

TRADE POLICY CHALLENGES IN 2001

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OF THE
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CONTENTS

OPENING STATEMENTS

	Page
Grassley, Hon. Charles E., a U.S. Senator From Iowa, chairman, Subcommittee on International Trade	1
Baucus, Hon. Max, a U.S. Senator from Montana	3

PUBLIC WITNESSES

Ventura, Hon. Jesse, Governor, State of Minnesota	5
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ALPHABETICAL LISTING AND APPENDIX MATERIAL

Baucus, Hon. Max:	
Opening statement	3
Blackwelder, Dr. Brent, president, Friends of the Earth:	
Prepared statement	9
Buffenbarger, R. Thomas, president, International Association of Machinists and Aerospace Workers:	
Opening statement	13
Grassley, Hon. Charles E.:	
Testimony	1
Hormats, Robert D., vice chairman, Goldman, Sachs (International):	
Prepared statement	15
Lang, Jeffrey M., partner, Wilmer, Cutler & Pickering:	
Prepared statement	21
Thorn, Craig, DTB Associates, LLP:	
Prepared statement	24
Ventura, Hon. Jesse:	
Testimony	5
Prepared statement	29

COMMUNICATIONS

Council of the Americas	33
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TRADE POLICY CHALLENGES IN 2001

THURSDAY, OCTOBER 5, 2000

**U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.**

The hearing was convened, pursuant to notice, at 11:00 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the subcommittee) presiding.

Also present: Senators Craig, Baucus, and Conrad.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE

Senator GRASSLEY. I thank everybody for their kind attendance at this hearing on the issue of the future issues of international trade.

A famous football coach once said, "The future is now." That is what this Trade Subcommittee's hearing is all about, the future of trade policy in the coming year, a future that will determine by what we do today, a future that can mean more opportunity, better living standards, and a safer and more secure world through more and open stable world trading, a future that will bring a slowing, or even a rolling back, of the enormous progress in trade liberalization we have made in the last 50 years.

Soon, legislation we passed to provide permanent normal trade relations status for China will become law. This historic legislation will help create a billion new customers for American farmers, ranchers, manufacturers, and service providers, and it will mean that, for the first time in its history, China will have to follow the rule of law in international trade when it joins the World Trade Organization.

But PNTR will likely be the last major trade bill any President will be able to bring to Congress in the foreseeable future without new negotiating authority. The political reality is, it is too late to renew fast track negotiating authority this year. But now is the time to think about this, and other critically important trade policy challenges that face us just three short months from now.

Let us look briefly at a few of those challenges. The effort to renew fast track trading authority will affect virtually every aspect of U.S. trade policy in 2001. Without this authority, authority that has been used by every President for the past 25 years, we will lose one opportunity after another to open new markets, create new

jobs, bolster the farm economy, and replace trade confrontation with trade cooperation.

The absence of fast track negotiating authority is already impairing another one of our major trade priorities for 2001, and that is the Free Trade Area of the Americas negotiation.

The goal of the Free Trade Area of the Americas negotiations, which are supposed to conclude in 2005, is to create a single trade zone of nearly 700 million people, stretching from the Arctic Ocean in the north to the Tierra del Fuego in the South.

The FTAA is the single most important economic initiative that we have undertaken with Latin America since President Kennedy launched the Alliance for Progress in 1961.

Latin America is our fastest growing regional trading partner. Roughly 46 percent of all goods manufactured in this country are exported to our own hemisphere. We export large amounts of our agricultural products to the FTAA countries as well.

In my State of Iowa, we exported more than one-third of all of our agricultural exports to our own hemisphere last year. Our continued prosperity and our leadership in world trade clearly rests on the success of these talks.

Yet, despite the obvious importance of the FTAA, there is little agreement on the major issues. With the FTAA ministerial coming up in April 2001 at the Summit of Americas next April, we have to get these negotiations on track.

I intend to make the FTAA negotiations a top priority of the Trade Subcommittee. I have asked the General Accounting Office to review the status and progress of these talks and to provide me with this information before the April ministerial.

Another vital trade issue that we must address next year is how to launch a new round of multilateral trade negotiation in the WTO. I do not want to rehash the mistakes of the past. This is not the purpose of the hearing. But we need to move forward.

I believe that we can launch a new round of WTO trade negotiations next year, but we have got to start early, not 5 or 6 months from now, and we have to engage our trading partners right now.

We have to decide well in advance of the ministerial, what proposals to put on the table. We have to put the right proposals on the table and we have to give everyone, especially the developing nations, a stake in the process right from the start.

We saw how the United States can lead in setting world trade agenda this past June at the special session of the WTO agricultural committee in Geneva. The United States' proposal for long-term, comprehensive agricultural trade reform that we tabled in Geneva set the agenda for these discussions.

We accomplished this by being bold, by thinking outside the box, by careful planning, by working closely with our allies in the CAIRNS group and elsewhere, and by making the moral case for open world markets.

Building on the progress we made in the WTO agricultural committee in Geneva is another key item on next year's trade agenda. These are some of the key issues we need to address.

In closing, I would like to say a word about what is at stake. We are at a unique moment in history. Political and economic barriers that once seemed insurmountable have crumbled. These barriers

have collapsed because people have seen more freedom, more openness. Bringing distant markets and people together has created great prosperity.

This prosperity has helped us afford all of the advantages we now enjoy: more and better-paying jobs, better education, a higher quality of life, and a cleaner environment. Our challenge in 2001 is to preserve and strengthen America's historic leadership role in trade policy that has made this possible.

Senator Baucus, before we go to our first witness.

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

Senator BAUCUS. Thank you, Mr. Chairman, very much, for your statement and holding this hearing.

When we address trade, we in this committee spend most of our time talking about WTO dispute settlement, antidumping laws, market access problems, PNTR, and so forth. Sometimes I think we forget why we really care about trade.

So, as we begin to think about our trade agenda for next year, I would like to reflect for a few moments about what underlies America's trade concerns, that is, the values that we cherish.

Thomas Jefferson said, "The care of human life and happiness, and not their destruction, is the first and only legitimate object of government." That is, good government.

We have a number of core values in our society; three that have defined my life and that I consider fundamental to the mandate that I have received from the people of Montana to represent them, are these: first, improving the economic condition of our citizens; second, respecting the dignity of the individual; third, protecting the environment for ourselves and our descendants.

We must constantly remind ourselves that trade is not an end in itself. The goal of enhanced and expanded trade must be to improve the quality of life for people and to leave the world in better shape than we received it.

Various persons have said—Jack Kennedy, Ronald Reagan—that a rising tide lifts all ships. This was not true in the 1980's, and it is not true today. In Montana, many people have been left behind, despite the unprecedented 8-year economic boom we have experienced. The same is true for many people in many parts of this country, and also worldwide with globalization.

The backlash against globalization that we have seen in our country and overseas is a reflection of this imbalance between those who have benefitted and those who have not. We do need growth in the economy, but growth alone is not sufficient to ensure that all of our citizens are served.

A rising tide does not necessarily lead directly to a cleaner environment; a rising tide does not necessarily lead to better working conditions. Sometimes it does, sometimes it does not. It is too easy for environmental and human dignity concerns to be left out in the wash of economic growth.

Let me bring this down to the concrete, to our responsibilities in the Senate. It is simply incorrect to think that the U.S. Congress will grant trade negotiating authority, that is, fast track, next year

unless we are able to address our society's environmental and human dignity goals.

This is not a matter of isolationism, it is not a matter of protectionism. Trade, environment, human dignity. These issues are linked, and inextricably so; to ignore them is to proceed at our peril.

That is why I am particularly pleased to have a panel today with representatives from the environmental and labor communities, and I am looking forward very much to hearing from them a concrete, forward-looking, positive agenda that would help us integrate our core values into American trade policy.

I am also very pleased that Governor Ventura is here today. We should all thank him and many of his fellow Governors for their strong and active support of PNTR. This was a critically important decision for our country, and now, of course, we have an even more difficult task, to make sure that China's commitments to the WTO are fully met.

This will be a major oversight responsibility for this committee next year. I look forward very much to working closely with you, Mr. Chairman, and other committee members to achieve our goals.

Senator GRASSLEY. Thank you.

Before I introduce Governor Ventura, I have been informed that the two-hour rule has been invoked, which means that this hearing will officially end at 11:30. However, I intend to proceed unofficially after 11:30. The only difference will be, there will not be an official court reporter taking everything down.

We will then have everybody's statement put in the record, and any additional questions and responses thereto will be submitted for the record, so that when we get done with Governor Ventura and our second panel, we will still have the official record, have the official statements. The only thing we will not have would be the exchange that would have gone on as far as the court reporter is concerned.

Did you want to say something before I introduce the Governor?

Senator CONRAD. I would withhold a statement, Mr. Chairman. But I would like to welcome our neighbor, Governor Ventura. We are very glad to have you here, and I will look forward to your testimony.

Senator GRASSLEY. Yes. Well, obviously, Governor Ventura was a famous person before he was elected Governor, but from a political standpoint, he shocked that establishment when he was elected the 38th Governor of Minnesota on November 3, 1998.

Since his election, Governor Ventura has worked to make Minnesota a leading competitor in world markets. According to the Governor, "Readiness for globalization is crucial to healthy communities, self-sufficiency, and governmental reform." I agree very strongly with that statement.

Before the Governor starts, I think he might be the first witness that has appeared before this subcommittee who has his own action figure. [Laughter.] Would you proceed, Governor Ventura?

STATEMENT OF HON. JESSE VENTURA, GOVERNOR, STATE OF MINNESOTA

Governor VENTURA. Actually, Chairman Grassley, it is the second one.

Senator GRASSLEY. All right.

Governor VENTURA. I had one prior, too.

Senator GRASSLEY. All right.

Governor VENTURA. So I am on my second action figure. One had wrestling tights on at one point.

Thank you, Chairman Grassley, for the opportunity to share my ideas on free trade with the members of your committee. I am humbled that you think I can help you set an agenda.

Free trade helps Minnesota, Minnesota's farmers, Minnesota's entrepreneurs, Minnesota's manufacturers, and Minnesota's workers. There are great benefits to them, all of them, when they compete in a global economy.

The Congress deserves congratulations on a job well done. Passing permanent normal trade relations with China was a true watershed event for free trade in our history.

PNTR will redefine our country's relationship with the biggest population in the world and it will boost the flow of democratic ideals and fair business practices in China. You did the right thing.

But now is not the time to rest on our laurels. To keep this momentum on healthy trade, my message to you today is fourfold and simple: put politics aside, correct past mistakes, embrace emerging markets, and compete with confidence.

First, now is the time to put politics aside, to honor and enforce past agreements, and to make this new agreement work. Now is the time to build a bipartisan consensus on trade policy.

For example, next year you will consider a bilateral and commercial trade agreement between the United States and Vietnam. I believe that open trade can bring positive energy and democratic values to a relationship between two countries that has poisoned so many.

Ask Senator John McCain or Senator Bob Kerrey about the need to embrace such an agreement. Do not let their efforts in Southeast Asia or the efforts of an entire generation go by the wayside. Through trade, help our nations heal the past.

Trade may even help bring peace to the Middle East, a peace that is badly needed today. A Senate endorsement of the U.S.-Jordan free trade agreement will be a step in that right direction.

Another positive step, would be to grant the President fast track trade negotiating authority. Fast track authority should be called common sense negotiating. A new name might give it the PR help that it needs.

Fast track is not about fly-by-night decisions made by the President in a vacuum, it is about the ability to make time-sensitive decisions that will help America compete in this fast-paced, new economy. It is about recognizing that we cannot let gamesmanship hold us back in the new economy. It is about common sense.

Every President has had this negotiating power, and it makes sense that we show the world that, in the year 2000 or 2001, we truly are ready to compete in the worldwide ring.

The need for common sense negotiating authority is not about politics or power; President Bush will need it as much as President Gore, President Nader, or President Haglin. I think you get my picture.

My second message to you today, is correct past mistakes. We already know that closed doors do not work. We have tried that. For 45 years, we have had an embargo to prove that we do not like how Cuba rules. Well, the joke is on us. Castro has outlasted 9, going on 10, Presidents. Communism remains. Markets are shut to our agricultural products and we have not impacted improvements in human rights.

Opening the Cuba market will not be a huge money-maker. I understand that it is a small market compared to that of China. But opening Cuba would demonstrate to regular people at home and our trading partners around the world that common sense can prevail.

An open Cuba makes perfect sense to small businesses like New Air, a small Minnesota company that manufactures, among other things, biological safety cabinets and incubators. New Air wants to see Cuba sanctions lifted because they have lost years of business to Swedish and German competitors as a result of the embargo.

While they have been trying to deal with the current approval and licensing requirements at the Department of Treasury that would let them sell in Cuba, they are running into a severe case of red tape.

Small companies like New Air are the backbone of our economy. Making them suffer because of a stubborn, pig-headed, and outdated chip on our shoulder is just plain stupid. I think you get my point.

