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TRANSATLANTIC TRADE AGENDA: CONFLICT OR COOPERATION?

HEARING

BEFORE THE

SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE

OF THE

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INTERNATIONAL RELATIONS
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TRANSATLANTIC TRADE AGENDA: CONFLICT OR COOPERATION?

WEDNESDAY, SEPTEMBER 29, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 11:05 a.m., in room 2172, Rayburn House Office Building, Hon. Ileana Ros-Lehtinen [Chairwoman of the Subcommittee] presiding.

Ms. ROS-LEHTINEN. The Subcommittee will come to order.

Good morning. The State legislators of my home State of Florida are up here for a Federal-State summit. So I will be buzzing in and out and trying to be two places at one time and doing a fairly bad job of it. So you will excuse me if I am not here; and we have got a vote, so maybe we will do our opening statements.

Thank you, Mr. Menendez.

Given the recent, continuing disputes between the United States and the European Union, it would appear that transatlantic relations are marred by conflict. Just a few days ago, the House considered a resolution on the EU's protectionist stance against the U.S. jet engine market and "hushkits" which are in compliance with the ICAO Stage III guidelines on noise level standards.

However, most would agree that focusing solely on these disputes would be oversimplifying the relationship.

The United States and its European partners have long been leaders in the global economy and have generally developed and maintained a strong common interest in working together to strengthen the world trading system. This has become more evident in the aftermath of the Cold War with U.S. and EU policymakers arguing that the expansion of transatlantic trade relations is the vehicle for a general strengthening of ties and reinvigorating political and security relationships in the form of The New Transatlantic Agenda—a goal we reiterated in the Bonn Declaration adopted at the summit in June of this year.

This view is presented alongside data which shows that economic relations between the United States and Europe are supported by significant trade and investment links.

Taking goods and services together, the EU and the United States are each other's largest single trading partner. Last year, trade in goods between the member states of the EU and the U.S. increased almost 14 percent for exports and 10 percent for imports compared to 1998. Taking only bilateral EU–U.S. trade into ac-

count, it represents more than 7 percent of the total world trade, as compared to 4 percent between the United States and Japan.

By the same token, the two sides remain each other's most important source and destination for foreign direct investment, with a reported combined stock of over $800 billion U.S. dollars. The United States supplied 63 percent of all foreign investment in the EU countries and secured 58 percent of the EU's total outward investment in 1998.

This reality, combined with the stated need to strengthen an expand overall relations between the United States and its European partners, led to the signing of The New Transatlantic Agenda in 1995. The agenda contains a wide range of commitments in foreign policy, security, and law enforcement. Yet a substantial portion of it is dedicated to economic and trade issues, drawing from recommendations offered by the business sector on both sides through the Transatlantic Business Dialogue.

For this reason, this hearing will not only address specific unresolved issues in transatlantic trade relations, but it will focus on the potential impact of European actions and U.S. counteraction on the global arena—in particular on the upcoming WTO negotiations in Seattle, and I will ask, with unanimous consent, that my full statement be entered into the record, and I would like to now introduce and recognize the Ranking Member, Mr. Robert Menendez of New Jersey.

[The prepared statement of Ms. Ros-Lehtinen follows:]

Mr. MENENDEZ. Thank you, Madam Chairlady. I appreciate this hearing and the opportunity on one of the issues that I am very much concerned about, which is the consequences to small businesses as a result of some of our efforts to try to bring the European Union into compliance.

Clearly, the European Union is the United States' most important ally, one of our most important trading partners. According to the Department of Commerce, the United States and the EU have the largest two-way trade and investment relationship in the world. Like our political relationship with the EU, our economic relationship is extremely important to the United States, particularly as the world economy becomes an increasingly global one.

For the most part, we work with the EU through the WTO and other mechanisms, like the Transatlantic Business Dialogue, to break down trade barriers and enhance market access. The conclusion of agreements, such as the December 1998 Mutual Recognition Agreement, provide transatlantic benefits by eliminating the need for duplicative product inspection, testing or certification. We need to look at other ways to expedite the conclusion of further mutual recognition and regulatory reform agreements.

However, even allies and partners have disputes. Trade disputes involving the EU's ban on the importation of certain bananas and hormone-treated beef, as well as the EU's promulgation of a regulation preventing "hushkitted" aircraft from flying in the EU, have made front page news. These high-profile trade disputes unnecessarily damage our normally good relationship with the EU, and I am anxious to hear from the Administration about their negotiations with the European Commission to create an early warning

system to head off potential trade disputes and hopefully their unintended domestic consequences.

But I would like to take a moment to address the unintended domestic consequences of these trade disputes. While I share the Administration's goals with regard to bringing the EU into compliance on the banana and hormone-treated beef cases, I am, however, deeply concerned about the impact of the retaliatory tariffs on American businesses, particularly small American businesses. By requiring all importers to post bonds equivalent to 100 percent tariffs on the value of the imported products on the retaliation list, we jeopardize the livelihood of small importers throughout the country who may import only one or two products, and I have several of these in my own congressional district. I know they stretch throughout the country. These are relatively small companies that, in fact, only import maybe one or two products and when, in fact, EU strikes on one of those two products, you leave them virtually decimated in the process.

These small businesses are unable to withstand long-term economic losses as a result of the tariffs imposed on the products they import. It is extremely difficult for a small business, for example, that imports liver pate or bed linens, to understand why they are being punished for the EU's restriction on the importation of bananas and beef.

That is why I introduced legislation, H.R. 2106, the Small Business Trade Protection Act, which would exempt small businesses from the retaliatory tariffs. The bill would limit companies to importing 125 percent of what they imported in the previous year, so that small companies do not become a conduit for circumventing the retaliatory measures.

It seems that economic retaliation is becoming increasingly common, but that we are not taking into account the domestic impact of these actions. I hope to hear from our Administration witnesses what steps the Administration is taking to help these small, impacted businesses and to prevent further harmful trade disputes.

Thank you, Madam Chairlady.

Ms. ROS-LEHTINEN. Thank you very much, Mr. Menendez.

Mr. Cooksey for an opening statement.

Mr. COOKSEY. I am anxious to hear the statements from the people from the State Department. You know, I am concerned about the problems that the people in the EU have in overcoming their cultural tendency to stay with protectionism, which my colleagues have just referred to, and as we are in this period of globalization and e-commerce, that is increasing at the speed of light. I would hope that the State Department holds the line and does not let our people and our businesses suffer just because the Europeans cannot overcome their tendency to keep their roots implanted in the past, whether it be a controlled market or socialistic tendencies or protectionism, which certain countries are more guilty of.

So we are expecting you to hold the line and help bring Europe into the 21st century.

Thank you, Madam Chairman.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Cooksey.

I would like to just briefly introduce both witnesses and then we will recess for two votes. Our first witness is the Honorable Charles

Ludolph, who is the Deputy Assistant Secretary for Europe, Market Access and Compliance, at the International Trade Administration. He is responsible for developing the Commerce Department's market access, country desk trade and investment activities with Europe, counseling more than 75,000 U.S. exporters a year and responsible for assuring that U.S. businesses are aware of the conditions in all European national markets.

Mr. Ludolph is deeply involved in the Transatlantic Business Dialogue in implementation of the U.S.–EU mutual recognition agreements. Since 1988, he chairs the U.S. Government Committee on Standards Testing and Certification of the European Union and also chairs the U.S. Government Trade Promotion Committee, and we thank Mr. Ludolph for being with us this morning.

He will be followed by the Honorable E. Bryan Samuel, Deputy Assistant Secretary of State for Trade Policy for the Bureau of Economic and Business Affairs. Prior to joining the Bureau, Mr. Samuel served as Deputy Assistant Secretary for Inter-American Affairs as Director of the Department of State's office of European Union, OECD and regional affairs and was the U.S. Negotiator of The New Transatlantic Agenda. Prior to that, Mr. Samuel was Deputy Assistant U.S. Trade Representative for North America and has worked extensively on United States-Japan trade disputes and on agricultural disputes. He is the recipient of numerous awards for excellence in the economic field for his accomplishments during his tenure in the Foreign Service, and we thank Mr. Samuel for being here with us.

Our Committee will be out briefly, and we will be right back. Thank you.

[Recess.]

Mr. COOKSEY. [Presiding.] We will resume the meeting. The Chairlady will be here shortly.

Mr. COOKSEY. Mr. Ludolph, if you would go ahead with your testimony.

STATEMENT OF THE HONORABLE CHARLES LUDOLPH, DEPUTY ASSISTANT SECRETARY FOR EUROPE, INTERNATIONAL TRADE ADMINISTRATION, U.S. DEPARTMENT OF COMMERCE

Mr. LUDOLPH. Thank you, Mr. Chairman. I just want to summarize very quickly my remarks. I, first of all, am pleased that you have invited us here to discuss the importance of the economic partnership we have with the European Union. We welcome this Subcommittee's sustained and informed interest on maintaining the health and stability of our economic relationship between the U.S. and the European Union.

The Chairperson's opening statement, as well as Mr. Menendez's early opening statement, characterized the economic stake we have, so I want summarize there, but I did want to emphasize that we have a very new situation with the European Union in terms of a trade deficit. The U.S. trade deficit with the European Union is growing very rapidly, and it is the largest that we have had in the history of our relationship and is now, based on July figures for 1999, $43 billion. That is accumulating on top of a $60 billion cumulative deficit since 1995. This is a situation that is very, very acute for the Administration and for the U.S. Government, and we

are paying attention very closely to this serious developing situation in terms of this new trade deficit.

It is correct, as has been—we agree entirely with the Committee's characterization of the high interdependence between the U.S. and the European Union. Economically 6 million jobs are created by investment in our respective marketplaces, a total of 6 million jobs, 3 million in the United States and 3 million in the European Union. Therefore, it is very important to have a well-managed, large, interdependent relationship, and any relationship this large is going to have trade disputes.

The point and the object of the Administration and the U.S. Government is to try to keep and address the trade disputes as quickly as possible and to keep them to a minimum and to solve them as quickly as possible.

We must strive to resolve all of these disputes so that our rights and interests are maintained and also so that the overall, largely trouble-free economic relationship can continue to benefit both producers and consumers.

I am just going to briefly highlight two bilateral issues that I think need to be—I would like to draw your attention to. First is the issue of biotechnology and trade. The Administration is increasingly concerned over the question of European Union market access for U.S. agricultural exports derived from bioengineering. The United States has long viewed the EU's process for approving new agricultural products through bioengineering as being too slow and nontransparent. No new agro-biotech products have been approved in the EU since 1998, and this could affect not only the substantial, the billions of dollars of worth of exports of agricultural products being exported to Europe, but also, in turn, policies that will affect the rest of the world and our exports to the rest of the world in these products.

We will work energetically with the new EU's new commission, to encourage this new commission to take a fresh look at the approval process and labeling issues that they have adopted to resolve this immensely important issue. If there is a place where we need to avoid disputes and a place where we think early warning is important, it is in this area of biotechnology. U.S. farmers, U.S. companies in agribusiness have invested an enormous amount of time and money in developing a position in agribusiness for world exports, and it is a very important benefit to both the consumers, as well as producers of food, and the enemy is really starvation that we are trying to address. So this is a very important area in terms of early warning but also in terms of our imminent way to avoid trade disputes.

Let me then just talk 1 more minutes about another issue that is very much in front of us, which is in the aerospace area. Aerospace is a key sector for U.S. exports, globally and certainly with the European Union, and it is a global business. You cannot sell an airplane just to Europe or in the United States. You have to sell an airplane geared for a global market. So we need to have harmonized regulations among all of the players, both consumers as well as producers, on safety issues.

One issue that has come to us is the issue of hushkits. The Europeans have adopted a regulation on aircraft engine noise that os-

tensibly is aimed at reducing noise, but in fact, affects only U.S. producers of hushkitted aircraft and certain engine manufacturers.

This regulation could affect and is affecting since April 1999 more than $2 billion worth of exports and the asset values of U.S. airline companies. We have begun a process to develop an international standard that would meet the European and U.S. noise requirements that they hope to acquire, but in the meantime this regulation they have adopted is affecting U.S. exports in a near-term way.

We are in consultations with the European Commission. We think those consultations are constructive. We think that they are beginning now to see that they need to withdraw or begin a mechanism to withdraw their regulation as we work toward a solution in the ICAO. We hope that we will have good news for this Committee, as well as for our industry, on this issue at least, in the next month in terms of how it is maturing. The European Commission and its member states are meeting today on this issue, and so we should have some early information that we will share with this Committee, if not today, later on this week.

Let me then just quickly go on to the early warning issue that you have highlighted in your opening statement. We work really closely with the Transatlantic Business Dialogue. It is important for governments, the Administration, as well as the Congress, to be able to identify early where governments believe issues need to be addressed, but we believe that the earliest warning we can get are from the players in the marketplace, both the Transatlantic Business Dialogue, as well as from consumers and importers who are affected at the earliest juncture by these regulations or know of drafts that will affect them. We have begun in our consultations with these civil society dialogues, particularly the Transatlantic Business Dialogue, to get them to identify a list of issues that they see coming down the road 2, 3, 4, or 5 years down the road that may affect U.S. regulators, but will affect them; and so we believe that an important part of this process is the Transatlantic Business Dialogue and the private sector's being able to have a broad and free dialogue with both the Commission and the United States on identifying issues.

Let me just close by saying again, I want to thank the Committee for holding these hearings. They are very important to us. I want to thank in particular the Committee's interest and help in particular that of the Market and Access Compliance Unit of the Commerce Department. We have been underfunded in past years, and we very much appreciate the interest this Committee has shown in our continuing existence.

In summary, the demands on our relationship are very high. Chances for conflicts in telecommunications, in electronic commerce, in biotechnology and aerospace are present. The relationship, however, is just simply too important to us economically for us to allow issues to go on without effective solutions that will address trade issues today and over time will actually strengthen our bond between our respective peoples.

Thank you, Madam Chairman.

[The prepared statement of Mr. Ludolph follows:]

Ms. ROS-LEHTINEN. [Presiding.] Thank you very much, and before I recognize Mr. Samuel, I would like to recognize Ms. Danner if she has any opening statements.

Ms. Danner.

Ms. DANNER. Madam Chairman, I do not have an opening statement, but at the appropriate time I would like to inquire of the gentlemen who are before us.

Ms. ROS-LEHTINEN. We thank you so much.

Mr. Manzullo? Mr. Bereuter.

Mr. BEREUTER. No.

Ms. ROS-LEHTINEN. Mr. Brady?

Mr. BRADY. No questions.

Ms. ROS-LEHTINEN. Thank you.

Mr. Samuel?

STATEMENT OF THE HONORABLE E. BRYAN SAMUEL, DEPUTY ASSISTANT SECRETARY FOR TRADE POLICY, BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. SAMUEL. Madam Chairman, thank you very much. Members of the Subcommittee, I am pleased to have the opportunity today to review our transatlantic trade agenda. If I may, I will just briefly summarize my written submission.

I want to discuss the importance of U.S.–EU relations and the need for cooperation with the European Union in the context of the new WTO round in the state of play on various trade disputes. The European economy now has the promise of renewed vigor, and if growth continues, American firms should enjoy expanded business and trade opportunities in Europe. Our relationship with Europe is guided, first of all, by the New Transatlantic Agenda process, which you mentioned, Ms. Chairman, in your opening remarks. This ensures that from the President to the working level we are in regular contact with European counterparts.

The swearing in of the new European Commission 2 weeks ago represents a new start for an institution that has been under heavy criticism. The initial signals are quite positive for increased cooperation and for progress in resolving our differences. We also have a new European parliament with expanded powers.

Last December, the United States and European Union unveiled a Transatlantic Economic Partnership Action Plan. This plan was designed to reduce regulatory barriers and more fully realize the problem of transatlantic trade. Under the TEP, we are moving forward on Mutual Recognition Agreements and are working to conclude a model framework MRA for services which could be followed by agreements in the insurance and engineering sectors.

