

# PRESIDENT BUSH'S TRADE AGENDA

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HEARING  
BEFORE THE  
COMMITTEE ON WAYS AND MEANS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED SEVENTH CONGRESS

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## **PRESIDENT BUSH'S TRADE AGENDA**

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**WEDNESDAY, MARCH 7, 2001**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
*Washington, DC.*

The Committee met, pursuant to notice, at 11:00 a.m., in room 1100 Longworth House Office Building, Hon. Bill Thomas (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

# ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE

CONTACT: (202) 225-1721

February 28, 2001

FC-2

## Thomas Announces Hearing on President Bush's Trade Agenda

Congressman Bill Thomas (R-CA), Chairman of the Committee on Ways and Means, today announced that the Committee will hold a hearing on President Bush's trade agenda. **The hearing will take place on Wednesday, March 7, 2001, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 11:00 a.m.**

The sole witness at this hearing will be United States Trade Representative Robert B. Zoellick. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

### BACKGROUND:

The U.S. economy is increasingly international in focus with more than 25 percent of our \$8 trillion economy tied to foreign trade and 15 million American jobs supported by sales in foreign markets. The unprecedented economic growth experienced in recent years is in part a direct result of expanded international trade.

In announcing the hearing, Chairman Thomas stated: "The Committee is committed to moving quickly to consider new Trade Promotion Authority so that the United States can reclaim its historic leadership role in global and regional trade discussions. Our Committee will actively examine the President's agenda. The hearing will offer Ambassador Zoellick the opportunity to discuss the early outlines of President Bush's strategy on trade."

### FOCUS OF THE HEARING:

The hearing is expected to examine current trade issues such as: (1) extension of trade promotion authority, (2) prospects for an agreement to establish a FTAA, (3) progress on the WTO "built-in agenda," (4) the status of preparations to launch a new round of multilateral trade negotiations in the WTO, (5) implementation of the bilateral trade agreement with Jordan, (6) approval of the bilateral "Jackson-Vanik" trade agreement with Vietnam, (7) progress in negotiations to establish trade agreements with Singapore, Chile and other nations in the Pacific Rim region, (8) the functioning of the WTO dispute settlement system, and (9) whether to extend and expand the Andean Trade Preference Act.

### DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit six (6) single-spaced copies of their statement, along with an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, with their name, address, and hearing date noted on a label, by the close of business, Wednesday, March 21, 2001, to Allison Giles, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Committee office, room

1102 Longworth House Office Building, by close of business the day before the hearing.

**FORMATTING REQUIREMENTS:**

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be submitted on an IBM compatible 3.5-inch diskette in WordPerfect or MS Word format, typed in single space and may not exceed a total of 10 pages including attachments. **Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.**

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers where the witness or the designated representative may be reached. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press, and the public during the course of a public hearing may be submitted in other forms.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

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Chairman THOMAS. This is a hearing of the Ways and Means Committee to examine another essential component of the President's economic plan, and that is reclaiming United States' leadership in world trade. As we know, the United States is the world's greatest exporter, but it is falling behind, frankly, in negotiating trade agreements and setting the agenda for rules for international commerce in the new century.

International competitiveness is not just, however trade agreements and rules. The Committee also recognizes that other areas of this committee's jurisdiction affect our ability to compete. Workers, business and farmers run up against a long list of outdated and frankly damaging disincentives that are currently in the tax code, that impede our success in foreign markets.

Time is running out here, as well, to make changes. So I want to welcome Ambassador Robert Zoellick in his first appearance in

Congress since his unanimous confirmation last month by the United States Senate. Trade promotion authority will be crucial for this administration as you prepare to negotiate closer trading relationships, Mr. Ambassador, not just within this hemisphere, but globally.

I look forward to hearing your plans for following through on the free trade agreement of the Americas, launching a new round of negotiations in the World Trade Organization, and bilateral trade agreement with Vietnam, among others. Together we need to also consider the Andean Trade Preference Act, but I look forward also to hearing from my Democratic colleagues as to how they want to see trade promotion authority evolve.

We have gotten to the point now where it is just not sufficient to point with pride or view with alarm.

We have to be specific about our concerns as to how we want to make changes, to move ahead on a bipartisan basis. We have got a lot of work ahead of us to regain our historic position in the international marketplace. This is an area that historically this committee has worked very positively and successfully in a bipartisan fashion.

In view of the ambassador's time, in which he has about 2 hours in front of this committee, I would request that all members who wish to make opening statements could submit them in writing, save for the chairman, the ranking member, the chairman of the Trade Committee, and the ranking member of the Trade Committee. So at this time, to conclude the chairman's opening statement, I would yield to the chairman of the Trade Subcommittee, the gentlemen from Illinois, Mr. Crane.

[The opening statement of Chairman Thomas follows:]

**Opening Statement of the Hon. Bill Thomas, M.C., California, and  
Chairman, Committee on Ways and Means**

This is a hearing of the Ways and Means Committee to examine another essential component of the President's economic plan, reclaiming United States leadership in world trade.

The United States, the world's greatest exporter, is falling behind in negotiating trade agreements and setting the rules for international commerce in the new century.

As the world's premiere trading nation, America's workers and businesses now export over \$1.8 billion of goods and services *per minute*, fueling unprecedented economic growth, job creation and technological innovation. Twelve million Americans owe their jobs to foreign exports; more than 25% of our \$8 trillion economy is tied to foreign trade.

However, in the past five years, during a time when we failed to empower our President with negotiating authority, dangerous cracks in our global position have begun to appear. During this period, twenty significant trade agreements have been negotiated around the world without United States participation. In Latin America, Asia, and Europe, markets are being pried open, *not for U.S. products* but for the goods and services of our competitors. Our responsibility is to remedy this urgent situation.

The Committee also recognizes that other areas of its jurisdiction affect United States competitiveness. Workers, business and farmers run up against a long list of outdated and damaging disincentives in the tax code that impede our success in foreign markets. Time is running out to make changes here too.

I want to welcome Ambassador Robert Zoellick for his first appearance in Congress since his unanimous confirmation last month by the Senate. Trade Promotion Authority will be crucial for the Administration as you prepare to negotiate closer trading relationships within this hemisphere and globally.

I look forward to hearing Ambassador Zoellick's plans for following through on the Free Trade Agreement of the Americas, launching a new round of negotiations in



the WTO, approving the bilateral trade agreement with Vietnam, implementing the free trade agreement with Jordan, and completing already initiated talks with Chile and Singapore. Together we will also consider the Andean Trade Preference Act.

But I also look forward to hearing from my Democratic colleagues as to how they would want to see trade promotion authority evolve. We've gotten to the point now where we have to be *specific* if we want to move ahead on a bipartisan basis.

We've got a lot of work ahead of us to regain our historic position in the international marketplace.

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Mr. CRANE. Thank you, Mr. Chairman, and I too want to welcome our new and impressive U.S. trade Representative, Bob Zoellick, and we look forward to working with you. I would rather get to the questions rather than make an extended opening remark, except to say that I think we have a unique opportunity historically. For the first time in all the years I have served in Congress, I think we can advance a free trade agenda that is in our national interest and the world's interest, too, and that you will play an instrumental role in that.

Let me ask you first, you mentioned in your confirmation—

Chairman THOMAS. If I could allow the gentleman from Illinois—and then I would turn to you.

Mr. CRANE. I am sorry. Let me yield to Charlie.

[The opening statement of Mr. Crane follows:]

#### **Opening Statement of the Hon. Philip M. Crane, M.C., Illinois**

Thank you Mr. Chairman. It is critical that America gets back in the driver's seat with respect to trade negotiations. We now have a President who wants to do just that. Nothing makes this more evident than his pick for United States Trade Representative. Ambassador Zoellick is an energetic and committed free trader who has the background and experience to hit the ground running. I want to join in warmly welcoming Ambassador Zoellick to the Committee.

First and foremost on the agenda, we must grant Trade Promotion Authority to President Bush. I believe it is imperative that Congress and the President demonstrate renewed commitment to this pressing goal. It would be best if we start the dialogue on Trade Promotion Authority before the President travels to Quebec City for the Summit of the Americas on April 20th. I applaud Ambassador Zoellick for his focus on reinvigorating the Free Trade Agreement of the Americas (FTAA) talks, particularly his endorsement of accelerating the conclusion date from 2005 to 2003 which I have been urging.

Our trading partners have been very active in opening and expanding markets for their exports and, as a result, there has been a proliferation of free trade arrangements in recent years. There are now an estimated 130 free trade agreements in force. Unfortunately, the United States has sat on the sidelines for most of these negotiations. We are party to only two of the free trade agreements currently in force—one with Israel and the North American Free Trade Agreement (NAFTA).