We need to change the mind-set about the potential of minority-owned businesses and embrace new communities who are adding more and more value to our economy every day. As Governor, I am serious about helping to change this mind-set in Minnesota. We must learn how to tap into the new immigration energy that has taken hold of our State. It is an exciting challenge.

There is a declaration being circulated in Minnesota called "The Emerging Market Alliance Declaration." Minority entrepreneurs who want to raise awareness about their potential in Minnesota drafted this declaration. You have it in front of you today.

I have signed this declaration, and I encourage you to do the same. Pass it on to your colleagues and take it back to your States. It is a move towards a new mind-set. Take a lesson from Minnesota: embrace emerging markets inside and outside our borders.

Speaking of emerging markets, currently we have a great success story of a country once considered an emerging market. Mexico, I am pleased to say, has arrived. Our southern neighbor is now 13th in the world in GDP, and represents a market of opportunity for Minnesota products and services.

I will be traveling to Mexico at the end of this month to seek those expanding opportunities. What an exciting time of change and energy in Mexico today! President-elect Vicente Fox has, like I said on election night in Minnesota, shocked the world.

Thanks to President Zedillo's statesmanship, a smooth and democratic transition will help breed success. As U.S. neighbors, we

must recognize this historic transition, congratulate President Zedillo, and embrace President-elect Fox. He represents new ideas, change, and energy. We must do what we can to help him and Mexico succeed.

Finally, one last message. Compete with confidence. U.S. workers are the best. As Governor of Minnesota, I support free trade because, simply, it improves the quality of life for all Minnesotans.

When you adjourn and go home to your States, spend time talking to small businesses, farmers, and young people who have new opportunities in front of them today because of free trade.

Talk to your Governor. I can tell you, it is a great time to be Governor. We are able to advocate for our States around the globe while riding a huge economic wave. Governor Vilsak of Iowa has been to Taiwan, Japan, and China. Governor Shaffer of North Dakota was just in China. Governor Whitman of New Jersey has been to Japan and Taiwan. Governor Lock of Washington has been around the globe. Use these great ambassadors and support them in their quests for trading opportunities for your constituents.

I, for one, am going to continue to boost Minnesota's opportunities on the world stage. I've done it in Japan and in Canada, and I will do it in Mexico, China, and Europe during my tenure as Governor. I will put Minnesota workers, Minnesota farmers, and Minnesota manufacturers up against anyone in the world. Have the confidence to do the same for your constituents.

Thank you again for the opportunity today to address you.

[The prepared statement of Governor Ventura appears in the appendix.]

Senator GRASSLEY. Well, we thank you for your very strong statement, and your statement of belief. I know that you practice what you preach.

Now, for the three of us who are here and for everybody that is not here, so the people who are on both panels may know, members who are not here may subject questions for answering in writing. I want to ask that you would do that in a two-week period of time to get the answers back.

We will have 5-minute turns for questions, so I will go in the order of Grassley, Baucus, and the Senator from North Dakota.

Governor Ventura, I appreciate your saying that we need to embrace the world and not be afraid to compete on the world stage. Frankly, I think there is still a lot of fear about trade issues, in spite of the tremendous prosperity that we have because of free trade. Perhaps we need to do a better job of talking about the benefits of open markets. You have done that well, but we all have to talk about the advantage that it is to our working men and women.

In your view, how could we do a better job of getting the message out that trade is good for America and it does create good, paying jobs as well?

Governor VENTURA. Well, I think that we could look at the past few years when NAFTA was passed. I mean, I remember the head of my former party saying that there would be a giant sucking sound of jobs leaving America. My former party. That was a place where we disagreed greatly.

If you look today at the end result and all the paranoia that there was about that agreement, we, today in Minnesota, face a

most unique situation. For years, and years, and years as government, we had to deal with unemployment.

In Minnesota today, we have the lowest unemployment rate we have ever had. About 6 months ago, the local Minneapolis Star Tribune paper came out and said there were 44,000 unfilled jobs in the Twin Cities of Minneapolis and St. Paul alone.

So I think that shows that the paranoia and fear that was put out front prior to NAFTA is a fear that we do not have to face because we have more jobs than we have people. We face workforce development now, not unemployment. We face getting our workers reeducated and getting them into these available jobs that are there for them to take.

So I think it is a case of simply putting facts out there, and those facts are very simple and plain for the public to see, and then constantly talking about the positive nature of competing in the world.

It is inevitable. When you look today, I think you also have to let people understand that in this day of high technology, it is just a matter of time where you will be able to go to a laptop computer and communicate with someone in China, another person, another individual. The world is getting smaller because of technology, and that is a fact, and it is an unavoidable fact.

Senator GRASSLEY. Governor, given that trade barriers in the global agricultural sector remain very, very high and U.S. farmers are increasingly dependent on those markets—in my State, for instance, 40 percent of our agricultural products would be exported—to what extent should the United States look to the World Trade Organization and the agricultural negotiations in the WTO to achieve further liberalization of agricultural trade?

Governor VENTURA. Well, I think that certainly the WTO and what is being passed now is going to lower the tariffs, and that is a step in the right direction.

I know for a fact that China used to have a 30 percent tariff on barley. Of course, barley is the ingredient that you make beer out of. The Chinese people love beer, and we have better barley than they have. That is being dropped to 10 percent now. That is a direct 20 percent profit right there.

When you talk about human rights, Senator, the University of Minnesota has more Chinese students than any other university in America. I met with about 40 to 45 of these students from China. In the case of agriculture today, China is at its peak. They cannot feed their people. One of these Chinese students looked at me and said, Governor, do you not think it is a human right just to have food on the table? I said, yes, I do.

So we can be the leader in that, and certainly opening up foreign markets to our agricultural products far benefits us more than allowing our agricultural products to rot away in silos because there is not a buyer for it.

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

[The prepared statements of Robert Hormats, Jeff Lang, Craig Thorn, Tom Buffenbarger, and Brent Blackwelder appear in the appendix.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF DR. BRENT BLACKWELDER, PRESIDENT FRIENDS OF THE EARTH

INTRODUCTION

I am very pleased to be here today to present the views of Friends of the Earth to the Senate Finance Committee Subcommittee on International Trade. Nearly a year after the WTO Ministerial in Seattle, we are still facing the significant issues that were raised in a dramatic fashion there by the protesters in the streets and by the collapse of the talks themselves. That is, how do we create trade policy that is balanced, inclusive and consistent with sustainable development and environmental protection? What Seattle most fundamentally showed us is that a trade agenda that is closed to public input and that does not value the environment is politically unsustainable. Above all, the public views the end goal of trade not as commercial success in and of itself, but rather the creation of better conditions for people and for our planet.

As we enter the 21st century, the development of a better balanced trade policy must begin with an effort to reform the policy-making process itself so that environmental perspectives can be fully heard and integrated into U.S. trade objectives and international agreements. The Seattle Ministerial showed that the "old ways" of conducting global trade talks—rules and agreements negotiated in a secretive manner that excludes the public and harms the environment—are unacceptable to ordinary Americans and even to many Governments. The post-Seattle challenge will be to democratize the WTO and trade policy in general. Since democracy starts at home, the first step should be to make the domestic trade policy making process more open and transparent. Increasing participation in the domestic trade policy-making process will help rebuild public confidence and improve the quality of U.S. trade policies.

DEMOCRATIZING TRADE POLICY

Friends of the Earth believes that the following set of changes would go a long way towards democratizing the domestic trade policy making process and ensuring that trade rules do not undercut environmental protection. First, USTR should make public its formal negotiating proposals and any draft negotiating texts that are under consideration in a bilateral or multilateral forum. As with Congressional bills or proposed Federal regulations, the public has a right to know the details of policy proposals that can have substantial environmental consequences. Nevertheless, negotiating texts and proposals are frequently kept secret. For example, in the current negotiations of the Free Trade Area of the Americas (FTAA) Agreement—for which a consolidated draft text is due to be completed by the end of this year—USTR has agreed to keep confidential its negotiating proposals and any multilateral negotiating texts. By contrast, negotiations of multilateral environmental agreements are conducted with full disclosure of negotiating proposals and texts. Congress should ensure that the U.S. will not participate in non-democratic negotiations and that USTR will publicly release texts.

Second, the advisory committees that make recommendations to USTR on trade policy should be opened to representatives of non-governmental public interest organizations. A few of the committees, such as the one dealing with trade and environment issues (TEPAC), have balanced membership, with both environmental organizations and businesses. The core of the committee system, however, the Industrial Sector Advisory Committees (ISACs), are nearly entirely composed of corporate representatives. In November 1999, a federal judge decided in favor of a suit by envi-

ronmental organizations, holding that the Federal Advisory Committee Act required balanced representation on two ISACs that address forest product issues. Yet today there are still only 2 public interest representatives on the ISACs, compared to over 300 business representatives.

Third, the Trade and Environment Policy Advisory Committee (TEPAC), which provides recommendations to USTR and on which I have served for several years, should be given a more significant role in shaping U.S. trade policy objectives. TEPAC is only consulted after U.S. negotiating positions have already been determined, and in some cases, TEPAC was not consulted at all during critical trade negotiations, including those with China and Vietnam. USTR has also failed to consult with TEPAC concerning such actions as USTR's unilateral efforts to oppose the European Union's initiative for recycling and toxic chemical reduction in the computer industry. TEPAC's role should be strengthened so that it can provide input into the ongoing policy-making process, rather than reacting to already established positions.

Fourth, environmental agencies should be given the lead role, or at minimum an equal role, in setting the environmental aspects of U.S. trade policy. USTR is not an environmental regulatory agency and lacks sufficient environmental expertise to set environmentally-relevant aspects of U.S. trade policy. Congress should therefore mandate that the Council on Environmental Quality (CEQ) assume the role of coordinating the environmental agencies active in determining environmental aspects of US trade policy. Primary technical capacity on specific trade and environment issues would be developed and maintained within environmental regulatory agencies such as the Environmental Protection Agency (EPA) and the Department of Interior. Meanwhile, USTR could focus on doing what it does best—negotiating to achieve these policies at the multilateral level.

Fifth, the Executive Order issued by President Clinton last November mandating environmental reviews of certain trade agreements is a positive step for our country's trade policy process. But we are withholding judgment on the value of the reviews because of a number of gaps in the administrative guidelines that the Administration will likely soon release. Most important, the guidelines do not ensure that the public will have access to negotiating proposals and texts needed in order to gauge the adequacy of the review. In addition, we are concerned that the reviews will: (1) not include sufficient participation and oversight by environmental agencies; (2) not be applied to significant negotiations such as the WTO built-in agenda negotiations in services and agriculture; and (3) not adequately address global and transboundary impacts of trade.

Finally, but far from least, any trade negotiating authority adopted in the next session should ensure a more democratic domestic policy process, including a significant and meaningful oversight role for Congress. Adoption of a closed rule for trade agreement approval before negotiations have even begun provides far too little opportunity for Congress to ensure that its statutory negotiating objectives have been met. Any trade negotiating authority legislation should also include the above proposals for publication of texts, opening of advisory committees, and a proper inter-agency role for environmental agencies.

ENVIRONMENTAL IMPACTS OF TRADE

Together, the reforms we have outlined will increase avenues for meaningful public input, ensure that government agencies charged with enforcing environmental regulations have a larger role in setting US trade and environment policies, and ensure that the regulatory impacts of trade policies are regularly assessed. But the success of reform in the policy process will ultimately be measured by the trade negotiating positions the United States takes on trade and environment matters and the agreements that result. In the coming year, our country's ability to create a balanced approach to trade will be tested in WTO negotiations, FTAA negotiations, difficulties with the Chapter 11 investment provisions of NAFTA, renegotiation of the U.S.-Canada Softwood Lumber Agreement, and Congressional approval of a trade agreement with Vietnam.

As we engage these challenges, we should keep in mind the central goals of a trade policy that fully incorporates environmental objectives. As an overarching principle, we should ensure that increased trade itself does not overwhelm the environment. For example, we must address the environmental effects of dramatically increased international transport. Numerous invasive species, including the notorious zebra mussel and most likely the highly destructive Asian swamp eels described in a Wall Street Journal article last week, have entered our country aboard international cargo ships and are causing substantial ecological damage. Dredging to create deeper international ports in the United States, often at taxpayer expense, has also led to serious harm to ecosystems. And cargo ships, which transport 95%

of the commercial goods imported to the U.S., create significant quantities of air pollution. Ocean-going ships produce 14% of global nitrogen emissions and 16% of global sulfur emissions from all petroleum sources. Within the U.S., additional highways like the "NAFTA Mexico-to-Canada" highway raise a number of environmental concerns. Before the environmental damage becomes too great, our nation's trade policy must address these hidden and unpaid-for costs—what economists frequently call externalities—of international trade.

