any of that;  
21 he said, "My job is to protect the Japanese sawmill industry  
22 and forest products industry," and he wasn't going to budge  
23 one inch.

24 It is clear to me that the country of Japan can be  
25 pushed. It is a consensus country; we all know that. Prime

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1 Ministers do come and go -- the bureaucrats there know that,  
2 too. But the fact is that, if we keep standing up for what  
3 we know is right, then the country of Japan is going to  
4 recognize that. And I dare say they will respect us more.

5 I have a fairly strong belief, frankly, that to  
6 some degree lots of countries around the world disrespect us  
7 because we are too nice. This country isn't known for being  
8 too beligerent. "We don't wage wars; we don't cause wars;  
9 we don't wage even trade wars." Sure we have some protective  
10 measures to some degree, but the reputation of the United  
11 States in the world, I think, as a country is that it's a  
12 patsy -- we are just a little too nice. And they take  
13 advantage of us, those other countries, and I think by and  
14 large they disrespect us.

15 I am sure it is true that a lot of the problem is  
16 due to the value of the dollar, and we have to get our house  
17 in order and get the value of the dollar down to help boost  
18 our exports. We know what we have to do at home.

19 But I think it is also clear that these other  
20 countries take advantage of us.

21 It is also true in beef. I have a little story  
22 there, too. We tried to get more beef in Japan. I did what I  
23 could to increase the quota. It was 32,000 tons of hotel-  
24 restaurant cut beef at the time. That amounts to one six-ounce  
25 steak per Japanese citizen per year. That's all they allowed

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in.

To make a long story short, I held a Japanese press conference and asked the Japanese journalists to come. This was last year over in the Hart Building. There were about 20 or 30 Japanese journalists. I explained to them why Japan should lower its barriers to agricultural products. I recited reports of Kadandran. Kadandran said that that the \$20 billion subsidy that Japan now pays for its agriculture industry is all wrong. Kadandran says it's wrong. They want to get rid of it.

I also cited reports from Miti. Miti also agrees that it's wrong. Miti has stated that they feel that that subsidy should be reduced.

I went on to say that I am opposed to domestic content legislation, that I think it is a bad idea. But, I said, if Japan doesn't reduce its barriers to trade, I am going to do what I can in the Senate to get domestic content passed.

I can tell you that all of those reporters were scribbling down notes, and the TV cameras were taking pictures, and so forth. And I started getting letters back from American businessmen in Tokyo. One letter said -- in fact it was the whole tone -- "Dear Senator Baucus, I don't know who you are as we never met, but I can tell you that you are right on. These people are very courteous; they are kind and so

1 forth on one level, but the only language they understand is  
2 power, that they will only do what they know they should do  
3 if they are encouraged to do so; that is, if you do pass  
4 domestic content, that will get their attention."

5 I don't want to legislate by anecdote, but I can  
6 just tell you I have a strong feeling that we are not doing  
7 enough, and they don't respect us very much.

8 In fact, I would like to ask the sponsor of the  
9 resolution why he doesn't change it to a bill. I understand  
10 the House's problem, the revenue measure and so forth, but  
11 I strongly suggest this should be a bill, and let's report it  
12 out and then put it on a House revenue bill at the appro-  
13 priate time. But let's at least out of this committee report  
14 out a bill.

15 Senator Danforth. Yes. Let me say that that's  
16 fine with me. It would have to be a Senate bill, which means  
17 that if it passed the Senate it would arrive at the House, and  
18 it would be blue-slipped by the Parliamentarian.

19 I would rather have a House bill and try to attach  
20 this to it, but we don't have a House bill; we haven't  
21 received any House bills.

22 So my thought was, and it was simply a strategic  
23 consideration, that the best we can do now is to get a  
24 resolution passed, hopefully by a good strong vote, and set up  
25 the possibility of legislation later. I think that there is

1 going to be ample opportunity for legislation; I am sure there 8  
2 is going to be opportunity for telecommunications legislation  
3 of one kind or another.

4 But given the fact that there is no House bill, and  
5 that passing a Senate bill would be just an automatic blue-  
6 slipping in the House, it would seem to me that the best  
7 thing to do at this point was to get the substance of what we  
8 want to do agreed to, and then come back with legislation as  
9 soon as we get a House bill.

10 Senator Baucus. I understand why we can't report a  
11 bill out of the committee and hold it.

12 Senator Danforth. My hope is to get whatever it is  
13 taken up on the floor of the Senate. I talked to the  
14 Chairman about this yesterday, but I have not been able to  
15 pursue it with him today or to talk to Senator Dole about it.  
16 But my hope is to get something voted on in the floor of the  
17 Senate.

18 But as far as the VRAs are concerned, time is  
19 something of the essence, in that March 31st is the expiration  
20 day of the VRA.

21 Senator Baucus. Why can't we report on the  
22 resolution as well as report a bill out of committee?

23 Senator Danforth. Do you mean pass it or report it  
24 out as both a bill and a resolution?

25 Senator Baucus. Correct.

1 Senator Danforth. Well, that would be fine with  
2 me.

3 Senator Bentsen. Senator, I would be delighted to  
4 work with you. I'll initiate, or you initiate. I will work  
5 with anybody as long as we can get something mandated. But I  
6 am just tired of the --

7 Senator Danforth. I understand, Senator Bentsen. I  
8 am in total agreement with you, and every word you have said  
9 other than the first two sentences I totally agreed with.

10 (Laughter)

11 Senator Danforth. Because basically I have been  
12 taking this position now for some time; that is, our approach  
13 to Japan has been to complain, and it is demeaning. It is  
14 insulting to them and it is demeaning to us. And if we are  
15 going to do anything, we should do it.

16 I really favor that. I favor some degree of  
17 measured retaliation as a response to closed markets in Japan  
18 rather than the constant whining and complaining that we have  
19 been engaged in.

20 I see this as the best option that is before us now.  
21 I would just as soon do something that had more bite to it,  
22 but it seems to me this isn't a nothing. I mean, this takes  
23 a very clear position that a \$37 billion trade deficit is  
24 enough, and that we are not going to constantly open our  
25 markets, constantly be the open door to another country,

1 without getting something in return.

2 I think it is important for the Administration to  
3 recognize that in trade policy under the Constitution,  
4 Congress sets it. And the Administration can only do what is  
5 delegated by the Congress.

6 My hope would be that this would be more than just  
7 a ranting and a raving approach to a problem.

8 Senator Baucus. Would the Senator yield?

9 The Chairman. Let me take Senator Grassley first;  
10 he has had his hand up for a long time.

11 Senator Grassley. Well, I would only say that in  
12 the case where Senator Bentsen and Senator Baucus are inclined  
13 maybe to be against this because it doesn't do enough, I would  
14 just implore you to think in terms of if this would not go  
15 anyplace; particularly if it doesn't have strong bipartisan  
16 support, the people in Japan aren't going to be reading your  
17 explanations that this really isn't enough. It is going to  
18 give them ammunition that really there is not enough interest  
19 in this Senator to do anything about it.

20 I think we ought to send whatever signal we can, and  
21 if it is going to be in a bill form I want to be a cosponsor  
22 of that bill, if it is in resolution form I am not a cosponsor  
23 yet of the resolution. I want to be.