The impact of this trend on American exporters and workers is clear. As U.S. negotiators stay away from the negotiating table, American companies face higher disparities in tariffs, discriminatory rules governing services, unfamiliar and burdensome product standards and regulations, and unnecessary threats to their investments.

It is fortunate, whether it be in Latin America, Asia, or Australia and New Zealand, in every corner of the world, our trading partners stand ready to negotiate free trade arrangements with the United States. At the same time, we must press ahead with our global agenda with the WTO, particularly on agriculture and services.

The opportunities to spur economic growth, create high-wage jobs, lower costs for U.S. manufacturers and consumers, and make the world more secure by expanding commercial relations among old enemies are enormous. The obstacle—the lack of a domestic consensus on our negotiating priorities—stands as the challenge facing all of us. My approach is: let's get in a room and work out the specifics of Trade Promotion Authority. The costs to the country for failing to offer concrete proposals that we all can live with are simply too high.

Chairman THOMAS. The gentleman from New York, opening statement?

Mr. RANGEL. Thank you, Mr. Chairman. Ambassador, let me join the chairman and others in welcoming you to the Committee and congratulating you for the unanimous support that you received in the Senate. You bring many great skills to this job, and this is one committee that appreciates the need for America to continue to find new markets and expand our trade if we are going to continue to enjoy the economic prosperity that we have today. While not all Americans are able to enjoy it, we do know that we just have to increase the size of the pie in order for more people to be able to participate.

We know that there is no Democratic way and no Republican way for us to expand our markets, and so we want you to know that this is one committee from which you should be able to enjoy bipartisan support. The President has gone out of his way to expound how important it is to him that the Congress act in a bipartisan way. Clearly the Congress has struck out on the question of tax relief, but we do get another chance to come up to bat on the question of trade.

So I look forward to working with you, and I would like to yield to my dear friend and the Ranking Member of the Trade Subcommittee that you will be working closely with, Sandy Levin.

Mr. LEVIN. Thank you, Mr. Rangel and Mr. Chairman and Mr. Crane and colleagues on the Committee. Let me just say a few words of a more general nature so we can focus on your testimony and Q and A. So, Mr. Ambassador, welcome. Your prepared testimony describes the benefit of trade in clear terms, and I agree that trade is an essential agreement in American economic expansion.

That said, said, I do not think the main challenge before us is just how to sell the benefits of economic globalization. A basic issue is whether we believe that economic globalization, which is indeed here to stay, needs to be shaped or whether we just embrace it blindly on the presumption that it will work out on its own without any problems. Put another way, the distinction is between those two view trade liberalization as an end in and of itself, and those who, like myself, view it is a key tool with the need to shape trade policies themselves so that they maximize the benefits and minimize the downsides of international trade.

Over the last 18 months, we took the latter approach, the approach of shaping globalization. As a result, we broke the deadlock of more than 4 years, and in that way the Nation did indeed show leadership on issues of world trade. In CBI, for example, we found ways to enhance the competitiveness position of industries in the Western Hemisphere through complementarities of capital and labor, and enhance the labor standards in CBI.

In China, for example, we were concerned that the nonmarket structures in China's economy could well lead to overproduction that could cause agricultural and industrial products to surge into the U.S. market. So we crafted the toughest safeguard ever written into U.S. law. Each of these solutions was a building block. Each

addressed a specific problem and built some confidence that we could solve the next one.

This morning and in the coming weeks the challenge is whether we will continue on the path of innovatively shaping globalization and creating new building blocks. I believe there are real opportunities to move forward. To pass the Jordan free trade agreement in time for the visit of King Abdullah next month, to address the labor dimensions of the Vietnam trade agreement and pass it this summer, and to come up with a meaningful response to the crisis in steel.

With these building blocks in place, I believe we could then get to work on other issues, including how to address negotiating objectives, consultative procedures and the approval mechanisms of fast track. We will welcome today and in the future active discussion with you, and I hope work on specific topics. In this regard you refer in your prepared statement to the importance of the congressional-executive partnership, but as Mr. Rangel mentioned, that welcome result will occur only if there is an early and genuine effort not to, as you phrase it, and I quote, get mired down in partisan division.

Thank you.

[The opening statement of Mr. Levin follows:]

**Opening Statement of the Hon. Sander M. Levin, M.C., Michigan**

Thank you Mr. Chairman. It is critical Welcome.

Your prepared testimony describes the benefits of trade in clear terms. And I agree that trade is an essential ingredient in American economic expansion.

That said, I don't think the main challenge is just how to sell the benefits of economic globalization. A basic issue is whether we believe that economic globalization—which is here to stay—needs to be *shaped* or whether we should just embrace it blindly (on the presumption that it will work out on its own without any problems). Put another way, the distinction is between those who view trade liberalization as an end in itself and those (like myself) who view it as a key *tool*—with the need to shape trade policies themselves so that they maximize the benefits and minimize the downsides of international trade.

Over the last 18 months, we took the latter approach—the approach of *shaping* globalization. As a result, we broke the deadlock of more than five years.

In CBI, for example, we found ways to enhance the competitive position of industries in the Western Hemisphere through complementarities of capital and labor, and enhance the labor standards in CBI. In China, we were concerned that the non-market structures in China's economy could well lead to overproduction that could cause agricultural and industrial products to surge into the U.S. market, so we crafted the toughest safeguard ever written into U.S. law.

Each of these solutions was a **building block**. Each addressed a specific problem and built some confidence that we could solve the next one.

This morning and in the coming weeks, our challenge is whether to continue on the path of innovatively *shaping* globalization and *creating new building blocks*. I believe there are real opportunities to move forward: to pass the Jordan free trade agreement in time for the visit of King Abdullah next month; to address the labor dimensions of the Vietnam trade agreement and pass it this summer; and to come up with a meaningful response to the crisis in steel. With these building blocks in place, I believe we could get to work on other issues, including how to address negotiating objectives, consultative procedures and the approval mechanisms of fast track.

We will welcome, today and in the future, active discussion and—I hope—work on specific topics. In this regard, you refer in your prepared testimony to the importance of the Congressional-Executive partnership. That welcomed result will occur, I urge, only if there is an early and genuine effort not to—as you phrase it—“get mired down in partisan division.”

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[The opening statements of Mr. Shaw and Mr. Ramstad follow:]

**Opening Statement of the Hon. E. Clay Shaw, Jr., M.C., Florida**

Mr Chairman, within the Ways and Means Committee we often look at our actions and our jurisdiction as the areas that most influence the economic well-being of our country. Much of the debate about our nation's unprecedented economic growth over the past decade—and our hopes for the future—have focused on issues like tax rates, the national debt and the interest rate. But I would like to point out that what has gone *under*-appreciated is the tremendous growth in international trade that has bolstered the American economy, created jobs, made consumer products affordable—here at home, and made the world a safer place for the United States; because of the relationships built with economic ties, not just diplomatic ones.

But diplomacy is as much an art in trade negotiations as it is in other foreign affairs, so I am eager to hear from our chief international trade negotiator, Ambassador Robert Zoellick, today for his perspective on both the Bush Administration's priorities and perspective, as well as his insight into the disposition of our various trading partners around the world towards progress in the free trade arena.

This is vital to the area I represent, South Florida, which is rapidly becoming the most significant gateway to Latin America, the Caribbean, and Europe—both by sea and by air, and now, by electronic commerce as well. We must start speaking of portals, not just ports and airports. Florida's interests include the whole variety of American products, from agriculture to durable goods to services.

But as someone who has been in the position of negotiating agreements throughout my professional life, I recognize that our desire to complete agreements swiftly is often a posture that can make it more difficult to get the quality and verifiability of agreements that we deserve. But that is what our constituents demand, that we bargain in order to gain some things at the expense of others. We bargain from a position of strength, so we must always make sure that we get a *good deal*, and a *solid deal*, not just a deal. So we must balance patience with urgency, and I would like to hear how Ambassador Zoellick thinks we can do that on various fronts.

With that, I would like to welcome Ambassador Zoellick and follow up with questions on some of the points he made in his statement. Thank you.

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**Opening Statement of the Hon. Jim Ramstad, M.C., Minnesota**

Mr. Chairman, thank you for calling this important hearing on the Bush Administration's trade policy.

Many thanks also to Ambassador Zoellick for appearing before us today to lay out the trade priorities of the Administration.