The United States and European Union have joined in creating a stability pact to address regional economic and political issues in southeastern Europe. The Administration is drafting legislation to extend unilateral trade preferences for that region, for the Balkan region; and the EU is moving in a similar direction.

To alert policymakers to issues requiring attention before they become intractable disputes, the United States and the EU agreed at a summit last June to put in place an early warning mechanism. The EU hushkit regulation, which Mr. Ludolph addressed, is a

good example of the type of issue which could have been avoided with early warning. We have made clear the need to make rapid progress in pursuing this mechanism.

Another area of mounting concern is the potential for European government subsidies for Airbus' development of the superjumbo plane. We are seeking a dialogue with the European officials to resolve this issue before it gets ahead of us.

U.S.–EU cooperation is especially important to achieving our goals in the WTO and the upcoming Seattle ministerial. We want a market-access-oriented round of negotiations covering agriculture, services, and industrial goods and structured to achieve a single package of results in 3 years. We need to find as much common ground as we can with the Europeans.

That being said, one of the most important U.S.–EU differences as we approach the Round concerns export subsidies for agricultural products. We seek their total elimination. We and the rest of the WTO membership are less willing. We cannot continue to pay the farm policies.

I now turn to a few WTO cases involving the EU: bananas, beef and foreign sales corporations. With respect to bananas, we have offered our ideas to the Commission on the WTO consistent import regime and sincerely hope the EU will find a solution satisfactory to our interest, as well as the interests of those in the Caribbean. Regarding beef hormones, the U.S. will continue to insist that the EU fully implement the WTO ruling and lift its unjustified ban on our beef. On foreign sales corporation, the WTO's final report appears to mirror the interim report, which gave the United States until October 2000 to bring our legislation into line with WTO rules. We are considering next steps and among those next steps certainly is the possibility of an appeal.

Among the regulatory issues that have become a source of transatlantic tensions, biotechnology, as Mr. Ludolph mentioned, is particularly visible. Fundamental differences in approach continue to divide us and are having a significant negative effect on U.S. agricultural exports. I won't go into detail now, but simply want to state that we are fully committed to maintaining a science-based, rules-based approach to trade in biotech products.

As we grapple with these regulatory issues, I would note that as Charles Ludolph said, the Transatlantic Business Dialogue has made a valuable contribution in highlighting perspectives and areas where improvements to laws and regulations ought to take place. Similarly, the Transatlantic Consumer Dialogue and the Transatlantic Environmental Dialogue are providing us with the perspective of their respective NGO communities.

Take particular note of the role being played by the Transatlantic Labor Dialogue in developing support for incorporating core labor standards into our trade discussions with the European Union. Finally, the Transatlantic Legislative Dialogue, with the support of Chairman Gilman, has already helped to enhance communication among legislators across the Atlantic.

As you have seen, Madam Chairman, transatlantic cooperation continues, albeit not without challenges. Thank you for the opportunity to testify today, and I would be pleased to respond to any questions.

[The prepared statement of Mr. Samuel follows:]

Ms. ROS-LEHTINEN. Thank you so much, and we will begin the questions with Mr. Menendez.

Mr. MENENDEZ. Thank you, Madam Chairlady. I appreciate both of your testimonies. In the time I have, I want to address myself to an issue you have not discussed. I know it maybe wasn't formally in your agenda, but it is to many people in the country and to many small businesses in the country. Later, in a subsequent panel, we will hear from other witnesses, one who says, I would argue that under the Constitution, my U.S. company has as much right to government protection as Chiquita, Dole, and Del Monte, and I believe he is the gentleman who comes from Mr. Sanford's district.

Another witness that I have invited to come will talk about how, while we have won our WTO court fight on both bananas and beef, we still have not gained market access, and Europe is not particularly impressed by the punitive tariff impact on its imports, but we are unfortunately creating a crushing blow on small businesses, as I cited in my opening statement.

Mr. Ludolph, the Commerce Department is commerce abroad and commerce at home. Can you give me a sense of what this Administration is doing about the effect that small businesses, most particularly, are having with these high tariffs we are imposing on their very limited scope of import activity?

Mr. LUDOLPH. First, we take very seriously the effect on the U.S. business in both directions, and we have held hearings in our process of moving to our retaliation list. We have held a series of public hearings to try to get at the effect on the U.S. business community and minimize it to the extent possible. It is true, however, that many U.S. businesses who import products and are related to the European dispute are affected, and we hope that is only for a short time.

We expect to go forward with our negotiations with the European Commission on both hormones and bananas. These issues are not over as far as we are concerned, and we continue to expect to get market access and restore the market for the companies under the retaliation.

On hormones and on bananas, we continue to work on solutions with the European Union, and unfortunately, during that time period, part of our negotiating strategy or part of the reality is that some companies in Europe and in the United States who have a stake in trade related to these public hearings are affected. Our strategy is to go forward with the European Commission and European Union to get market access and to restore trade smoothly between the United States and Europe, both in hormones and in bananas.

Mr. MENENDEZ. How do you choose the items that you are going to put on the list that affects small businesses in the United States? I mean, it is very nice to say we hope that in fact it will be for a short period of time; and it is very nice to say that it is in the greater good, and we all understand about sacrificing the greater good, but what I can't quite understand is the rhyme and reason between the selection of the items and the relationship between, for example, the things we are trying to open up markets

in Europe on, whether it be the hormone beef, whether it be the hushkits, whether it be the whole banana dispute.

I mean, how is it that we choose products that have absolutely nothing to do with that and that, therefore, subsequently impose an enormous burden; and what type of balancing do you do in terms of choosing these items in the context of domestic disruption on these companies?

I am talking about small companies. You know, the giant companies, the very significant companies, they in fact have the wherewithal normally, because they already import a variety of issues or are diversified in other ways; but these small companies, at the end of the day, by the time you are finishing your dispute resolution, they may not exist.

Mr. LUDOLPH. We are studying the legislation that has, or the bill that has been offered by this Committee. We understand very much the point that you are making, as well as the impact on the small business community. How we choose the products or how we go about developing these retaliation lists depends very much on how we can maximize the effect within the limits that WTO makes available to us, $116 or $190 million worth of trade to influence policymaking in key countries that have a big stake and have made a political stake in these issues. So we are balancing the effect on the U.S. economy, trying to minimize the effect directly on the U.S. economy and we are trying to maximize the effect within the limits the WTO provides on the European economy in order to shift the balance of negotiations to making a resolution in favor of the interests and rights that we have under a WTO agreement.

Within that context, you have raised a very important point about innocent bystanders in a small business, and we have not yet in this Administration taken a position on this, your legislation, but it is a very important point, and we are looking at it very closely.

Mr. MENENDEZ. One last point. Let me just simply say, these people, they are the lifeblood of America's economy. They are the ones who create more employment, and they are also the ones who in fact do not have high-paid lobbyists to come here to Washington and advocate on their behalf; and that, I think, is one of the sad realities of their misfortune. You know, there are opportunities for blanket—you know, you could put a blanket increase in tariffs. You could go a variety of ways. These smaller companies do not have the wherewithal to come here to Congress, to lobby the Administration, and in essence, they fall between the cracks; and I believe the only lobbyists, they are the Members of Congress who represent them here, and I really hope the Administration won't wait for the resolution of this issue before they come to a conclusion to do something to exempt those legitimate small businesses.

There are safeguards we offered in our legislation, I believe that intelligent minds can even create others in which they cannot be used as conduits for, circumventing what you want to accomplish, but legitimizing at least that which they were purchasing, and ensuring that at the end of the day in our process to help the big companies that these small businesses do not get affected in a way that—in fact, it is not just about hurting their businesses. I am

talking to you about—I have heard from many companies who just simply cannot survive if you continue this for a long period of time.

Thank you, Madam Chair.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Menendez, and we echo those worries as well.

Mr. Cooksey.

Mr. COOKSEY. Thank you, Madam Chairman.

We have discussed the issue of hushkits previously and in other Committees that I am a Member of, or Subcommittee, and I have been trying to get an answer, and I think the other people are trying to be diplomatic or evasive. I know diplomacy is your middle name, but I would really like to get an answer about who is causing the problem about hushkits. You can come out and say, it is this country or this company, and that will be a short answer to my question. If you will do that, fine. But if you are still going to be evasive like the other people were on this issue, just tell me what companies and what countries would benefit from our hushkits not being available in that country.

Mr. LUDOLPH. I hope I am not evasive, but I don't know if I will measure up.

Let me just start by saying that who is behind hushkits are airports in Europe. Airports in Europe are politically now becoming very active in pushing for reduced noise. That is politically then, and economically—the response to that pressure has become the hushkit regulation which is utterly useless as far as we can tell and does not respond to the concern of airports. So where the pressure is coming from is airports.

The European Commission and the European Parliament are at pains now to try to explain to airports that this hushkit regulation doesn't really reduce noise; and that is where the pressure is coming from, and that is where the political problem is. Once you have adopted a regulation that doesn't do what it is supposed to do, it is very hard to walk back.

Who would benefit if the hushkit regulation is sustained are a series of companies, in particular Airbus and Rolls Royce, and the countries that would benefit, aside from essentially all 15 countries, think they would benefit from reduced noise, but the countries that would benefit are the countries that produce Airbus and Rolls Royce engines.

Mr. COOKSEY. That is a good answer, and that answers my question to a great extent. What are the chances of repeal of the hushkit regulation as it is currently written by the EU?

Mr. LUDOLPH. The chances are less than even money; they are less than 50 percent. The repeal issue is being reviewed by the member state governments today in Brussels. My supervisor, Under Secretary Aaron, has been on the telephone with the European Commission, commission representatives, not the Commissioner, Ms. de Palacio, but with the European Commission staff as well as with the key member States who will be sitting on that board today to discuss the repeal issue.

We believe, and my minister, my under secretary has indicated, that we really have no way to go if there is a decision not to entertain a mechanism for withdrawal or repeal today; and we are wait-

ing with great interest, again, hope with some optimism, but with great interest to see what this decision is.

Mr. COOKSEY. Thank you. Very good answer.

Mr. Samuel, a question about the science-based rules on our ag products or trade of ag products, and this is similar to the question about the hushkits. There are countries that would benefit probably more so than others, that are larger ag producers.

Great Britain had a lot of hysteria. What are the other countries that have had hysteria on this issue? I mean, I saw the newspaper stories, and they were saying that monsters would be created by people consuming these genetically engineered products, by primarily Monsanto and DuPont, which have been good for agriculture, but what other countries are involved besides Great Britain?

Mr. SAMUEL. The entire issue of food safety has really come to the fore in Europe from a number of instances. The first, of course, is the mad cow disease problem in Great Britain, and I think that has gotten a large part of the British population concerned about the government's ability to regulate the safety of food. In recent months, we have seen some other examples in Belgium where dioxin was somehow introduced into animal feed and was then passed on into meat products, meat and poultry products. So certainly Belgium has shown these concerns. There was the Coca-Cola flap not too long ago.

Among the countries certainly that have been looking at this have been France, Italy, and Great Britain, and I would say that is where there has been really—and Belgium—have been the largest sort of political reaction and difficulty for those governments in dealing with biotech products and convincing their people that biotech products are, in fact, safe.

Other countries we have had a better dialogue, I would say. For example, the Netherlands have had a long and very mature type of regulation in place on these products, and we found a way to deal with that market, but it is the uncertainty in some of these other larger markets. Mr. Ludolph mentions Austria as another good example.

Mr. COOKSEY. One closing question. If we were in a meeting of an EU country this morning and we were members of parliament in France, the UK, Italy, and Austria, whatever, one of the other countries, what are the charges they would be making about the United States? What would they be saying about us this morning? What are their major trade issues with us? If you could just briefly give me the top three.

Mr. SAMUEL. Certainly, I would say, first of all, it would be sort of unilateral trade actions which they charge us with, and in this area, would be sanctions, on our sanctions policy, that they sometimes feel they are affected by that.

Beyond that, I suppose it would be various subsidy issues that would be partly—this is them trying to find a way to lambaste us with the same sort of charges which we, I think more rightly, make against them, and so they bring up again some of our agricultural support policies, and I think that is mostly a defensive mode, and similarly, in the Airbus sort of trade and aircraft, they bring up defense programs and whether or not these are subsidies.

I would say a third area is certainly State and local practices that they feel go beyond the borders to affect them, and perhaps you recall there was an issue having to do with the State of Massachusetts, proposed restrictions on procurement based on trade with Burma, and that again certainly energized a number of the member states.

Mr. COOKSEY. I have many more questions. I have more than used my time. The chairlady has been more than gracious, and thank you for your answers.

Ms. ROS-LEHTINEN. Thank you so much.

Ms. Danner?

Ms. DANNER. Thank you very much. My question will be directed to you, Mr. Ludolph. My colleague just spoke of the fact that some of us have heard about hushkits in other Committees. Interestingly enough, quite a few of these Members of this Committee are on that other Committee which is Transportation and Infrastructure, and one of the things we learned there was that with regard to the hushkits, the decision was not made on noise decibels, but indeed upon design, and that the design really reflected only American design.

Would you like to tell us a little bit more about that because, you know, the idea that it is simply to reduce noise because airports want it, airports don't really know what kind of a design is in that hushkit. They only know about noise decibels, and yet that is not really what we are talking about.

Mr. LUDOLPH. I can't add very much except that this has been the most astounding breach of the European Commission's regulation for the past 40 years of practice in terms of developing aerospace standards. You cannot really design either an airport or an air traffic control system because much of noise reduction has to do with the operation of the planes, not the design of the planes. You can't really run an international air traffic control system or design an international aircraft based on having a lot of regional or national design requirements. It would be a kind of Rube Goldberg type of invention that would be flying around. It wouldn't be very safe and it wouldn't be very energy efficient, if you tried to put all of these design requirements for national requirements in, and this is the major problem.

More than the fact that this little rule is going to affect or is affecting $2 billion worth of exports today, which is not only affecting but is eliminating $2 billion worth of exports today. The major problem is that for 40 years we have had an international standard system that has supported the growth of air traffic globally. This little rule is the example of a major breach in this system that could very well bring the system down.

ICAO could be a thing of the past if this regulation is sustained, with the effect that neither the Europeans nor the U.S. will have effective noise control in the future because Russia and Indonesia and all of these other countries will be flying planes and operating them based on national standards rather than international standards.

So this is a very grave problem that needs to be addressed in a larger context.

Ms. DANNER. Might we hope—and I think I sense some optimism on your part—that with the new commissioners and the new parliament that we might have a different approach to this problem?

Mr. LUDOLPH. We also have had early meetings—again not with Ms. de Palacio, who is in charge of this issue, but early meetings with the new commission last week, and we do seem to have new possibilities. So we are optimistic that this commission will be taking a fresh look at the hushkit issue, as well as several other irritants, and we expect that this would be a very positive outcome.

Ms. DANNER. One last question. You can tell that I represent—TWA's largest number of employees live in my district, so I am obviously always interested in aviation, but I also represent 27 counties, so obviously I have a rural constituency as well. My question is, do you or your organization, Commerce Department, relate to Barshefsky when you all determine what we are going to—and I followup on my colleague's question with regard to what we are going to ban in our country as they ban our beef. Because in looking through this, I find that over half the articles that we are banning are meat articles, and we are not really short on meat in this country, and then two of them are pates. One is truffles. I mean, these are not things that the average American sits down daily to eat.

Why did we not, if you have the knowledge, and obviously I need to inquire of her, why did we not address the things that we really look for from those countries, wine from France, Spanish goods from—pardon me, leather goods, I should say, from Spain and from Italy? We really have touched things that are not relevant, it seems to me.

Mr. LUDOLPH. Let me just say that our theory—and we worked very closely through our industry sector advisory Committees with the private sector. We have a small business, ISAC, that we work closely with in terms of reviewing the impact of these retaliations and looking at the overall policy of how to go about this. But let me come back to the question of what our theory is.