Our trade policy should also guarantee that trade agreements help in lifting environmental standards and protections, rather than creating incentives to lower them. Dramatic increases in foreign investment around the world require efforts to ensure that both countries and multinational investors act to promote upward harmonization in environmental policies. The continued intensification of industrial pollution in the U.S.-Mexico border area demonstrates clearly the importance of addressing these issues. We should consider new approaches, such as including in trade agreement environmental right-to-know provisions for multinational investors and countries.

And we must also ensure that our trade policies do not undermine environmental laws and regulations, including both national and multilateral protections for the environment. Unfortunately, recent trade agreements, particularly NAFTA and the Uruguay Round of GATT, permit significant challenges to environmental policies. We may face the unfortunate reality next year of revisiting both the Shrimp-Turtle and Tuna-Dolphin cases in the WTO, where even scaled-back measures by the U.S. to protect dolphins and sea turtles may face further challenges under GATT rules. Meanwhile, suits brought under the investment provisions in NAFTA's Chapter 11, which permits private investors to sue governments in secret tribunals, are the latest reminder of the threats that trade agreements can pose to domestic standards; I will return to this issue later.

REFORMS FOR TRADE POLICY

Introducing environmental goals into our country's trade agenda requires not only rhetorical appeals, but also a determination to change concrete policies. In the case of the WTO, we believe that fundamental reform must be undertaken in the coming year before the launch of any new round of negotiations. The WTO's establishment dramatically expanded the issues covered by international commercial rules to include domestic policy. Reforms are needed to prevent these rules, particularly those concerning non-tariff trade measures, from placing limits on the regulatory discretion of national governments and thereby undermining environmental and health and safety protections. The WTO must also increase its transparency and public participation by permitting civil society organizations to participate in and observe dispute settlement proceedings. In addition, both civil society organizations and developing country governments should be granted a greater role in the development of agreements. If these reforms are not undertaken, worldwide public unease with the WTO's agenda will continue.

We are also concerned about the de facto WTO negotiating round that is already underway before the public has been able to understand its consequences. Under the rubric of the WTO "built-in agenda" on services and agriculture, which together represent approximately 50% of the world's economy, the WTO is steadily moving negotiations forward without any increase in transparency or public participation. In the area of services, we are particularly concerned that the negotiation of new disciplines on domestic regulation may limit the right of governments to impose needed environmental protections in their service sectors, possibly including oil and gas extraction. With regard to agriculture, we are troubled by USTR's continued insistence in negotiations on imposing disciplines on the regulation of genetically modified organisms (GMOs). GMO foods have recently been subject to increased questioning due to the detection of genetically modified corn that was unapproved for human consumption in grocery store products. Tests conducted by Friends of the Earth determined that such unapproved corn was present in Taco Bell taco shells distributed by Kraft.

Negotiations of the Free Trade Area of the Americas Agreement are also moving forward rapidly without meaningful opportunities for public participation. Plans for the FTAA are extraordinarily ambitious in geographical scope (34 countries from Canada down to the Southern Cone of Latin America) and legal scope (a full trade and investment agreement along the lines of NAFTA, with rules on issues ranging from trade in goods, to intellectual property rights, to investment and services). A consolidated draft text of the agreement is expected to be completed by the end of 2000, and negotiations based on this draft text will get underway at a meeting of trade ministers in Quebec City in April 2001.

Unfortunately, as I noted earlier, the U.S. has joined in agreeing to terms of reference for the negotiations that prohibit the release of any negotiating proposals or draft negotiating texts. We are also deeply disappointed by what appears to be the virtual exclusion of environmental matters from all phases of the FTAA negotiations and the potential for an agreement that retreats significantly from the already minimal environmental and citizen participation provisions of NAFTA and the accompanying North American Agreement on Environmental Cooperation. The Committee of Government Representatives on Civil Society has utterly failed to provide an effective channel for the concerns of environmental organizations. Unless the current situation changes quickly, the FTAA negotiations have the potential to create a trade agreement that will be opposed by a wide range of non-governmental organizations. Congress should not grant trade negotiating authority for negotiation of the FTAA until significant reforms in the process have been made and progress has been made in incorporating environmental concerns.

Another significant area of environmental concern for the coming year involves international investment agreements, particularly due to the recent set of cases brought under NAFTA's Chapter 11 investment provisions. In the Methanex case, a Canadian company is suing the U.S. for \$970 million in compensation because of California's decision to ban the use of a gasoline additive that poses serious health risks. We hope that the outcome in this case will not be foreshadowed by the recent Metalclad decision, in which a NAFTA tribunal ruled against a Mexican locality's attempt to prevent the processing of hazardous waste in its community. While the case turned on several issues, we are particularly concerned by that panel's statement that efforts to establish a protected zone for endangered cactus constituted a regulatory taking under the terms of NAFTA. In order to prevent the future use of Chapter 11 to undermine domestic environmental laws and regulations, and in order to force investment dispute proceedings into full public view, we believe that the U.S. must either renegotiate Chapter 11 or negotiate an interpretive note for its provisions as soon as possible. In addition, the U.S. should refuse to negotiate investment provisions at the FTAA that will permit assaults on environmental laws and continue the practice of closing dispute proceedings to public scrutiny.

A missed opportunity and a significant achievable opportunity on trade and environment issues will also be on the U.S. trade agenda next year. The failure of the trade agreement signed this past July with Vietnam to address environmental concerns was an extremely unfortunate lost opportunity. The agreement is particularly disappointing given Vietnam's ranking by a World Economic Forum task force as having the lowest environmental sustainability rating of 56 countries examined. The renegotiation of the U.S.-Canada Softwood Lumber Agreement (SLA) is a critical opportunity for trade policy to play a positive role in protecting the environment. The SLA sets tariff-rate quotas on Canadian lumber imports into the U.S. in order to compensate for the de facto subsidies that Canada provides to lumber companies in the form of extremely low stumpage rates. The U.S. should urge the Canadian government to enter negotiations quickly so that they can be completed before the expiration of the current agreement on April 1, 2001, and the U.S. should ensure that environmental and forest protection will be central in determining the terms of the agreement.

CONCLUSION

Let me conclude today by saying that our country has a long history of efforts to protect the environment, and I believe we can and must incorporate that environmental legacy into our trade policy. Congress may once again face the question of Presidential trade negotiating authority next year. Our long-standing position has been that trade negotiating authority should include clear and meaningful environmental negotiating objectives aimed at protecting and restoring both the U.S. and the global environment, and that the negotiating authority should also include procedural means to ensure that these objectives are met. In conjunction with the other critical reforms in U.S. trade policy that I have described, a new kind of trade negotiating authority could build an important link between our environmental needs and our trade policy. If significant reforms in our country's trade policy are not made, however, then the quality of life will decline for many and the environment will continue to be degraded. Friends of the Earth will be left with no choice, then, but to oppose the Free Trade Area of the Americas and other such agreements.

PREPARED STATEMENT OF R. THOMAS BUFFENBARGER, PRESIDENT, INTERNATIONAL ASSOCIATION OF MACHINISTS AND AEROSPACE WORKERS

Mr. Chairman, Members of the Committee, thank you for this opportunity to present the views of the International Association of Machinists and Aerospace Workers—the IAM—on this exceedingly important and always timely topic. The IAM represents over 700,000 workers in North America in a variety of commercial and defense-related industries, including aerospace, transportation, electronics, automotive, wood working, and ship building and ship repair. We welcome this opportunity to voice our concerns about the serious failures of our current trade policy and to offer suggestions for a new trade policy directed at improving the lives of U.S. workers and their families.

IAM members develop and build the most technologically advanced equipment in the world and are, in large part, responsible for making the U.S. manufacturing industry so successful. Our members clearly understand the importance of a healthy world economy because of the global demands for the products they make. They know that a world economy built on a framework of strong, responsible regulations that include effective enforcement of internationally recognized labor standards will lead to greater exports of the goods they produce. They also know that under the proper conditions these exports can create more manufacturing jobs, higher wages, better schools and greater communities at home.

IAM members also know that a global economy that turns its back on workers is fundamentally flawed and will fail. Corporations and governments that ignore fundamental human and labor rights do so at their own peril because, among other things, they are ignoring the basic building blocks of democracy.

The IAM is the largest U.S. union in the defense industry. Our members also know that a trade policy that enables private companies to transfer machine tools and technology that they developed to other countries that may pose a threat to our national security is a trade policy that is not in their best interest.

For the IAM, the question is not whether we will have a global economy. That is a question that was answered years ago. For us, the real question is what kind of global economy will we have?

- We cannot have a global economy that is built on outdated, backward-looking ideas of exclusion.
- We cannot have a global economy that pits workers in one country against workers in other countries.
- And we cannot have a global economy that is negotiated by a very few representing only the elite.
- We must have a global economy that includes everyone's interests.
- We must have a global economy that is based on international rules that will raise the standard of living for all of the world's citizens.
- And we must have a global economy where workers are directly represented at the negotiating table.

Almost one year ago, over 10,000 IAM members participated in the peaceful demonstration held in Seattle. With our coalition partners of environmental groups, NGOs, and workers from developing countries, we sought to educate the world's trade ministers that global trade rules that leave workers out in the cold must be rejected. Since Seattle, protests have occurred throughout the world as the demand for openness and inclusiveness in all trade agreements, trade organizations, and international financial institutions has turned into a groundswell.

Our current trade policy is built on a tired, old framework and it must be rejected. Our challenge is to build a trade policy based on inclusion, not exclusion; on transparency, not secrecy; and, on lifting up all the world's citizens, not pitting workers in one country, one state or one community against workers in other countries, other states and other communities.

I have the following suggestions for meeting these challenges:

To begin, trade agreements and trade organizations must be based on basic elements of "fairness."

First, they must incorporate internationally recognized labor standards as specifically reflected by the International Labor Organization's various Conventions. These standards must be acknowledged, adopted and effectively enforced at the core of every U.S. trade agreement and at the core of every trade organization or trade body. Second, they must be strengthened to eliminate measures used by other countries to compel the transfer of our jobs and technology to them in return for market access.

Universal adherence to internationally recognized standards is not only a moral and ethical issue, it is also an economic issue that goes to the very heart of the

world's trade policies. These standards, which include the right of workers to form their own unions, to engage in collective bargaining, and prohibitions on child labor, forced labor, and discrimination, are, as mentioned, fundamental to democracy. The fact that one country does not recognize or enforce rights to freedom of association, collective bargaining, a livable wage, safe and healthy work places, and does not honor international prohibitions against discrimination, child labor and forced labor will be major factors in a company's decision to transfer work out of a country where international standards are recognized and enforced. They will also be major factors in their decision to import goods produced by exploited workers who have no right to form their own union and no choice but to work for low pay and under despicable conditions.

Without universal acknowledgement, adoption and enforcement of these and other rights, the world will engage in a "race to the bottom" as stiff competition from other countries forces U.S. workers to sacrifice their rights in the name of "flexibility" or "international competitiveness."

Effective and enforceable internationally recognized labor standards are trade issues and should be treated as such.

Trade agreements must also eliminate the practice that many countries use against the United States to force the transfer of production and technology to them in return for sales by using "offsets." Offsets, both voluntary and involuntary, in both defense and commercially related industries have resulted in the loss of thousands of U.S. manufacturing jobs to other countries. Currently, little, if any, regulations regarding offsets exist either in international trade agreements, or in domestic regulations.

The transfer of technology through the use of offsets also presents an issue of national security.

Regardless of whether they are related to offsets, transferring valuable and sensitive technology to other countries may imperil our national security by giving other countries much desired access to defense related equipment. Under one arrangement, McDonnell-Douglas sold machine tools to the China National Aero-Technology Import and Export Corporation to be used for production of commercial aircraft. Some of the tools, however, were transferred to a factory in Nanchang known to produce Chinese military equipment.

The threat to national security is not limited to the transfer of technology to other countries. At the same time we are transferring valuable technology developed by IAM members and paid for by U.S. taxpayers, we are also downsizing our workforce and hence limiting our future ability to produce products for our own defense. Do we really want to be dependent on other countries for our national defense? For U.S. defense workers who's loyalty and contributions to our national security cannot be questioned, this is especially a bitter pill to swallow.

I also strongly recommend that our trade policy not be negotiated in isolation from U.S. domestic policy.

We must develop a coherent, comprehensive, industrial policy that will secure the hopes and the dreams of U.S. workers and their families by placing U.S. employment at the forefront of any of our trade policies.

The introduction of an "Employment Impact Statement" could help. These statements could be required of any corporation who has applied for federal assistance or approval for trade-related programs. Such a statement would provide companies the opportunity to declare how their projects would assist in the creation of new manufacturing jobs in the U.S. if they were awarded such assistance. The concept of impact statements are nothing new. We've used them for the environment and the time is right to use them in the employment setting as well. U.S. taxpayers should know if their money is being spent to support jobs at home or if it is being used to support jobs in other countries.