Last year, I think most of us on the Committee would agree, was a great year for trade. A number of important bills passed into law to expand international trade and development. This year, we need to capitalize on those successes by moving ahead quickly on the important trade issues before us.

How can we not? The U.S. economy is increasingly international in focus. Over 25% of our economic growth in the last decade is tied to foreign trade and 12 million Americans owe their jobs to exports. The unprecedented economic growth this country has experienced in recent years is in part a result of expanded trade between the U.S. and our trading partners.

I strongly believe the cornerstone of congressional trade action must be approval of Trade Promotion Authority for President Bush. As long as we continue to deny this fundamental power to the President, our economy and our citizens will fail to capitalize on the trade opportunities before us.

What are these opportunities? The U.S. must push aggressively to negotiate and enact the Free Trade Area of the Americas, preferably by 2003. The NAFTA agreement has been an enormous benefit to our country, and we will further benefit from expanding free trade to the rest of the hemisphere.

We should also continue to push for bilateral trade agreements with countries like Chile, New Zealand, Australia, Singapore and others. Lastly we should continue to work with Europe to amicably settle our differences and move forward.

We have the opportunity to build on last year, Mr. Chairman, and I hope that we seize that opportunity.

Thanks again, Mr. Chairman, for holding this hearing and I look forward to hearing from Ambassador Zoellick today.

Chairman THOMAS. I thank the gentleman, and now it is my pleasure to ask the ambassador that any written statement that he may have will be placed in the record, and you can address us in any fashion you see fit.

Mr. Zoellick, welcome to the Ways and Means Committee.

**STATEMENT OF THE HON. ROBERT B. ZOELLICK, UNITED STATES TRADE REPRESENTATIVE**

Ambassador ZOELLICK. Thank you, Mr. Chairman. And, thank you, Mr. Rangel and Chairman Crane, and Mr. Levin. I appreciate the opportunity to be here. What I would like to do, Mr. Chairman, is, as you mentioned, if you put my full statement in the record, I will just summarize it.

Last week, President Bush spoke before a joint session of Congress about how trade is part of his larger vision of expanding freedom. Trade policy is the bridge between the President's international and domestic agendas. As the former Governor of a border State, President Bush has seen that the free exchange of goods and services sparks economic growth, opportunity, dynamism, fresh ideas, and democratic values, both at home and abroad.

In undertaking the President's charge, I know well that the Constitution vests the Congress with the authority to regulate commerce with foreign nations. Frequent substantive consultation with this Committee is enormously important to me, and I look forward to working closely with you. The history books recount economic, political and indeed national dangers of a breakdown in America's trade policy.

The disastrous experience of setting protectionist tariffs for over 20,000 individual items in the Smoot-Hawley bill 1930 led the Congress 4 years later to try a different approach, a bipartisan partnership with the executive to try to negotiate lower barriers to trade around the world. This partnership between the Congress and the executive became a bipartisan cause and eventually produced prosperity and opportunity, and even liberty beyond the greatest expectations of its supporters.

Federal Reserve Chairman Alan Greenspan has put this success in historical perspective, by pointing out that the growth in trade as a share of the world economy over the past 50 years has finally managed to reverse the losses from the calamities of the early 20th-century and now approximates globalization around 1900.

So today, just like Americans at the turn of the last century, we face some critical decisions about the future course for our country, trade and the world. Just as the World War II generation forged a bipartisan consensus that sustained successful trade expansion through the Cold war, we must build a new consensus, to promote open markets and trade for decades to come. I know that new ideas are being advanced from many quarters and I want to work with you with an open mind to try to mobilize broad support for freer trade.

I am sure we will have many opportunities, including I expect today, to discuss the import particulars of trade, but I would like to step back just a moment to touch on the importance of global trade for the American people. First, expanded trade, imports as well as exports, improves the well-being of Americans. It leads to better jobs with bigger paychecks and more competitive businesses, as well as more choices as the goods and imports with lower prices for hardworking families and hard-driving entrepreneurs.

I appreciate that votes for agreements like NAFTA and the Uruguay round may not have been easy to cast, yet those agreements contributed to the longest period of economic growth in U.S. history, with levels of full employment and without inflationary pressures, beyond the forecast of any economist. A new commitment to trade liberalization can help boost a vigorous, long-term economic recovery from the present slowdown.

The expanding global trade and the expanding economic growth in the United States are not coincidental. They are achieved in concert. One strengthens and reinforces the other. Moreover restrictions on trade have victims: farmers; schoolteachers; factory and office workers; small business people and many others who have to pay more for clothing or food or homes or equipment because of visible and invisible taxes on trade.

Second, as President Bush has stated, free trade is about freedom. Economic freedom creates habits of liberty and habits of liberty create expectations of democracy. President Bush recently made a historic visit to Mexico where he met President Fox, the first president elected from the opposition since that nation's revolution, and it is not an accident in my view that after Mexico embraced the opening of its economic system as embodied in NAFTA, it was drawn to a democratic opening as well. So trade can promote our values as well as our economic interest.

Third, expanded trade affects our Nation's security. The crises of the first 45 years of the last century were inextricably linked with hostile protectionism and national socialism. Take an example from today: Columbia is waging a battle to defend the rule of law against murderers who finance their terror through complicity in drug trafficking. President Prastrana, when he visited Washington recently, has said that one way to counter this threat would be for Congress to renew the Andean Trade Preferences Act, which expires in December. With a renewed and robust Andean Trade Preferences Act, the emphasis of U.S.-Columbia relations can gradually shift from aid to trade.

I recognize, however, that the benefits of open trade can only be achieved if we achieve public support at home. To do so, the administration must enforce vigorously and with dispatch our trade laws against unfair practices. In a world of global economics, justice delayed can become justice denied. We need to do a better job of monitoring compliance with trade agreements and insisting on performance by our trading partners, and I assure you that I will not hesitate to use the full power of U.S. and international law to defend American businesses and workers against unfair trading practices.

Even if we do our jobs well, I appreciate that change, particularly rapid adjustments from whatever cause, can be very difficult and frightening for hardworking people. So part of our larger program

will have to be to help people to adapt and adjust and benefit from change.

To strengthen and speed America's trade and economic policies, we are going to need to reestablish the bipartisan congressional-executive negotiating partnership. Last week, the President asked the Congress for quick action to give him, quote, "the strong hand of Presidential trade promotion authority." This authority, as he pointed out, has been given to five previous Presidents. Therefore I will be following up with this Committee and with the Senate Finance Committee to consider how to establish trade promotion authority for the President based on the fast track precedent and the broadest possible support.

In the absence of this authority, other countries have been moving forward with trade agreements while America has stalled. Indeed, other countries are writing the rules of the international trading system as they negotiate without us. The European Union has free trade agreements with 27 countries; 20 of these agreements have been signed since 1990. Japan is negotiating a free trade agreement with Singapore. It is also exploring agreements with Mexico and Korea and Chile.

There are approximately 130 free trade agreements in the world globally, but the United States is party to only two. Our deadlock hurts American businesses, workers and farmers, and they are going to find themselves shut out of many preferential trade agreements and investment agreements negotiated by others. Just to cite one example, while U.S. exports to Chile face an 8 percent tariff, the Canada-Chile trade agreement will free Canadian imports of this duty, and that is why we are going to start our negotiations again with Chile on a free trade agreement this month.

We cannot afford to stand still or be mired in partisan division while other nations seize the mantle of leadership from the United States. This would be a huge missed opportunity; indeed, in my view, a historic mistake. In considering the grant of trade promotion authority, I urge you to give the President more leverage by broadening our options.

I would like to be able to tell my counterparts from around the world that we are willing to negotiate if they are serious about eliminating barriers, yet also make clear that America will look elsewhere if they delay, and that the United States will move forward and it is up to them to decide to join us or be left behind. The fact that we are moving on multiple fronts increases our leverage.

On April 20th, President Bush will attend the Summit of the Americas meetings in Quebec city, where one of the major items on the agenda will be the free trade area of the Americas, and he has emphasized to set a new course for this hemisphere, he needs to hold out the prospect in Quebec city that new trade promotion authority is on its way.

Of course, America's trade and economic interests extend far beyond this hemisphere. We want to launch a new round of global trade negotiations in the WTO, emphasizing a key role for agriculture. We will seek to negotiate regional and bilateral agreements to open markets around the world. There are opportunities in the Asia-Pacific. We will start with a free trade agreement with

Singapore, and work with you to pass the basic trade agreement with Vietnam, negotiated by the Clinton administration.