Our theory is to try to move the negotiations forward. We don't see retaliation as the end of the issue. It doesn't serve anybody's interest not to be exporting beef to Europe nor to stop the import of products coming from Europe. Certainly, that is not what the U.S. expects from WTO dispute settlements.

The theory is to make the pain of retaliation, to visit it on the people who are benefiting from the protection. Animal growers, animal farmers are the beneficiaries of the protection that the Europeans put in place. Beef hormone is a protectionist device to protect cattle ranchers in Europe. So the theory is, we should then be inflicting pain on meat products from Europe, and so that is why we emphasize meat.

Ms. DANNER. So that theory is very relevant if we import a lot of meat products from Europe, but if we are not importing a great many meat products, it loses its relativity. I think, from the light, my time has expired.

Ms. ROS-LEHTINEN. Thank you, Ms. Danner.

Mr. Manzullo?

Mr. MANZULLO. Thank you. As a cattle producer, you might think that my question would be self-serving, but I am not going to touch that issue. I want to talk about eggs.

We received a letter from Malquist Butter and Eggs, a major egg producer in our congressional district. The Europeans must stay awake 24 hours a day thinking about the various ways that they can come up with these nontariff barriers. The latest is that they won't allow any U.S. inedible egg products. Not the incredible egg but the inedible egg products that are used for pet food, et cetera, unless the American manufacturers add fishmeal to the caramel coloring as an additional safeguard. Yet the Europeans themselves are not required to add fishmeal and caramel coloring. This is this is ridiculous.

My question is, first of all have you heard of this latest one?

Mr. SAMUEL. No.

Mr. LUDOLPH. No, sir.

Mr. MANZULLO. It is not because you are not knowledgeable. It is because there are so many of them that come up day after day after day. But what I was going to ask was did it fall through the early warning system.

Mr. SAMUEL. It sure did.

Mr. LUDOLPH. You are our early warning, so we appreciate the aggressive Committee—I don't know—it may be that U.S. really has——

Mr. MANZULLO. I really don't have any further questions to ask.

Mr. LUDOLPH. If you could give us that material, we would like to followup on it.

Mr. MANZULLO. Absolutely. It is a letter that has been circulated by Congressman Blunt going to Charlene Barshefsky, and of course, we are signing on to it. I was going to ask a question on it, but unless you wanted to comment on something of which you have knowledge, I will just let somebody else ask some more questions.

Mr. SAMUEL. We will be happy to followup. Our colleagues at the U.S. Department of Agriculture may, in fact, know about it, and it is just a lapse on our part.

Ms. ROS-LEHTINEN. Mr. Manzullo is on the cutting edge of the Information Age.

Mr. Bereuter?

Mr. BEREUTER. Thank you, Madam Chairman.

Thank you for your testimony. I don't have many questions for you at this stage. Thank you again for your presentations.

First of all, I will come back to some things that Ms. Danner and Mr. Cooksey have talked about, specifically the subject of genetically modified organisms. I think it is probably important that you seek the information from our own industrial agri-industry sources because the Europeans are consuming extraordinary amounts of GMO products already by European production. This is a kind of a red herring, but I don't think that the European public probably understands that this was a subject they might have addressed 10 years ago with respect to their own products. This is some ammunition you need to have on your belt.

The second thing I would say is that we need to reaffirm the principles related to the sanitary and phytosantary accord in the

Uruguay Round, the SPS. Unfortunately, European consumers do not have an FDA. They, therefore, I think are more subject to scare tactics and concerns created by what happened in Britain and Belgium.

I don't know if there is any effort on the part of the EU but we really do need to insist on regulations, including tariffs and nontariff barriers, that are based upon sound science and which are based upon risk assessment. We have a capacity, of course, today to measure one part for 4 billion and beyond, and the scientists that come before us tell us it is scientifically impossible to prove something is safe. You can prove it is dangerous, but you cannot prove it is safe. Risk assessment needs to be a factor or we cannot stop any nontariff barriers that are placed against our products. It is just impossible.

It goes back to the infamous Delaney clause in the United States which hounded our own production and consumer sector. I hope that we can really get them to focus on what is sound science with respect to the products that we hope to export to Europe. We need to put teeth into agreements to reiterate that sanitary and phytosantary accord was supposedly put in place by the Uruguay Round. It was put in place, but whether or not it is violated more often than not, I don't know.

When we listen to Europeans talking to us today, moving to another point, including members of the European Parliament, it is clear that they are preparing their arguments against the agricultural subsidies that we are voting for. We are going to provide more financial assistance to the farm sector this year than any year since the mid-1980's. We are about to put more in there, but it is important that we cause the Europeans to admit that there is a distinction between trade-distorting subsidies and those that are not trade-distorting.

Ours are transition payments for the most part, and they are increasing the transition payments. What they don't do is distort trade. They are not putting us in an advantageous position to compete for Third Country markets. Through their subsidies, the Europeans have Taken Third country markets from us. They will prepare to make a general assessment about what we are spending in agriculture versus what they are spending and say, "See, you do it, too." The difference is whether or not it is trade-distorting or nontrade-distorting. I think that needs to be the focus. It is clearly part of their tactics and strategy for the next round.

Let me just say one more point. I think we really have to cultivate sound relationships with some of the countries that are most affected by these nontariff barriers and the subsidization of their export sector. Those countries include Australia and New Zealand which are really hurt more than any other countries by the trade war that we find ourself in with the Europeans in trying to combat their trade-distorting subsidies with some of our own. We don't fund them as well, but still, it is the Australians and New Zealanders who are really most directly affected by this.

I hope that perhaps you will try to revive or work with anything that looks like the Cairns Group that might be continuing or reestablished.

I guess I would ask you one final question as a part of this. What do you think we can do to put in place effectively the SPS accord in the Seattle Round?

Thank you, Madam Chairman.

Mr. SAMUEL. Just briefly, thank you very much.

Many of your statements sound just like the talking points that were prepared for me. We agree 100 percent on what you are saying on biotech and on genetically modified organisms, that we have to have a science-based system. The Europeans have to adopt a science-based system. We are working in several areas, most importantly in the Codex Solimentaries, which is identified in the WTO as the body that is responsible for this.

Europeans have introduced what we consider suspect notions of precautionary principles into the work of that Committee.

Mr. BEREUTER. Would you remind my colleagues of where the Codex is funded and run?

Mr. SAMUEL. Sure. It is run out of the FAO and the international organization.

Mr. BEREUTER. When we think about authorizing money for the FAO, we might think about the Codex.

Mr. SAMUEL. That is right. So that is very much an important organization in trying to maintain its principles of sound science.

We are doing work also at the OECD on what are the regulatory procedures that different countries have in place and how they can be effective. So we agree completely with your statements on the need for sound science, and that is the way we are promoting it with the Europeans.

I agree, too, as I mentioned in the earlier question, that the Europeans are trying to stretch the plane and incorrectly referring to our farm support programs as trade-distorting or in any way a violation of the agricultural agreement from the WTO. We are watching our amber box limits as we move forward, and as you mention, our own export subsidies are minimal compared to the Europeans.

We have been working with the Cairns Group. Secretary Glickman was at their last meeting in Buenos Aires. We will continue to work with the Cairns Group and would like to and have in fact adopted very many similar positions. I note the language on export subsidies in the recent APEC declaration which was us working with Australia and New Zealand, I think to get good language on elimination of export subsidies.

As far as the SPS agreement itself goes, we think that it is a good agreement. It needs to be implemented better. We don't want to see it reopened in the new round. We want to keep it as it is; and the way to have it done, I think, is to keep raising it again and again as a red flag with the Europeans when we see examples, such as this egg example that Mr. Manzullo mentioned. I think in its use that it is going to be proven that it stands up in dispute settlement cases that we have already seen on the hormones case. So, again, if it is of use we will stick with it.

Mr. MANZULLO. Mr. Brady.

Mr. BRADY. Thank you, Mr. Chairman. I want to continue on food safety.

First, I realized as Mr. Cooksey of Louisiana was talking that we might have a perfect example that could reassure the Europeans

about food safety and the strength of the human body. Louisianians have been both eating and marketing boudin for a century. It is a sausage that defies genetic identification, has a shelf life of 50 years and could be the next scientific element just by itself, and every time Texans think we are special and smart, we realize that the Cajuns have talked us into eating that stuff, and so we are not all that bright.

You might want to use that example the next time they get concerned over there.

In effect, today, as we know, we have a fresh start in Europe. Although optimistic about it, and every time there is an opportunity for change, we are not sure that is going to occur. Earlier this week I noticed an announcement by David Byrne of Ireland, the new EU Commissioner for Health Consumer Protection, that in October he will be releasing in effect a white paper outlining some of the principles of food safety inspection for the future.

My first question is, what do you anticipate different, or are we working with his office to at least identify areas of common ground? Second, how do we make the case much better on issues such as bananas? The issue isn't bananas; it is the integrity of the World Trade Organization, that if we don't have a dispute resolution that is timely, where the appeal process is clear, that really jeopardizes trade all around the world. Bananas are so much important because of that integrity.

Do we need to be raising the need for changes? Have beef and bananas or other disputes identified some areas within the appeal process that need to be clarified so that there is more timely response? So the first one is, do we anticipate anything different with Mr. Bern's report? Second, you know, are we contemplating initiating, pushing for changes that could help?

Mr. LUDOLPH. Let me just start, Congressman, with the issue of food safety. My minister, Mr. Aaron, met with David Bern's chef du cabinet on the day that Mr. Byrne was sworn in. Mr. Byrne has testified in addition to his comments about putting out new food safety regulations that would restore confidence among consumers in Europe and is intended to do that. He has also stated that he is very dedicated to the issue not only of consumer protection but also of sound science. These are very important statements that were amplified and expanded in our discussions Friday a week ago in Brussels with the his chef du cabinet, Mr. Martin Power.

We have taken two steps here in the U.S. Government with my colleague, Mr. Samuel. We have started an outreach campaign on GMO's and on food safety dedicated to be addressing a lot of the European concerns, and we have suggested to Mr. Byrne that a joint government public hearing on the issues of science and how science supports agrobiotech issues and biotechnology food be held at an early juncture by the Commission, and that idea is beginning to be very well received under this new Commission. It went nowhere all summer under the hiatus we had with the Commission's changes.

Finally, this January in The Hague, the U.S. Government with the U.S. business community are inviting 300 scientists to come together in The Hague to address the issue of biotechnology in food. We want that conference to be in The Hague, particularly because

the Netherlands is very supportive of what we are looking at in terms of sound science and addressing the issue of precautionary principle, and Mr. Byrne is also interested in participating in that conference.

These are changes that we see in the new Commission and a new kind of willingness to look at sound science and as it supports consumer protection. Their idea, as you point out, is to move to bring confidence back to their consumers, and we have to make sure, and I think this commissioner now is showing that sound science is going to be really the only objective way to support that policy.

Mr. SAMUEL. On the dispute settlement system of the WTO, you are correct that the bananas case, first and foremost, showed that there was a glitch in the system. It threatened to become what we call an endless loop of litigation where one country says, oh, no, it has done exactly what it is supposed to do and the other country say, no, and they say, well, take us back and start from the beginning on dispute settlement.

So that was resolved actually through some panels during the course of the banana proceeding, we think in our favor, our argument, in fact, that the panel that reviews the retaliation is reviewing at the same time the implementation and the consistency of the implementation.

We are in the process very much of working in Geneva. Our Deputy General Counsel at USTR has taken the lead on this in working with counterparts in Geneva to fix this glitch in the WTO dispute settlement procedure. We think, first of all, it will end the dispute about what the procedures are themselves, and so of course not provide an opportunity to string it along; but second, we think we can sort of trim some of the time schedules. So we have learned now in the course of several years since the course of the WTO that some of the 90 days, don't need to be 90 days or the 60 days could be a little bit less, and so we are working on that, too, and we are optimistic that we will finish these consultations and get an agreement by the time, if not before, certainly by the time of the Seattle ministerial.

Mr. BRADY. That is very important, and Mr. Ludolph, any opportunity we get a chance, not only with the Commission, but the European Parliament members who are directly elected, who in their town hall meetings have to face the issue of food safety, my experience with them; and as we had an interparliamentary delegation to Texas to look at ag research, GMO's, issues such as food safety, I think education, any time we get an opportunity to educate members of the European Parliament, as well as the Members of the U.S. Congress together on this issue, it is worthwhile. I don't see it as an artificial trade barrier, but a very real one where we have to do a lot of work any chance we get; and I hear from our European parliamentary members they want to be involved in solving this as well. So just an observation.

Mr. MANZULLO. OK.

Mr. Burr.

Mr. BURR. Thank you, Mr. Chairman. I really came to listen and not ask questions, but I think Mr. Bereuter stimulated something that I want to followup, and it is not so much a question as it is a statement.

Let me suggest to both of you that sound science is an important issue. Unfortunately, I don't think, yet, sound science trumps politics, and for that reason, I am not too confident that sound science will be a dominating or determining factor on decisions that are made relative to positions on trade.

I am sort of curious as to how the EU will respond when hopefully this Congress addresses the tremendous ag disaster in North Carolina this year.

I think the case will be made that North Carolina can't take any more loans. They have to have direct payments. I am sure that will create a new, if we are able to do it, crisis in the relationship of the ag community and what the U.S. does to the ag farmers, because we have, in fact, complained about direct payments to farmers in the EU for some time, and clearly that is not going to change in the foreseeable future.

Mr. Bereuter raised the question about health, and I want to go specifically to that. He also raised the question of a food and drug Administration. One of the attempts for one of the mutual recognition agreements dealt with our acceptance of European standards for drug approval and device approval, but we are in a different situation. I think that we indeed have the gold standard of that process, one that I have fought very hard to protect.

The EU is in a different situation because, upon its formation, they accepted the standards of all members, a wide, varying array of standards that existed, some with a little more credibility than others—not to highlight countries, but clearly a system that I hope this country does not adopt with open arms, a mix of 22 different approval processes that we, in turn, turn around and assure the American public, this is all safe and effective. I do believe that the most difficult thing that we have to deal with in the future is not our trade agreements, but it is our ability to harmonize the international standards.

We can have explosive trade, but at some point, we hit a wall that is so high because of our inability to harmonize those global standards that it will bring trade to a standstill.

I will let either one of you, or both, comment on anything that I have referenced.

Mr. LUDOLPH. I appreciate and understand very much the concerns that this Committee and other Committees have raised on the implementation of MRA's and the implications it has for harmonization, not only with the European Union that has relatively high standards of regulation and enforcement, as well as safety to protect their consumers and environment, but more importantly with other countries outside the European Union that have more difficulty not only developing high standards, national standards, but enforcing them.

I have just come from a meeting of the Transatlantic Business Dialogue this morning in which we discussed the implementation of the medical device, MRA, and the slow pace, the unsatisfactory—from a business community's point of view, the slow pace of implementation. Implementation of the MRA and medical devices, and for that matter, pharmaceuticals is slow because the FDA is holding to its position that they must inspect every one of these foreign inspect orates in the European Union before we go forward with

turning over inspections to either conformity assessment bodies or private bodies in Europe or with the governments.

So we expect that instead of a year's delay in developing an MRA or implementing an MRA and medical devices that it may take as much as another year before the FDA is satisfied that medical device enforcement and procedures in Europe meet their high standard for delivering safe products here in the United States. That is a delay we are prepared to take, and that is a delay that will be inconvenient to the constituents and the business community for what they hope an MRA is going to provide.

Mr. BURR. Let me note for the record that last year, though, there was tremendous pressure on the FDA by our negotiators to expedite that mutual recognition agreement, even though serious, serious questions remain. So I thank you or those who are responsible for allowing the FDA to go through a thorough process, because I believe that the speed with which they were asked to rubber stamp an agreement would, in fact, break the gold standard that many people in the country have grown to trust.

Mr. LUDOLPH. We very much appreciate the hearing that was held last year on this issue, and it brought home a lot of issues that had to be addressed by the FDA, as well as the trade community.