24 But I share the same frustration, because two or  
25 three years ago I got through a resolution that I'm sure you

1 folks helped me with, because we had 27 cosponsors on it, that 91  
2 was called the HOODI resolution. It had a lot of support  
3 within the Cabinet Council. But the President got some notes  
4 from Nakasoni just before the elections in June of that year  
5 in which they pleaded, "Please don't do this to me at this  
6 point." And the President is reported in the news media to  
7 assenting to Nakasoni's point of view, that "he is my friend,  
8 and I don't want to do anything to hurt him," and that  
9 somehow down the line we will get more out of it.

10 So I share those same frustrations. I share the  
11 same frustrations on the meeting that the President had with  
12 Nakasoni in January that was supposed to open up a whole new  
13 era here. Even our Cabinet ministers are now disappointed in  
14 the progress that has been made.

15 But we ought to take every possible action we can --  
16 and this is just one, and it may not be enough. And it ought  
17 to be as bipartisan, and it ought to be as unanimous as it  
18 can be, to send that signal and to just do it.

19 So I think you ought to consider your position that  
20 they are going to look at the final action and not necessarily  
21 what people said in the process.

22 The Chairman. Senator Baucus, and then Senator  
23 Bradley.

24 Senator Baucus. I think you make a good point,  
25 Senator. I would just suggest that we pass out both the

1 resolution and the bill, and I will gladly cosponsor both for  
2 a vote.

3 Second, there are a lot of people in this hearing  
4 room who have heard the comments of the Senator from Texas  
5 and others here and who will report back to their principals.  
6 So I think they are going to get the message of what our tone  
7 is here.

8 The Chairman. Senator Bradley?

9 Senator Bradley. Mr. Chairman, let me, if I could,  
10 take a little different tone.

11 I think it would be a real mistake for this  
12 committee and this Congress to yield fully to the temptation  
13 of a binge of protectionism.

14 I think that we are in a very delicate position  
15 internationally. The trade deficit is at record heights; it  
16 is a monumental problem. There are a few other problems in  
17 the world, though, as well, not the least of which is the  
18 continued vulnerability, in my opinion, of our entire banking  
19 system, to the degree of which the Third World countries have  
20 become indebted to us.

21 I might say to my colleagues that you might see, if  
22 we yield to this temptation fully, that we will have to make a  
23 choice in the mid term between the manufacturing sector on  
24 the one hand, which we will seek to protect, and millions of  
25 savers and banks across this country which will be vulnerable

1 when those Third World countries can't get the foreign  
2 exchange to repay those debts.

3 So, you know, the little blip in the news of Ohio  
4 savings and loans last week could be a precursor of much more  
5 serious dangers if we yield to a kind of wholesale protec-  
6 tionism.

7 Now, with that said, I don't think that this  
8 particular resolution is yielding to wholesale protectionism.  
9 I think it is narrowly drawn, and I think that it is  
10 consistent with the Administration's statements about what  
11 they expect the Japanese to do. And I think that it is  
12 important to generate some pressure.

13 So I would come at this almost from the opposite  
14 side of Senator Bentsen and say that I think this is something  
15 that I could support, precisely because it is narrowly drawn.  
16 There is something in it for the Japanese, too. I mean, they  
17 proceed under the assumption that they are in the best pos-  
18 sible position in the world, that they have the biggest  
19 possible trade surplus. Well, how do they ever expect to have  
20 any stake holders to counter worst measures than this against  
21 them, if there is nobody in this country selling anything to  
22 the Japanese?

23 I think that it is impossible to expect a large  
24 segment of the American public, absent the theoretical  
25 proposition of open trade, to argue anywhere close to

1 persuasively for limiting protectionist measures unless we  
2 export to that country and have people benefit from exporting  
3 to Japan.

4 So, Mr. Chairman, I will support this, but I hope  
5 that the committee will think long and hard, and the Congress,  
6 before we leap into what we think is the answer to  
7 constituents' questions today. It could be the recipe for a  
8 much more serious problem tomorrow.

9 The Chairman. Senator Moynihan.

10 Senator Moynihan. Mr. Chairman, in somewhat the  
11 same tone, I am concerned that I will support this measure  
12 I have been involved in this subject for a quarter of a  
13 century and have negotiated with the Japanese on these matters.

14 But I hope that we do not get into a pattern of  
15 assuming our difficulties are caused by others not inquiring  
16 into our own behavior and performance.

17 Now, as I understood it -- rumors all -- the  
18 original notion that we would have to continue and reestablish  
19 the voluntary restrictions was Chrysler Corporation's idea.  
20 And then when we learned we weren't going to have -- and the  
21 Chrysler Corporation people are present here; there are  
22 probably more than one of them.

23 But then I gather that they decided, "No, on  
24 balance," they didn't want that after all, because they  
25 decided they would go overseas and manufacture and import like

1 everybody else.

2 I think if the Chrysler Corporation is going to have  
3 this much influence in our affairs -- and I'm not sure it does,  
4 but I have heard this -- I would like to hear from them. I  
5 see some of their lobbyists out there. Are they abandoning  
6 American manufacturing? I wonder.

7 The Chairman. I am not sure if they are, but I'm  
8 not sure you are going to get a Yes or No from them today.

9 Senator Moynihan. Yes, I don't think I am going to  
10 get it.

11 But I gather that they have made a shift in  
12 industrial strategy, which is to say they would just as soon  
13 import Japanese engines and leave off.

14 And the Japanese cannot be very much blamed for  
15 that, I don't think. We have seen the studies of the costs to  
16 this country of the VRA.

17 The Chairman. They can't be blamed for that, nor  
18 can they be blamed for our dollar.

19 Senator Moynihan. Right.

20 The Chairman. But our problem with Japan did not  
21 start 18 months ago or three years ago with the cars and with  
22 the dollar.

23 Senator Moynihan. Right.

24 The Chairman. We have been fighting with them,  
25 arguing with them, cajoling them, pleading with them, to no

1 avail. And if our dollar went down, the argument would  
2 continue.

3 Senator Moynihan. If my respected and dear  
4 Chairman would allow, I started out on behalf of President  
5 Kennedy in Geneva in 1962 -- a century ago. I have been there,  
6 and I am for this resolution.

7 But I would like to say that there is an aspect of  
8 this situation which has to do with the American access to the  
9 Japanese markets.

10 There is another aspect which has to do with  
11 American competitiveness, and we have to deal with that, too.

12 The Chairman. Senator Boren?

13 Senator Boren. Mr. Chairman, I hope my friend from  
14 Texas will change his mind and vote for the resolution as  
15 another alternative way of getting action. I think the report  
16 within 45 days will be helpful. I think we here are making an  
17 expression of finding by Congress that I think is very  
18 important. And at the same time I am certainly going to  
19 support him and will be an active part of any effort that we  
20 have or any opportunities that we have to put requirements  
21 into law.

22 I agree with the comments that Senator Bradley and  
23 Senator Moynihan have just made. I think we do not want some  
24 emotional way to start a wave of protectionism around the  
25 world. But I don't think we are doing that. I think we are

1 simply reacting to a very real problem of bilateral relations  
2 that is very adequately documented by the Secretary of State  
3 in his report, which I hope everyone has had a chance to read,  
4 and numerous other reports made by the Department of  
5 Commerce, where it is very clear that unfair trade practices  
6 are there.

7 That doesn't mean that if we take care of these  
8 problems between ourselves and the Japanese, that we don't  
9 still have some things to do on our own in terms of getting  
10 our own budget deficits down and our dollar back into value.

11 I would point out that the European currencies have  
12 had a very different relationship recently with the yen than  
13 has had the American dollar, and yet there are still problems  
14 there, too, which is a sure indication that there continues to  
15 be some basic structural problems in the nature of our  
16 relationship.