We will urge Japan to deregulate, restructure and open its economy, which is long, long overdue, and we want to complete China's accession to the WTO, once it meets its requirements. Further reforms in the Middle East and Africa need our encouragement and I compliment this Committee on its important work with Africa and the Caribbean last year. We are committed to working with Congress to enact legislation for a free trade agreement with Jordan, to implement the Africa and Caribbean provisions, and to consider other ways we can help both these regions.

As India reforms its economy and taps its great potential, we should explore ways to try to achieve mutual benefits, to help developing nations appreciate that globalization and open markets can assist in their own efforts to reform and grow. We will need to extend the legislation authorizing the Generalized System of Preferences program. Of vital importance, I will seek to work with the European Union and its candidate Members in central and eastern Europe, both to fulfill the promise of a trans-Atlantic marketplace that is already being created by business investment and trade, as well as to reinvigorate, improve and strengthen the WTO processes.

Now that there is a fragile peace in the Balkans, we must secure it by pointing people toward economic hope and regional integration. Therefore, we would like to work with the Congress to follow through on the prior administration's proposal to offer trade preferences to countries in southeast Europe.

The Bush administration has an ambitious trade agenda, reflecting the importance that President Bush assigns to trade. This is an opportune moment to reassert America's leadership in setting trade policy and to build a post-Cold War world on the cornerstones of freedom, democratic values, open trade and free markets, as well as security.

I appreciate the executive-congressional partnership on trade has a rich tradition which has produced very important results, and with your help I look forward to working with you to build on that partnership as we move ahead.

Thank you.

[The prepared statement of Mr. Zoellick follows:]

**Statement of the Hon. Robert B. Zoellick, United States Trade Representative**

Chairman Thomas, Representative Rangel, and Members of the Committee:

Last week, President Bush spoke to the joint session of Congress about how trade is part of his larger vision of expanding freedom. "The cause of freedom rests on more than our ability to defend ourselves and our allies. Freedom is exported every day as we ship goods and products that improve the lives of millions of people. Free trade brings greater political and personal freedom."

Trade policy is the bridge between the President's international and domestic agendas. As the former governor of a major border state, President Bush has seen that the free exchange of goods and services sparks economic growth, opportunity, dynamism, fresh ideas, and democratic values, both at home and abroad.

In undertaking the President's charge, I know well that the Constitution vests the Congress with the authority "To regulate Commerce with foreign Nations." Frequent, substantive consultation with this Committee is enormously important to me. I look forward to working closely with you.



The history books recount the economic, political, and indeed national dangers of a breakdown in America's trade policy. For the first 150 years of the United States, there were contentious Congressional debates over tariff bills, some even leading to movements for Nullification and Secession. Then the disastrous experience of setting protectionist tariffs for over 20,000 individual items in the Smoot-Hawley bill of 1930 led the Congress four years later to try a different approach: a partnership with the Executive to negotiate lower barriers to trade around the world.

Launched by strong and innovative leaders, Franklin D. Roosevelt and Cordell Hull, this partnership between the Congress and the Executive became a bipartisan cause, and eventually produced prosperity and opportunity and even liberty beyond the greatest expectations of its supporters. Federal Reserve Chairman Alan Greenspan has put this success in historical perspective by pointing out that the growth in trade as a share of the world economy over the past 50 years has finally managed to reverse the losses from the calamities of the early 20th century, and now approximates the degree of globalization around 1900. So today, just like Americans at the turn of the last century, we face critical decisions about the future course for our country, trade, and the world.

Just as the World War II generation forged a bipartisan consensus that sustained successful trade expansion throughout the Cold War, we must build a new consensus to promote open markets and trade in the decades to come. I know that new ideas are being advanced from many quarters, and I want to work with you with an open mind to try to mobilize broad support for freer trade.

I am sure we will have many opportunities—including, I suspect, today—to discuss the important particulars of trade. These specifics are vital to our trade policy. But I would like to step back just a moment to touch on the importance of global trade to the American people.

First, expanded trade—imports as well as exports—improves the well being of Americans. It leads to better jobs, with bigger paychecks, in more competitive businesses—as well as to more choices of goods and inputs, with lower prices, for hard-working families and hard-driving entrepreneurs. Exports accounted for over one-quarter of U.S. economic growth over the last decade and support an estimated 12 million jobs. In the American agricultural sector, one in three acres are planted for export purposes, and last year American farmers sold more than \$50 billion worth of agricultural products in foreign markets. Imports helped keep prices down as jobs, compensation, and productivity increased.

I appreciate that votes for agreements like NAFTA and the Uruguay Round may not have been easy to cast. Yet those agreements contributed to the longest period of economic growth in U.S. history, with levels of full employment, and without inflationary pressures, beyond the forecasts of any economist. A new commitment to trade liberalization can help boost a vigorous, long-term economic recovery from the present slowdown.

The expanding global trade and the expanding economic growth in the United States are not coincidental; they are achieved in concert. One strengthens and reinforces the other. Moreover, restrictions on trade have victims: farmers, school teachers, factory and office workers, small business people, and many others who have to pay more for clothing or food or homes or equipment because of visible and invisible taxes on trade.

Second, as President Bush has stated, free trade is about freedom: "Economic freedom creates habits of liberty. And habits of liberty create expectations of democracy."

President Bush recently made an historic visit to Mexico, where he met with President Fox, the first president elected from the opposition since that nation's revolution. It is not an accident that after Mexico embraced the opening of its economic system, as embodied in NAFTA, it was drawn to a democratic opening as well.

Third, expanded trade affects our nation's security. The crises of the first 45 years of the last century—the economic retrogression referred to by Chairman Greenspan—were inextricably linked with hostile protectionism and national socialism. Communism could not compete with democratic capitalism, because economic and political freedom creates energy, competition, opportunity, and independent thinking.

Take an example from today. Colombia is waging a battle to defend the rule of law against murderers who finance their terror through complicity in drug trafficking. President Pastrana has said that one way to counter this threat would be for Congress to renew the Andean Trade Preference Act, which expires in December. Renewal, he says, would stimulate job creation and diminish the appeal of the drug trade. With a renewed and robust ATPA, the emphasis of U.S.-Colombia relations can gradually shift from aid—Colombia is the third largest recipient of U.S. military assistance—to trade.

I recognize, however, that these benefits of open trade can only be achieved if we build public support for trade at home. To do so, the Administration must enforce, vigorously and with dispatch, our trade laws against unfair practices. In the world of global economics, justice delayed can become justice lost. We also need to do a better job of monitoring compliance with trade agreements and insisting on performance by our trading partners. I will not hesitate to use the full power of U.S. law to defend American businesses and workers against unfair trading practices.

Even if we do our jobs well, I appreciate that change, particularly rapid adjustments, can be very difficult—even frightening—for many hard-working people. We need to help people adapt and benefit from change—whether prompted by trade, technology, e-commerce, new business models, or other causes. Therefore, a successful trade policy over the long term should be accompanied by better schools, worker adjustment assistance, tax policies that enable people to keep and save more of their paychecks, and reforms of Social Security and Medicare so older Americans have a safer retirement.

From our conversations, I have learned that the economies in your districts are transforming, too. Many of your new businesses and employers are linked to the global economy, so Secretary of Commerce Don Evans, Secretary of State Colin Powell, and I want to work with you to tap their support for open trade. In turn, we will try our best to deliver for America's farmers, other workers, service providers, high tech community and intellectual property providers, small businesses, and highly productive manufacturing industries.

To strengthen and speed America's trade and economic policy, we will need to reestablish the bipartisan Congressional-Executive negotiating partnership that has delivered so much. Last week, the President asked the Congress for quick action to give him "the strong hand of presidential trade promotion authority." This authority, as he pointed out, has been granted to each of the previous five presidents. Therefore, I will be following up with this Committee and the Senate Finance Committee to consider how to reestablish trade promotion authority for the President, based on the fast-track precedent and the broadest possible support.

In the absence of this authority other countries have been moving forward with trade agreements while America has stalled. We are in danger of being left behind. There was a time when U.S. involvement in international trade negotiations was a prerequisite for them to succeed. That is no longer true. Indeed, other countries are writing the rules of the international trading system as they negotiate without us.

The European Union has free trade agreements with 27 countries, and 20 of these agreements have been signed since 1990. Just last year, the European Union and Mexico—the second-largest market for American exports—entered into a free trade agreement. The European Union is also negotiating free-trade agreements with the Mercosur nations and the countries of the Gulf Cooperation Council. Japan is negotiating a free trade agreement with Singapore, and is exploring free trade agreements with Mexico, Korea, and Chile. There are approximately 130 free trade agreements in force globally, but the United States has only two agreements in force: one is with Canada and Mexico (NAFTA), and the other with Israel.