Ms. ROS-LEHTINEN. [Presiding.] Thank you so much.

Mr. Crowley.

Mr. CROWLEY. Thank you, Madam Chair. This is concerning the hushkit issue in terms of the EU. Can you tell me why you think that was imposed?

Mr. LUDOLPH. I am sorry, why the Europeans——

Mr. CROWLEY. Was it purely for noise control or was it punitive, in your opinion?

Mr. LUDOLPH. Both. It was originally proposed under the assumption or under the unexamined assumption that it would address noise. It does not address noise. Today I can't really persuade you that it has any other effect than protecting or disrupting or eliminating certain kinds of technologies that only American companies make for the European market.

So, originally it was proposed as a noise regulation. We have brought it to the attention of European Governments that this does not address noise at all and has the explicit effect of eliminating more than $2 billion worth of trade.

Mr. CROWLEY. In other words, you are saying there is no discernible difference between a hushkit engine and a fitted engine that is already meeting those standards?

Mr. LUDOLPH. The hushkits are forbidden under this rule, and there are about 1,800 airplanes in the world that would benefit from hushkitting. So this would have an effect on them.

A more expensive way of retrofitting these 1,800 planes is to reengine them. Many airlines can't afford to go this more expensive way of reengining, and in many technologies, many airplanes won't even support reengining with any effect. So all of these proposals that the Europeans have come up with in terms of design or technologies would really have little more effect than taking airlines and aircraft out of the European market.

Mr. CROWLEY. What steps are you yourself or the Administration doing to address the issue?

Mr. LUDOLPH. David Aaron, my Under Secretary of Commerce, is on daily phone calls because there are key meetings this week in Europe on how to go forward. Our policy is to continue to work with the FAA and the European Union on about a 14 month program in ICAO to develop an alternative noise reduction standard. Meanwhile, we have lost $2 billion worth of business because the effect of their proposal is to eliminate our competitiveness.

We also, therefore, need a second step. In addition to the 14-month harmonization of standards, we need the European Union to withdraw or to begin a mechanism to withdraw that regulation which does not contribute to noise and does not contribute to the ICAO process.

The European Union are deliberating on our proposal for withdrawal this week and through the rest of this month and in the early part of October. I have already indicated to Mr. Cooksey that we will get reports on a regular basis this week and next, and we will be sharing that information with your Committee.

Mr. CROWLEY. We would appreciate that information. Thank you.

[The information referred to follows:]

Ms. ROS-LEHTINEN. Thank you so much for an excellent presentation, and as you can see, the issue of hushkits and as Mr. Menendez brought out, how all of these tactics of the EU impact on domestic small businesses is of great concern to this Subcommittee; and we look forward to continuing our conversation with both of you and your Departments. Thank you so much.

We would like to introduce our second panel. It leads off with Mr. Willard Berry, who serves as the President of the European-American Business Council, formerly the European-American Chamber of Commerce. Prior to joining the Council, Mr. Berry led several national and State organizations involved in international trade with primary emphasis on export issues. His most recent assignment was that of Vice President for Congressional Affairs at the national foreign trade council in Washington from 1988 to 1992. Mr. Berry's background extends beyond his experience as a trade associate executive, and he has also served as a university professor for almost 10 years.

He will be followed by Mr. Rick Reinert, President of REHA Enterprises. Mr. Reinert is a constituent of our colleague, Mr. Sanford, a Member of the International Relations Committee.

Our final panelist is Mr. John Roberts, President of the National Association for the Specialty Food Trade. Our distinguished Ranking Member, Mr. Menendez, will introduce his constituent.

Mr. Menendez?

Mr. MENENDEZ. Thank you, Madam Chairlady. It is my pleasure to welcome John Roberts, who is the President of the National Association for the Specialty Food Trade. The NASFT is a not-for-profit trade association which represents members who work with high-value food items, including many small importers. Recently, Mr. Roberts was appointed as a member of the U.S. Department of Agriculture's Agricultural Policy Advisory Committee for Trade and as an advisor to the Foreign Agricultural Service. He resides in New Jersey, which is the Garden State, and is a graduate of

Seton Hall University, and I believe he will testify about some of the domestic impacts of U.S. retaliatory trade measures, and we appreciate you coming from New Jersey today to give us your insights.

Ms. ROS-LEHTINEN. Thank you so much for a most excellent witness, and I would like to recognize Mr. Sanford so he may introduce his constituent, Mr. Reinert.

Mr. SANFORD. Madam Chairwoman, I would simply like to introduce Rick as a hardworking American taxpayer from Summerville, South Carolina, and I think that unfortunately if what exists right now stays in place, Rick will basically be the personification of the terms "friendly fire." We all know those movies wherein somebody is caught at the wrong place at the wrong time and through no fault of their own they are getting fired on.

Rick isn't getting fired on. He is getting bombed, and if something doesn't change, he will truly be a casualty of war. This is going to be tragic, given his background, in that he served our country honorably in the U.S. military. During his service with the army he was stationed in Germany for 3 years.

When he was there, he found a couple of products that he liked. When he returned to the United States, he began importing those products. One thing led to another—similar to many American success stories, and Rick moved his business from his basement to a 6,000-square-foot building. He grew a successful business and things were going fine; and then all of a sudden a trade war erupted, which brings us here today.

I would just say that I would beg of you to really listen carefully to his story because what has happened to Rick undermines the very principle on which trade practices are built, and that is, trade law is supposedly about fairness, making sure that one country has a fair relationship with another country. What is going on with Rick right now makes a mockery of the word "fairness." .

I think it raises a dirty little secret that is happening, similar to that of Bob Menendez's constituent: if you happen to have the right lobbyist in Washington, to be the subject of this problem. In other words, the dirty little secret here is the power of money in Washington. For Rick, who can't afford a lobbyist in Washington, to be the subject of this unfair trade practice, again, makes a mockery of what we are trying to have in place with our trade practices. I won't usurp his story, but I would ask that you listen to it carefully.

Ms. ROS-LEHTINEN. Thank you so much, Mark and Bob, for providing us with such excellent witnesses who are on the front lines of this trade war.

I would like to tell our panelists, as well as our Subcommittee Members, that we need to be out of this room, at the latest, at 1:05, because there is a 1:30 meeting and they need the time to clean up after us, especially me. So if you could please limit your time, and I am going to be closely monitoring it. Thank you so much.

Ms. ROS-LEHTINEN. Mr. Berry, we will begin with you. We will be glad to put all of your statements into the record so if you could summarize them that would be great.

STATEMENTS OF WILLARD M. BERRY, PRESIDENT, EUROPEAN-AMERICAN BUSINESS COUNCIL

Mr. BERRY. I will do that. Thank you, Madam Chairperson and Members of the Subcommittee, for this opportunity to testify and holding what we think is a very important hearing. The Chairperson, in her opening statement, and some other witnesses have remarked on the substantial character of the trade relationship. Today, we are releasing this study. The Members of the Subcommittee should have it, which is a State-by-State analysis of trade and investment.

Ms. ROS-LEHTINEN. We have all of those. Thank you.

Mr. BERRY. But in the short period of time I have, I would like to focus on the quantitative aspects of the relationship, pointing to the enormous amount of jobs and that the number of jobs, which is 3 million on each side, is doubled when you take into account indirect employment.

When you look at the 12.4 million jobs in the United States that are supported by exports from the United States to Europe, when you look at the size of the exports, one of the things which cannot be reflected in this study because of the way the data are produced on a State-by-State basis within the government agencies that collect the statistics is how that growth has changed over just the last year.

New EU investment in the U.S. jumped from $26.7 billion in 1997 to $103 billion in 1998. That is an increase of 385 percent. At the same time, new U.S. investment in the EU leapt from $18.9 billion in 1997 to $54.5 billion in 1998, an increase of 288 percent. The total increased investment relationship is nearly $900 billion. This is what we must comprehend about the relationship.

Policy should be guided by an awareness of these strong phenomenal ties. The factors that underlie this market integration process should be better understood. Policies which reinforce and support this dynamic should be pursued. These developments would not be taking place were there not many commonalities between the two markets: a common market-oriented approach, shared competitive orientation, shared leadership and technological developments, corresponding business practices and compatible legal frameworks and commitment to global trade rules. These factors and others define substantially transatlantic cooperation.

Policy makers have, to a large extent, focused their energies on the disputes and, in the public mind, these conflicts define the European-American relationship. There has been bilateral cooperation in approaching and managing a number of areas: the emerging electronic marketplace, telecommunication standards. There has been real progress through extensive dialogue on data privacy which 1 or 2 years ago was considered a very, very risky issue. There have been other advances toward regulatory cooperation, mutual recognition and, as some of the witnesses before mentioned, early warning.

For the most part, however, the conflicts have captured the attention of policymakers. This is not only unfortunate, but in the long run, removes key officials from the real vitality that the transatlantic commercial relationship involves.

Is the focus wrong when the total sanctions on bananas and beef, $308 million, is less than three-tenths of 1 percent of new EU investment in the U.S. last year?

There are a number of things that I could say—some specifically—about the disputes. Clearly some changes need to be made. There has to be more cooperation. We are particularly concerned that there hasn't been more cooperation between the U.S. and the EU in their approach to the WTO ministerial agenda. We are pleased with the early warning. We are pleased with a lot of the things that have developed within the Transatlantic Business Dialogue.

I would be very happy to answer any questions. Thank you.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Berry.

[The prepared statement of Mr. Berry follows:]

Ms. ROS-LEHTINEN. Mr. Reinert.

STATEMENT OF RICK REINERT, PRESIDENT, REHA ENTERPRISES, INC.

Mr. REINERT. Thank you, Congressman Sanford, for your kind words, Madam Chairman and honorable Members. Let me first start off by apologizing to all of you because I am going to use this forum to discuss my problem and my company basically.

I brought with me a banana. This could have been produced by Chiquita, Dole or Del Monte. I have also brought our product along, which is Ombra Bath. This is our product we distribute right across the United States and if you look at the back of this product, there are no banana derivatives in this product. The shape is not banana like, the smell is not banana like, it is not yellow.

So my question is, why since March 3, 1999, do I have to pay 100 percent tariffs on this product? I also would question and point out to you that it has already cost me $20,000, and this money I believe is mine. It is not the U.S. Government's money. This is the money that is collected from honorable business basically in the form of profits. Now, I have to give to it the U.S. Government because they decide to make this punitive trade action on Europe.

When I first learned about this whole thing it was through Time magazine in February 1999. At that time, it was pointed out to me by the USTR that the public debate period had closed already in November 1998, and the USTR was very surprised that I was still importing this product, but I would question them, what would they have me do? Would they have me crawl into a hole and close my business because they decided my business was not worthwhile or my product was not worth having in the United States?

I would also like to ask a pointed question to Ambassador Charlene Barshefsky and Ambassador Peter Scher. Put the shoe on the other foot. Say, if I had the power to implement these tariffs, what would they do in my position? Would they close up their business and go home? I am not prepared to do that.

I believe that this punitive trade action by the USTR is having minimal effect on Europe. I would also tell you that this is a hit list basically of the banana war and the beef war, and every product on these lists——

Ms. ROS-LEHTINEN. What is that list that you are referring to, the same?

Mr. REINERT. The banana war hit list, the final list of 100 percent tariffs and also the list of the beef war, and I would suggest to you that you could multiply that list by three and there are three companies out there for each items importing these goods, and these are the people you are hurting, U.S. citizens and U.S. businesses, and I really question whether this was really the effect that was wanted. Would it have not been more equitable to put 5, 10, 15, even 20 percent on a whole range of European goods, everything coming over?

I guarantee you change would have been effected immediately.

I can tell you our product is made under the highest labor standards in the world. The manufacturers have just received ISO 9002 certification. Can Chiquita, Dole and Del Monte say the same thing about their labor conditions? I would also like to point out that the product that we are protecting here with this trade action is not a U.S. grown product. It is a Latin American grown product.

The Constitution, in my opinion, as I always learned, protects everyone, regardless of size, political clout, financial resources. So I believe I have as much right to protection as anyone out there, any business, and I am also under the understanding that this country was founded on its opposition to unfair taxation. I do also believe that the Europeans with their banana regime, it is contravening the general agreement of tariff and trade, but I think it is immoral to target one company because of the wishes of another.

In closing, I will tell you I have been making this impassioned appeal to you because I am going to tell everybody who is willing to listen to me, and I could never in my life have believed that at some point I would be in a fight for my very survival with the U.S. Government.

So let me just say this, and I don't want you to take this out of context, but when you go back to your offices and your constituencies and I go back to Summerville, South Carolina, remember that me and everybody on this list are still going to be paying these tariffs. I thank you for your time.

[The prepared statement of Mr. Reinert follows:]

Ms. ROS-LEHTINEN. Thank you very much for excellent presentation, and I think that you speak for everyone else on that list.

Mr. Roberts.

STATEMENT OF JOHN ROBERTS SMALLER, AMERICAN COMPANIES

Mr. ROBERTS. Good afternoon, Madam Chair. Thank you, Congressman Menendez, for your kind introduction. Thank you all for the opportunity to present the views of smaller American companies regarding the serious damage they faced from the actions taken by our government during the recent trade battle with the European Community.

The National Association for the Specialty Food Trade, NASFT, is a not-for-profit trade organization, formed to advance the interest of all segments of our industry. Our Members' products are high value added food items. Although headquartered in New York, the NASFT has a nationwide membership of over 2000 specialty food suppliers, including manufacturers, producers, distributors and importers, in addition to a growing number of specialty retail-

ers, restaurants and chefs. Over 90 percent of our member companies are U.S. based and are owned and operated by American citizens. In particular, I want to emphasize that the typical NASFT importer member, like Rick, runs a U.S. based, U.S. owned and U.S. operated business and employs Americans in a wide variety of professional positions and in both skilled and entry level positions.

I would also like to make clear where the losses occur, when a high value added consumer product, like those of our Members and like Rick's, is excluded from our economy. Many people don't realize that for each dollar lost to the foreign exporter, the American economy loses $3. The details of that are in my submitted statement. The U.S. economy bears 75 percent of the loss when these tariffs are put into effect. The numbers are there. The people that made these decisions were told that.

The NASFT strongly recommends and supports an aggressive U.S. posture in identifying and correcting unfair and unequal trading situations. We also expect our government's actions to be effective. When retaliation is necessary we should inflict maximum damage abroad while causing little or no harm to American interests and it can be done.

The NASFT recommends four steps that we believe the U.S. Government must take to stop making U.S. businesses victims of U.S. trade policy.

First, the U.S. must expand its vision, play chess instead of checkers in its trade policy and trade actions. Both the banana and the beef disputes are examples of ill chosen battles and short term thinking. We have won in the World Trade Organization our court fight on both bananas and beef, but let us face the facts. We still have not gained market access, Europe has still not changed its policies, and the U.S. economy is still suffering 75 percent of the total damage being done by these retaliations.

My recommendation second is to make trade retaliation create opportunities for U.S. companies. The careful selection of items is a critical part of ensuring that we do maximum damage to our opponents, while avoiding damage to our own business and economy. The process we have detailed in our full text requires greater finesse and more research than our current process. It requires more work. But if we follow it, we can turn the tables in our favor when we target the right imports.

Recommendation third, specifically avoid damage to small businesses. Small importers frequently concentrate on limited product categories. This specialization is a good strategy except when it becomes a liability when our government randomly selects that category for punitive tariffs unrelated to the dispute. The government agencies selecting and imposing the tariffs have given no consideration, despite the testimony you heard here today, to the impact of their actions on small businesses.

The proposed Small Business Trade Protection Act offered by Congressman Menendez would ensure that small U.S. businesses engaged in importing would not be wiped out. The bill would allow small businesses to know they will be protected and to concentrate on business opportunities rather than looking over their shoulder at government threats.