17 So the fact that we have problems to solve here at  
18 home should not close our eyes to injustices that are being  
19 carried out, protectionist policies that are being carried  
20 out by the Japanese Government. We should take those on. We  
21 should not start a wave of protectionism.

22 But again I repeat what I just said: I think the  
23 best way to prevent a round of protectionism from really  
24 getting started is to take some very careful selected, targeted  
25 actions to demonstrate that we mean business in terms of

1 dealing with the Japanese.

2 I am just like Senator Bentsen. I just sat back and  
3 said, "I don't think domestic content," even though I was urged  
4 by many to support it, "was the right way to proceed."

5 I have resisted a lot of other efforts in the past.  
6 I have considered myself to be as strong a free-trader as  
7 there is in the Senate. But I think it is time for us to take  
8 action, and I think we should do it at every opportunity.

9 That's all I would say to my friend from Texas. I  
10 think making the Administration come back and report to us,  
11 having a Congressional finding, putting the onus on them to  
12 report back to us to say what they have done, which of these  
13 powers that we have previously given them they utilized.

14 They are going to have a lot of explaining to do if  
15 they come back after this 45-day reporting period and say,  
16 "Yes, we project another \$5-6 billion increase in the trade  
17 imbalance between the United States and Japan, and we have  
18 utilized none of the tools which Congress has previously given  
19 us." I think they are going to have a lot of explaining to do  
20 if they come back in that fashion.

21 I think in the meantime we ought to proceed ahead  
22 with other opportunities for legislation and mandatory actions.  
23 But I would hope that we could have as strong a statement as  
24 we could possibly have from this committee on this resolution.  
25 And that's why I support taking this action now, not that it

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1 would exclude other actions which I will also support. 9

2 The Chairman. Further comments?

3 Senator Bentsen?

4 Senator Bentsen. Mr. Chairman, I am going to  
5 respond to the request of my friend from Oklahoma, parti-  
6 cularly after listening to what I think is a very substantial  
7 sentiment on this committee that we end up mandating something.  
8 And I will vote for this resolution, but I sure don't want  
9 my position understood. It's just that I don't think it is  
10 tough enough, and I think it has to mandate.

11 I am delighted to have those who might work with me  
12 or I work with them in coming up with legislation that will  
13 mandate something for this Administration to do.

14 We went to great lengths to get them additional  
15 authority last year. They have substantial authority, and  
16 they do not exercise it.

17 The Chairman. Senator Moynihan?

18 Senator Moynihan. We are all talking, I think,  
19 toward about a condition that has more than one aspect, and  
20 we all agree to it. And I am not excluding anythnig anyone  
21 else has said when I say I do think we need to find out what  
22 the United States automobile companies are up to.

23 We started out, and we know perfectly well that it  
24 was Chrysler that had us doing all of this. And then  
25 Chrysler changed its position. And you talk about your

1 hearings.

2 You know, the automobile industry is our largest  
3 manufacturing industry. Textiles might make a similar claim,  
4 but certainly about a quarter of the U.S. economy has been  
5 involved in automotive transportation in one way or another.

6 Now, here is Mr. Robert S. Miller, Jr., Executive  
7 Vice President of Finance and Administration, testifying  
8 before the counterpart of Senator Danforth's Subcommittee on  
9 Trade in Ways and Means. And let's see him.

10 Now, this would be a time when the United States  
11 Congress paid attention when people talked like this; or,  
12 rather, there used to be a time when people didn't talk like  
13 this, because if they did, the United States Congress would  
14 pay attention.

15 Well, given the running rules dictated by GM and  
16 the Administration, it is now clear that Chrysler will have  
17 to make the hard choice of adopting a parallel Far East  
18 strategy of its own.

19 It is apparent to us that GM wants a lion's share of  
20 the auto trade deficit. Well, I'm here to say that Chrysler  
21 is forced to demand its share of the trade deficit, too.

22 Now, Mr. Chairman, we are hearing from our auto-  
23 mobile companies suddenly, saying that they don't want a  
24 lesser trade deficit; evidently they want a bigger one, and  
25 they want a bigger share of it. Well, all right, that may be

1 their view, but don't you think we ought to ask them what they 1  
2 mean by that?

3 The Chairman. I don't think we need to ask them  
4 today for purposes of voting for this resolution.

5 Senator Moynihan. No, but in our hearings don't you  
6 think -- what does it mean to have a "your own"? Mr. Miller  
7 says Chrysler is going to have a "Far East strategy."

8 It says, "It is apparent that GM wants a lion's  
9 share of the auto trade deficit," and that they want their  
10 share. I mean, do they want a bigger deficit because that  
11 means a bigger profit?

12 The Chairma. Earlier on, Senator Boren raised the  
13 issue of management. I was intrigued. Ted, correct me if I  
14 am wrong. The fellow that testified on the Israel Free Trade  
15 Agreement represented both the textile and the apparel  
16 industries, did he not?

17 Mr. Kassinger. There were three witnesses, Mr.  
18 Chairman, two of whom were both textile and apparel, and I  
19 think you are referring to a third, Mr. Stanley Neimur, who  
20 represented both footwear and textile and apparel.

21 The Chairman. I posed a question to him in terms of  
22 competition: "Assuming a level playing field," -- nobody was  
23 saying we had one, but assuming a level playing field, "could  
24 you compete in the United States market against Singapore or  
25 Hong Kong and the others on textiles and apparel?" And he

1 thought for a moment and said, "On textiles, yes. On  
2 apparel, no."

3 If that is the case -- and this is why I think these  
4 trade hearings assume a significance beyond what we conceived  
5 -- if that is the case, we may be in a position where we have  
6 got to say, "Which industries are critical to this country,"  
7 and even on a level playing field, if they cannot exist they  
8 must exist.

9 A good example is shipyards. I mean, we don't  
10 build any commercial ships in this country anymore; we would  
11 not build any military ships in this country if we didn't  
12 mandate "Build America."

13 And yet, we cannot be a significant country without  
14 a shipbuilding and ship repairing industry.

15 Those are issues that are so fundamental to the  
16 existence of this country that they have got to be addressed.  
17 They have assumed a proportion of significance way beyond  
18 what I think any of us imagined in 1979 when we passed our  
19 trade legislation.

20 Senator Heinz?

21 Senator Heinz. Mr. Chairman, as I was saying --

22 (Laughter)

23 Senator Heinz. Mr. Chairman, I am going to support  
24 the Danforth-Boren approaches here, but I really feel like  
25 Senator Bentsen, who believes as do I that neither of these

1 are sending a strong enough message.

2 I have spoken on this concern on previous occasions,  
3 but there is no country that is more protectionist than  
4 Japan. It starts with their infant industries, then when  
5 their infant industries get large the politicians protect  
6 them even more.

7 It continues when they have a declining industry.

8 As I asked on a teleconference that Malcom Baldrige,  
9 Sam Gibbons and I participated in with half a dozen  
10 Japanese executives -- Japan and the United States -- just  
11 a few weeks ago I raised a couple of industries that were  
12 declining and which had been declining for 10 years, and I  
13 suggested that maybe it was inappropriate for them to protect  
14 those industries for another 10 or 20 years. They said that  
15 to do otherwise would be to be rushing things precipitously.

16 When it comes to targetting, industrial targetting,  
17 the Japanese do it. They subsidize and they protect. It is  
18 part, in a sense, of their industry policy.