In the long run, our deadlock hurts American businesses, workers, and farmers, as they will find themselves shut out of the many preferential trade and investment agreements negotiated by our trading partners. To cite just one example, while U.S. exports to Chile face an eight percent tariff, the Canada-Chile trade agreement will free Canadian imports of this duty. That is why we will resume negotiations with Chile on a free trade agreement this month.

We cannot afford to stand still—or be mired in partisan division—while other nations seize the mantle of leadership on trade from the United States. This would be a huge missed opportunity, indeed an historic mistake.

In considering the grant of trade promotion authority, I also urge you to give the President more leverage by broadening our options: I want to be able to tell my counterparts that we are willing to negotiate if they are serious about eliminating barriers, yet also make clear that America will look elsewhere if they delay—that the United States will move forward, and it is up to them to decide to join us or be left behind.

On April 20, President Bush will attend the Summit of the Americas meeting in Quebec City, where one of the major items on the agenda will be the Free Trade Area of the Americas. He has emphasized that to set a new course in the hemisphere—to overcome the North-South divide, just as the United States ended the great divide between East and West—he needs to hold out the prospect in Quebec City that new trade promotion authority is on its way.

Of course, America's trade and economic interests extend far beyond this hemisphere. We want to launch a new round of global trade negotiations in the WTO,

emphasizing a key role for agriculture. We will also seek to negotiate regional and bilateral agreements to open markets around the world. There are opportunities in the Asia Pacific and, I hope, with APEC. We will start with a free trade agreement with Singapore and will work with you to pass the basic trade agreement with Vietnam negotiated by the Clinton administration. We will urge Japan to deregulate, restructure and open its economy, which is long overdue.

Further reforms in the Middle East and Africa need our encouragement, and I compliment the Committee for its important work with Africa and the Caribbean last year. We are committed to working with the Congress to enact legislation for a free trade agreement with Jordan, implementation of the African and Caribbean provisions, and consideration of other ways we can help those regions.

As India reforms its economy and taps its great potential, we should explore ways to achieve mutual benefits. To help developing nations appreciate that globalization and open markets can assist their own efforts to reform and grow, we will need to extend the legislation authorizing the Generalized System of Preferences program.

Of vital importance, I will seek to work closely with the European Union and its candidate members in Central and Eastern Europe, both to fulfill the promise of a trans-Atlantic marketplace already being created by business investment and trade, as well as to reinvigorate, improve, and strengthen the WTO processes. The total amount of two-way investment in the EU and the United States amounts to over \$1.1 trillion, with each partner employing about 3 million people in the other. Trade in goods and services between the United States and western Europe was \$557 billion in 1999, double the level of a decade earlier. Similarly, in 1999 European companies acquired and established businesses in the United States valued at \$205 billion, up from \$31.9 billion five years earlier. We would be remiss to neglect our common interests while working to resolve more immediate disputes.

Now that there is a fragile peace in the Balkans, we must secure it by pointing people toward economic hope and regional integration. Therefore, we would like to work with the Congress to follow through on the prior administration's proposal to offer trade preferences to countries in Southeast Europe. Such trade preferences would be considered within the parameters of the President's budget request.

The United States has an unparalleled opportunity to shape the international trading order. But we have to get back into this game and take the lead. We are certainly in a position to do so. The United States is prepared to pursue a number of bilateral and regional free trade agreements in the years ahead, as well as the global trade negotiations in the WTO. The fact that the United States can move on multiple fronts increases our leverage.

The message I want to send to other countries is that the United States is willing to negotiate. We are willing to open if they open. But if others are too slow, we will move without them. Our economy is so attractive, and the model of our private sector is so appealing, that people will come to us if we are accessible and resolute.

The Bush administration has an ambitious trade agenda, reflecting the importance President Bush assigns to trade. This is an opportune moment to reassert America's leadership in setting trade policy and to build a post-Cold War world on the cornerstones of freedom, democratic values, open trade, and free markets—as well as security. I appreciate that the Executive-Congressional partnership on trade has a rich tradition, which has produced important results. With your help, I look forward to building on that partnership as we move ahead.

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Chairman THOMAS. Thank you very much, Mr. Ambassador, and I know you have limited time and I hope Members will appreciate that this will not be the only visit that we will have with the Ambassador, but it is the first. Let me begin the questioning by telling you that a number of prominent people involved in trade, even someone as prominent as the former U.S. Trade Representative, have indicated that given the fact we have been able to negotiate something like the China agreement, that perhaps what we used to call fast track, now we call trade promotion authority, may not be only as important as we thought, but not necessary to place in the hands of the President.

I will do my best as we have these discussions to not drift off into jargon, and that those who are watching us can follow us, because

we used to have something called most favored nation, which made no sense, because in fact what it was, was normal permanent trade relations, and we have been able to conquer that terminology problem. I do support the idea that instead of calling it fast-track, we call it trade promotion authority; but frankly, rather than worry about what it is called, what do you think about whether we need it or not, Mr. Ambassador?

Ambassador ZOELLICK. Well, thank you, Mr. Chairman. I have great respect for Ambassador Barshefsky and I know she worked very closely and effectively with this committee.

Chairman THOMAS. As do we all.

Ambassador ZOELLICK. I think, at the forum that she spoke, she was the only one of about five or six former U.S. Trade Representatives that had that view; and I personally feel that what it might have overlooked is that the work that this committee and the Congress very effectively did were agreements that tended to be one-sided. Bringing China into the PNTR involved a series of concessions by China. We did not make any trade adjustments.

The Caribbean and Africa bills involved preferential arrangements which I compliment the liberalization, but we did not make any adjustments. I suspect that as we face the larger agreements on our agenda, particularly the Free Trade Area of the Americas or the WTO process, that this is going to involve some give, as well as some take. I think for a larger agreement, it will be very important to be able to have this authority for those processes.

Chairman THOMAS. I thank the gentlemen. I also happen to believe that if we are going to try to re-establish trade promotion authority, that there has to be a way in which we can deal with the 21st century questions of trade, along with labor and the environment, but frankly it is going to require us to be a bit more creative than we have been in the past; and my question to you would be do you feel comfortable with the suggestions that have been offered already in terms of trade and the environment? Is there sufficient specificity or, rather than simply pointing with pride or viewing with alarm, do we need to get much more serious with those of us who are focusing on trade in trying to create an agreement with those who are also focusing on labor and the environment? How specific have the proposals been that you have seen in terms of trying to advance all of our interests with the new trade promotion authority?

Ambassador ZOELLICK. Well, first, Mr. Chairman, obviously both for you and many members of this committee, the trade and environment and labor issue is going to be a critical one going forward. So let me start with the guidance of President Bush on this. He has said of course we want to try to improve environment and labor conditions, we just do not want to do so in any way that is protectionist.

As I said in my statement, I want to try to broaden the base of support for trade in a bipartisan fashion and that will clearly include this issue. Now, there have been a host of ideas out there. This committee and the Congress as a whole took one approach with the Africa-CBI bills, which involved at least the labor issue.

I have been trying to consult with people in both the Senate and the House. Some are interested in the increased role that the ILO

can play, the International Labor Organization. Some have talked about financial arrangements, including with the multi-development banks.

I know that another issue would be the interconnection of environment agreements, for example, the SITIES agreement, with endangered species, with the WTO system, and I think that is a reasonable question to ask. I have talked with Mr. Levin about the Cambodia provisions, which are ones that are designed to be incentives as opposed to disincentives, and obviously other countries have explored other methods, like the monetary penalties that are in the Chilean and Canadian agreement.

At this point I think there are a number of ideas on the table, but I certainly welcome more. Mr. Levin gave a speech yesterday where he put out some specific ideas on that. As I mentioned to him that while I did not agree with all of the speech, I thought it was a very thoughtful presentation on an important set of issues. So I believe that, in terms of specificity, that from this committee, but also frankly from others—I have talked with environmental groups; I have met with John Sweeney—that I would like to try to see a variety of ideas because I do not believe the one-size-fits-all. I think we are going to have to approach this differently in different circumstances, and what I would particularly appreciate is that as we try to figure out how to build a base of support in this country, we also look at how we do it abroad, because part of the challenge here is going to be bringing other countries to accept these ideas, and frankly there is a lot of fear and anxiety out there.

So I think as long as we approach this in a spirit where our purpose is open markets, economic growth, helping countries to move to a win-win situation, whether with side agreements or other dimensions, we will be more successful in going where we all want to go, which is to try to increase economic growth, but also do so in a way that improves labor and environmental conditions.