Recommendation fourth, protect America's reputation as a safe food source. I ask you, what have we done to our image as a safe food supplier by trying to force our way into markets with a product, hormone treated beef, clearly unacceptable and suspect by European consumers? You can force it onto the shelf, you can't force the consumers to eat it without education. Scientific evidence besides, you have to deal with their emotional feelings.

What further damage will we do by fighting a similar battle for genetically modified foods and seeds? We are deeply concerned by these actions that sacrifice our reputation as a safe food supply and severely damage our current and future chances to grow U.S. food exports.

In conclusion, we encourage this Subcommittee to recognize that the current approach is not working; that a new overall approach is necessary; and that short term protection for small business, such as a Small Business Trade Protection Act, is essential.

Thank you very much for your attention. I appreciate any questions.

[The prepared statement of Mr. Roberts follows:]

Ms. ROS-LEHTINEN. Thank you so much. Mr. Sanford, if you could lead the questions?

Mr. SANFORD. I would just go back to, actually you had mentioned Charlene Barshefsky, whose pronunciation I can never get right. The unfortunate fact is that from time to time the imposition of increased duties, as a result of a Section 301 unfair trade investigation, may cause serious harm to some American businesses or consumers. If I am not mistaken that was her letter to you last month.

Mr. REINERT. Yes.

Mr. SANFORD. Could you tell me or tell the rest of the Committee any of the things that you think fall as a ramification or it is certainly to me a very callous letter saying, well, there may be a few bad things that come your way but we kind of need these casualties.

Mr. REINERT. Her answer, in my opinion, is unacceptable. I don't accept that. What am I supposed to say? She tried, it is unfortunate it happened, and we are stuck with it. I find another means—I am trying to find other means, but the simple fact remains this legislation and this policy has left a great number of American businesses scrambling for survival, and I can't believe that is the intention of our government.

I was apolitical at first. I have become more political, I can guarantee that, but I really don't want anything to do with the government. I just want to be left alone. I don't want any imposition. I just want to do my job, that is all.

Mr. SANFORD. Given our time, I will yield back, and I may come back later for a question but so that everybody can question. Go ahead.

Mr. BURR. [Presiding.] The gentleman's time has expired. Mr. Menendez.

Mr. MENENDEZ. Thank you. Mr. Roberts, I appreciate all of your testimonies, and because of the concentration of time we have, I would just like to go to the one part of your testimony that you glossed over because of time constraints, which is the process by

which we could have Mr. Reinert and others not be in the firing line of these trade retaliatory actions, at least to make it more equitable for everybody. Could you give us a sense of what your association is advocating in that regard?

Mr. ROBERTS. Certainly. It runs along the line of the bill that you have submitted and has been posted and basically it has a lot of logic. When we fought the battle for nutritional labeling exemptions for small companies, Congress was very strong on the fact that the 500 employee definition of small business was much too large for this exception. So we started with lower numbers and wound our way down and settled on 100 employees as being a good definition of a small business in the food industry.

The second thing we wanted to do was to protect these companies from having to pay the punitive tariffs. So what this would do is say that any company that is an importer with less than 100 employees would be allowed to bring in the same amount they brought in last year with no punitive tariffs, and to allow for some growth, a 25 percent over that level. That cap though, by the way, is a very good safety factor. It means that Nestle can't participate because the employee cap doesn't hit, even if they had a product that was eligible, and it also means that large companies are kept out and large internationals are kept out.

The third thing, which says that you can bring in exactly what you brought in last year plus 25 percent, means that you cannot become a conduit, a front man for some other company. So the rules would still work to prohibit big companies from bringing in big amounts and would still be punitive to the extent that they are to the Europeans.

I hope that explains it.

Mr. BURR. I thank the gentleman. Mr. Cooksey.

Mr. COOKSEY. Mr. Reinert, I am very sympathetic to your situation. I am from a small area with a lot of small business people, and we actually have a lot of exports from Louisiana, too. Is that a bath product?

Mr. REINERT. Yes, it is HTS code 3307.30.5000. I know that by heart.

Mr. COOKSEY. What would it do for a gray headed old man?

Mr. REINERT. You can try this. This is a herbal bath, basically a luxury item, as all these items are I believe on the list. They are pretty well luxury items. I don't think there is any essential items on there.

Mr. COOKSEY. Some of the women use them probably more.

Mr. REINERT. Our demographic is basically a woman. We sell them right across the country.

Mr. COOKSEY. My comment is that a lot of people come to Washington with problems, and too often politicians want to respond and they pass some law or the regulators pass the regulation in response to pressure from legislators, and a lot of them are done with good intention but have unanticipated side effects, and I think that is unfortunate. I think that a lot of these solutions are better found on a State level or working out from businessperson to businessperson, even though they are in different nations in different parts of the world.

I would tell you that the most rapid growing part of the economy, that is growing at the speed of light, is e-commerce, and one reason it is growing so rapidly is because it is unregulated and untaxed. The politicians, this bunch up here, have not been able to get into it yet, but when they do, e-commerce will be bogged down and slowed down and cause nightmares for businesswomen and businessmen like yourself. So go back home and tell the people in government to get government out of your life, and you will be a lot better off, and in the meantime we will try to do something to make it easier for you to do business.

I have a lot of confidence in the ability of people to do business with each other, no matter what, where they are in these global markets in the Information Age. The problem is that government moves a lot slower than businesswomen and businessmen do.

Mr. REINERT. Believe me, I have confidence in government, too. I believe they are honest people. I believe some of the actions they take are misguided, and I think they don't think about the ramifications, but I believe Charlene Barshefsky is a good person.

Mr. COOKSEY. She really is and I am impressed with her.

Mr. REINERT. She is loyal and patriotic as I am, but I am just trying to find a way to resolve this thing, that is all.

Mr. COOKSEY. Let me tell you one more comment. The good news is that as we move into more globalization in this technology driven economy, governments and politicians are going to become less important and less influential because they cannot keep up with e-commerce, and that is good. So there is going to be a better future in the next millennium, and we will become less important.

Mr. BURR. I thank the gentleman. The Chair would recognize himself.

Let me just ask if anybody is here from the Department of Commerce, would they raise their hand. Your position with them is what?

Ms. MOORE. I am with basic industries in the international Administration. I am a staff level person.

Mr. BURR. Your purpose for being here, were you instructed by the Department to be here for this panel?

Ms. MOORE. No. I was interested in being here to hear testimony.

Mr. BURR. Let the record show her answer, and I would make this point, too, especially our two witnesses here.

Part of the problem with trade decisions is nobody looks at the human face behind them. I am sorry that there is not a line of Department of Commerce people here to hear the story both of you have to tell, you about your product, you about your membership, and Mr. Berry, to some degree, to hear your suggestions, because in reading through your testimony I think there was some good ones there.

Let me suggest to you that our government will never be in question because of the trade agreement, the health of our government because of the trade agreement that we sign or don't sign, but there are countries around the world that are affected greatly by agreements that they either stand behind or run from, and that presents the political problem that comes into every situation that we are faced with, whether it is beef hormones, whether it is bananas. It is not our political problem. It is theirs.

I agree with all of you that we haven't handled it well. We haven't taken time to understand it well. We have retaliated in a way that affects people that nobody at the Commerce Department knows who they are. I am glad that you were willing to come up today and put a face with it. I am only sorry that they weren't willing to come here and see that face because it might have a long term effect.

Clearly there is a lot of interest on this Subcommittee. There is a lot of interest in Congress that we get it right in the future.

There is also every confidence, as Mr. Cooksey said, that electronic commerce bypasses in the future a lot of the human mistakes that we make, and whether we like it or not, commerce between two parties is going to happen, and whether we are willing to be there from a regulatory standpoint at the beginning or not.

On behalf of this Subcommittee, let me thank all three of you and assure you that all Members will have an opportunity to review your testimony and the questions and the answers that were given at this Subcommittee. This hearing is now adjourned.

[Whereupon, at 1;10 p.m., the Subcommittee was adjourned.]

A P P E N D I X

SEPTEMBER 29, 1999

COMMITTEES:

INTERNATIONAL RELATIONS
GOVERNMENT REFORM

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SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC
POLICY AND TRADE

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Statement by Hon. Ileana Ros-Lehtinen, Chair
Subcommittee on International Economic Policy and Trade
"The Transatlantic Initiative: Opportunities and Prospects"
Wednesday, September 29, 1999
2172 Rayburn at 11:00 a.m.

Given the recent, continuing, disputes between the U.S. and the European Union, it would appear that transatlantic relations are marred by conflict. Just a few days ago, the House considered a resolution on the EU's protectionist stance against the U.S. jet engine market and "hushkits" which are in compliance with ICAO Stage III guidelines on noise level standards.

However, most would agree that focusing solely on these disputes would be oversimplifying the relationship.

The United States and its European partners have long been leaders in the global economy and have generally developed and maintained a strong common interest in working together to strengthen the world trading system.

This has become more evident in the aftermath of the Cold War with U.S. and EU policy makers arguing that expansion of transatlantic trade relations is the vehicle for a general strengthening of ties and a reinvigorated political and security relationship in the form of The New Transatlantic Agenda – a goal reiterated in the Bonn Declaration adopted at the summit in June of this year.

This view is presented alongside data which shows that economic relations between the U.S. and Europe are supported by significant trade and investment links.

Taking goods and services together, the EU and the U.S. are each other's largest single trading partner. Last year, trade in goods between the Member States of the EU and the U.S. increased almost 14% for exports and 10% for imports compared to 1998. Taking only bilateral EU-US trade into account, it represents more than 7% of total world trade, as compared to 4% between the U.S. and Japan.

By the same token, the two sides remain each other's most important source and destination for foreign direct investment with a reported combined stock of over $800 billion U.S. dollars. The U.S. supplied 63% of all foreign investment in the EU countries and secured 58% of the EU's total outward investment in 1998.

This reality, combined with the stated need to strengthen and expand overall relations between the U.S. and its European partners, led to the signing of the New Transatlantic Agenda in 1995.

The Agenda contains a wide range of commitments in foreign policy, security, and law enforcement.

Yet a substantial portion of it is dedicated to economic and trade issues, drawing from recommendations offered by the business sector on both sides through the Transatlantic Business Dialogue.

This chapter of the Agenda deals with both multilateral and bilateral issues toward the development of a "transatlantic marketplace" based on the reduction and removal of barriers to the flow of goods, services and capital across the Atlantic.

Since its inception, significant progress has been made including the signing in 1997 of the Agreement on Customs Cooperation and Mutual Assistance in Customs Matters and, later, the Science and Technology Agreement; the signing in June 1998 of an agreement relating to the enforcement of competition laws; the adoption in 1998 of a joint statement on the Transatlantic Economic Partnership focusing on regulatory and technical barriers to trade, and the implementation of the Mutual Recognition Agreement covering such products as medical devices, telecommunications equipment, pharmaceuticals, and electric safety; and the Veterinary Equivalence Agreement aimed at facilitating trade in live animals and animal products signed on July 20th of this year.

The commitments expressed in these agreements have addressed some of the issues raised a year or so ago when this Subcommittee held a hearing on the transatlantic agenda and marketplace.

However, some experts would argue that we need to go from promises to action. They focus on the high-profile disputes which have erupted in recent months as an indication of the significant work which remains to be done.

More importantly, they emphasize that these trade disputes have affected the credibility of the world's trading system even as a new round of trade liberalization talks looms.

For this reason, this hearing will not only address specific unresolved issues in transatlantic trade relations, but it will focus on the potential impact of European actions and U.S. counter action on the global arena – in particular, on the upcoming WTO negotiations in Seattle.

PREPARED STATEMENT OF
CHARLES M. LUDOLPH
DEPUTY ASSISTANT SECRETARY
FOR EUROPE
MARKET ACCESS AND COMPLIANCE UNIT
INTERNATIONAL TRADE ADMINISTRATION
U.S. DEPARTMENT OF COMMERCE

BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON INTERNATIONAL RELATIONS
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE

September 29, 1999

INTRODUCTION

Madame Chairperson, I am pleased to be with you this morning to discuss the importance of our economic partnership with the European Union (EU). The EU is one of our most important economic partners and we welcome this Committee's sustained and informed interest in maintaining the health and stability of the U.S.-EU economic relationship. The overall transatlantic economic relationship is evolving rapidly. Therefore, our relationship requires considerable attention, both by government policy makers as well as by the private sector.

The EU has shown notable successes in its integration of 15 national economic markets, but the deepening and widening of this integration creates stresses within the EU and with the United States that require careful management. The Commerce Department, and particularly the International Trade Administration, is actively engaged in a number of commercial matters of great importance to U.S. exporters and the transatlantic business community. Today, I would like to provide an overview of the state of our economic relationship, some of the key areas that require attention, as well as the efforts we are undertaking to resolve trade disputes and other matters of commercial concern.

THE ECONOMIC SITUATION

The United States and the EU share the largest two-way trade and investment relationship in the world. The July 1999 trade figures show a trade deficit at an annual rate of $43 billion with the EU. This is on top of the $60 billion trade deficit with the EU cumulated between 1995 and 1998. The U.S. Department of Commerce takes this very seriously.

In 1998, the U.S. trade deficit with the EU was $27 billion. U.S. merchandise exports to the fifteen member states of the EU were $150 billion in 1998, with the EU being the first or second export destination for business in 41 U.S. states. U.S. imports from the EU in 1998 were $176 billion.

Until recently, our trade with the European Union has tended to balance out, with surpluses in some years offsetting deficits in others. From 1970 through 1995 in fact, our cumulative trade balance with Europe was a deficit of less than $1 billion for that entire twenty-five year period. This indicates that the deficit reflects the difference in economic growth between Europe and the United States, rather than an increase in European trade barriers. To increase its chances for economic expansion, the United States is making suggestions to the EU about ways to strengthen its regional economy, including reforms of labor, goods, and financial markets and tax policies to make them more conducive to investment and employment.

In addition to direct trade, the United States and the EU have maintained a longstanding and very large investment relationship. In 1998, U.S. companies had about $490 billion in direct investment in Europe. European companies registered more than this with about $540 billion worth of investment in the United States. More than 6 million jobs were directly created together by EU and U.S. investment in each other's markets.

ENSURING A HEALTHY ONGOING U.S.-EU RELATIONSHIP

We are working -- and will continue to work -- with the Europeans to help make their economies as strong as possible and to strengthen our bilateral economic relationship. That is the best way to help guarantee our own economic stability and strength -- and that of the world economy. The large and highly interdependent U.S.-EU economic relationship is successful because of the continued efforts to liberalize trade and investment rules that affect transatlantic commerce. Through the successes of international trade liberalization, primarily through the World Trade Organization, and U.S. and EU internal reforms in regulation of commerce, growth of the transatlantic marketplace has been sustained by opening markets, reducing costs and improving the confidence of consumers in the protections provided them in the U.S. and EU markets.

But any large economic relationship, particularly one that is evolving in so many ways, generates trade disputes, and the U.S.-EU economic relationship has its share. It is important to keep in mind that while we have some very contentious trade disputes that have significant implications for companies directly affected, most U.S.-EU trade is virtually problem-free. We must resolve all of these disputes so that our rights and interests are maintained, and also so that the overall, largely trouble-free, economic relationship can continue benefitting producers and consumers. The United States and the EU can report progress in developing the means to address issues that currently divide us, in a more timely manner -- before these issues become big problems (I will discuss a bit later current efforts to flesh out so-called "early warning" principles and mechanisms announced at the June 1999 U.S.-EU Summit in Bonn), but concerns remain.

The point is that together Europe and the United States can accomplish very positive outcomes in the WTO and globally. But if we do not cooperate, I am concerned that much less can be accomplished. This makes it a high priority for issues to be addressed and not just managed. Let me briefly share our perspective on the most important issues affecting our relationship

U.S.-EU COOPERATION IN PREPARING FOR THE WTO MINISTERIAL

Working with the EU to ensure a successful WTO Ministerial is a priority for the United States. We regularly discuss WTO issues with EU officials and share a strong commitment to further liberalize the world trading system.