19 I was quoted last week, I guess, of saying, "Let's  
20 not retaliate against the world with a 20-percent import  
21 surcharge; let's retaliate against Japan because they  
22 deserve it." What I would really like to do is have us  
23 either put a 20-percent surcharge on all Japanese imports to  
24 this country or to adopt John Chafee's approach, which at  
25 least for telecommunications equipment slams the door in their

1 face, until we recognize that it is their political system  
2 that perpetuates their protectionist policies, and that their  
3 Prime Minister, no matter how well intentioned, ends up being  
4 a servant of the bureaucracy and the parliament that elects  
5 him, and ultimately may prove to frustrate even his, Mr.  
6 Nakasoni's, best desires, and that therefore we politicians  
7 are going to have to respond to their politicians by taking  
8 action, not just a resolving in words of our distress as we  
9 have been doing for the last five or 10 years. Until we  
10 really decide to face the issue and take action, we can  
11 expect no meaningful change from Japan.

12 Senator Danforth. Mr. Chairman?

13 The Chairman. Jack.

14 Senator Danforth. Let me say first that I don't  
15 like the idea of constantly sending messages. Everybody talks  
16 about "let's send a message to Japan." Forget it. You know?  
17 I am just tired of taking messages.

18 I have taken the position, as a matter of fact, that  
19 all of these delegations that come in from Japan and want to  
20 talk to me, I don't have the time to meet with them. I really  
21 don't. I don't mean to be rude, but in my opinion it is just  
22 pointless to constantly be talking, constantly be sending  
23 messages. I don't think it does any good -- not much, anyhow.

24 I think I totally agree that the time has come to  
25 do something. That is the thrust of the resolution: let's do

1 something, let's make up the \$4 billion or whatever is going 1  
2 to be lost in some other way. Let's make it up by getting  
3 actual access to the Japanese market, or using section 301 of  
4 the Trade Act -- it is a procedure that is in the law. This  
5 isn't protectionism; it's the procedure for retaliating  
6 against unfair trade practices. Let's use the law. Let's do  
7 something.

8 So my intention is not to send a message. I don't  
9 care if nobody in Japan reads this, you know? I think that  
10 the question is: What is going to be the policy of the  
11 Government of the United States.

12 To me, the policy is that \$37 billion is at least  
13 enough, and that we should make it up somehow.

14 Now, procedural question: Senator Baucus and  
15 Senator Bentsen have mentioned the possibility of reporting  
16 this out in bill form. I don't know whether that is possible,  
17 Mr. Chairman, at this point.

18 The Chairman. What I would suggest is this: It  
19 would violate our rules, and we would need a two-thirds vote  
20 of the full committee, and we don't have it. But do this:  
21 Send it out as a resolution today, take a roll call vote and  
22 leave it open for the rest to vote, because I think you are  
23 going to get a large vote.

24 Now, the April 1st date is fast approaching on the  
25 telecommunications decision in Japan. Let's see what they do

1 on that and on a number of other things that they may announce 1  
2 in the next three or four days. Or if they announce nothing,  
3 we will know what that means, it means nothing. And we will  
4 have a bill at the next mark-up.

5 I am reluctant, without any notice to the other  
6 members, to say there is a bill today also.

7 Senator Danforth. What I would like to do, then, is  
8 to report out the resolution, try to get the Majority Leader  
9 to agree to take it up on the floor of the Senate, and then  
10 use the appropriate legislative procedure. I think we have to  
11 wait for a House bill, myself, but use whatever we can agree  
12 on. And we will certainly be talking with Senator Bentsen  
13 and Senator Baucus and anyone who is interested, to try to put  
14 together a common strategy.

15 But I am as anxious as anybody to move on this. I  
16 mean, our business is to legislate, not to proclaim.

17 The Chairman. I think we are ready to vote. Let's  
18 have a roll call so the absent members can record themselves.

19 Mr. Santos. Mr. Chairman, are we voting now on the  
20 substitute Danforth resolution?

21 The Chairman. We are voting on the substitute  
22 Danforth-Boren resolution.

23 The Clerk. Mr. Dole?

24 (No response)

25 The Clerk. Mr. Roth?

1 (No response)  
2 The Clerk. Mr. Danforth?  
3 Senator Danforth. Aye.  
4 The Clerk. Mr. Chafee?  
5 Senator Danforth. Aye, by proxy.  
6 The Clerk. Mr. Heinz?  
7 Senator Heinz. Aye.  
8 The Clerk. Mr. Wallop?  
9 Senator Danforth. Aye, by proxy.  
10 The Clerk. Mr. Durenberger?  
11 Senator Danforth. Aye, by proxy.  
12 The Clerk. Mr. Armstrong?  
13 (No response)  
14 The Clerk. Mr. Symms?  
15 Senator Symms. Aye.  
16 The Clerk. Mr. Grassley?  
17 Senator Grassley. Aye.  
18 The Clerk. Mr. Long?  
19 Senator Long. Aye.  
20 The Clerk. Mr. Bentsen?  
21 Senator Bentsen. Aye.  
22 The Clerk. Mr. Matsunaga?  
23 Senator Long. Aye, by proxy.  
24 The Clerk. Mr. Moynihan?  
25 Senator Moynihan.. Aye.

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The Clerk. Mr. Baucus?

Senator Baucus. Aye.

The Clerk. Mr. Boren?

Senator Boren. Aye.

The Clerk. Mr. Bradley?

(No response)

The Clerk. Mr. Mitchell?

(No response)

The Clerk. Mr. Pryor?

(No response)

The Clerk. Mr. Chairman?

The Chairman. The Chairman votes Aye.

I think the vote here was unanimous, plus those of the proxies. And if the Clerk would contact the other Senators as soon as possible so Senators Danforth and Boren know if they have a unanimous committee. My hunch is they may

Is there other business to come before the committee?

Senator Long. Are we going to vote it out?

The Chairman. We can vote it out; we have finished our discussion on it, and we have to go to a quasi-conference with the House. I would move that we report out the resolution in conformance with the amendments we adopted today.

Is there an objection?

(No response)

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(Whereupon, at 11:59 a.m., the Executive Session  
was concluded.)

C E R T I F I C A T E

This is to certify that the foregoing proceedings of a Finance Committee Executive Session, held on March 27, 1985, were held as herein appears, and that this is the original transcript thereof.

  
WILLIAM J. MOFFITT  
Official Reporter

My Commission expires April 14, 1989.

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EXECUTIVE SESSION  
99th Congress, 1st Session  
March 27, 1985

SENATE COMMITTEE ON FINANCE

EXECUTIVE SESSION

Wednesday, March 27, 1985; 9:30 A.M.; Room SD-215

1. U.S.-Israel Free Trade Agreement (Ted Kassinger)
2. S.Con.Res. 15, Danforth/Boren Resolution on U.S.-Japan trade (Len Santos)
3. Request for International Trade Commission study on European pork imports (Ted Kassinger)
4. Request for International Trade Commission study on GATT dispute settlement (Ted Kassinger)
5. Request for International Trade Commission study on steel exports (Ted Kassinger)

MARCH 25, 1985

MEMO

FROM: FINANCE COMMITTEE STAFF  
(TED KASSINGER x4-5472)

TO: MEMBERS, COMMITTEE ON FINANCE

SUBJECT: MARK-UP OF U.S.-ISRAEL TRADE  
AGREEMENT LEGISLATION

This memorandum describes the procedures and issues for consideration during the markup of the draft implementing legislation for the U.S.-Israel free-trade agreement ("FTA" or "the Agreement"). Attached to this memorandum is a memorandum explaining the Agreement prepared for the March 4 briefing given by Ambassador Brock (Attachment A).