Chairman THOMAS. Thank you very much, Mr. Ambassador.

Does my friend, the ranking member from New York, wish to inquire?

Mr. RANGEL. Thank you, Mr. Chairman. Once again, I really look forward to working with you. For so much of my life, trade has just meant Europe, and I feel so excited that I am living in a time when America's concern goes beyond that. It goes to Mexico, Central and South America, the Caribbean and Africa. To African-Americans and to other people, this is such a healthy feeling because it means that we are the only country on the face of the earth that has color and cultural attachments to all countries; and so I hope the State Department and your office will make certain that we have the talent there to provide the best support and the best ambassadors, if you will, that we can get, to take into consideration all that we have to offer.

I do hope, as it relates to the Caribbean and to Africa, that we not just rely on formal treaty agreements, but you are able to put together a task force to see what some of us in Congress that sit on different committees can do with the Ex-Im Bank, that can do with inviting capital to these countries, that can do in providing assistance as it relates to quality health care, because no one has done more than former Secretary of Commerce Ron Brown to make

it clear that if you want good training friends, you have to be a friend, to assist people and get in the economy and having disposable income.

So you have made one great first impression with colleagues on both sides of the aisle, and I look forward to working with you and your task force to see what support we can give you to make this a greater and more prosperous country.

Thank you.

Chairman THOMAS. Thank the gentlemen. Does the chairman of the Trade Subcommittee, the gentlemen from Illinois, wish to inquire?

Mr. CRANE. Yes. Thank you, Mr. Chairman.

Mr. Ambassador, you mentioned in your confirmation testimony that you would consider negotiating bilateral trade agreements as a means of advancing the WTO discussions, and I have supported for some time negotiations with Chile and with Singapore, Australia and New Zealand. I am wondering if you had any discussions, or this administration, with Australia and New Zealand to lay the groundwork for free trade negotiations with those two close allies.

Ambassador ZOELLICK. Mr. Chairman, I have had some informal discussions with various Australians who I have had the pleasure of knowing over the course of the past 15 years. I think there is a growing interest in a trade agreement with Australia. I will tell you one point that I am trying to be careful about with this. In 1992, I wrote a document for President Bush, Number 41, about an economic plan that included a free trade agreement with Australia, and it got caught up in Australian politics at the time.

So I have said to my friends in both the Labor party and the national coalition, since they are facing election, that if we approach this, I want to make sure it is done in a fashion that has bipartisan support in Australia. I will be meeting the Australian trade minister in the coming weeks. I hope that will be the case, because I certainly do not want to get caught up in the midst of their election campaign; but it is a subject I would like to discuss further, also with this committee, because we will have some sensitive issues if we are going to go down that route.

As for the New Zealanders, I have not yet had a conversation with them. Based on this exchange, I expect I will.

Mr. CRANE. The upcoming April summit among 34 leaders of the western hemisphere marks an important opportunity to advance free trade in the region, and given the sizable amount of work that remains to be done to conclude an FTAA and seeming reluctance by some key partners, what will the United States do at the summit to rejuvenate FTAA negotiations?

Ambassador ZOELLICK. Well, first, Mr. Chairman, I would like to put this in a context that I think is important. I really do see this as a historic opportunity. Some of you that have a strong sense of the history of this institution probably know that Henry Clay and others had been promoting this notion of free trade throughout the Americas for well over 150 years, and we have not been able to get it done.

Senator Blaine, I think, also was an early proponent of this. So this really is something that could be an incredible success story

for the Congress and the executive going forward. It is, in my view, as I said, not only about economics, but it is about securing democracy. These countries have come a tremendous way since the time I dealt with them at the Treasury Department in the 1980s, but frankly they are at a little point of reform fatigue now, and they need this incentive to try to keep moving.

As you probably know, we have completed nine bracketed texts to move the negotiation forward, and these deal with topics like market access and agricultural and services, and now we have got to begin the hard work of setting the timetable, and that is, I think, one of the purposes of the ministerial and the summit, to try to march forward with this.

The early statements by the countries of the Americas were to try to complete this by January 1, 2005. I would be delighted if it could enter into force before that. We will have to see how that works in terms of negotiating with our fellow countries. There is one other point on this I think is important, given this committee's broader range of interest.

We know that there are some economic difficulties in the world at present, and these always reflect themselves in financial markets. What I have said to my Latin American colleagues is what greater signal of confidence in the future of Latin America, which will be important for investors, than moving this agreement forward. So I hope that is one of the effects we can have come out of the Summit of the Americas.

Mr. CRANE. Finally, the 5-year U.S.-Canada softwood lumber agreement imposes a tariff rate quota on all softwood lumber imported from Canada. It is scheduled to expire on March 31 of this year—March 31, this month. Proponents of trade barriers have made allegations of Canadian softwood subsidies, but this has been disputed. Do you agree that the quotas penalize consumers and, in this instance, potential home buyers in the United States by increasing the price of lumber?

Ambassador ZOELLICK. Well, Mr. Chairman, as someone who actually spent a fair amount of his professional life in the affordable housing industry, I have a pretty good sense of that field. I have to honestly tell you I think with lumber prices right now, that is not their problem. I think that this is a field where I have certainly heard loud and clear from many members of the Congress about their larger concerns.

I think there has been a past practice of subsidies in Canada, and it is one of the issues we will need to deal with. Since the red light is on, I suspect I will get this question to follow-up on.

Mr. CRANE. Thank you, Mr. Ambassador.

Chairman THOMAS. Thank both of you for your cooperation.

Does the ranking member of the Trade Subcommittee, the gentlemen from Michigan, wish to inquire?

Mr. LEVIN. Thank you. I will not talk to you about softwood. I think your answer to Mr. Crane was interesting and revealing, because I think there is a real problem there. Let me just say a word. In your testimony, you talk about reasserting America's leadership in trade, and I know every new administration has a tendency to kind of upgrade its devotion and somewhat diminish that of its predecessor.

I just want to say I do think under the previous administration, surely in the last 18 months, there was very substantial progress, and I think in part because it was willing to tackle some of the tough issues that have been often intractable. You say in here, referring to what other countries are doing, that we may be losing ground. I just would urge that we not overstate that; but in that regard, you talk about the small number of FTAs that the U.S. has entered into. So let me, if I might, be a bit specific.

We negotiate an agreement with Jordan. We completed it. Will it be submitted here before King Abdullah arrives, so we can act on it?

Ambassador ZOELLICK. Well, let me answer your first point. I certainly think the Clinton administration had a number of significant accomplishments, and I have supported them, frankly, in terms of the NAFTA and the Uruguay Round effort. I do think there was a problem after that and I think it is important we face up to the fact that after 1994, the agenda slowed considerably, and I do not dismiss any of the work by the people in the offices, but I think that relied heavily on the fact that the President no longer had the negotiating authority that I think we need.

I certainly take your point that the work over the last 18 months was important work, and, as I mentioned, that work was of a special type in terms of preferential legislation and legislation to bring China to WTO, that is different than some of the traditional trade negotiations. So I do continue to believe that if we are going to move forward and not fall behind, and I just have to say respectfully Mr. Levin when I talk to people in the business community and what I have seen economically, we do run that risk, that we are going to have to address that issue.

Now, to Jordan. I obviously believe that this is a very important agreement and I think it has a number of creative dimensions. Obviously, when the King comes, he is going to be pressing it forward. Just so you know, I have had communication just through one other person to Prime Minister Sharon to ensure he would support an agreement, and I have been told that he supports the agreement; and I think its significance is in part not only due to the volatility in the Middle East, but the fact that you have a King who is trying to bring his country in the right economic direction, and we need to try to encourage that as a signal to others in terms of the reform process.

In terms of the timing, when I have spoken with you, I obviously know the priority you place on this one. When I have spoken to others, including, frankly, on the Democratic side, I hear a priority of Vietnam. I have mentioned in my statement the importance of some of the other issues; for example, the Andean Trade Preferences with President Pastrana coming and the fact that that expires. There are others related to the Balkans, given the sense, as I understand it, the prior administration proposed that legislation in 1999, and it was unable to move.

So one of the issues that I frankly am going to want to consult with this committee and others on is how we do all of these agreements, recognizing, and you would know this better than I do, that trade agreements are not so easy for the Congress to take up one by one by one. So one issue is, frankly, how do we handle the agen-



da that I have tried to lay out in my testimony here? Clearly, Jordan needs to be an important part of that.