In addition, we must enact labor law reform. A recent international survey noted that "—at least one in 10 union supporters campaigning to form a union is illegally fired." The report also noted that "—recent surveys of employers with impending negotiations have found that upwards of 80 percent are committed to, or are contemplating, replacing workers if they can't get a deal they like."

Under current law, during an economic strike, dismissal of strikers is banned but many employers hire "replacement" workers. The use of permanent replacements is practically indistinguishable from dismissal and I am hard pressed—as I believe you would be too—to explain the difference to our members who are engaged in a strike. If U.S. corporations are not responsible to workers at home, how can we trust them to be responsible to workers in other parts of the world?

A third area of recommendations concerns the process for negotiating and implementing trade agreements and the activities of international financial institutions.

Negotiation for all trade agreements and all trade organizations must be transparent and inclusive. Negotiations for current trade agreements and the deliberations of trade bodies such as the WTO and international financial institutions such as the International Monetary Fund are essentially conducted behind closed doors. This can no longer be tolerated. In addition, labor needs a seat at the table. We know the effects current trade agreements and trade organizations are having on workers and we have much to contribute. The work of such organizations should be made visible and accessible so that U.S. citizens can see how their interests are being considered.

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The current system doesn't work. Workers and their families should not have to look over their shoulder every day as one more worker, loved one or friend loses their job because a company has fled U.S. soil. We must have a trade policy that is inclusive not exclusive, that is transparent not secretive, and that seeks to lift people everywhere, from Minnesota to the Maquiladoras, from Sioux City to Shanghai, to the highest possible levels, not make them compete with one another in a never-ending race to the bottom. If this occurs, we all will suffer. For when the wages of workers in Sioux City are the same as the wages for workers in Shanghai, when the wages of workers in Duluth are the same as the workers in the Maquiladora region of Mexico, who will be left to buy U.S. manufactured goods that we take such pride in making? What will happen to the communities that were once lively and prosperous? We need to find a better way before it is too late. This is our challenge.

**PREPARED STATEMENT OF ROBERT D. HORMATS, VICE CHAIRMAN
GOLDMAN, SACHS (INTERNATIONAL)**

Mr. Chairman and members of the subcommittee,

It is a great pleasure for me to appear before you this morning. I commend you for your foresight in holding this hearing to consider the trade policy challenges that the United States will face in 2001.

In the rapidly changing global economy of the 21st century, constructive American leadership of the international trading system remains as essential as it was for the last 50 years of the 20th century. If the US fails to lead effectively there is a high risk that the process of opening international markets through global negotiations—a process that the US has championed since World War II, and which has proved enormously beneficial to this country—will be stalled for years to come. If that were to happen the prospects for expanding opportunities for American products and services in many of the world's fastest growing foreign markets would be diminished. The future prosperity of tens of millions of Americans and many of this country's most competitive industries would be put in doubt. And the growth potential of most of the world's developing countries would suffer a major setback. The chances would grow that festering trade disputes could overtime undermine political relations among nations and weaken the fabric of security cooperation.

There are many trade policy challenges before the US in 2001. I would like to discuss five to which I attach special importance:

First, the need to make a strong case to the American people that additional efforts by this country to negotiate expanded trade and investment opportunities around the world, and shape new rules tailored to a changing global economy, are in this country's economic and political interest. In light of recent protests against trade and globalization, there has been a tendency to be defensive in making this case.

We now need to be bolder about making it even as we address the domestic concerns of those who feel threatened by increased international and domestic competition.

Second, to also make the domestic case that American leadership is essential to achieve the above objective. Without US leadership there will be little if no progress toward a more open global economy or improved rules—and there will be a greater risk of a reversal of progress already made.

Third, to secure passage of fast track authority, or equivalent legislation, which is essential for the US to exercise that leadership.

Fourth, to develop a comprehensive strategy to put in place domestic policies that help Americans to avoid the disruptive affects of rapidly changing technologies and intensified domestic and global competition, while also equipping them with the skills needed to compete effectively in the new knowledge-driven global economy. Action on this front is needed to secure the necessary domestic support for sustained American leadership in the world economy. In a parallel effort we need to encourage other nations with strong anti-trade and ant-globalization constituencies to take similar actions so that they feel more confident about future trade negotiations.

Fifth, to develop fresh international approaches to new issues on the global trade agenda. These include anti-trust and e-commerce. We should do this while pressing for more progress on subjects left over from the Uruguay Round, such as agriculture.

Other issues will also require attention in 2001. First, there is the possibility of downward pressure on the dollar due to market concerns about the large and rising US trade and current account deficits. And there is a need for the global community to come to grips with the growing number of regional and bilateral trade agreements that collectively weaken the most favored nation (normal trade relations) principle on which the GATT and WTO were based.

The US will also need to recognize that there has been a significant change in the attitude of emerging economies toward the trading system. Countries such as India and Brazil are already asserting their influence in the WTO. China's entry will further galvanize the emerging economies to play a stronger role. So the days when the US and EU could largely call the shots in that institution are numbered—and greater efforts will be needed to develop a consensus, or at least a mutual understanding, with emerging economies on key issues if progress is to be made. It should be noted that these countries are strongly opposed to commitments on the environment and workers rights that many in the industrialized countries are pressuring for, so an acceptable compromise on these issues is likely to be increasingly difficult. Because multilaterally agreed rules backed by sanctions on such subjects will be hard if not impossible to negotiate, fresh ways will need to be found to use market forces to promote these objectives—e.g. environmental labeling and public information about work conditions.

The US and EU will also need to face up to the damage that their mutually litigious approach to trade disputes is doing to the WTO and to the trading system in general. Both have far more trade interests in common than they do differences. Yet judging by the constant and highly visible spats they have engaged in over the last two years that would not be apparent to the outside observer. There will need to be a significant effort in the next administration—and in the EU Commission as well—to work out a basis for a more harmonious trade relationship between the two if there is to be a real chance of progress on major trade matters. The just announced agreement on a way to handle the dispute over FSCs could point the way to a reasonable solution to that thorny issue and possibly set the stage for further accommodation. The willingness of the US to support the Euro should also help to improve the atmosphere for improved cooperation on trade.

THE TRADE ENVIRONMENT TODAY

Any attempt to forge US trade strategy for the future must acknowledge the hard reality that American trade policy today, despite the best efforts of many in the administration and the Congress, has lost momentum and direction. There are several reasons for this. One is lack of a political consensus on whether the US should take new initiatives to expand export opportunities if those also require the further opening our domestic market to foreign products. Another is the ongoing and unresolved debate over the proper role of US trade policy in advancing the cause of improved labor, human rights and environmental standards in other countries.

Meanwhile, with US trade policy stalled, other nations are not sitting still. On the contrary, they are negotiating agreements among themselves to expand bilateral or regional trade. Since 1994, when US fast track authority expired, other nations have concluded over twenty significant bilateral or regional agreements; in so doing they have lowered barriers among themselves while retaining previous barriers to the products of the US and other outsiders.

The longer the US sits on the sidelines, the greater the danger that the rules and standards of the trading system of the 21st century will be shaped by others, or that ad hoc practices, rather than well thought out and internationally agreed rules, will prevail. For American policy makers the choice is not whether this country will be a major participant in the global economy. It will continue to be the dominant factor in that economy because of the size of our market, the power of our companies and the dynamism of our technology. The real choice is whether our government will

play a constructive role in shaping the new rules of the global economy in this new century or, by abdicating our leadership role, will allow others to shape those new rules or will leave the global system of the early 21st century to emerge without a coherent set of rules and standards of behavior in many important policy areas.

FUTURE NEGOTIATIONS

America's next major trade challenge does not involve a negotiation with any other nation. The next major challenge we face is here at home. Those of us who favor a more open global trading system, and updated rules to improve the competitive environment for American goods and services must make the case to the American people far more effectively than we have made it in the recent past. The case lies primarily in presenting clearly and effectively the demonstrable evidence that expanding trade, investment and technology flows fosters economic growth and rising living standards at home and abroad. They broaden access to markets, incentivize entrepreneurs, increase the range of choice for consumers and introduce new ideas, new technologies, and new methods of production in the US and around the world. Expanding trade is not a panacea for economic progress, but without it increasing growth and improved employment opportunities are far more difficult to achieve for any nation—including our own.

Expanding trade opportunities requires coherent and focused American leadership—leadership of the global effort not only to further open foreign markets but also to foster rules and practices that support and reinforce open markets. No major global trade negotiation is likely to be initiated, or be successful, without American leadership. If the US opts out of global leadership, other nations will either explicitly or implicitly (through their own domestic policies or practices) make the rules—or old rules will prevail that could be detrimental to US interests. This does not mean America will be powerless in this process. It does mean that American influence will not be as great as it could or should be—and that the ability of other nations to take initiatives that serve their own interests, and not necessarily those of the US, will be considerably enhanced.

In such circumstances, many sectors of the US economy will pay a price. For example, the spread of new technologies or new services of US companies could be impeded by new foreign barriers or regulations.

Conflicting national policies or regulations could Balkanize e-commerce. Regional trade agreements are likely to proliferate or deepen, benefiting others at the expense of the US. Farm products will continue to encounter barriers and subsidies.

The next legislative step forward for the US to regain its traditional leadership position is to pass "fast track" legislation. For those who prefer to call it something else, its name might be changed to "credible negotiating authority" ("CRA"). Whatever it is called, without it America's trading partners will not regard this country as serious in the pursuit of expanded global trading opportunities. And the US will be the loser, because we then give others the excuse to continue practices and policies detrimental to US interests. Even if there were a negotiation, no country would want to put its best offer on the table in the round itself, fearing that Congress would force America's trade negotiators to go back to the table for endless additional negotiations.

To obtain fast track authority, its supporters should move from a defensive to an offensive strategy. Fast track is not, as critics charge, undemocratic nor does it circumvent the authority of the Congress. As this committee knows well, members of Congress have a voice at virtually every stage of a trade negotiation and can use that voice to exert considerable influence on US trade negotiators. Any administration will recognize the necessity of sustained engagement with the Congress to avoid the product of their negotiations being rejected when it comes up for a vote. And there is also an ongoing consultative process with representatives of domestic business, labor, NGO's (on an increasing basis) and state and local governments who have an interest in items under negotiation. In the end, of course, Congress can simply vote the deal down if it sees fit.

The legislative trade agenda must be supported by a domestic agenda that reinforces and expands programs to improve education and training—along with other policies that allow workers to adapt more easily to changes in technology and shifts in domestic or international competitive forces. In my view the single most important step the US could take to strengthen domestic support for American leadership in the global economy and for trade expansion is to dramatically improve education and training in this country. And the US business community, which has such a great stake in open trade and investment, should be the biggest champion of such improvements.

History provides powerful lessons as to what happens when a country fails to provide adequate education for its children. In the mid-19th century, Britain, having pioneered the industrial revolution, was the dominant force in the global economy, as the US is today. But Britain's elites made a near fatal error; they failed to recognize the need to educate the children of the country's poorest citizens to meet the job requirements of the new factories that would drive the industrial revolution in the early 20th century. Their failure to educate these children led to a period of prolonged economic weakness, enormous social divisions and ultimately a loss of military competitiveness to rivals such as Germany. For the US the message is clear. We will find it increasingly difficult to maintain our competitive strengths in the world economy unless we provide far better education and training to a larger and larger portion of our citizens.

That can help those in our society who now see the information-driven economy of the 21st century as a threat to see it instead as an opportunity. If large numbers of our citizens do not have the tools to succeed in the more competitive environment of the early 21st century they will resist change and will press their representatives in the Congress to resist global trade initiatives.

In addition, greater efforts must be made to improve other areas of worker empowerment. The Democratic Leadership Council had put forward a number of proposals in this area. These include: access to portable health insurance, social security reform and universal adoption of portable pensions, tax incentives to increase long-term savings, and performance-based compensation and equity sharing.

These are worthy of priority consideration by the next Congress.

THE NEXT SET OF ISSUES

The next question is when, how and indeed whether to launch a new negotiating round. Already negotiations are mandated in three areas. The Uruguay Round mandated negotiations on agriculture to "continue the reform process . . . of substantial progressive reductions in support and protection." This negotiation is supposed to be completed by 2004—when the so-called "peace clause" expires. Also, there is agreement in GATS (General Agreement on Trade In Services) to further liberalize trade in services and improve rules on subsidies, safeguards and government procurement. These topics will be less controversial than agricultural trade, but unlike in agriculture there is no deadline to drive progress. And the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) mandates new negotiations on a limited number of issues.

A key question is whether to launch a new round with large number of items on the agenda or to conduct individual, or linked, negotiations on the items mentioned above and a few more. The EU has supported a broader agenda for a new round. It argues that it needs to obtain extensive concessions from its trading partners on items other than agriculture in order to be able to make the concessions on agriculture which the US and many other agricultural exporters demand. But the EU has appeared to be unwilling to offer much on agriculture to induce concessions by others in other areas. Its stance also has aroused suspicion in Washington that it has ulterior motives in wanting a broader round with many controversial items on the agenda, e.g. anti-trust. That formula, they charge, would allow the EU later to justify not giving any concessions on agriculture on grounds that other countries were not making sufficient concessions in these areas.