I. PROCEDURES

There is no actual legislation before the Committee. Instead, the Committee will consider a draft implementing bill proposed by the Administration (Attachment B). The purpose of the markup is to achieve a consensus on the substance of the draft bill before it is submitted by the President. Following the

markup, an informal conference will be held with Ways and Means Committee representatives to settle any differences in the draft bills approved by the respective committees.

After the Committees agree to a draft bill among themselves and with the Administration, the President will submit it to commence the formal period of Congressional review. The Committee will then have a maximum of 45 days to report the bill. After it is reported or the Committee is discharged, the Senate must vote on it within 15 days. The bill is unamendable once it has been submitted by the President.

## II. SUBSTANCE OF THE IMPLEMENTING BILL

The Administration will submit an "implementing bill" as the instrument for Congressional approval of the Agreement. An implementing bill contains three components:

- (1) provisions approving the Agreement;

- (2) provisions approving a statement of actions the Administration will take to implement the Agreement; and
- (3) amendments to current law or new authority necessary or appropriate to implement the Agreement.

As of Friday, March 22, the Administration had not submitted a draft statement of administrative action.

A. Section-by-section summary of the bill  
(Attachment B).

Section 1: Title.--Section 1 simply entitles the bill.

Section 2: Purposes.--This section merely states the purposes of the bill: to approve and to implement the Agreement and to further trade between the two nations.

Section 3: Definition of Agreement.--This section establishes that "Agreement" as used

in the bill relates only to the agreement that is the subject of this legislation.

Section 4: Approval.--In Section 4, Congress would approve the Agreement and the statement of administrative action describing how the Administration intends to implement the Agreement.

Section 5: Tariff Proclamation Authority.--

Under the FTA, all tariffs will be eliminated on products traded between the countries by January 1, 1995. The duty reductions will be phased-in according to a schedule specified in Annex 1 to the Agreement. Annex 1 establishes schedules for four categories of products. The negotiators assigned products to these categories based on their import sensitivity. The fourth category includes products that were determined by the International Trade Commission to be the most-sensitive to Israeli imports. These include:

- (1) processed tomato products;

- (2) certain olives;
- (3) dehydrated onions and garlic;
- (4) citrus fruit juices;
- (5) cut roses;
- (6) certain bromine products;
- (7) gold chains; and
- (8) certain articles of apparel and footwear.

Subsections 5(a) and (c) authorize the President to proclaim changes in U.S. tariff rates to fulfill U.S. obligations under the Agreement, with one exception: the President would not be authorized to proclaim any modifications to the duties on products in the fourth, most import-sensitive, category of products. Under the Agreement, duties on these products must go to zero between January 1, 1990 and January 1, 1995. The phase-in

schedule is not specified. It is the Administration's intention to consult with the ITC at the end of five years, and request new authority at that time from the Congress to implement this part of the Agreement based on the ITC's advice.

Section 5(b) authorizes the President to proclaim tariff modifications as necessary to maintain the balance of benefits under the FTA.

Section 6: Relationship to U.S. law.--Section 6(a) declares that U.S. statutes prevail over the provisions of the Agreement in cases of conflict.

Section 6(b) authorizes the President to promulgate any regulation necessary to implement the FTA, as he has specified in his statement of administrative action.

Section 6(c) authorizes the President to submit any further legislation, which he determines is necessary or appropriate to

carry out the FTA, under the procedures for the same expedited consideration established in the 1974 Trade Act for trade agreements. It is expected, for example, that after five years the President would submit legislation in this fashion to implement the elimination of duties applicable to the most-sensitive articles.

Section 6(d) precludes the creation of private causes of action based on the FTA for which provision is not explicitly made under this bill or other U.S. laws.

Section 7: Termination.--Section 125(a) of the 1974 Trade Act makes every trade agreement negotiated under the authority of that Act terminable at least within the first three years, and thereafter within six months of giving notice. The FTA is an agreement negotiated pursuant to the authority of the 1974 Act.

Section 7(a) states that the FTA shall be subject to termination in accord with its

terms, while subsection (b) precludes the application of section 125(a) to it. Article 23 of the Agreement provides that it shall remain in force unless terminated by 12-months prior written notice.

Section 8: Government procurement.--The FTA provides that certain additional U.S. government procurements will be eligible to Israeli bidders. These procurements are those for contracts exceeding a value of \$50,000 but less than the threshold (about \$150,000) over which Israeli suppliers are already entitled to bid pursuant to U.S. obligations under the International Code on Government Procurement.

Title III of the 1979 Trade Agreements Act authorizes the President to carry out U.S. obligations under the Procurement Code. Section 8 would amend this title to effect this obligation.

Section 9: Perishable products.--Section 9 would modify the fast-track, perishable products import relief provision enacted as

part of the authorizing legislation in the 1984 Act.

In section 404 of the 1984 Act, the Congress established a special procedure for gaining provisional relief when petitions for import relief are filed that involve certain Israeli perishable products. The procedure is tied to petitions for relief filed under section 201 of the 1974 Trade Act, which authorizes the ITC to determine whether temporary tariff, quota, or other relief is warranted for an industry seriously injured by increasing imports. Under the special procedure, if a section 201 investigation involves perishable products, the President may withdraw or reduce any duty elimination granted as a result of the Agreement pending the completion of the ITC's investigation. This may be done within 21 days of filing of the petition, upon receiving a recommendation from the Secretary of Agriculture.

The perishable products entitled to this procedure are defined in the law. They are:

- (1) live plants;
- (2) vegetables;
- (3) fresh mushrooms;
- (4) edible nuts and fruits;
- (5) fresh cut flowers; and
- (6) concentrated citrus fruit juices.

The Administration proposes to amend this list by restricting vegetables and fruit to fresh vegetables and fruit, and to eliminate nuts. The list would then be the same as that of the provision after which it is patterned, which is in the Caribbean Basin Economic Recovery Act.

### III. AMENDMENTS

Chairman Packwood will offer one amendment to the Administration's draft bill.

The amendment will be to the tariff proclamation authority in section 5. It will authorize the President to implement all U.S. tariff obligations in the FTA, including the elimination of duties by January 1, 1995 for the fourth category of most import-sensitive items. As explained above, the Administration's bill would not authorize modification of duties on these items.

Senator Packwood's amendment would--

- (1) not authorize duty reductions on these products before January 1, 1991, and
- (2) require the President, before reductions after that period are made, to consult with the ITC and Congressional committees about the schedule for eliminating the duties thereafter.

This amendment is the same as one approved by the Ways and Means Committee in its markup of the bill.