As is understandable, there are several issues on which we have differing views, but we continue to work together closely to narrow the gaps between the U.S. and EU positions. For example, the EU appears reluctant to endorse the WTO's work on reducing or eliminating tariffs in the package of industrial items agreed to by APEC members. It has expressed the concern that if the WTO approves tariff packages, including the just mentioned Accelerated Tariff Liberalization initiative and also the Information Technology Agreement II, by the time of the Seattle Ministerial, as is hoped by the United States, that the United States will be reluctant to pursue further tariff negotiations in the Round itself. But this is not the case. The U.S. has a number of tariff liberalizations it would like to see agreed in the WTO.

The EU is also reluctant to address labor issues in the WTO, although it does agree with us that core labor standards should be more widely respected throughout the world and that it is important for the WTO, ILO, and other international organizations to cooperate more closely on labor issues. We are in agreement with the EU that the next round of trade negotiations should be short -- about three years -- although the EU wants a broader-ranging negotiation than we do. For example, it is looking for negotiations on antidumping, competition and investment, all of which we believe are premature. On agriculture – which, along with services, is part of the built-in agenda agreed by Ministers at the close of the Uruguay Round to be the core of the next round – the EU has taken a defensive posture, in line with its role as a major user of agriculture export subsidies. The EU's approach with respect to health rules affecting imports is often -- in the U.S. view -- not based on scientific findings. On environment, it wants more clarity in the rules on a variety of issues which the U.S. believes the WTO already adequately addresses.

The EU and the U.S. also agree that improved WTO transparency is a way to increase public confidence in the world trading system and that an agreement on transparency in government procurement will serve all countries well. We are looking forward to a very productive Ministerial meeting in Seattle and are working together to ensure that the next trade round is a real success.

EU REGULATION OF BIOTECH FOOD PRODUCTS

The Administration is increasingly concerned over the question of European market access for U.S. agricultural exports derived from bio-engineering. The United States has long viewed the EU's process for approving new agricultural products through bioengineering as being too slow and non-transparent. Unfortunately, the problem is getting worse, not better. Increased public concern over the safety of biotech food products in Europe has now caused the European Commission to operate under a *de facto* moratorium on the introduction of any new biotech products in Europe. No new agri-biotech products have been approved in the EU since 1998.

Furthermore, there are calls from some European based Non-Governmental Organizations for a total ban on all bio-engineered products in Europe. If anti-biotech sentiment continues to grow in Europe, it is possible that the EU may one day refuse to take any genetically altered agricultural commodity and/or processed food products.

While the United States certainly recognizes the right of the EU to take the steps necessary to ensure the health and safety of its citizens and the environment, we would hope that EU policy would be ruled by sound science and not political pressure on this issue. To establish agreed rules for trade in biotech products and to foster greater understanding and acceptance of the U.S. approval process for GMOs, the United States is engaged in a number of international and bilateral initiatives. The Transatlantic Economic Partnership's Biotech Working Group is one such forum where the United States is working with the EU to address issues of mutual concern. Also, at the June Summit, the United States floated the idea of a U.S.-EU scientific exchange on biotech issues and the EU has expressed a willingness to consider the idea.

On September 17 in Brussels, Under Secretary Aaron challenged the new European leadership to "promote and forthrightly develop a comprehensive policy on biotechnology". We will work energetically with the EU's new Commission to encourage it to take a fresh look at resolving this immensely important issue. The Commerce Department, in conjunction with other U.S. agencies, is developing an outreach program to combat the misinformation campaign that is being waged in Europe and elsewhere. We simply must find a solution soon as the stakes are so high for the United States.

EU'S DATA PROTECTION DIRECTIVE

Concerns about individual privacy have increased with the advent of electronic commerce, and both the United States and the EU are working hard to ensure the protection of privacy of individuals. We both have the same goals of protecting personal data, but we differ in our approach. Billions, if not trillions, of dollars in international trade -- and the future of the promising electronic commerce marketplace -- may well hang on whether we can find ways to bridge these differences.

The European Data Protection Directive prohibits the transfer of personal information from Europe to third countries that do not provide "adequate" data protection. Should the United States not be judged to provide adequate data protection, millions of data transfers from EU countries to the United States could be disrupted. International Trade Administration Under Secretary David L. Aaron has been engaged in detailed discussions for over a year and a half with John Mogg, his European Commission counterpart, to address the issues that the EU's Data Protection Directive present for our economic relations. Discussion are continuing this fall to conclude a "safe harbor" agreement -- a set of principles for data protection that U.S. companies could voluntarily use to deal with EU data protection requirements

After the substantial progress made on the substance of an agreement for the June U.S.-EU Summit, EU Member States raised new concerns in July 1999 about U.S. self regulation and

enforcement under the "safe harbor". These issues are not insurmountable, but they raise important questions that need to be resolved this month with the EU's Article 31 Committee before we can proceed.

Under certain circumstances, the United States is prepared to meet EU Data Commissioners' proposals for enforcement to take place in the United States. If we can agree on these circumstances soon, then it is our joint goal to have an "ad ref" agreement approved by the United States and the College of Commissioners for the December Summit.

EU'S HUSHKIT NON-ADDITION REGULATION

In April, the EU Council adopted an aircraft engine "hushkit" regulation that ostensibly is aimed at reducing noise around European airports. The Council postponed its implementation until May 2000 to provide time for resolving U.S.-EU differences over the trade and economic effects of the regulation.

As Under Secretary for International Trade David L. Aaron testified three weeks ago before Congress, the hushkit regulation is one of the largest trade trade issues we face with the EU. U.S. aerospace manufacturers and airlines have already suffered commercial harm because of the chilling effect the regulation has cast on the marketplace. The economic damage to the United States is at least $2 billion.

The EU "hushkit" regulation is based on a very carefully crafted design standard (rather than a performance standard) that targets U.S. products while leaving unaffected European-manufactured aircraft and aircraft engines. It fails to recognize aircraft that are fully compliant with the most stringent noise standards established in the International Civil Aviation Organization (ICAO) -- a global standard that until now has been observed by the EU and over 100 other countries. The EU hushkit regulation will have little, if any, effect in actually reducing aircraft noise. Under the regulation, many aircraft will be permitted to operate that are as noisy, and even noisier, thant the aircraft that are restricted.

At the EU's request the United States has agreed to accelerate work in ICAO on the development of a new, even more stringent, aircraft noise standard. Unlike the cosmetic EU regulation, the new ICAO standard would provide for *genuine* noise relief, including the phase-out of the noisiest aircraft of concern to the EU. The EU agrees that, since April (when the hushkit regulation was adopted), work on the new ICAO standard has progressed satisfactorily.

To date, though, the EU has not been prepared to make a clear commitment to rescind the hushkit regulation, restoring market confidence in hushkitted and re-engined aircraft. In mid-September, Ambassador Aaron discussed U.S. concerns with senior officials of the European Commission and EU Member States. Those consultations were constructive. We expect follow-up discussions in the near future.

Withdrawal of the regulation will promote the prospects for achieving a more stringent noise

standard in ICAO. It would also reduce trade tensions, avoiding the necessity of the United States having to consider initiating action to protect U.S. trade interests.

THIRD GENERATION WIRELESS COMMUNICATIONS SYSTEMS

The Administration and U.S. industry have had concerns for the last year and a half that EU efforts on third generation (3G) wireless standards were intended to replicate the first-to-market advantage that benefitted European vendors in the second generation and resulted in the worldwide dominance of European-developed Global System for Mobile communication (GSM) technology. Europe's intention of mandating the use of a single, European-developed wireless standard within Europe well before the International Telecommunication Union (ITU) was to complete its 3G standards development process later this year would have effectively precluded all the proposed technologies from being fully vetted through the ITU process and receiving full, fair and transparent consideration as potential global standards.

We have forcefully advocated for an open, market-driven approach for developing these standards, which would give operators the freedom to choose the technology that best meets their needs and would allow multiple standards to compete freely and fairly in the marketplace. In addition, we have sought specific assurances from European governments that competing 3G technologies and services can be deployed in Europe in a time frame comparable to that in which European-sponsored 3G technologies and services are deployed. Achievement of these two goals would allow U.S. manufacturers and service suppliers, for the first time, to have an opportunity to serve the European market using U.S.-designed technology. Moreover, it would maintain the commercial viability of U.S.-developed second generation wireless technologies which were being portrayed in key third country markets, such as China, as having no future.

Two Cabinet level USG letters on 3G, sent by myself and other agency chiefs to European Commissioners, set in motion a series of favorable developments in ITU-based negotiations on 3G wireless communications. The EU has gone on record in support of the ITU process and an industry-driven approach. The EU also clarified that its UMTS Directive requires Member States to reserve a minimum of one 3G license (i.e., not all) for the European-developed technology. The Transatlantic Business Dialogue (TABD), a U.S.-EU industry forum, broke a lengthy impasse on 3G standards by forging consensus on a multiple standards compromise that was satisfactory to U.S. industry. The ITU subsequently endorsed the TABD concept of multiple 3G standards.

A key agreement was then reached by an ad hoc 3G Operators Harmonization Group (OHG) on a technical framework for 3G harmonization. This detailed framework for future harmonization work is compliant with the TABD agreement and has been endorsed by virtually all major operators and manufacturers (from 13 countries, including the U.S. and EU member states). The ITU acted swiftly to endorse the document, and standardization work is progressing. The ITU's resulting standards, to be completed by December, will be highly inter-operable, i.e., they will not serve the E.U.'s original strategy of creating its own unique standard, incompatible with the multiple standards used in the United States.

Testimony of

Bryan Samuel
Deputy Assistant Secretary of State
for Trade Policy

Before the

House Committee on International Relations
Subcommittee on International Economic Policy and Trade

September 29, 1999

Madam Chairman and Members of the Committee, I am pleased to have the opportunity today to review our transatlantic trade agenda.

I want to discuss the importance of U.S.-EU relations and the need for cooperation with the EU in the context of the new WTO Round and the state of play on various trade disputes.

In recent years, the United States has enjoyed unparalleled prosperity. At the same time that we have experienced strong economic growth, we have seen a rapid growth in trade. Our willingness to keep markets open has enabled us to serve as the locomotive for the rest of the world, helping other nations in re-kindling growth. Europe too now enjoys renewed vigor, and its growth prospects have improved significantly since last winter. I expect that, if this growth continues, American firms will enjoy expanded business opportunities in Europe, including trade opportunities.

Our relationship with Europe is guided by the New Transatlantic Agenda (NTA) process established in 1995 - including task force meetings, senior level group sessions, ministerials, and summits. The NTA ensures that, from the President to the working level, we remain in regular contact with our European counterparts to address a wide variety of diplomatic, trade, and other issues.

The swearing-in of a new European Commission two weeks ago represents a new start for an institution that had come under heavy criticism. The President has already exchanged letters with Commission President Prodi, who may visit Washington in October, and Secretary Albright met with Commissioner Chris Patten last week. I am pleased to tell you that the initial signals are quite positive for increased cooperation in areas of mutual concern and for progress in resolving our differences. The Administration looks forward to working together with the Commission in the months ahead.

Together with a new Commission, we have a new European Parliament with expanded powers under the Treaty of Amsterdam, which entered into force last spring. The Parliament has increased in importance as an interlocutor, and the Transatlantic Legislative Dialogue with the support of Chairman Gilman has already helped to enhance communication among legislators across the Atlantic. We look forward to further steps in this area.

I would like quickly to outline a number of areas of cooperation. Too often media reports exaggerate our differences and play up trade conflicts. The United States and the EU have the single largest trade and investment relationship in the world, and by and large it works well. To be sure, at times we have sharp disagreements, but the overall thread winding through our trade relationship is interdependence and mutual interest. For example, we unveiled last December a Transatlantic Economic Partnership (TEP) Action Plan, designed to reduce regulatory barriers and more fully realize the promise of transatlantic trade. We announced progress on a number of TEP-related initiatives at the June 20-21 U.S.-EU Summit, including negotiation of a new Mutual Recognition Agreement (MRA) in marine safety equipment and further regulatory cooperation in calibration services. We are actively working to conclude a model framework MRA for services and hope to reach agreement on data privacy protection this fall.

The United States and the EU have also joined in creating a Stability Pact to address regional economic and political issues in Southeastern Europe. The Administration is drafting legislation to extend unilateral trade preferences for the region, and the EU is moving in a similar direction. The United States is also providing technical assistance to Southeast European countries on WTO accession and implementation of WTO norms.

The United States and the EU have also recognized that, to better manage our differences, we needed to put in place an early warning mechanism to alert policymakers to issues requiring attention before they become intractable trade or diplomatic disputes. The June 21 U.S.-EU Summit agreement on "U.S.-EU Early Warning and Problem Prevention" accomplished this: the TEP Steering Group is responsible for addressing trade and investment issues, while the NTA Task Force is responsible for ensuring resolution of diplomatic and global U.S.-EU problems. Though new, the system should help us identify and manage emerging problems before they become acute.

The EU's hushkit regulation is a good example of the type of issue that could have been avoided with early warning. Early

warning would have ensured the issue received higher-level attention earlier on, across a broader range of agencies. Discriminatory and design-based rather the performance-based, the EU's rule banning new registrations of hushkitted and re-engined aircraft has had a chilling effect on U.S. industry without delivering the environmental benefits promised to European citizens. We have made clear the need to make rapid progress to defuse this difficult issue. Commerce Under Secretary Aaron's recent visit to Europe yielded some encouraging signs the EU is becoming more aware of the problems inherent in a design-based approach.

Another area of mounting concern is the potential for European government subsidies for Airbus' development of the superjumbo A3XX. If the subsidies were to be extended, we believe that excessive government support for the A3XX could seriously undermine the competitiveness of the U.S. large civil aircraft industry. We are seeking a dialogue with European officials to resolve this issue.

U.S.-EU cooperation is also an essential part of our multilateral agenda. This applies especially to the WTO and the upcoming Seattle Ministerial. For this meeting to be a success, the United States and the EU need to strive for agreement on common positions to the extent feasible. We want to achieve a market-access-oriented new round of negotiations, in cooperation with Europe, covering services, agriculture, and industrial goods, and structured to achieve a single package of results in three years.

Let me say that the United States and Europe generally agree on the need for the Seattle Round to deliver market-opening results. We need to find as much common ground as possible and work together to achieve our mutual objectives on such issues as extending the prohibition on e-commerce duties.

One of the most important differences is in the realm of export subsidies. A top U.S. priority for the new Round is the total elimination of export subsidies for agricultural products. The rest of the WTO membership is less and less willing to pay the costs of Europe's expensive farm policies. We hope to build a solid consensus in the upcoming Round, including both developed and developing countries, to end this practice for good.

In addition, we share with Europe a desire to promote the active involvement of developing countries in preparations for the launch of the new Round so that we can ensure that developing countries benefit and are better integrated into the world trading system. Together, the United States and Europe need to improve technical assistance to developing nations, but not at

the expense of all WTO members carrying out their current obligations.

The United States, which will be hosting the Ministerial, puts a high priority on transparency and openness. We are pressing European WTO representatives in Geneva to demonstrate additional flexibility on undertaking institutional improvements to make the WTO a more transparent organization.

I would now like to turn to some of the WTO cases involving the EU: bananas, beef, and Foreign Sales Corporations. With respect to bananas, we have offered our ideas to the EU on WTO-consistent import regimes that provide a measure of protection to Caribbean countries and other ACP producers. We sincerely hope that the EU will reach a conclusion that is satisfactory to the United States and that we will finally be able to put this dispute beyond us. The United States continues to offer to work with the European Union in complying with the WTO rulings to make its banana import regime WTO-consistent.