The broader question is whether it will be possible to establish the political basis for a major new multi-issue, multi-sector negotiating round. For the time being the prospects are dim. In part, this is because of the difficulty of reaching agreement on tradeoffs to ensure major EU concessions on agriculture—if in fact sufficient tradeoffs exist to change deep-seated political support for current EU policy. But is also because in many cases the goal should be to reach sensible sectoral solutions that stand on their own—i.e. are not amenable to changes as the result of tradeoffs in other sectors. For example, it would be hard to defend taking a less rigorous approach to protection of intellectual property merely because another country further opens its market for a specific product or group of products.

And in the US the chances are greater that the next president will be able to get Congressional support for sectoral negotiations of finite scope, with clear objectives, than for a broader set of negotiations with a less clear outcome or focus. This domestic constraint will be particularly important as we move toward negotiations that penetrate deeper into domestic policy, especially on regulatory matters. When negotiations were about providing increased access to the US market for a priority foreign export in return for increased access for a priority American product in a foreign market, tradeoffs were possible in many areas. But such tradeoffs become difficult when dealing with anti-trust or consumer protection issues. So the top pri-

ority, and most promising near term strategy, would be to organize a series of parallel or sequential sectoral negotiations under the umbrella of the WTO. These would include those already mandated (e.g. agriculture) and others (e.g. talks to ensure an open and minimally regulated environment for the Internet and e-commerce).

INTERNET AND E-COMMERCE

Issues related to the Internet and e-commerce pose challenges for future negotiations. Some of these items can be taken up in the GATS negotiations already scheduled. The Internet makes cross-border provision of services—such as advertising, accounting, banking, communication, data processing and software—more immediate and feasible than conventional modes of delivery. GATS negotiations provide a good opportunity to reinforce rules on national treatment and increased market access in such areas.

But this approach presents complicated issues as well. The EU asserts that "all electronic transmissions consist of services" and it would like the items in this area to fall under the GATS. But going that far could mean that treatment of some digitally transmitted e-commerce items, such as books, movies, music and software would be less liberal than if they were delivered in hard copy—because market access under GATS covers only areas in which members have made specific commitments.

Other issues can be taken up by an e-commerce "work program." That was to have been launched at the ill-fated Seattle Ministerial, along with agreement on the extension of the moratorium on duties on "electronic transmissions" over the Internet. That work program, if revived, could address a broader range of issues such as online delivery of less traditionally exported services such as education, legal services, and medical services. Among other things it could find ways to ensure that domestic regulation and taxation of e-commerce and the Internet do not become non-tariff barriers. More broadly, the Internet is going to affect virtually all areas of international business. Without a consensus on the need to avoid discriminatory, or heavy, taxes and regulations there is a risk that its global character could be jeopardized or that it could be Balkanized by dramatically different national or regional practices.

One particular challenge is to ensure that the private sector continues to play an active role in support of Internet negotiations. The highly technical nature of the Internet, and the newness of the many business and e-commerce models it has spawned, have led to very close collaboration between private sector representatives and governments around the world. In the OECD, for example, private sector representatives played a key role in work on electronic authentication, self-regulatory codes of conduct and taxation. In the Free Trade Area of the Americas talks, the private sector participated as a partner with governments in the Joint Committee of Experts on Electronic Commerce. These relationships should be continued and enhanced.

ANTI-TRUST

One of the most difficult trade issues in the coming decade relates to competition, or anti-trust, policy.

As barriers at the border decline, restrictive business practices are becoming increasingly significant barriers to exporters and investors. Although a great deal of cooperation on this issue exists in practice between the US and the EU, their approaches to future negotiations differ considerably. The EU has urged negotiation of a Competition Policy Agreement ("CPA") that establishes a minimum set of binding standards governing competition policy and enforcement. It believes that this would establish a base for the subsequent progressive harmonization of such rules.

The US is reluctant to accede to a CPA of this type, in particular because of the binding nature of such an agreement. It supports instead a sustained expansion of cooperation among national/regional authorities based largely on bilateral agreements. It also places greater emphasis on strengthening the commitment of regulatory authorities and governments to increased competition within their markets and among economies. It also is wary that a debate on this subject will be seized on by Japan and many developing countries to try to alter US anti-dumping laws.

The challenge will be to craft an agreement that ensures that business practices do not restrict the access of foreign products or investors, or harm the interests of foreign consumers. Such an agreement will only be possible if it does not require the formal harmonization of national policies, but simply attempts to achieve conformity with agreed competition principles.

In this respect, I support Assistant Attorney General Joel Klein's proposal to create a group similar to the OECD to draw up ground rules for vetting mergers. He noted that such a body could and should never become a global regulator, but would rather attempt to set common standards for the growing number (now roughly 80) of national regulatory agencies to follow, and to advise how different agencies could harmonize the character and length of their review procedures.

The Link Between Trade And Financial Issues

One of the more complicated challenges before the international community is to recognize the close interaction between trade and financial issues. These have traditionally been kept separate within the US and most other countries.

Prolonged currency misalignments which tend to lead to large and widening current account imbalances have enormous trade policy implications. Countries with undervalued exchange rates tend to have growing trade surpluses, which can become sources of trade tensions and pretexts for protectionist actions by deficit countries. Countries with chronically undervalued currencies tend to make business investments that might not be competitive at higher (equilibrium) exchange rate valuations; so when the currency strengthens, companies that make these investments are likely to seek protection or subsidies. Countries with chronically overvalued exchange rates often find their competitiveness deteriorating and are subject to financial crisis due to a deterioration of their currency. They are also less likely to attract investment in new plant and equipment—making them less competitive in future years and generating domestic pressure against further trade opening.

In 2001 the US might have to confront pressures on the dollar because of the enormous size and likely continued deterioration of its trade and current account positions. Monthly US trade deficits are likely to be above \$40 billion for some time to come. And the current account deficit has risen from an annual level of \$232 billion in 1995 to roughly \$540 billion now. This means that the US has to import more than one and a half billion dollars a day of foreign investment to finance this imbalance. So far that has been forthcoming due to high returns in the US capital market. But the largest portion of that comes in the form of foreign investment in corporate and US government agency bonds, so the returns on those relative to foreign bonds will need to stay attractive to keep up the flow. Equity investment is less than half of these bond flows but also of considerable importance.

If investment returns in the US market decline relative to those abroad, foreign investors may be less enthusiastic about placing large amounts of new funds in the US and the dollar could come under significant downward pressure. It is, of course, hard to predict when (or even whether) these will happen, but the wider the trade and current account imbalance the greater the probability.

The implications for trade policy are considerable. A sharp drop in the value of the dollar would likely be accompanied by higher interest rates and stock market volatility in this country. These factors would slow growth and make Americans even more reluctant that they already are to support initiatives to further open foreign markets if such initiatives also require the US to further open its markets. And in a general global environment of currency instability, support for new trade negotiations will be very difficult to obtain.

REGIONAL TRADE AGREEMENTS

One of the more complicated challenges for 2001 will be to reconcile the growing number of bilateral or regional free trade agreements with the rules and principles of the WTO. Over the last decade the number of such trade agreements has more than doubled. Virtually all WTO members are now participants in one or more of these agreements. The problem is that this dramatic growth in regional agreements has rendered the Most Favored Nation (now the Normal Trade Relations) principle, the bedrock of the GATT and WTO, the exception rather than the rule.

The GATT built in provisions for signatories to make exceptions to MFN—Article XXIV. This permitted groups of countries to eliminate trade barriers among themselves while maintaining their then current barriers toward non-participating countries. This permitted the creation of customs unions and free trade areas that eliminate duties and other restrictions to "substantially all the trade" between members. It was justified on grounds that the GATT did not want to prevent groups of countries, such as those in Western Europe, from expanding trade among themselves. In fact, this was a major US objective after World War II. Indeed the EEC, now the EU, proved to be the largest of these regional trade groups and the prototype for many other countries. NAFTA and MERCOSUR are also established under this provision.

To better monitor and ensure consistency among regional groups, agreement was reached on the so-called Enabling Clause giving special flexibility to developing countries, and Article V of GATS, which is the services version of Article XXIV.

There have been a number of difficulties in implementing these provisions and agreements. Working parties called for under the GATT to consider the consistency of regional trade agreements with international rules have had difficulty in reaching conclusions. Non-members have often charged that agreements failed to cover "substantially all the trade" and "other restrictions on commerce." The US and the EU have frequently differed over this coverage issue. The US has charged that EU expansion practices were inconsistent with the GATT principle that members of such groups engage in full internal free trade. Absence of free trade in farm products has been a particular irritant. Also there have been differences over "rules-of-origin" practices, which often are seen as unduly biased in favor of members of such groups and discriminatory against non-members.

Agreement was reached in the Uruguay Round on an Understanding on the Interpretation of Article XXIV. And the WTO has established a Committee on Regional Trade Agreements to examine regional deals. However, agreement on roughly 60 agreements remains deadlocked because of disagreement on various provisions.

In the future the broader question is whether regional trade groups will continue to be the driving force in trade liberalization, as they are now—especially in view of the difficulties of the major countries in agreeing on a new global round or mini-round any time soon. If so, does that further undermine the MFN concept and ultimately the role of the WTO? And with the US at least temporarily paralyzed by lack of "fast track" authority, will the products of this country be increasingly disadvantaged in the process? Or will the US, recognizing that proliferating regional and bilateral trade agreements impair its export opportunities, be motivated to take the necessary actions at home and abroad to restore momentum and leadership to the multilateral negotiating process as a counterweight and disincentive to further regional arrangements? Or will it counter other regional efforts by moving more rapidly to initiate and successfully conclude an FTAA? In any case, either such strategy requires fast-track legislation!

CONCLUSION

The growth in the number and scope of regional free trade agreements is but one argument for restoring momentum to the multilateral negotiating process. A major new round does not appear possible for at least a year, and even then it is not likely unless the next president sees a compelling interest in pressing for one (which neither candidate as yet have suggested). A more likely near term scenario is to launch a series of negotiations on specific subjects. But to mount any broader negotiating effort, or to effectively engage in these more specific talks, the administration will require considerably stronger domestic support than exists today.

America's next negotiation needs to be at home, to reestablish sufficient consensus in support of a new international trade initiative. Other nations face a similar task. At Seattle no major country actually had much enthusiasm or much domestic political support for new or ambitious talks on controversial issues. Part of the effort to build support for new trade talks will be a recognition that those who seek to liberalize trade and investment will have to devote more attention to those in society who see themselves as disadvantaged by globalization or see governments as paying insufficient attention to social and human concerns. That will be a joint task for the WTO and member governments.

President Kennedy said of President Franklin Roosevelt that he could be a good neighbor abroad because he was a good neighbor at home. In the future it will be difficult if not impossible for governments to be good or effective global trading partners unless they attend to concerns at home among those who see themselves or others as adversely affected by foreign or domestic competition.

PREPARED STATEMENT OF JEFFREY M. LANG, PARTNER WILMER, CUTLER & PICKERING

It is a pleasure and an honor to return to the Committee. I would emphasize that I am here speaking only for my own personal point of view on these matters.

My assignment is to provide comments on trade priorities for the United States in 2001. I can only fulfill part of the assignment, and given the fact that Bob Hormats is here to shoulder the broader issues, I want to concentrate my limited artillery on only two ideas: U.S. legislation on trade and domestic regulatory policy consensus with our trading partners.

U.S. DOMESTIC TRADE POLICY

The first priority for next year is to develop a domestic policy consensus in this country about where we're going in trade. I can attest from personal experience that the most important foundation of successful trade U.S. negotiations is for the U.S. negotiators to know what their objectives are. Indeed, the organization of the Executive Branch you have mandated by law makes it essential that the Congress actively participate in formulating trade policy.

Fortunately, trade is an area where the differences are not mainly partisan. Therefore, it should be possible to develop such objectives regardless of the outcome of the coming elections. Finally, there is no reason to assess blame for the recent difficulty in arriving at legislation. It has been the pattern over many years that the Congress and the Executive were unable, for several Congresses running, to agree on trade legislation, only to find a consensus after a decent interval. However, it is now fair to say that the decent interval has now passed. The last such broad trade enactment was in 1988; and before 1988, it was really the Trade Act of 1974; and the last before that, the Trade Expansion Act of 1962.

The Trade Act of 1988 has now been fully implemented. Obviously, the two biggest elements of this implementation were the approval of NAFTA and the WTO agreements in the middle of the last decade. You have steadily and consistently approved the expansion in membership of the global system, as you did with China and others recently. The last bits of the 1988 agenda were completed at the multi-lateral level with the achievement of the massive agreements on Financial Services and Basic Telecommunications in 1997.