BOB PACKWOOD, OREGON, CHAIRMAN

BOB DOLE, KANSAS  
WILLIAM V. ROTH, JR., DELAWARE  
JOHN C. DANFORTH, MISSOURI  
JOHN H. CHAFEE, RHODE ISLAND  
JOHN HEINZ, PENNSYLVANIA  
MALCOLM W. WOLLOP, WYOMING  
DAVID DURENBERGER, MINNESOTA  
WILLIAM L. ARMSTRONG, COLORADO  
STEVEN D. SYMMS, IDAHO  
CHARLES E. GRASSLEY, IOWA

RUSSELL B. LONG, LOUISIANA  
LLOYD BENTSEN, TEXAS  
SPARK M. MATSUNAGA, HAWAII  
DANIEL PATRICK MOYNIHAN, NEW YORK  
MAX BAUCUS, MONTANA  
DAVID L. BOREN, OKLAHOMA  
BILL BRADLEY, NEW JERSEY  
GEORGE J. MITCHELL, MAINE  
DAVID PRYOR, ARKANSAS

# United States Senate

COMMITTEE ON FINANCE  
WASHINGTON, DC 20510

WILLIAM DIFENDERFER, CHIEF OF STAFF  
MICHAEL STERN, MINORITY STAFF DIRECTOR

MARCH 26, 1985

## MEMO

FROM: FINANCE COMMITTEE STAFF (TED KASSINGER x4-5472)  
TO: MEMBERS, COMMITTEE ON FINANCE  
SUBJECT: U.S.-ISRAEL FTA ADMINISTRATION ACTION STATEMENT  
FOR MARCH 27, 1985 EXECUTIVE SESSION

Attached for your review is the draft statement of administrative action for the U.S.-Israel Free-Trade Agreement. This statement, required under provisions of the 1974 Trade Act, summarizes changes to U.S. trade law and describes the manner in which the proposed legislation is to be administered.

OFFICE OF THE UNITED STATES  
TRADE REPRESENTATIVE  
EXECUTIVE OFFICE OF THE PRESIDENT  
WASHINGTON  
20506

March 25, 1985

MEMORANDUM TO:           TRADE STAFF  
FROM                 :       MARY TINSLEY  
SUBJECT             :       U.S.-ISRAEL FTA ADMINISTRATION ACTION  
STATEMENT

Attached for your review is the draft statement of administrative action for the U.S.-Israel FTA. As you will note, it is missing a few sections. They will be forwarded to you shortly.

If you have any comments or questions, please call Alix Platt at 395-7305.

DRAFT

Implementing Bill for  
Free Trade Area Agreement with Israel

Statement of Administrative Action

The implementing bill for the Israel Free Trade Area Agreement approves and implements the free trade agreement negotiated by the United States and Israel under the authority of section 102 of the Trade Act of 1974, as amended by Title IV of the Trade and Tariff Act of 1984.

The implementing bill proposes certain changes to United States trade law which are necessary or appropriate to implement the U.S.-Israel Free Trade Area Agreement. This statement of administrative action, required under the provisions of section 102 of the Trade Act of 1974, summarizes such changes and describes the manner in which the proposed legislation is to be administered.

Implementing Bill

Section 1 -- Short Title

Section 2 -- Purposes of Act

The purposes of the implementing bill includes strengthening of U.S.-Israeli economic relations, the removal of trade barriers between the two nations and Congressional approval of the Agreement negotiated with Israel by the United States.

Section 3 -- Definition

Section 4 -- Congressional Approval of the Agreement  
and Proposed Action for Implementation

This section of the legislation provides for approval of the U.S.-Israel Free Trade Area Agreement submitted to Congress under the procedures of section 102 of the Trade Act of 1974, and section 151 of the Trade Act of 1974; and this statement of administrative action.

Section 5 -- Proclamation Authority

Paragraph (a) provides the President with the authority to proclaim the changes in the Tariff Schedule of the United States to carry out the schedule of duty reductions set out in Annex 1 of the Agreement. However, neither this nor paragraph (b) may be used by the President to proclaim duty free treatment for articles set out in paragraph 4 of Annex 1. These articles are those which were designated to be "import sensitive" in the report of the United States International Trade Commission to the President on the Probable Economic Effect of Providing Duty Free Treatment on Imports from Israel (Investigation 332-180). It is the intention of the Administration not to make any change in the tariff treatment of these articles for a period of five years following the entry into force of this Agreement. After the expiration of

this five year period the Administration will seek the advice of the United States International Trade Commission on these articles. The schedule of their inclusion in the coverage of the Free Trade Area Agreement will be considered at that time. All articles in U.S.-Israel trade will be duty free effective January 1, 1995.

Paragraph (b) provides the President with proclamation authority sufficient to enable the United States to maintain the general level of reciprocal and mutually advantageous concessions with respect to Israel as the Agreement evolves and to compensate or retaliate in the event of a trade dispute with Israel. In addition, this section provides sufficient authority for the President to make the necessary changes to the Tariff Schedules of the United States if the United States adopts the harmonized system.

Section 6. -- Relationship of Agreement to United States Law

The implementing bill approves and implements the U.S.-Israel Free Trade Area Agreement negotiated under the authority of section 102 of the Trade Act of 1974. The Agreement is not self-executing and accordingly does not have independent effect under U.S. law. However, the Agreement was negotiated to be fully consistent with Title IV of the Trade and Tariff Act of 1984, and the implementing bill and this statement regarding the administration of U.S. law have been developed to be fully consistent with the Agreement. When this implementing bill becomes effective, it will permit the United States to carry out substan-

tially all of its obligations under the Agreement. Additional authority will be necessary with respect to the articles specified in paragraph 4 of Annex 1 before the Agreement may be fully implemented in 1995.

Proposed regulations for the purpose of implementing the Agreement under U.S. law will be published in proposed form for public comment before being put into effect. Initial regulation to implement the Agreement with respect to rules of origin and the fast track procedures for perishable articles shall be promulgated in six months. Regulations with respect to government procurement shall be promulgated within one year. If, in order to conform U.S. law to a change in the Agreement, an existing statute must be modified or new statutory authority must be granted, the President will be authorized to submit a proposed bill to the Congress under the procedures of section 151 of the Trade Act of 1974.

No private remedy is created by the entry into force of this Agreement.

Section 7. -- Certain Time Limitations on Trade Agreement

Terminations Not Applicable

This provision waives the requirements of section 125(a) of the Trade Act of 1974 which provides a limitation of three years on any agreement entered into under authority of that Act and a

six month notice for termination and withdrawal. The Agreement will remain in force unless it is terminated by either the United States or Israel after notification and the expiration of twelve months.

Section 8. -- Lowered Threshold for Government Procurement Under Trade Agreements Act of 1979 in the Case of Certain Israeli Products

A. Summary

Both Israel and the United States are parties to the international Government Procurement Code which was approved by Congress in the Trade Agreements Act of 1979. The Code provides for the waiver of "buy national" restrictions on a reciprocal basis for a broad range of U.S. and Israeli purchases.

Under Article 15 of the Free Trade Area Agreement, the United States and Israel have agreed to a further elimination of government procurement related trade restrictions by lowering, on a bilateral basis, the threshold for application of the Code from 150,000 SDRs (about \$156,000) to \$50,000. Also, Israel will eliminate buy national restrictions in regard to purchases of non-military products by its Ministry of Defense. It should be noted that unlike the United States, non-military purchases by Israel's Ministry of Defense are not presently covered by the Government Procurement Code.

As part of these actions to remove barriers related to Government Procurement, Israel has also agreed to relax offset requirements in regard to purchases by its civilian agencies. There will be four elements to Israel's implementation of this provision:

1. Offsets will no longer be required in respect of purchases valued at less than \$500,000.
2. Israel will decrease the volume of civilian government procurement from U.S. firms subject to offset requirements from its current level of approximately 40 percent, in terms of value of annual procurement, to a level not to exceed 20 percent.
3. In regard to remaining offset requirements by civilian agencies, Israel will not require warranties or impose penalties to compel U.S. firms to implement offsets.
4. Israel will not use offset requirements to require U.S. firms to purchase goods that are not offered on competitive terms or to take any other action which is not justified from a commercial standpoint.