With respect to the beef hormones case, the United States will continue to insist that the EU fully implement the WTO ruling and lift its unjustified ban on our beef. We have exercised our WTO right to impose punitive tariffs on a wide range of EU products as a result of the EU failure to comply by the May deadline. However, our clear preference is not to keep out European products but to gain access for our beef. To that end, we have called on the European Commission to work with us to resolve finally this long-running dispute. There is no question that U.S. beef raised using growth-promoting hormones is safe, and there is no need for the EU to conduct additional studies on this issue. We have proposed labeling as the best option for addressing European consumers' concerns, while allowing our producers access to the EU market.

Last, the WTO has issued the final report on Foreign Sales Corporations (FSCs). It appears to mirror the interim report, which gave the United States until October 2000 to bring our legislation into line with WTO rules. We are not commenting on the substance of the report, since the document is confidential until translated into the official languages of the WTO. The United States is in the process of considering next steps. An appeal is certainly one option under review.

Recent experience with the WTO Dispute Settlement Mechanism points to the need to make certain improvements. The United States will seek progress in this area in Seattle.

We have increasingly found that regulatory issues have become a source of transatlantic tensions. The TEP is intended to address

these in part by promoting greater consultation between U.S. and EU regulators and mutual recognition of conformity assessment procedures and perhaps of standards. We also hope the closer cooperation between regulatory officials on both sides of the Atlantic will lead to greater mutual understanding and further harmonization of approaches where appropriate.

The difficulties encountered in this area are particularly visible in the field of biotechnology. The Commission is striving to revamp the EU's problem-plagued review process for biotech products, but fundamental differences in approach for food containing biotechnology inputs continue to divide us and are having a significant negative effect on U.S. exports. The EU's failure to develop rules for implementing existing directives related to the marketing of biotech products is another area of concern. I understand that this Committee may hold a hearing on the subject in October so I will not go into great detail today other than to state that the Administration is fully committed to maintaining a rules-based approach to issues such as biotechnology. Although we fully respect the right of all nations, including our own, to determine appropriate regulatory protection for public health and safety, we equally insist that these regulations be clear, transparent, and based on science rather than politics or emotion.

Another example related to regulatory activity is the Commission's proposal for a directive on waste from electrical and electronic equipment (WEEE), which requires companies to recycle their products and bans certain substances. The United States fully supports the environmental goals embodied in the draft directive. However, we have pointed out at multiple levels that lack of transparency, effects on trade, inconsistency with trade rules, and lack of risk assessments vitiate the goals of the directive.

In addition, we have conveyed our views about another proposed directive on batteries that would ban nickel-cadmium products without a proper risk assessment and adequate consideration of alternatives such as recycling.

As I have already mentioned, we have signed MRAs for goods in a number of areas. We now hope to reach agreement on a framework for mutual recognition agreements for services. The principal difficulty we have encountered results from the way services are regulated at both the federal and state level in the United States and at the Community and member-state level in the EU. We hope that agreement can be reached on the framework MRA and that we can move to negotiate sectoral MRAs in insurance and engineering.

The Transatlantic Business Dialogue (TABD) has made a valuable contribution in bringing to the attention of governments areas where improvements to laws and regulations ought to take place or where transatlantic agreements should be reached. MRAs and the early warning mechanism are good examples. The TABD will hold its annual CEO conference in Berlin at the end of October.

The Transatlantic Consumer Dialogue (TACD) and the Transatlantic Environmental Dialogue (TAED) also are providing us with the perspective of their respective NGO communities on the TEP and transatlantic trade issues. We are especially pleased to see their strong support for efforts to make WTO procedures and processes more open and transparent. The TAED will hold its next major meeting in mid-October and we will review a number of these issues with them at that time.

I should also note the positive role being played by the Transatlantic Labor Dialogue (TALD) in developing approaches on incorporating core labor standards into future trade agreements. I have already pointed to the valuable contribution of the Transatlantic Legislative Dialogue in enhancing communications among legislators.

As you have seen, Madam Chairman, transatlantic cooperation continues, albeit not without challenges. Thank you for the opportunity to testify today. I would be pleased to respond to any questions you or other Members of the Committee may have.

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STATEMENT OF
WILLARD M. BERRY
PRESIDENT
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before

HOUSE INTERNATIONAL RELATIONS COMMITTEE
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND TRADE
"THE TRANSATLANTIC TRADE AGENDA: CONFLICT OR COOPERATION?"
September 29, 1999

Madam Chairperson and Members of the subcommittee, thank you for the opportunity to testify. I am Willard M. Berry, President of the European-American Business Council. The Council is the one transatlantic organization that regularly provides actionable information on policy developments and works with officials in both the US and Europe to secure a more open trade and investment climate. Our 80 member companies include US- and European-owned firms -- therefore our work on trade, tax and investment issues is devoted to improving the business environment on both sides of the Atlantic. We are active on our own and through the Transatlantic Business Dialogue (TABD) in strengthening the economic relationship between the US and Europe, heading off trade disputes, and increasing US-EU cooperation in the World Trade Organization (WTO) and other multilateral fora. We aim to be the definitive source of knowledge and leading business advocate on US and European political activity affecting transatlantic companies.

I want to commend this subcommittee for holding such an important hearing and calling attention to the enormous trade and investment relationship between the US and Europe. Quite simply, the transatlantic economic relationship is vital to both the US and Europe. Today the EABC is releasing its annual study of that relationship and its impact on each of the 50 US states. We will provide the members of this subcommittee with the study, a summary of which is available on our Internet website at www.eabc.org, but I would now like to share a few of our findings:

- Roughly 6.5 million US jobs depend on European investment in the US. 3.2 million Americans are directly employed by European-owned companies. European firms accounted for 62 percent of all US jobs created by foreign investment in 1997.
- US merchandise exports to Europe are estimated to support 1.4 million US jobs.
- Almost one quarter of all US exports go to Europe. US exports to Europe totaled $255 billion last year, an increase of $39 billion from 1997.
- Cross investment between the US and Europe is valued at $890 billion, which is split almost evenly between US investment in Europe and European investment in the US. European investment accounted for 56 percent of all foreign investment in the US in 1998. Conversely, the US supplied 63 percent of all foreign investment in the EU.
- Europe is the largest foreign investor in 41 of 50 US states and the number one or number two export market for 44 states. Just to cite one example, Madam Chairperson, your home state of Florida sold $3.6 billion of goods to Europe in 1998. European investment in Florida stands at $17.6 billion and supports about 158,000 jobs.

The transatlantic economic relationship is enormous and has been growing for a very long time. But something quite dramatic has happened in the last year -- investment in both directions has increased substantially. New EU investment in the US jumped from $26.7 billion in 1997 to an amazing $103.2 billion in 1998. That is an increase of more than 385 percent in one year.

Equally impressive, the new EU investment in 1998 equals 22 percent of the total stock of European investment in the US accumulated through 1997 ($470 billion). The US, in fact, was the destination of 58.6 percent of all EU outward foreign direct investment in 1998. At the same time, new US investment in the EU leapt from $18.9 billion in 1997 to $54.5 billion in 1998, an increase of 288 percent in just one year. New US investment in the EU in 1998 equaled 13 percent of the total stock of US investment in the EU in 1997 ($420 billion).

The experiences and plans of our member companies suggest that the enormous investment flows of 1998 will not prove to be an anomaly, but instead part of a trend toward even greater cross-investment. More and more companies are operating globally and consequently feel the need for a presence in both the US and EU. Global competitiveness is necessary for local competitiveness, and global competitiveness is not possible without a stake in the two largest markets in the world. This trend is bound to continue as more companies see the potential benefits of increasingly liberalized markets and as the information revolution makes it easier to conduct business across great distances.

The title of this hearing, "Conflict or Cooperation?" poses an important question. The answer is obviously that there is a great deal of both conflict and cooperation. All of us are familiar with the longstanding disputes -- bananas, beef hormones, agricultural subsidies, etc. Recently, we have been faced with a number of new disputes that could be even more significant -- hush kits, data privacy, biotechnology food, and the Foreign Sales Corporation (FSC) case. All of these disputes are important and they need to be managed, but developments such as the incredible growth in cross-investment last year demonstrate something we cannot afford to forget.

The cooperation between the US and Europe dwarfs the conflict. The two are on different orders of magnitude. Therefore, as we work our way through a few narrow, sectoral problems, we cannot allow them to hinder cooperation that is an integral part of the current economic prosperity on both sides of the Atlantic. Policymakers should spend less time trying to score political points by escalating disputes and spend more time on initiatives to support US-EU trade and investment.

Much has been made of sanctions imposed by the US on EU exports in the beef and banana disputes. The total sanctions in these two cases amount to about $308 million, which may seem like a lot. This sum, however, is less than three tenths of one percent of new EU investment in the US last year. The FSC case, barring a reversal upon appeal or some kind of settlement, could possibly lead to about $2.5 billion in EU sanctions against the US. This amount certainly seems like a lot, but it represents only about six percent of the **growth** in US exports to Europe last year.

Looking at US-European relations, it is obvious that where there is so much trade there are bound to be trade disputes. Even though trade between the US and Europe is balanced and free of the long-term deficits that have characterized our relationship with Asia in particular, there have been a number of persistent problems trade negotiators have failed to resolve. Many of the trade problems between the US and the EU have been intractable because they involve issues unrelated to business and where the two sides have different priorities. Where disputes are caused by different views on food safety, or for that matter on protection of the environment or aid to developing countries, it is often difficult to find an economic solution. The classic confrontational approach of trade negotiators and the threat of trade sanctions are often not the best way to handle such problems, as we have seen in the banana dispute and others. Instead, the US and EU should continue to improve their dialogue on these issues in the hope of finding common ground.

At the same time, both industry and governments need to redouble their efforts to educate consumers. It is easy to see why consumers in Europe, in particular, are concerned about food safety. From the outbreak of mad cow disease to the revelation that some Belgian meat products were contaminated with dioxin, there have been a number of examples of governmental failure to protect consumers. It is incumbent upon European governments to fix their regulatory processes to prevent future problems and restore confidence in the system. If the problem of consumer confidence is not addressed we will never resolve disputes over hormones and genetically modified food products.

Today I would like to discuss a few of these issues, some of which are models in how to handle disputes, and some of which are models in how not to handle disputes.

BANANAS

The dispute over the EU's banana regime is an excellent case study of how not to handle a trade dispute. Both the US and the EU have mismanaged the issue. The EU has dragged out the dispute, making only superficial changes to its banana import regime, despite five panel rulings against it under the WTO and the General Agreement on Tariffs & Trade. This consistent foot-dragging undermines the credibility of the WTO. At the same time, the US has been too eager to demonstrate its toughness and therefore been too aggressive in imposing sanctions. A WTO case is still pending against the US because of the Administration's decision to effectively block EU exports before it had authorization from the WTO.

Today, retaliatory tariffs meant to block $191 million in annual EU exports are in place and may remain in place for some time. Many companies that have nothing to do with trade in bananas, including some EABC members, have been directly hurt by the US retaliation. This situation could have been avoided if the EU had faced up to the inevitable outcome and complied with WTO rules in a timely fashion.

To put this dispute behind us, the EU must now make meaningful changes to its banana regime. There are ways to assist Caribbean economies without maintaining discriminatory import quotas. We are pleased that the EU has decided not to appeal the substantive elements of the WTO ruling and is seeking a solution that will bring the banana regime into compliance with the WTO.

BEEF HORMONES

The dispute over the EU's ban on hormone-treated beef raises many systemic issues that have been plaguing US-EU trade relations. Despite losing a WTO case and an appeal, the EU has refused to lift the ban and the US has imposed more than $200 million in sanctions against EU exports. Based on the results of a new risk assessment, the European Commission has said it will never remove the ban, which suggests that this dispute is likely to drag on for a very long time.

As in other disputes related to food safety, the EU has looked for a scientific argument to support a politically safe decision. By ordering yet another risk assessment, the EU has tried to find some basis for the ban, despite the existence of overwhelming scientific evidence that US beef products are safe. This approach not only perpetuates the dispute, but also adds to the consumer confidence problem in Europe by suggesting there is a danger where none exists. The EU needs to take a more constructive approach that will both resolve the dispute and increase public confidence in food safety regulation.

Addressing this dispute is also important for the WTO. Following the EU's failure to implement a WTO ruling on its banana regime, ignoring a WTO ruling on beef hormones will do serious damage to the dispute settlement system. As the biggest trading entities, the US and EU bear a special responsibility to respect the WTO and the rulings it produces, and not to try to game the system. If the EU continues to try to escape its obligation to obey the rules, it will encourage other countries to do the same.

BIOTECHNOLOGY

The EABC has been a strong advocate of the need to improve transatlantic trade relations in biotechnology products and has been an active participant in the TABD agricultural-biotechnology working group. The central problem in this area is that the EU is no longer

approving biotechnology food products. In June, a number of EU Member States announced that they will not vote for approval of any new products until the EU finishes redrafting the law that covers this process, which has created an effective moratorium on new approvals. Even before the moratorium was announced, the EU's failure to approve some genetically modified corn had blocked about $200 million of US corn exports to the EU last year. Unless there is some change in the EU policy, additional US exports, such as soybeans, could be blocked in the near future.

So far, the US government has shown admirable restraint in handling this problem, seeking greater dialogue with EU officials. The US and the EU have agreed to a pilot project intended to bring regulators together and to make regulatory processes more transparent, predictable and timely. The promise of the pilot project will only be realized, however, through continued commitment by governments on both sides. The first stage of the project is a joint workshop scheduled for October and so far only one EU member state has committed to participate. If the EU will not engage in this kind of exercise it suggests that we will witness another protracted and ugly trade dispute.

ONLINE PRIVACY

The example of data privacy should be seen as a case study in how to avoid a potential problem through early dialogue. Although significant issues remain to be resolved, each side has engaged the other and the business community in a constructive manner. The controversy stems from an EU directive enacted last year that requires EU countries to block data flows from Europe into countries whose privacy protection is not deemed "adequate." To prevent data disruptions, US and EU officials have entered into talks aimed at producing a "safe harbors" agreement that we hope will be finalized soon. The agreement would offer companies a set of voluntary principles to which they could adhere in order to comply with the EU directive. The dialogue on privacy demonstrates the advantages of taking constructive approaches to potential problems at an early stage.

TRANSATLANTIC ECONOMIC PARTNERSHIP

The US and EU should also be commended for the work they have done to launch the Transatlantic Economic Partnership (TEP). However, progress under the TEP has been slow, particularly as negotiators in both the US and EU have been distracted by bilateral disputes. The TEP has the potential to produce landmark agreements across a wide range of sectors, benefiting US and EU companies and workers. No matter how the current disputes progress, the US and EU should make advancement of the TEP agenda their highest priority. US and EU governments should both make every effort to reenergize the initiative.

The US and EU should continue to work toward mutual recognition agreements (MRAs) on cosmetics, marine safety and medical equipment. The US and EU should also redouble their efforts to move forward on MRAs in several service sectors, which would be of great benefit on both sides of the Atlantic. The US and EU should build on these efforts and seek agreements in other areas of the TEP to meet the deadlines in their joint action plan.

WORLD TRADE ORGANIZATION

Perhaps the most important area for US-EU cooperation this year will be the WTO. US and European companies are strongly supportive of proposals that the WTO launch a broad new round of trade negotiations at this year's ministerial meeting in Seattle. In a recent survey, EABC members cited intellectual property, investment, technical barriers to trade and improvements to the dispute settlement understanding as their highest priorities for a new round. In addition, the US and EU should use the WTO ministerial to advance ongoing WTO work, including the accessions currently in progress, and to place renewed emphasis on the implementation of existing agreements.

CONCLUSION

To their credit, the Administration and the European Commission are working to create an early warning system to head off potential trade disputes. Government officials will meet periodically to identify potential disputes and discuss solutions. The EABC supports the creation of an early warning system -- we have seen with the dispute over hush kits that a lack of timely discussion of potential trade disputes can lead to minor regulatory procedures becoming huge problems. Most of the US-EU disputes of recent years, however, have come with plenty of warning. Therefore, the EABC cautions that new fora for US-EU discussion may be helpful, but are unlikely to bring a dramatic lessening of tension.