Mr. LEVIN. Let me just quickly say I think the only controversy about Jordan is among a few—I think a few—who have objected to the labor provisions and the environmental provisions that Jordan voluntarily entered into. I would hope it would be sent up and it would not be used as vote bait for other issues. I do not think that will work. It is a sound agreement in and of itself.

Secondly, quickly on steel, a number of us have been doing some work on it, and I am going to be sending a letter to the administration with a lot of the details about the surges, the imports, product by product, and urging a 201 action. Can you quickly tell us where you are on this?

Ambassador ZOELLICK. Yes. Just on your first point, with respect to saying that it only has a labor and an environment issue that some people disagree with, that is a big issue up here, and I have certainly got that sense from talking to people on both sides of the aisle, the recognition. So, as you know, I would like to work with you on that issue and we can talk more about the specifics of the agreement. I think that it is a very creatively drafted agreement. I have some concerns about the sanction provisions, but I do not think I can just say—well, to be honest with you, we can just sort of move that one past. I think we are going to have to discuss this in the context of others. But I assure you, Mr. Levin, I would like to move all of these as quickly as we can. We just have to try to see how we can resolve those.

Mr. LEVIN. If we try to package everything, we will do nothing. Quickly about steel then.

Ambassador ZOELLICK. Yes, on steel, as you and I have discussed, I and my colleagues in the administration are looking very seriously at the 201 option, because frankly there is a clear recognition about the problems that the industry faces, how it has never really fully recovered from the 1998–1997 period, and an important part of that, as you know, is a commitment by the industry and the unions to a restructuring, so that at the end of that period, we have not just had protection, but we have had a more competitive industry.

Secretary Evans, Secretary O’Neill and I have been in discussions with the industry and the labor unions about that. I have certainly asked both to give us their suggestions on how that might work. We also, I think, need to look at this in the larger international context, because clearly the industry is dealing with capacity issues, dealing globally. But we are seized and focused on the issue, and as we have discussed, I frankly think the 201 approach, if we can work out these pieces, could be more productive than others.

Mr. LEVIN. Thank you.

Chairman THOMAS. Thank the gentlemen.

Does the gentleman from Michigan wish to inquire?

Mr. CAMP. Yes. Thank you, Mr. Chairman.

Mr. Ambassador, my question goes to agriculture, particularly the area of dried beans. The Mexican government for a number of years has been putting requirements into the permitting process for us to export our dried beans to Mexico, which our producers

would like to do. Recently, as late as February 27th, the Mexican government published details of their auction to be held in March, and in that said that only a quarter of the permits would be made available, and this is yet another effort where they have made these requirements.

Auctioning only a quarter of the permits would put our growers at a distinct disadvantage. Is there any comment you can make on that particular problem?

Ambassador ZOELLICK. Yes, Mr. Camp. I was aware of the issue and raised it with my Mexican counterpart, Secretary Gavez, in one of our first phone conversations. I then met him, either this week or last—time is passing quickly—and raised the fact that the regulations you referred to are a disappointment, not only for that reason, but some of the timing requirements—I think they only allow 35 days to be able to load this on railroad to Michigan and other places would be unduly prohibitive, and the only access to the licenses are for people who have had licenses before.

So I told him how important I thought it was that we move on this. He needs to work with his agricultural ministry. He pledged to do so, and we have some other issues that are related to this that I hope will allow us to get a rapid resolution.

Mr. CAMP. Thank you. Also, with the impending expiration of the U.S.-Canada softwood lumber agreement, are you working with the Secretary of Commerce to come up with a plan to prevent any injury to the industry between the end of the agreement and the possible imposition of preliminary countervailing duties and anti-dumping duties?

Ambassador ZOELLICK. Well, I am glad you raised this because it is particularly important in an open forum that we all have a sense of how we are trying to approach this issue. I tried to speak with a wide range of people in the industry about how they thought it was best to approach this, and at first there was some thought about a continuation of the agreement, but I got a strong message from the industry that that was not their preference, that they prefer to have us basically get out of the way so they could file the antidumping and countervailing duty suits, and I told them I would be supportive of that process.

As I mentioned or alluded to in my conversation with Chairman Crane, I also pointed out that when I last dealt with this issue at the Treasury Department, we actually were able to get an export tax in Canada because there were findings of subsidies. If the subsidies are found and the dumping duties are found, I still believe that may be a productive solution, but one has to reach that step. The last point, Mr. Camp, on this is that I made clear to Minister Pettigrew who is certainly aware of this issue, that the concerns here are volatile to explosive, and I urged him to consider any other steps that they might take as the agreement ended so that we do not make the problem worse.

So I know the importance of the issue and it is my understanding that this is the preferred approach of the softwood lumber industry.

Mr. CAMP. Lastly, I have one other topic, being from Michigan, obviously U.S. automotive exports face considerable obstacles in other markets, in contrast to our fairly open U.S. market. Obvi-

ously our access to these markets is just a simple matter of fairness, as well as jobs here. Do you have any comment on that particular area, as well?

Ambassador ZOELLICK. Well, let me start with this. I think the U.S. auto industry, under competition, made tremendous advances in the 1980s, and I think that, along with those advances, the fact that the U.S. auto industry now is a competitive force around the world, which frankly, at an earlier point, I am not sure that they were focusing on those markets.

So I think it is particularly important that we try to follow through with them, to try to help them open those markets. The whole industry is changing globally, as you know. A large number of the Japanese auto companies are now either owned by or have significant investment portions of other countries, and that actually creates some possibilities, because the key in a lot of these markets is to try to deregulate and add some transparency. This is true in Korea as much or more as it is in Japan, to try to open opportunities for our auto industry, as well as the auto parts industry.

So I think those are important issues on the agenda. I am meeting the Korean president this week and it is one of the ones that I plan to mention.

Chairman THOMAS. Thank you very much.

Thank the gentleman. Does the gentleman from Oklahoma wish to inquire?

Mr. WATKINS. Thank you, Mr. Chairman, members of the Committee.

Mr. Ambassador, it is good seeing you. I want to say thanks for returning my call, even if it was on a Saturday. I appreciate you getting back to me on that.

Ambassador ZOELLICK. Pleased to do so.

Mr. WATKINS. I would just like to say, on the last statement of your statement there, it is very important and I want to talk about it—agriculture, my friend from Missouri, Kenny Hulshof and I, worked and pushed the last several years on trying to get an agricultural ambassador status, to try to give us hopefully more prestige at the table for agriculture, because I am a alarmed, very alarmed, when I see what is eroding in our trade overall, and I want to bring that up a little bit.

But your last comment is we would be appealing and people would come to us if we are accessible and resolute. Well, I want to be resolute for the United States of America. I want to point this out. I think literately, and my colleagues, I do not think we have had the right shake in agriculture because a lot of people in agriculture do not have an emotional commitment about agriculture.

I think our USTR, back in 1993 at the GATT talks, Uruguay rounds, sold us down the drain, to be very truly. I want to point this out because our trade decisions affect this—even our budget process right here. Our trade decisions affect some markets around the world and our supply and demand factor depends on those markets. You made a statement earlier where the EU has signed 27 bilateral trade agreements when we have only signed two. Many of the bilateral trade agreements give them a better positioning in agriculture.

Now, why they are able to do that is because of that 1993 Uruguay GATT talks, where basically all the other things were agreed to by the USTR, by the United States, all of them except agriculture. When we got down to agriculture they finally said, after negotiating and discussing, they finally said, well, let's have a peace clause. Here is what happened, fellow committee members, with that peace clause; it grandfathered in over \$7 billion worth of agriculture subsidies for the European Union, Earl, and only grandfathered in about \$200 million for the United States, which we basically have not used.

What has happened has caused us to lose a lot of markets. We cannot sell. Because of supply and demand, we find that it drives the U.S. agriculture products down, and then we end up having to pay more in our loan programs out of our agriculture budgets here, and we get criticized a great deal here in the United States.

I know my colleague from Maryland said something about the steel industry earlier today, but less than four decades ago, we had 16 percent of our population in the production of agriculture. Today we only have 1.5 percent of our population in the production of agriculture. We have to go back and say we can produce—we can produce, but we are not willing to sell. The European Union says we will pay whatever the price, and I would like to know your plan. I am concerned about the fact, Mr. Ambassador, we have not had people sitting at the table in your position that had a genuine concern about agriculture.

I know some people say, well, the FSC and other things are going to be affected if we push this or that, but what that tells me is we are willing to sell our agriculture people down the drain. I would like to get your comment and I have got one follow-up I want to ask you.