The Agreement only applies to purchases by the United States that would be subject to the Code, but for the Code's 150,000 SDR threshold. It will not affect U.S. purchases that are exempt from the Government Procurement Code for other reasons such as purchases subject to the Berry Amendment, federal funding programs, and set-asides for small and minority businesses. Further, the Agreement will not affect labor surplus set-asides. Other areas of procurement not subject to the Agreement include:

1. construction contracts;
2. service contracts (the Agreement does apply to services incidental to the purchase of goods where the value of such services does not exceed the value of the goods);
3. purchases by U.S. agencies which are not subject to the Government Procurement Code (e.g. the Departments of Transportation and Energy, the Bureau of Reclamation, the Corps of Engineers, and the Tennessee Valley Authority);
4. purchases by the Department of Agriculture for farm support and human feeding programs; and
5. purchases by state and local governments.

B. Administrative Action

Section 8 of the proposed bill would authorize the President to waive procurement restrictions in respect of Israel for all purchases subject to the U.S.-Israeli<sup>9</sup> Free Trade Area Agreement. This waiver authority is strictly limited to purchases covered by the Agreement. Therefore, it could not be used to waive restrictions which are not subject to the Agreement such as the Berry Amendment, funding restrictions on federal grant aid, or set-asides for small, minority or labor surplus concerns.

Using the authority provided under this provision, the President will waive laws, regulations and practices as necessary to comply with the Agreement. Agencies will be instructed to modify their regulations accordingly. Section 25 of the Federal Acquisition Regulations will thereby be amended to provide for waiver of the Buy American Act and Balance of Payments Program for purchases subject to the Agreement.

The Administration will make a concerted effort to assist U.S. firms to take full advantage of the opportunities created by the Agreement. These actions will include providing information to U.S. firms on the Israeli procurement market and upcoming purchases as well as closely monitoring implementation of the Agreement.

C. Effects on U.S. Law

A. Existing Legislation Which Will Be Affected by the Agreement

Buy America Act (41 U.S.C. 10, and E.O. 10582 of December 17, 1954) -- Buy American preference margins in favor of domestic firms will be waived in respect of purchases subject to the Agreement.

B. Related Legislation Which Will Not be Affected by the Agreement

1. Small Business, Labor Surplus Area, and Minority Business Programs -- Set-asides, that is, purchases reserved for small, labor surplus area and minority businesses are excluded from the Agreement's coverage.
2. "Berry Amendment" Types of Restrictions on DoD -- (DoD Appropriations Act, P.L. 95-457) The Berry Amendment and similar restrictions will continue to apply, requiring DoD to purchase, solely from U.S. sources, its needs for textiles, clothing, shoes, food, stainless steel flatware, certain specialty metals, buses (P.L. 90-500, Sec. 404) ships, and components thereof (Byrnes-Tollefson Amendment to DoD Appropriations Act).
3. Hand Tools (GSA Appropriations Act) -- Fifty percent differential in favor of domestic suppliers for all procurements of hand tools will not be affected because purchasing entities are not covered.

4. Prison-and Blind-Made Goods -- (18 U.S.C. 4124 and 41 U.S.C. 48) are an exception to the Agreement's coverage.

5. Cargo Transportation Preferences -- (10 U.S.C. 2631, 46 U.S.C. 1241 (B) (1), International Air Transportation Fair Competitive Practices Act of 1974, P.L. 92-623) are specifically not covered by the U.S. as a service "incidental" to a procurement.

D. Economic Benefits to the United States

It is estimated that in excess of \$200 million worth of Israeli government purchases which are not covered by the Government Procurement Code will be opened to U.S. exporters by the Agreement. U.S. exporters will benefit both from waiver of Buy Israeli preferences and publication of information on upcoming purchases which is required by the Agreement.

It is more difficult to quantify the value of Israel's agreement to relax its offset requirements as data on the program is limited. Israel's current offset program was put in place about eight years ago. Since that time a cumulative total of \$125 million of offset commitment have been entered into by foreign firms. We understand that this total was not evenly distributed over the life of the program because it got off to a slow start. Also, actual levels of offsets vary greatly from year to year depending on government spending levels and the

nature of what is being purchased. Nevertheless, we believe that Israel's commitment to reduce its offset requirements of U.S. firms by 50 percent should be of substantial benefit to U.S. exporters.

*Section* 9. -- Technical Amendments

Paragraph (a)(1) provides for a technical change to section 403 of the Trade and Tariff Act of 1984 in order that the rules of origin requirements set out for an agreement with Israel shall be made part of U.S. domestic law.

Paragraph (a)(2) brings the provision of section 404 of the Trade and Tariff Act into conformity with section 213(f) of the Caribbean Basin Recovery Act to fulfill the intention of the Congress as stated in the legislative history of the Trade and Tariff Act of 1984.

Paragraph (a)(3) redesignates a misnumbered section in the Trade and Tariff Act of 1984.

Paragraph (b)(1) amends section 102 of the Trade Act of 1974, as amended by the Trade and Tariff Act of 1984, to clarify the intention of the Congress that no trade benefit resulting from a trade agreement providing for reductions in duty shall be extended to any country by reason of the extension of any trade benefit to another country.

Paragraph (b)(2) amends the Trade Act of 1974 to enable the President to make the necessary changes in the Tariff Schedules of the United States to reflect the tariff changes for this Agreement.

Plan for Implementation

[ITC statement on Revision of TSUS]

[USDA statement on Fast Track for Perishable Regs]

[Customs statement on Rules of Origin Regs]

99TH CONGRESS  
1ST SESSION

# S. CON. RES. 15

Relating to United States-Japan trade.

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## IN THE SENATE OF THE UNITED STATES

FEBRUARY 20 (legislative day, FEBRUARY 18), 1985

Mr. DANFORTH (for himself, Mr. ABNOR, Mr. ANDREWS, Mr. BAUCUS, Mr. BIDEN, Mr. BINGAMAN, Mr. BOBEN, Mr. BURDICK, Mr. BYRD, Mr. CHILES, Mr. DIXON, Mr. DODD, Mr. EAGLETON, Mr. EXON, Mr. FORD, Mr. GARN, Mr. GLENN, Mr. HEFLIN, Mr. HEINZ, Mr. HOLLINGS, Mrs. KASSEBAUM, Mr. KASTEN, Mr. KENNEDY, Mr. LAUTENBERG, Mr. LEVIN, Mr. METZENBAUM, Mr. MITCHELL, Mr. PRESSLER, Mr. PROXMIRE, Mr. QUAYLE, Mr. RIEGLE, Mr. ROCKEFELLE, Mr. SARBANES, Mr. SIMON, Mr. SPECTER, Mr. THURMOND, and Mr. WARNER) submitted the following concurrent resolution; which was referred to the Committee on Finance

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## CONCURRENT RESOLUTION

Relating to United States-Japan trade.