It is therefore time, once again, to look to the overall objectives for the future.

THE ENVIRONMENT FOR A NEW AMERICAN TRADE POLICY

The practical problem in enacting such legislation is that trade is both more important and much harder to do than in 1988, for several reasons.

First, trade is harder than ever to do because it is more important. Trade is now nearly a third of this economy. Labor leaders and environmentalists care more about trade because it has more of an impact on their jobs and their communities. Trade is now near the top of the President's Briefing Book for almost any meeting of international leaders he attends. It isn't even true any longer that economists believe trade is merely a result; many believe it is or can be a cause of events as well.

Second, trade is also tougher policy to make because the U.S. economy is also greatly different from what it was in 1988. This economy is now geared to international competition. We can no more withdraw from the global economy than we can repeal our antitrust laws.

On the other hand, our farmers and workers have made a tremendous adjustment since 1988. Even so, they cannot assume their competitiveness. Today they are meeting tough competition in the marketplace, and it comes not just from Europe and Japan, but also from a wide variety of countries in Asia, Latin America, central Europe and elsewhere. In general, few American non-agricultural products, services or agricultural products are non-competitive, given fair terms of trade, but it is a tough battle every day, against an increasing number of competitors.

In this situation, it is important for the United States Government to be in the game. Other governments no longer adopt a strategy of reacting to U.S. initiatives. They are initiating all manner of agreements, regionally as well as globally, and they are better at formulating positions and acting on them than in the past.

Third, the world you now confront is dramatically different from the one in which you acted 12 years ago. Of course, there is much more international exchange now than in 1988, but I think the challenge is more profound than that.

In 1988, the Soviet Union still existed. Threats to our security remain, but expansionist Soviet Communism is gone. It is tempting to think that when the Soviet model was removed, there was only one model left standing, U.S.-style capitalism. The truth is that there were always shades of gray between the Soviet and American economic models. Now those shades of gray appear as bright colors, by which I mean, there are a variety of different styles of running economies, other than U.S.-style capitalism.

I don't just mean China. China is just one of many nations and groupings of countries that represent alternative economic models. India is almost as big as China, much more democratic, and in the long run, potentially as important, in my opin'on. The fact that India joined the Information Technology Agreement and is abolishing its state monopoly in insurance are signs that this great nation can move from the corrupt socialist model of the past to policies that promote faster growth, greater environmental and social sensitivity, and more positive contributions to the international system. You can see the early signs of this in India's domestic regulations.

But it gets more complicated.

There are differences between the domestic economic policies of Brazil, which is roughly two-thirds of the economy of Latin America, and those of the United States. These differences directly impact the benefits trade agreements with Brazil can deliver for our people. Moreover, many countries in our hemisphere are searching for ways to accommodate to the policies of both the U.S. and Brazil, because they are both important trading partners for those countries. There are even large differences in economic policies between us and our NAFTA partner, Mexico, which will have to be adjusted in order to achieve the many laudable purposes of that agreement. Therefore, our entire trade policy toward our own hemisphere is impacted by the regulatory biases of nations in the region.

There are even differences between the economic model in the United States and the one in use in the European Union, our partner for many years in making the international trading system work. Despite the huge amount of trade between the U.S. and the EU, the underlying economic models make for different results in attitudes toward trade and trade agreements. Principal among these is the fuller development of administrative procedures in the United States at the federal level and the more profound, if no more sincere, commitment to competition principles in the United States. Moreover, Europe is still in a state of becoming, which creates numerous problems for us. They do not have an analog to fast track, for example, even though they need it in all but the most traditional areas of trade negotiations. They are deeply concerned about their internal constitutional mechanisms and relationships and the impact these will have on Europe's ability to expand. All of these deeply seated preconceptions and biases have an impact on the value of trade agreements with the EU.

I could keep going around the world. None of these players is standing still. They are, most of them, actively involved in exporting their domestic economic models, their regulatory schema, if you will. For example, Europe now has a so-called free trade agreement with Mexico, which I believe will make it harder for the United States to realize the full potential of NAFTA because the EU agreement excludes those areas where adjustment to real free trade in Mexico will be most difficult, such as agriculture. Brazil now has an expanding free trade area in Southern Latin America; South Africa in southern Africa; and many others. The United States cannot fail to play in these contests, because otherwise these agreements will create precedents and lay down principles that will be unfamiliar to our people, which will make it more difficult for them to compete.

United States leadership in this blinding snowstorm of opportunities and challenges will not succeed, in my opinion, by imposing the U.S. economic model on the rest of the world, however successful our model has been here. Instead, you will have to distill what you can of the U.S. model that is essential to the competitiveness of our workers and farmers and communities and then insist that those elements be pursued as negotiating objectives, while assuring that the basic protections against the unfair effects of other economic models do not harm our people and our communities.

I realize that among the most difficult issues for you are sincere concerns about our highly developed domestic regulatory regimes in labor and the environment. In the past, you have insisted basic concepts from these regimes be superimposed on the negotiating objectives of the United States, in programs such as the Generalized System of Preferences.

I do not know the solution that will allow you to move forward on these issues today. I suspect there is no single magic solution. Some of these issues will be the very last issues decided before a conference on the new trade bill is completed. The solutions may involve what Senator Danforth once called a certain amount of "zen." I can only tell you how important it is for the United States to stay in the game going forward.

DIFFERENCES IN DOMESTIC REGULATORY MODELS

This Committee long since recognized that merely removing tariffs and other border measures does not assure either real market access for our exports or real conditions of fair competition for our domestic marketplace. You have, instead, known and been concerned as a committee about the clear differences between the domestic economic model—what I would call "domestic regulation"—in Japan and other countries and the domestic economic policies of the United States. It is now increasingly important that there are such differences between and among many groups of countries. For example, Asian economic policies, often called "Asian values," emphasized personal human relationships over transparent legal regulations. These policies were discredited in the Asian financial crisis 1997 and 1998, and in some countries,

such as Korea, they have been changing. In other countries, they have not changed much at all. As I've already said, there are other models out there, in Europe and Latin America and elsewhere, seeking supporters.

The open question is whether we can address the practical problems presented by differences in domestic economic policies at the international level. If we cannot, then I believe the value of trade agreements will decline steadily, because the agreements will not deliver the market access they promise.

It may help to know that you are not writing on an entirely blank slate in this area of exporting sensible domestic regulatory policies. There is actually a great deal of important consensus on the subject of domestic regulation. Some it is extremely difficult to translate from the sector where it originated, such as the pro-competitive regulatory principles developed for the WTO Basic Telecommunications Agreement. Some of it, such as transparency in regulation, might be easier to transfer as a matter of negotiation, but more difficult to make a practical reality.

What is critical to understand now is that trade agreement language on domestic regulation is important but it is not enough. Domestic regulation (in the sense we mean it in the United States) is hard to do, very hard. It requires tough, well-educated, independent regulators. Think of the problems we have meeting that standard in this country, and then think how difficult it is to meet that standard alone in most countries in the world today. And you need many other qualities to achieve fundamental fairness in regulation beyond good people. Any American businessman will tell you that until that domestic economic model changes, he cannot do business abroad as he does in the U.S.—he must accommodate the reality on the ground, even if it means allowing nationals of a foreign country to own a larger percentage of his overseas operation than their economic contribution would justify, or disposing of a component of his business.

For this reason, your trade policy in this critical area of domestic regulation needs to focus not just on objectives and trade agreement provisions, but on practical means of introducing such regulations. For example, I think you need to assume a pro-active policy of exporting those elements of the American model that are essential to assure fair and open competition among nations. One of these is fair regulation. You can help export that policy by offering expanded technical assistance to developing countries. You can help export that policy by insisting on active negotiating agendas at the bilateral and regional as well as the multilateral levels.

We do not have to have an Administrative Procedures Act adopted in every country of the world to be successful in trade over the next 10 or 15 years. But we can greatly help our own economy if we can assure that certain basic elements of fair and open domestic regulation are adopted abroad. That may involve more than just trade policy, but it surely must be an element of American trade policy going forward.

I am honored by your invitation to testify. Thank you.

PREPARED STATEMENT OF CRAIG THORN, DTB ASSOCIATES, LLP

Mr. Chairman and Members of the Subcommittee:

My name is Craig Thorn. I am a partner at DTB Associates. Our firm represents a number of companies and trade associations with interests in agricultural trade, but I am here today in a personal capacity to discuss the agricultural trade policy agenda for the coming year. Thank you very much for giving me this opportunity.

The views I will be sharing with the Committee are based on eighteen years of trade policy experience in the Department of Agriculture and the private sector.

Mr. Chairman, American farmers and agribusinesses have long recognized that international trade is vital to the economic health of their industry. Government has understood this as well, and both the public and private sectors have dedicated significant resources to various programs designed to improve U.S. export prospects. However, the ability of government and private industry to promote U.S. exports or increase U.S. competitiveness is limited as long as the international market place is distorted by unfair and anti-competitive practices. That is why the trade policy activities of government are so important. It is up to government to develop and enforce trade rules so that American agriculture can take advantage of its natural competitiveness in the international market.

Because farm issues are politically sensitive in countries around the world, agricultural trade problems are always plentiful. However, the coming year will be a particularly critical one for agricultural trade. Among the many issues the U.S. will face, I would like to highlight two—the new round of negotiations under the World Trade Organization (WTO) and the illegitimate use of sanitary and phytosanitary measures and other technical barriers to trade.

THE NEW ROUND OF WTO NEGOTIATIONS

No single development has a greater potential to affect positively the long-term prospects for agricultural exports than a successful round of multilateral trade negotiations under the WTO. Improving WTO rules is the most effective means of disciplining the use of trade-distorting practices by foreign governments.

The United States made significant progress toward strengthening rules and opening markets in the Uruguay Round of multilateral trade negotiations. However, at the end of that round, U.S. negotiators accepted a compromise that, in effect, postponed the achievement of many of the most substantial gains. In order to bring the negotiations to a conclusion, the U.S. accepted an agreement that fundamentally reformed the rules of agricultural trade, but required only modest cuts in subsidies and import protection. However, they demanded and got a "continuation clause," Article 20 of the Agreement on Agriculture (Agriculture Agreement), which commits WTO members to another round of negotiations aimed at further liberalization, beginning this year.

Because the Uruguay Round agreements laid the groundwork for a healthy multilateral trading system in the agriculture sector—a good foundation of rules, plus better compliance and dispute settlement mechanisms—the U.S. will be able to concentrate in the new round on achieving substantial reductions in trade-distorting subsidies and import barriers. The stage is therefore set for significant gains for U.S. farm exports.

The failure of the Ministerial Conference at Seattle last year was especially disappointing for U.S. agriculture. Fortunately, however, the WTO has shown considerable resilience. Trade diplomats from WTO Member countries put the pieces back together and moved ahead with the "built-in agenda"—the negotiations on agriculture and services that were mandated under the Uruguay Round agreements. Member countries worked out a means of beginning the negotiations in those two sectors using existing structures, the Committee on Agriculture and the Services Council. The Agriculture Committee has now held three special negotiating sessions, the most recent of which took place last week in Geneva.

In my opinion, the negotiations have gotten off to a good start. This is primarily because the U.S. showed appropriate leadership by submitting a solid, comprehensive proposal in the first substantive meeting of the Committee last June. That proposal helped set the tone and establish a direction for the Committee's work, and it made U.S. ideas the focus of attention. It also provided a basis for cooperation with other countries that share U.S. interests in agricultural trade liberalization. It is crucial that the U.S. maintain this leadership position and resist going on the defensive by focusing on short-term interests.

The first year of any multilateral negotiation is mainly preparatory. Countries present their initial negotiating proposals, debate those proposals and form coalitions. Negotiators develop the ideas and concepts that will form the basis for the final agreement. All of this can take place despite the absence of a full-fledged new round of negotiations.

At the same time, I want to stress the critical importance of the eventual launching of a comprehensive round. While the agriculture negotiations can begin on their own, it is highly unlikely that they could ever be concluded on their own. For that we need a much larger package that will meet the needs of all countries and allow our more reluctant negotiating partners to justify the concessions they will have to make on agriculture.

NEGOTIATING AUTHORITY

Moreover, U.S. negotiators will never be able to conclude the round without the proper negotiating authority—that is, without fast track legislation. Thus far, the absence of fast track—or traditional trade negotiating authority, as we now call it—has not had much of an effect on U.S. negotiating leverage. However, the further we progress into the negotiation, the more critical that authority will become. No country will be willing to conclude a deal or to show the full extent of its flexibility as long as there is a chance that the Administration could be forced by Congressional amendment to renegotiate. I therefore believe that Congress should make the passage of legislation to grant traditional trade negotiating authority a priority in 2001.

Fast track will be of little use to negotiators, however, if it is accompanied by conditions—e.g., relating to labor standards or environmental protection—that our trading partners find unacceptable. I would urge Congress to avoid saddling the WTO negotiations with inappropriate burdens and instead to address such legitimate non-trade issues in the appropriate international fora.