If the US and EU governments truly want to serve the economic interests of their constituents, they will focus on advancing the TEP and the TABD, and supporting multilateral trade liberalization under the WTO. Furthermore, they will reconsider some of the rigid positions that have blocked solutions to the ongoing disputes.

Thank you once again, Madam Chairperson and Members of the Subcommittee, for the opportunity to testify today. I would be happy to answer any questions.

September 29, 1999
House Committee on International Relations
Subcommittee on International Economic Policy and Trade

Dear Madame Chairman, Congressman Sanford, and Honorable Members of the Committee,

As the owner of a company whose main product (bath preparations) has become the unlikely recipient of 100% punitive duties in response to the European Union's support of its "banana regime," I submit to you the following points and observations:

Since March 3rd, 1999, we have had to endure these crippling tariffs on our product not because our products are related in any way to bananas, not because we have done anything wrong or illegal, but because our products were somehow deemed insignificant. Unless I can find immediate alternatives, my company will be destroyed, as will a great number U.S. businesses owned by U.S. citizens, citizens who have been forced to fight for survival and their very existence. I would argue that under the Constitution my U.S. company has as much right to government protection as Chiquita, Dole, and Del Monte. I would also like to add that this policy has already cost me $20,000 in increased duties because we continue to import the product at the 100% rate in order to supply the customers that we value and provide the service that they have come to expect from us.

One might argue that Chiquita, Dole, and Del Monte are key American employers and exporters. *Please correct me if I'm wrong, but aren't the majority of their products grown on foreign soil, as mine are produced on foreign soil?* I can make assurances that our products are produced under the most stringent quality controls with great regard to the highest standards of labor practices anywhere. Can these producers which this action now protects make the same claim?

I have been fighting against this action since February, 1999 when I became aware that our main product was on the potential "hit" list of suspension of tariff concession which has caused our duty rate to go from 4.9% to 100%. It has even been suggested to me that I should have been "buying American" anyway. I attribute comments like these to examples of "do as I say, not as I do" because if I were to walk through any Washington, DC government parking lot, I can promise that I will find not only Ford and GM cars, but Mercedes, BMW, Porsche and Lexus automobiles.

Reference has been made to the public comment period that closed before I was aware of this problem. I would suggest that because of budget constraints, the majority of small importers and business owners do not have lobbyists on staff to make them aware of potentially damaging policy. I would also suggest that my arguments may or may not have had an effect on Government policy.

I believe that this action against the European "Banana Regime," as well as beef issue had little or no effect on the Europeans but a much greater detrimental effect on the American companies whose business has been established on niche items. Would it not have been more equitable to place 5, 10, or 20% duties on all European imports rather than targeting certain industries that do not have the financial resources to complain? A comprehensive tariff would have produced the desired effect on the Europeans and caused the regime to change immediately.

I am a U.S. Army veteran and my father fought in the South Pacific in World War II. I point this out only to demonstrate our support of the American ideal and democracy. We have never asked for nor received any social compensation from the U.S. Government, including unemployment benefits or social assistance, and I finance my business personally.

It is my understanding that nowhere in the Constitution of the United States it is stated that protection is based on the amount of political clout, capital or financial resources. Protection is guaranteed to all, and that this document was created in response to Government tyranny and taxation.

As one who attempts to live and conduct business both morally and fairly, I would never wish this travesty on anyone to experience the indecision created by a blatant attack on your family's quality of life and livelihood.

I also believe that the EU's "Banana Regime" does contravene the General Agreement of Tariff and Trade. I believe that this action has been initiated by good, dedicated and patriotic people who rightly protect the interests of the United States and their businesses. I believe, though that it is not only unfair but immoral to target and decimate other U.S. businesses that have truly nothing to do with bananas or the products that are the subject of dispute in both the "banana" and "beef" trade actions.

I greatly appreciate the opportunity to express my views to this esteemed body. I also ask for your consideration to help right this wrong that is destroying U.S. businesses and harming U.S. citizens.

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STATEMENT

Of
JOHN P. ROBERTS
PRESIDENT

NATIONAL ASSOCIATION FOR THE SPECIALTY FOOD TRADE, INC.

On

"The Transatlantic Trade Agenda: Conflict or Cooperation"

before the

Subcommittee on International Economic Policy and Trade

House Committee on International Relations

September 29, 1999

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The Transatlantic Trade Agenda: Conflict or Cooperation?

Statement of John P. Roberts

On behalf of the

National Association for the Specialty Food Trade, Inc.

September 29, 1999

Good afternoon, Madam Chair.

Thank you for the opportunity to present the views of smaller American companies regarding the serious damage they faced from the actions of our own government, during the recent trade battles with the European Community. I will summarize my statement, but ask that its full text be included in the record.

The National Association for the Specialty Food Trade, Inc. (NASFT®), is a not-for-profit trade association formed to advance the interests of all segments of the industry. Our members' products are high value added food items. They derive their "uniqueness" from a combination of some or all of the following factors; rare ingredients, special preparation, attractive packaging, ethnic appeal, novelty, unusual handling or distribution methods, exotic raw materials, both tastier and healthier alternatives, and new combinations. Our members are, for the most part, U.S. companies.

The NASFT recommends and supports an aggressive U.S. posture in identifying and correcting unfair and unequal trading situations. We also expect our government's actions to be effective. When retaliation is necessary our goal should be to threaten and then inflict maximum pressure abroad, while causing little or no harm to ourselves. The NASFT suggests four steps the government must take to insure that the American economy and American companies are not damaged when we successfully pursue our legitimate trade interests.

Recommendation #1. The U.S. must think deeply when choosing its trade battles. Frequently we seem to be playing a short-term game (checkers) while the world thinks long term (chess).

Recommendation #2. The U.S. must more carefully select the items upon which to impose punitive tariffs. The objective should be to maximize damage to our opponents while insuring zero damage, or even advantages, for U.S. businesses.

Recommendation #3. U.S. small businesses, in particular, should be specifically protected from damage when punitive tariffs are used in retaliation.

Recommendation #4. U.S. actions must protect, not damage, our image as a reliable supplier of clean, safe, and healthy foods.

First, some background on NASFT. We are headquartered in New York, but our nationwide membership of over 2,000 supplier members includes manufacturers and producers, distributors, and importers, in addition to specialty shops, restaurants, chefs and others in the industry. Over 90% of our members are U.S. based, and are owned and operated by American citizens.

In particular I want to emphasize that the typical importer member runs a U.S. based, U.S. owned and U.S. operated business, and employs Americans in a variety of professional, skilled and unskilled jobs.

I would also like to make clear where the losses occur when a high-value branded consumer product is excluded from our economy. For each dollar lost to the foreign exporter, our U.S. economy loses almost three dollars. The U.S. economy bears 75% of the total loss. To illustrate:

Importer's Landed Price	**$1.00**
Importer's Selling Price (Distributor's Cost) Importing, preparation, markup, rent, insurance, salaries, taxes, ads, PR, transport	**$1.66**
Distributor's Selling Price (Retailer's Cost) Distribution, warehousing, markup, rent, insurance, salaries, taxes, transport	**$2.38**
Retailer's Selling Price (Consumer's Cost) Retail preparation, markup, rent, insurance, salaries, taxes, transport, ads, PR	**$3.97**

NASFT members are involved on both the export and import side of international trade. Currently, NASFT works with USDA's foreign Agricultural Service on a program to help our exporting members display and market their products at SIAL 2000, an internationally known food show. On the import side the story is less pleasant. NASFT members imported, distributed and/or sold most of the processed food products on the bananas and beef hormones retaliation lists.

Most of NASFT's experience with U.S. international trade policy and implementation comes from the involvement in battles over U.S. trade retaliation -- 100% tariffs on imports of products, most recently in the bananas and beef hormones WTO disputes. In addition, NASFT is involved through my membership on USDA's Agricultural Policy Advisory Committee.

Now, please let me return to the steps the U.S. government must take to avoid making U.S. businesses the victims of trade policy and "successful" WTO disputes.

Recommendation #1. The U.S. must expand its tunnel vision, play chess instead of checkers in its trade policy and trade actions. The "bananas" dispute is an example of short-sighted policy. There must be some mechanism established to prevent a few large companies from successfully driving through a policy that is harmful to other U.S. companies and to other allies. What is the U.S.'s real interest in bananas? Why should we support one group of allies in South America against another group in the Caribbean? Is winning a bananas battle worth weakening the economies of small island nations on our southern border – countries with already weak economies and vulnerable to illegal drug traffic?

For different reasons, the "beef hormone" battle is also proving to be ill chosen. U.S. companies know that winning the right to sell into a market does not insure that markets, consumers, or retailers will accept the product. In the U.S. companies study consumer attitudes, and design advertising and educational programs to change existing resistance to a new idea. The continued negative publicity from our prolonged battle over beef has brought European consumers to a point where it is unlikely any program will have them accepting U.S. beef (hormones or not).

Now, having won our (WTO) court fight on both bananas and beef, we have still not gained market access, and Europe is not impressed by the punitive tariff impact on its exports.

Recommendation #2. Make trade retaliation create opportunities for US companies. Think opportunity, not retaliation. The selection of items is a critical part of insuring that we do maximum damage to our opponents, while avoiding damage to our own businesses and economy.

How can we turn the tables in our favor?

A) Include as potential items all trade categories from the opponent countries. Do not limit or weight the list based on the product categories causing the dispute.
B) Search the expanded list for products that are replaceable from U.S. sources, and from trade partners not involved in the dispute.
C) Select items that are not consumer branded finished goods but rather components or ingredients.
D) When selecting the final list do not dilute the impact by spreading the penalties over a broad array of goods – instead focus on inflicting major damage on just a few categories.

Recommendation #3. Specifically avoid damage to small businesses. Small importers frequently concentrate on limited product areas. Their specialization makes them more valuable to their customers who rely on their in-depth knowledge and

commitment to the product category. This specialization becomes a great liability when our government selects that category for punitive tariffs.

For example, one importer of biscuits and crackers on Long Island faced tariffs on 100% of its product line. Twenty-one employees – management, administrative clerks, warehouse personnel, sales representatives – faced loss of jobs.

The government agencies selecting and imposing the tariffs have given no consideration to the impact of their actions on small businesses. No action has been taken to protect small businesses.

The proposed Small Business Trade Protection Act offered by Congressman Menendez would insure that small U.S. businesses engaged in importing would not be wiped out. This bill should be considered and passed quickly before companies are closed, jobs are lost and irreversible harm is done to our economy.

Small businesses are harmed in another way by these battles that are won in Geneva but in reality remain unresolved. The U.S. purposefully overstates the value of trade lost by these big U.S. exporters, supposedly in order to harm the recalcitrant foreign exporters to the U.S. In reality, U.S. companies are again hurt. When the U.S. threatens trade retaliation, the Office of the U.S. Trade Representative on behalf of the government publishes a long list of products that *might* be subject to the 100% duties. Immediately all the companies involved with the products on the list (e.g., retailer, truckers, insurers, real estate companies, public relations firms and publishers) find their business strategies challenged, their profit levels threatened, their employees in jeopardy and their state, local and federal tax payments potentially decreased. They wait for the announcement of the final retaliation list. That list might remove 30% of the products, in other words those companies have been needlessly harassed by their own government. The final list is then challenged by our trading partner, which had lost in Geneva. There is an arbitration at the WTO, with the arbitrators further reducing the U.S. damage estimate. Another group of companies is saved from the penalty duties, but they also have been needlessly harassed by their own government for an even longer period of time.

While the U.S. government says there is some logic to the process of deciding whether to retaliate and in selecting targeted products, our experience is that it boils down to the idea that "someone in America must get hurt" as the U.S. proves a point to the world. We win the trade battle and our small businesses lose the war.

Congressman Menendez's bill would allow small businesses to know they will be protected, and to concentrate on business opportunities rather than on government threats.

Recommendation #4. Protect America's reputation as a safe food source. What have we done to our image as a safe food supplier by trying to force our way into markets with a product (hormone treated beef) clearly unacceptable and suspect to European consumers? What further damage will we do by fighting a battle for genetically modified foods and seeds?

Consumer markets are not won in Geneva. Before starting a long and costly WTO battle to open a market, the U.S. must require that the big businesses urging government action prove that there is a consumer market and that they have done their educational, marketing and advertising homework. Yes, the EU can be extremely protectionist. But we must also admit that consumers overseas and increasingly in the United States have real questions about growth hormones and genetic engineering.

The educational effort by the manufacturers of these new and challenging products is nonexistent. Instead, these companies have relied on the government to make their case to other governments – not to those who must buy and eat the foods. So the U.S. government fights the battle, wins in Geneva, still gets no market access and retaliates. As I said earlier, 75% of that retaliation is borne by the U.S. economy. So we've got a technical win, no products moving, uneasy consumers, increasing questions about the safety and quality of U.S. food exports, other U.S. companies and franchisees – like McDonald's – becoming targets, and U.S. based companies here will again be threatened with huge losses because of the 100% tariffs. (I realize that there has not yet been a WTO case about genetically engineered foods and that the U.S. is toning down its rhetoric.

Conclusion

Our recent trade battles have resulted in hollow short-term "victories". Look at the results:

A) No increased market access to the European markets on either beef or bananas.
B) Losses to our economy three times larger than the imposed damage to the European economy.
C) No movement by the Europeans to resolve the problem.
D) A mounting suspicion throughout the world that the U.S. food supplies are suspect.
E) Small U.S. companies suffering disproportionate damages.
F) A recognition that our threat of WTO action in future disputes is ineffective.

We encourage this sub-committee to recognize that a new overall approach is necessary, and that short-term protection for small business, such as the Small Business Trade Protection Act, is essential.

Thank you.

Clause 2 (g) (4) of House Rule XI

(1) The curriculum vitae of John P. Roberts is included with this testimony (attached).

(2) Neither John P. Roberts (the witness) nor the National Association for the Specialty Food Trade, Inc. (a not-for-profit 501C6 corporation and an entity represented by the witness) have received any Federal grant (or sub-grant thereof) or contract (or subcontract thereof) during the current fiscal years.

(3) Some individual members of NASFT may be eligible for various Federal grants and programs and may have received funds under such programs during the current fiscal years.

(4) NASFT is working with the Foreign Agricultural Service (FAS) sector of the United States Department of Agriculture (USDA) to establish an export program for high-value added specialty foods. If finalized, as currently envisioned, NASFT could be eligible for a grant in November, 2000.

JOHN ROBERTS

John Roberts, joined The National Association for the Specialty Food Trade, Inc. (NASFT®) in 1989 as Executive Director/General Manager, and was promoted to President in 1996.

Roberts previously worked for Romanoff Foods, International, starting as Director of Marketing in 1977 and advancing to President in 1982. Roberts previously had worked for Buitoni Foods, Inc., Hunt-Wesson Foods, and General Foods.

The Romanoff group of brands and companies included Romanoff (caviar), Raffetto (melba sauce, brandied fruits and condiments), Texas Best (Bar-b-que sauce), MBT (Broth), Giroux (Grenadine), and other specialty food, food service, and private label products.

While at Romanoff, Roberts was elected to the NASFT Board of Directors, and later served as Treasurer. He was Chairman of the New York Show Committee in 1987, and also served on the Budget and Audit Committee, Nominating Committee, and By-Laws Committee.

Roberts was elected to the National Board of the American Institute of Wine & Food (AIWF) in 1992, has served on its executive committee for two years, and was its president for 1997. Roberts was elected as a Trustee/Director of the Food Institute in 1998.

He has served since March 1998, as an appointed member of the USDA's Agricultural Policy Advisory Committee for Trade (APAC), and an advisor to USDA's Foreign Agricultural Service.

A resident of Rumson, New Jersey, Roberts holds both an MBA and a Bachelor of Science degree from Seton Hall University.

He is frequently invited to present his insights regarding the U.S. specialty food marketplace at educational conferences, seminars, trade shows and conventions, and to regional and national groups within the U.S.A. and abroad.