Whereas the United States merchandise trade deficit with Japan reached the unprecedented level of \$37 billion in 1984—accounting for almost one-third of the entire United States deficit with the world;

Whereas this unprecedented bilateral deficit was accumulated in spite of significant growth in the Japanese economy;

Whereas the principles of free trade provide for trade flows between nations on the basis of each nation's comparative advantage;

Whereas Japan has extensive access to the United States market for products where Japan has comparative advantage;

Whereas United States exporters lack access to the Japanese market for manufactured goods, forest products, key agricultural commodities, and certain services where the United States has comparative advantage;

Whereas the bilateral trade imbalance is costing the United States hundreds of thousands of jobs every year;

Whereas the high value of the dollar relative to the yen effectively subsidizes Japanese exports to the United States and taxes United States exports to Japan;

Whereas despite the voluntary restraint Japanese autos continue to account for approximately two million cars imported into the United States market—contributing over \$20 billion to the bilateral trade deficit;

Whereas years of negotiating with Japan to secure meaningful improvements in market access for competitive United States exports have been largely unsuccessful;

Whereas many other countries experience comparable difficulty in obtaining access to the Japanese market;

Whereas an end to the voluntary restraint on autos without a comparable improvement in access for competitive United States exports to the Japanese market will severely exacerbate the bilateral trade deficit; and

Whereas this deficit has the potential of undermining the entire range of bilateral relations between the United States and Japan: Therefore be it

- 1        *Resolved by the Senate (the House of Representatives*
- 2 *concurring)*, That the voluntary restraint on Japanese autos

- 1 not be ended until United States exports to Japan are sub-
- 2 stantially increased and the United States trade deficit with
- 3 Japan is substantially reduced.



MARCH 25, 1985

MEMO

FROM: FINANCE COMMITTEE STAFF  
LEN SANTOS (x4-5472)

TO: MEMBERS, COMMITTEE ON FINANCE

SUBJECT: MARCH 27 MARK-UP--DANFORTH/BOREN  
RESOLUTION ON U.S.-JAPAN TRADE

The Danforth/Boren Resolution (attached hereto) calls for continuation of the Japanese restraints on auto exports until U.S. exports to Japan are increased and the U.S. trade deficit with Japan is reduced.

1. THE RESOLUTION

- a. Thirty eight Senators have cosponsored this Resolution.
- b. The Resolution recites inter alia, the fact that the U.S.

(1) had a \$37 billion trade deficit with Japan in 1984,

- (2) has tried unsuccessfully to remove barriers to access to the Japanese market,
- (3) is losing hundreds of thousands of jobs annually as a result of this imbalance,
- (4) will experience an even larger deficit if the restraints on Japanese auto exports are ended without a comparable improvement in U.S. access to the Japanese market.

c. The Resolution calls for an extension of the voluntary restraints on Japanese auto exports to the U.S. until

- (1) U.S. exports to Japan are substantially increased, and
- (2) the U.S. trade deficit with Japan is substantially reduced.

2. THE MARCH 8 TRADE SUBCOMMITTEE HEARING  
ON THE RESOLUTION

The Trade Subcommittee held a hearing on the Danforth/Boren Resolution on March 8. Administration witnesses testified that little progress is being made in current sectoral negotiations on access to the Japanese market. Several members expressed frustration with Japanese barriers and spoke of the need to retaliate against Japan.

3. STATE OF SECTORAL NEGOTIATIONS WITH JAPAN

Negotiations with Japan on reduction of Japanese barriers to imports of electronics, forest products, medical equipment and pharmaceuticals, and telecommunications have made little progress to date. New telecommunications regulations on the privatization of the Japanese telephone monopoly (NTT) will be announced on April 1, 1985. The administration is considering retaliating against Japan if no further progress is made on telecommunications by April 1.

*New Japan Res*

019910.101

S.I.C.

99th CONGRESS  
1st Session

S. CON. RES. \_\_\_\_\_

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IN THE SENATE OF THE UNITED STATES  
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Mr. \_\_\_\_\_  
submitted the following concurrent resolution; which was \_\_\_\_\_  
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CONCURRENT RESOLUTION

To express the sense of the Congress that the President respond  
to unfair trade practices of Japan.

Whereas, the United States merchandise balance of trade deficit  
with Japan reached the unprecedented level of \$37 billion in  
1984--accounting for almost one-third of the entire United  
States deficit with the world;

Whereas, this unprecedented bilateral deficit was accumulated in  
spite of significant growth in the Japanese economy;

Whereas, the principles of free trade provide for trade flows  
between nations on the basis of each nation's comparative  
advantage;

Whereas, Japan has extensive access to the United States market  
for products in which Japan has a comparative advantage;

Whereas, United States exporters lack access to the Japanese market for manufactured goods, forest products, key agricultural commodities, and certain services in which the United States has a comparative advantage;

Whereas, many other countries experience comparable difficulty in obtaining access to the markets of Japan;

Whereas, the bilateral trade imbalance is costing the United States hundreds of thousands of jobs every year;

Whereas, negotiating with Japan over the years to secure meaningful improvements in market access for competitive United States exports has been largely unsuccessful;

Whereas, the high value of the United States dollar relative to the Japanese yen effectively subsidizes Japanese exports to the United States and taxes United States exports to Japan;

Whereas, an end to the voluntary restraint agreement on automobiles without a comparable improvement in access for competitive United States exports to the Japanese market will severely exacerbate the bilateral trade deficit;

Whereas, this merchandise balance of trade deficit has the potential of undermining the entire range of bilateral relations between the United States and Japan; and

Whereas, action by the United States is appropriate--

- (1) to enforce United States rights under trade agreements to which Japan is a party, and
- (2) to respond to Japanese acts, policies, and

practices which are--

(A) inconsistent, and otherwise deny benefits to the United States, under trade agreements to which Japan is a party; and

(B) are unjustifiable, unreasonable, or discriminatory and burden or restrict United States commerce: Now, therefore, be it

1     Resolved by the Senate (the House of Representatives  
2 concurring), That it is the sense of the Congress that the  
3 President should take all appropriate and feasible action  
4 within the power of the Presidency (including, but not  
5 limited to, the actions described in section 301(b) of the  
6 Trade Act of 1974 (19 U.S.C. 2411(b))) to--

7             (1) enforce the rights of the United States under  
8 trade agreements to which Japan is a party, and

9             (2) obtain the elimination of the acts, policies, and  
10 practices described in the last clause of the preamble to  
11 this resolution.

12     Sec. 2. (a)(1) By no later than the date that is 45 days  
13 after the date on which this resolution is agreed to by the  
14 Congress, the President should report to the Congress and  
15 publish in the Federal Register notice of the actions that  
16 the President has determined to take to accomplish the  
17 objectives described in paragraphs (1) and (2) of the first  
18 section of this resolution.

1 (3) The President should implement all actions that the  
2 President has determined to take to accomplish the objectives  
3 described in paragraphs (1) and (2) of the first section of  
4 this resolution by no later than the date that is 90 days  
5 after the date on which this resolution is agreed to by the  
6 Congress.

7 (4) Any action taken by the President to accomplish the  
8 objectives described in paragraphs (1) and (2) of the first  
9 section of this resolution should be modified or revoked only  
10 if the President determines that the minimum objective  
11 described in subsection (b) has been achieved. The President  
12 should report to Congress and publish in the Federal Register  
13 notice of such determination.

14 (b) Action by the President to accomplish the objectives  
15 described in paragraphs (1) and (2) of the first section of  
16 this resolution should at least negate the cumulative impact  
17 that the elimination or relaxation of the voluntary  
18 restraints on Japanese automobile exports to the United  
19 States will have on the merchandise balance of trade between  
20 Japan and the United States. Action taken to accomplish this  
21 objective should be directed against competitive Japanese  
22 exports including, but not limited to, automobiles,  
23 telecommunication products, and electronic products.