THE U.S. NEGOTIATING AGENDA

Since the agriculture negotiations are about to begin, the U.S. is in the process of developing its negotiating agenda. As I indicated, most of the elements of that agenda should be self-evident. The primary focus should be on achieving the elimination of export subsidies and substantial reductions in trade-distorting domestic subsidies and market access barriers.

Export subsidies: The number one negotiating priority for the U.S. in the Uruguay Round was to discipline the use of export subsidies. We tend to forget the circumstances that made that goal such an urgent one. From the initiation of the EU Common Agricultural Policy in the 1960's, we had experienced a steady and dramatic rise in subsidized EU exports. By the mid 1980's the EU had taken a major share in world markets for nearly every temperate-zone agricultural product. The obvious inequity of this situation focused world attention on the need for international discipline.

The Uruguay Round outcome was a clear success in this regard. The European share of world markets is declining across the board. For example, EU exports of wheat and wheat flour in marketing year 1992/93, before they adopted the policy changes designed to allow them to accept a WTO agreement, were nearly 24 million tons, or 24 percent of the world market for wheat. Next year they will be limited by their WTO commitments to 14.4 million tons, a 14 percent market share. Reductions are less dramatic for other commodities, but still significant. Subsidized pork exports will decrease from 560,000 tons to 440,000; beef from over 1 million tons to 820,000 tons; and cheese from 406,000 to 321,000. The EU is being forced to make domestic policy changes in order to meet these commitments.

Of course, subsidized EU tonnage is still substantial. Our goal in the next round should be the complete elimination of export subsidies. Given the negotiating context, I believe this is a realistic and achievable goal.

Market access: In the long run, the greatest benefits for U.S. agriculture will come from reductions in import barriers. Fortunately, the market access negotiations in the new round should be much less complicated, and more productive, than in the Uruguay Round. In the Uruguay Round, negotiators focused mainly on eliminating the non-tariff barriers that were so common in agricultural trade at the time. These barriers—import quotas, variable import levies, discretionary licensing systems, and so forth—were converted under the Agreement to tariffs, which were “bound” (that is, countries committed not to raise them above specified levels) and then reduced, along with pre-existing tariffs, by an average of 36 percent. Because tariffs in the agricultural sector were in many cases so high, market access gains from the tariff reductions have been limited. There are, however, some notable exceptions. For example, reductions in Japan’s import duty for pork turned that country almost overnight into the largest export market for U.S. pork producers. Korean agricultural imports increased overall by more than fifty percent in the first year of implementation of the Agreement.

Because non-tariff barriers were eliminated in the Uruguay Round, U.S. negotiators will be able to focus on the magnitude of tariff reductions and the methodology for achieving those cuts. American interests would be best served by a “formula” approach, which brings down duties on all products, rather than a request/offer approach, which would allow countries to avoid reductions for sensitive products or product sectors. A formula approach will bring meaningful liberalization where it matters most, while a request/offer negotiation would lead inevitably to a small outcome.

Domestic subsidies: The achievements in the Uruguay Round with respect to domestic subsidies were more modest. The twenty percent reduction in support on a sector-wide basis left countries with significant flexibility with respect to individual products. Moreover, the Agriculture Agreement contains large loopholes, in particular the so-called “blue box” (Article 6.5), which allows EU direct payment programs to totally escape reduction commitments.

The U.S. would benefit from much tighter disciplines and substantial reduction commitments, and we should be in an excellent position to push for that outcome. Going into the new negotiations, the EU AMS commitment is about \$68 billion, over three times the limit for the U.S. Japan’s final AMS limit is nearly double ours. Both countries are spending a substantial portion of that total, even without counting EU blue box policies.

Moreover, unlike the Europeans, Japanese and others, we in the U.S. made major changes in domestic support policies after the Uruguay Round that brought our programs for most commodities into harmony with the new international disciplines. In fact, the FAIR Act of 1996 caused anxiety among EU officials, who saw it as an indication that the Americans would be aggressive on domestic and export subsidies

in the next round. A further tightening of the domestic support disciplines would force countries either to reduce subsidization or move to less trade-distorting means of support. The result should be fairer and more open world markets.

U.S. FARM POLICY

In this context, I would like to comment briefly on the pending debate on changes in U.S. domestic farm policy. Obviously, the primary considerations in that process will be domestic. However, given the export interests of the U.S. agricultural sector, I believe lawmakers should be conscious throughout the debate of U.S. trade interests and the need to take into account international disciplines. New policies that would increase product-specific support or raise internal commodity prices would make it difficult for the U.S. to maintain international competitiveness and could put the U.S. in danger of violating its international obligations. Moreover, such policies could make it difficult for U.S. negotiators to pursue aggressively further liberalization in the new negotiations.

The U.S. has a clear interest in promoting strong international disciplines on the use of trade-distorting subsidies. It would be short-sighted indeed for the U.S. to adopt domestic policies that undermined current disciplines or prevented the improvement of rules under a future agreement.

PROSPECTS FOR A SUCCESSFUL OUTCOME

There are reasons to be optimistic about our chances for achieving a good agreement in an acceptable timeframe. As indicated above, we have the advantage of the rules framework negotiated in the Uruguay Round. We also have established a direction and a certain momentum for reform. From a technical as well as a political perspective, this agriculture negotiation is less complex than the previous one.

Moreover, we have the advantage of the deadline imposed by the expiration of the so-called "peace clause." The peace clause, Article 13 of the Agriculture Agreement, suspends until January 1, 2004, the application to the agricultural sector of certain WTO rules, most notably Articles 3, 5 and 6 of the Agreement on Subsidies and Countervailing Measures ("Subsidies Agreement"). Its expiration could have serious consequences for the EU and other exporting countries with high levels of subsidization, whose policies would then be subject to the much more stringent disciplines of the Subsidies Agreement. Used properly, the peace clause could be a powerful incentive for concluding an agreement.

Finally, Europe is once again feeling internal pressures for reform. Negotiations have begun for a substantial enlargement of the EU. It will be very difficult to bring the countries of Central and Eastern Europe into the Union without fundamental reforms in the Common Agricultural Policy. Some European officials see the WTO negotiations as providing welcome pressure for the necessary changes.

However, achieving an agreement is certainly not a forgone conclusion. As indicated previously, success in the agriculture negotiations is dependent on the conclusion of a substantially broader package of agreements that contains something for all participants. The U.S. understood this fact in the Uruguay Round, when we pushed for an ambitious negotiating agenda and a "single undertaking" approach, which meant that nothing in the final package was agreed until all elements were agreed.

Unfortunately, this was not the U.S. approach thus far. Rather, U.S. negotiators have stressed limiting the scope of the negotiations and focusing on sectors that are "ripe for negotiation." At times, the U.S. has seemed more intent on keeping issues off of the new round agenda than in putting them on. It is difficult to lead from such a defensive position.

The U.S. needs to reexamine its negotiating posture. We need to be prepared to discuss in the new round some subjects that are politically difficult for us so that our negotiating partners will agree to do the same. If we are not willing to do so, we will not be able to assemble a viable negotiating package, and we will lose a historic opportunity for American agriculture.

INTERNATIONAL REGULATORY ISSUES

As significant as the new WTO round is, there is an international battleground that may be more important in the coming year. Many of the gains that we hope to achieve through the new round could be negated if existing disciplines on the use of sanitary and phytosanitary measures and other technical barriers to trade are undermined. Those disciplines are under threat.

One of the greatest achievements of the Uruguay Round of trade negotiations was the Agreement of the Application of Sanitary and Phytosanitary Measures (SPS Agreement). That agreement requires, inter alia, that import restrictions related to

human, plant or animal health be based on scientific evidence. The SPS Agreement does not prevent WTO member governments from adopting health-related import barriers. On the contrary, it acknowledges explicitly the right of governments to do so and legitimizes science-based regulations. But the Agreement also provides a way of addressing trade problems that arise from questionable measures. It establishes an objective standard of legitimacy for health-related import barriers.

Since its implementation in 1995, the SPS Agreement has provided important protection to U.S. interests. U.S. officials have used it to induce a number of countries to change questionable policies that restricted U.S. exports. A well-known recent example is China, which opened its market to U.S. wheat, citrus and meat products by bringing its regulations into conformity with the SPS Agreement in anticipation of WTO membership. The Agreement has also been a useful tool in WTO dispute settlement. It was the basis for the successful cases against EU restrictions on hormone-treated meat, Japanese requirements for varietal testing, and Australian restrictions on salmon imports.

It is in part due to the effectiveness of the Agreement that it is now under attack. The EU in particular has found it difficult to comply with the Agreement and is promoting ideas in international fora—such as the “precautionary principle” and the consideration of non-scientific factors in assessing risks—that could undermine requirements for science-based regulatory decision making. EU officials are presenting these ideas in every available forum—in international standards-setting bodies such as the Codex Alimentarius, the International Epizootics Organization and the International Plant Protection Convention; in the OECD; in the Biosafety Protocol negotiations; and in the WTO itself. The U.S. and other agricultural exporting countries have yet to develop an effective, coordinated strategy for addressing this challenge.

Precautionary principle: The precautionary principle is an especially dangerous concept, in part because of its superficial appeal. No government in the world can be against the application of a precautionary approach to regulating potentially dangerous products. Indeed, U.S. regulatory agencies are extremely cautious in their assessment of risks, and they build into their standards substantial margins of safety. This is a prudent and appropriate approach. Standards set on such a basis would be readily defensible under WTO rules.

However, the precautionary principle being advocated by many European officials would essentially give governments as blank check. It would allow politicians or government officials to impose import restrictions in any case where some scientific uncertainty exists. Since it is rarely, if ever, possible to reach total scientific certainty, such a principle would have the effect of removing all discipline.

Biotechnology: This principle is already being applied with regard to the products of agricultural biotechnology. In the case of a number of products that have been submitted to the EU for regulatory approval, EU policy makers have refused to act despite unqualified favorable reviews from the relevant EU and Member State scientific bodies. The EU has, in effect, ignored its obligations under the SPS Agreement, refusing for political rather than scientific reasons to act on product approvals.

Moreover, the EU has, in my view, ignored its obligations in the development of its biotechnology labeling regime. In this case, the EU makes no attempt to justify its requirements based on health considerations. Indeed, the products for which the requirements have been developed have been approved unconditionally for sale within the EU. The stated objective of the policy is consumer information. The WTO Agreement on Technical Barriers to Trade (TBT Agreement) permits labeling for consumer information but requires that such requirements be no more trade restrictive than necessary to accomplish their objective. Clearly, there are less trade restrictive ways of providing consumer information than the regime implemented by the EU, which has proven to be completely unworkable for food companies.

International cooperation: There is a need for international cooperation between agricultural exporting countries on such regulatory issues. The U.S. should work to assemble a coalition of countries who share our interest in maintaining proper disciplines on SPS measures and other technical barriers to trade and then work with that coalition to counter efforts to weaken WTO disciplines. It is especially important to involve policy-level trade officials in the discussions that are taking place in international standards-setting bodies such as the Codex Alimentarius. Standards created in those bodies have legal relevance in the WTO. Therefore, any change in the practices in those organizations in response to EU pressure directly affects WTO rules. To date, the U.S. and other countries have not adequately taken this fact into account. It is in my view inappropriate for regulatory and scientific officials to be responsible for interpreting WTO obligations in debates in the international standards organizations. That is the job of policy officials, and it should be carried out under the auspices of the WTO.

Moreover, it is essential that we find a WTO forum for discussion of biotechnology and related regulatory issues. The purpose would be (1) to remind member countries of the applicability of WTO rules—in particular the SPS Agreement and the TBT Agreement—to biotech trade (an especially important task in light of the recently concluded Biosafety Protocol); (2) to provide a forum for the discussion with officials who understand WTO obligations; (3) to bring multilateral pressure to bear on countries whose measures do not conform to those obligations; and (4) to provide a focus for cooperation between export-oriented countries.

Establishing such international cooperation would not, on its own, solve our biotech trade problems. It could, however, help us to steer the international debate on biotech products in a more productive direction.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF HON. JESSE VENTURA, GOVERNOR, STATE OF MINNESOTA

Thank you, Chairman Grassley, for the opportunity to share my ideas on free trade with members of your Committee.

I am humbled that you think I can help you set the agenda.

Free trade helps Minnesota—Minnesota's farmers, Minnesota's entrepreneurs, Minnesota's manufacturers and Minnesota's workers. There are great benefits to them all when they compete in a global economy.

The Congress deserves congratulations on a job well done. Passing permanent normal trade relations with China was a true watershed event for free trade in our history.

PNTT will redefine our country's relationship with the biggest population in the world, and it will boost the flow of democratic ideals and fair business practices in China.

You did the right thing. But now is not the time to rest on our laurels.

To keep this momentum on healthy trade, my message to you today is fourfold and simple:

- Put politics aside,
- Correct past mistakes,
- Embrace emerging markets, and
- Compete with confidence.

First, now is the time put politics aside, honor and enforce past agreements and to make this new agreement work.

Now is the time to build a tripartisan consensus on trade policy.

For example:

Next year, you will consider a bilateral and commercial trade agreement between the United States and Vietnam.

I believe that open trade can bring positive energy and democratic values to a relationship between two countries that has poisoned so many.

Ask Senator John McCain or Senator Bob Kerrey about the need to embrace such an agreement. Do not let their efforts in Southeast Asia—or the efforts of an entire generation—go by the wayside.

Through trade, help our nations heal the past.

Trade may even help bring peace to the Middle East, a peace that is badly needed today.

A Senate endorsement of the U.S.-Jordan free trade agreement will be a step in the right direction.

Another positive step would be to grant the President Fast Track Trade Negotiating Authority.

"Fast Track Authority" should be called "Common Sense Negotiating." A new name might give it the P.R. help it needs.

"Fast Track" is not about fly-by-night decisions made by the President in a vacuum; it is about the ability to make time sensitive decisions that will help America compete in this fast-paced new economy.

It's about recognizing that we can't let gamesmanship hold us back in the new economy.

It's about common sense.

Every President has had this negotiating power, and it makes sense that we show the world that in the year 2000, we're truly ready to compete in the worldwide ring.

The need for Common Sense Negotiating Authority is not about politics or power. President Bush will need it as much as President Gore, President Nader, President Hagelin . . . well, I think you get the picture.

My second message to you today is: Correct Past Mistakes.

We already know that closed doors don't work. We've tried that. For 45 years we've had an embargo to prove that we don't like how Cuba rules.

Well the joke's on us. Castro has outlasted nine going on 10 presidents. Communism remains.

Markets are shut to our agriculture products, and we haven't impacted improvements in human rights.

Opening the Cuba market won't be a huge money-maker. I understand that it's a small market compared to China.

But opening Cuba would demonstrate to regular people at home, and our trading partners around the world, that common sense can prevail.

An open Cuba makes perfect sense to small businesses like Nuaire, a small Minnesota company that manufactures, among other things, biological safety cabinets and incubators.

Nuaire wants to see Cuba sanctions lifted because they have lost years of business to Swedish and German competitors as a result of the embargo. And—while they have been trying to deal with the current approval and licensing requirements at the Department of Treasury that would let them sell in Cuba, they are running into a severe case of RED TAPE.

Small companies like Nuaire are the backbone of our economy—and making them suffer because of a stubborn, pigheaded and outdated chip on our shoulder is just plain stupid.

I think you get my point.

Third, Embrace Emerging Markets.

I strongly believe that Minnesota's potential in the world marketplace is proportional to the success we have in helping our minority communities thrive at home.

We need to change the mindset about the potential of minority-owned businesses and embrace new communities who are adding more and more value to our economy every day.

As Governor, I am serious about helping to change this mindset in Minnesota.

We must learn how to tap into the new immigrant energy that has taken a hold of our state.

It's an exciting challenge.

There is a declaration being circulated in Minnesota called the "Emerging Market Alliance Declaration." Minority entrepreneurs who want to raise awareness about their potential in Minnesota drafted this declaration. You have it in front of you today. I have signed this declaration, and I encourage you to do the same, pass it on to your colleagues and take it back to your states.

It's a move toward a new mindset.

Take a lesson from Minnesota. Embrace emerging markets inside and outside our borders.

Speaking of emerging markets, currently, we have a great success story of a country once considered an emerging market.

Mexico, I am please to say, has arrived. Our southern neighbor is now 13th in the world in GDP, and represents a market of opportunity for Minnesota products and services. I will be traveling to Mexico at the end of this month to seek those expanding opportunities. What an exciting time of change and energy in Mexico. President-elect Visahntae (Vicente) Fox has—like I said on election night in Minnesota—shocked the world.

And thanks to President Zedillo's statesmanship, a smooth and democratic transition will help breed success.

As U.S. neighbors, we must recognize this historic transition, congratulate President Zedillo, and Embrace President-elect Fox!

He represents new ideas, change and energy. We must do what we can to help him and Mexico succeed.

Finally, one last message: Compete with confidence!

U.S. workers are the best!

As Governor of Minnesota, I support free trade because, simply, it improves the quality of life for all Minnesotans.

When you adjourn and go home to your states, spend some time talking to small businesses, farmers and young people who have new opportunities in front of them today because of free trade.

Talk to your Governor. I can tell you, it's a great time to be Governor. We are able to advocate for our states around the globe while riding a huge economic wave.

Governor Vilsak of Iowa has been to Taiwan, Japan and China, Governor Shaffer of North Dakota was just in China, Governor Whitman of New Jersey has been to Japan and Tawain, and Governor Lock of Washington has been around the globe. Use these great ambassadors and support them in their quests for trading opportunities for your constituents.

I, for one, am going to continue to boost Minnesota's opportunities on the world stage. I have done it in Japan, in Canada, and I will do it in Mexico, China and Europe during my tenure as Governor.

I'll put Minnesota workers, Minnesota farmers and Minnesota manufacturers up against anyone in the world.

Have the confidence to do the same for your constituents.

Thank you, again, for the opportunity to address you.

COMMUNICATIONS

STATEMENT OF THE COUNCIL OF THE AMERICAS

(SUBMITTED BY AMBASSADOR WILLIAM PRYCE, VICE-PRESIDENT FOR WASHINGTON OPERATIONS)

The Council of the Americas is grateful for the opportunity to submit a statement for the record in the Committee's hearing on Trade Policy Challenges in 2001. The Council of the Americas is a leading business organization dedicated to promoting free trade, economic integration, democracy and the rule of law in the Western Hemisphere.

There are a number of important international trade issues confronting the United States in 2001. This statement addresses a few of those where the Council of the Americas (the "Council") has special interest and expertise:

- The Free Trade Area of the Americas;
- Trade Negotiating Authority;
- The Caribbean Basin Initiatives and the Andean Trade Preference Act; and
- Labor and the Environment.

I. THE FREE TRADE AREA OF THE AMERICAS ("FTAA")

In December 1994, at the first Summit of the Americas in Miami, Florida, the leaders of 34 Western Hemisphere nations committed to the establishment of an FTAA by 2005. At the time, the ten-year timeframe envisioned by the Hemisphere's leaders seemed more than sufficient for the task. We are now six years down the road, and most of the negotiating work remains to be done. Meanwhile, the importance of this effort to U.S. interests has grown.

While global trade agreements are the long-term goal, bilateral or regional agreements can serve as important building blocs. The economic unification of Europe, the creation of the NAFTA, the establishment of Mercosur, and other regional trading blocs, all point to the importance of bilateral and regional agreements as a means to increase beneficial trade flows and create a policy framework in participating countries that facilitates multilateral efforts.

The importance to the United States of the effort to create an FTAA cannot be overstated. The economic benefits of expanding trade in the hemisphere, while immense, are only part of the picture. U.S. engagement is crucial to maintaining our leadership position in international trade. If the United States does not seize this opportunity to lead trade liberalization efforts, others will fill the void—as they have already begun to do. The result may well be broad international acceptance of policies inimical to U.S. interests in open markets. Creating sound policies now through U.S. leadership will be far easier than struggling later to overcome precedents already set by other states in the absence of full U.S. engagement.

U.S. negotiators have done a good job under difficult circumstances of maintaining momentum in FTAA talks and securing commercial benefits early in the process. The agreement among the participating countries to implement a number of business facilitation measures in the areas of customs procedures and transparency was a significant achievement, and represents a small, but meaningful down-payment on the benefits of the FTAA. Completion of preliminary texts in each of the negotiating groups by April, 2001 as called for at the last FTAA ministerial, in Toronto, Ontario in November, 1998, will be another important benchmark for the process.

The Congress should make every effort to support, and take an active role in, efforts to complete the FTAA. Congress should encourage negotiators to complete their work by December 31, 2003, so that the U.S. and other nations can complete the ratification and implementation process in sufficient time for the agreement to take effect on January 1, 2005.

II. NORMAL TRADE NEGOTIATING AUTHORITY

Normal trade negotiating authority—which has been called “Fast Track” in the United States—means that agreements negotiated under this authority are subject to expedited consideration and must be voted on by Congress without amendment. It is simply the normal negotiating authority possessed by almost all countries who participate in trade negotiations. This authority is a critical tool of U.S. negotiators, granting them credibility with their counterparts. U.S. negotiators can only broker a good deal when they and their counterparts know that the agreement will either be approved by the U.S. Congress without amendment—or not at all. This authority has become a sine qua non for successful U.S. trade negotiations.

Failure to renew trade negotiating authority during the current Administration has both weakened the position of U.S. negotiators and given our sometimes-reluctant trading partners an “out” from serious negotiations. Without negotiating authority, the U.S. has been likened to a player coming to a poker game without enough chips to ante up. Although this authority is not technically necessary to negotiate, sign, or even ratify a trade pact, the procedural certainty that it lends to the U.S. negotiating and ratification process is such that it is politically impossible for U.S. negotiators to make major progress without it.

In order for negotiating authority to be most effective it must contain the broad authority that has traditionally been granted to our President since 1974.

The Congress should grant normal trade negotiating authority to the new Administration at the earliest possible date. Such authority needs to be broad enough to give U.S. negotiators sufficient flexibility to accommodate any reasonable trade-related issue that could arise in the context of negotiations.

III. CBI/ATPA

We salute this Congress for the recent passage of legislation broadening the trade relationship between the United States and its neighbors in the Caribbean and Central America. This was an important step in renewing America’s commitment to shared prosperity in the Western Hemisphere. Enactment of the Caribbean Basin Trade Partnership Act, as part of the Trade and Development Act of 2000, continues the successes of the Caribbean Basin Economic Recovery Act (“CBERA”) and the Caribbean Basin Initiatives (collectively, “CBI”—a relationship that has resulted in well over a decade of consecutive trade surpluses for the U.S., and has made the Caribbean Basin the 6th-largest trading partner of the United States. Implementation of this legislation by the executive branch in keeping with the intent of Congress will influence the efficacy of the program.

Meanwhile, the smaller-scope, but similarly successful, sister program to the CBI, the Andean Trade Preference Act (“ATPA”) is due to expire on December 4, 2001. Renewal—and expansion—of this program should be a priority for the next Congress. This is an important opportunity for the United States to demonstrate both wisdom and leadership in an area where we have asked much in the way of sacrifices for the sake of narcotics interdiction. It is also an ample opportunity for the United States to consolidate its economic relationship with the Andean nations with a view towards cooperation on completion of the FTAA.

The Congress should follow through on its successful passage of CBI enhancement legislation by ensuring the program is fully implemented. Congress should also renew and expand the ATPA early in 2001.

IV. LABOR AND ENVIRONMENT

We have consistently said that the best way to promote the welfare of workers and the environment is through economic growth. Growth creates the resources to boost standards of living and to protect the environment. The results of the NAFTA are the most dramatic proof of this. And trade, stimulated by trade agreements such as the FTAA, will stimulate economic growth. The Council strongly supports this concept.

We also agree that labor and environmental concerns need to be and are being addressed in a variety of international fora. But it is unacceptable to link the enforcement of labor and environmental standards in other countries to trade agreements.

We recognize that there is no consensus at this time—globally or domestically—on labor and environmental issues. We previously have called for a pledge, in the context of FTAA negotiations, to avoid the adoption of new tariff or non-tariff trade barriers. We suggest a similar concept in the areas of labor and the environment—that governments commit not to weaken existing environmental, health, safety or

labor measures in an effort to gain competitive advantage pending the resolution of how to address these issues in trade agreements.

The Congress should encourage international cooperation on labor and environmental issues in all appropriate fora, and should review domestic programs providing for assistance of workers displaced by new trade patterns. Such programs should be continued and expanded.

As the world's most open economy, the United States has provided a model of the benefits of free trade. The Council of the Americas believes that U.S. leadership on trade remains crucial in order to maintain and increase the prosperity we enjoy in the United States, and even more vital if that prosperity is to be able to lift living standards in lesser-developed countries. The passage of legislation expanding trade with the Caribbean Basin sent our neighbors a message of renewed commitment and leadership from the U.S. The coming year will present more such opportunities, with chances to expand trade in the Western Hemisphere through the ATPA and ultimately the FTAA.

U.S. efforts to expand trade will be greatly enhanced if the Congress is able to formulate a new grant of negotiating authority which recognizes that trade is itself the key to advancing U.S. and global living standards and not simply a tool to reward good behavior or punish perceived shortcomings.

The year 2001 holds many trade challenges for the United States and the Congress—challenges and possibilities. The Council looks forward to working with this Committee and the Congress to meet those challenges and transform the possibilities of shared prosperity and growth into reality.