Ambassador ZOELLICK. I will try to be brief, Mr. Watkins. This one starts with the President. The President, whenever he talks about trade, talks about agriculture. When he interviewed me for the job, it was the first topic he raised. So the commitment of the President on agriculture and trade is the start of the pyramid. I agree with you about the importance of the agricultural ambassador. I think it is a very important appointment. I am in the process of looking at a number of people. I think it is important that person have excellent ties with the agriculture community in the United States, but also be able to negotiate firmly abroad.

I may give you partial satisfaction on this. I am from Illinois, and I have family who still farm in Minnesota, so I have some sense of the farming business a little bit, and I also early, in my tenure, met with a large number of farm groups because of the importance I place on this issue, and I think that Secretary Veneman and I, who I have the greatest respect for in this, will be able to work altogether.

As you know, even with the present limitations, these markets abroad are critical to U.S. farmers, because about one out of three acres that the farmer plants in America is exported, and about 20 to 30 percent of farm incomes deal with exports. So even with the limitations, it is critical to their role. A lot of this comes down to the EU, as you have mentioned, and we know this is not going to be easy given the subsidies that they have built into the system.

What is happening in the EU right now, however, is interesting and gives us some prospects—

Mr. WATKINS. Would you yield just a second?

Ambassador ZOELLICK. You bet, sir.

Mr. WATKINS. I would like my colleagues to know that out of EU's budget, they spend over 50 percent, nearly 60 percent of their budget, to subsidize agriculture.

Ambassador ZOELLICK. That is exactly the point I was going to come to, is that given the problems they are now having, with mad cow disease and the foot-mouth and other issues, plus the fact of European Union enlargement, they are going to even get more pressure on this issue. There will certainly be many in the European Union who will resist change, but there is supposed to be review in the year 2002 of the EU's policies, and frankly one of the reasons I would like to get trade promotion authority is I would like to go to the EU and say we are now backed by our Congress to go ahead and negotiate; where is your reform in the CAP program in 2002 so we can move ahead to global round, because I think the stars may be aligned to move this further in the EU.

Chairman THOMAS. The gentleman's time has expired.

Mr. WATKINS. Could I refer also to page five—

Chairman THOMAS. The gentleman's time has expired. We have very limited time, and other members wish to ask questions as well. I apologize to the gentleman. Any Member wishing to submit a written question to the ambassador will get a very full answer.

Mr. WATKINS. Thank you, Mr. Chairman.

Chairman THOMAS. Does the gentleman from Texas wish to inquire?

Mr. DOGGETT. Thank you, Mr. Chairman.

Ambassador, is it your personal opinion that prompt congressional approval of the Jordan agreement as written would be in the national interest?

Ambassador ZOELLICK. As written, I am not sure, Mr. Doggett. I believe that there are some serious issues related to the final use of trade sanctions. I believe that, in the Jordan agreement as a whole, there are some important principles there that we need to try to work on, and I have talked about these with Mr. Levin. I think the idea of having countries enforce their own laws is an important step. I think the step that is related to the fact that when we consider enforcement, we do not just look at one incident, but we look at the question of whether there is a pattern, is another important issue. I think the relationship to trade is an important issue.

So there are a number of elements of that agreement that I think are very interesting for us to work on. I think, when it comes to the level of sanctions, this is something that could still be very difficult for us. So, in terms of the larger context, I would like to move forward that agreement. I would like to have further discussions about enforcement.

Just one other word on this, if I could. Having talked with both labor and environmentalists about this general topic, the sense that I have gotten is they are most interested in some sense of equal treatment of trade and labor and the environment, and maybe that is something we can work on, even within this frame-

work. But I would like us to try to resolve those issues expeditiously so we can get this agreement done.

Mr. DOGGETT. I know you are familiar with the executive order that President Clinton signed in 1999 requiring environmental reviews of trade agreements and of the guidelines to implement those environmental reviews that your predecessor, Ambassador Barshefsky, approved last fall. How do you plan to implement environmental reviews of our trade agreements so that we can have objective information about the consequences, not only within this country, but around the world? Perhaps the softwood lumber agreement that has already been mentioned would be a good example of your explaining to us your level of commitment to see that those environmental reviews are complete and meaningful.

Ambassador ZOELLICK. Let me just take the last one first. Since I do not think we are on track to have an agreement, I do not think we are likely to have an environmental review. I know that a number of the environmental NGOs actually share some of our same concerns about timber practices in Canada. So it is a good example of how we can work together, even if not formally. On your larger question, I believe these environmental reviews can play a very important role, and one of the things I frankly want to try to get a better sense of is how we do them formally and informally, and timing.

Let me give you an example. In talking with some environmental groups over the past couple of weeks, some have suggested to me that as we start to frame our negotiating objectives, there may be things that we can do in the market access area; for example, export subsidies in the European Union certainly raise questions among environmentalists. There are some in the marine fisheries area where we can have a win-win solution as we go forward. Then there is a question about how the trade and economic flows need to be complemented by other environmental issues or protections or other aspects; and so I frankly am very open about how we try to approach this, and I know that back in the NAFTA and other processes, that this was an important precedent that was set, but also builds broader support; and that, to me, is part of the name of the game here.

Mr. DOGGETT. Thank you. Another environmental concern has been the use of investment agreements that are certainly important to protect our investment abroad and the investment of others to challenge, particularly under NAFTA, existing environmental provisions. I know you are familiar with the suit of a Canadian company claiming over \$1 billion in damages because California expressed concern about MTBEs and the threat that they posed to the drinking water supply. How, given the likelihood that investment provisions would be part of a Singapore or Chile agreement, how can we ensure that we protect the rights of investors without seeing these agreements misused to undermine our environmental laws?

Ambassador ZOELLICK. Mr. Doggett, I am looking at that question right now. I am trying to get more detail about these cases to get a sense of whether they are real or whether they are cases that are just trying to use a process. As you mentioned, we obviously do not want to make changes on our side that end up hurting our

American investors abroad, but there may be some aspects that, to ensure that our regulatory and safety and environmental provisions do not become a basis of trade action, that we have to consider some adjustments.

All I can tell you beyond that is that I have had this discussion with both my Canadian and Mexican counterparts, related to Chapter 11, which is the NAFTA one, and the prior Mexican administration was unwilling to consider any adjustment in this one. This one is willing to look at the issue to try to deal with it. So I would be pleased to work with you as we develop our thinking about how to get this fine balance.

Mr. DOGGETT. Thank you very much.

Thank you, Mr. Chairman.

Chairman THOMAS. Thank the gentleman. Does the gentleman from Ohio wish to inquire?

Mr. PORTMAN. Thank you, Mr. Chairman.

First, welcome, Mr. Ambassador. We appreciate your hands-on approach, your keen recognition of the needed partnership between the legislative and the executive branch, and from what I have heard this morning, your contacts around the world. I think they are very helpful. I also appreciate your taking a fresh look at the steel issue through the 201 lens. I know the administration is committed to doing that. I think that is more productive than where we have been on that issue.

With regard to trade promotion authority, it expired in 1994, as you well know, and during those seven years I believe there has been a lot of pent-up interest in free trade agreements and expanding markets for American products. I am going to be very interested in providing trade promotion authority for all the reasons you have talked about this morning. I do think that, as you said earlier, we need to broaden the support for trade, and I do not think we can do that unless the WTO, the World Trade Organization, works. The heart of the WTO, of course, is the dispute settlement procedure.

As I look at the cases that have come up, where the United States wins, we do not always get compliance. Where we lose, we always comply. I would bring to your attention one that you have noted in some other hearings and is in some of your testimony, which is the beef and banana case. There, we win constantly. Time and time again, the Europeans simply snub their noses at the United States, and therefore the WTO. I would just say that if we are going to have this broadening consensus and support for trade here on the Hill, we have got to have a system that works.

When those of us who promoted the WTO did so, we did so because we were convinced that we could have some resolution to our cases. Frankly, the ag community was very critical to getting WTO approved and moving it forward. These two cases are about a lot more than those two products. They are about the credibility of the WTO. In your testimony, you said that you were interested in working with the EU, and I think I am quoting you here accurately, "to improve and strengthen the WTO process." I wonder what you mean specifically by that and what actions you plan to take to ensure that we have a WTO that we can rely on and therefore promote more free trade up here on the Hill.

Ambassador ZOELLICK. Well, Mr. Portman, I am in full agreement with you, as you know, on this. I have always tried to emphasize to Europeans, even before I was in this job, the key point that you made, that these are more than these individual issues. They are a sense of confidence in the WTO system. This was best made at a meeting I was at in London by your colleague, Cal Dooley, from California, who said he did not have a particular interest in the products at issue, but for him to stand up in the well of the House and say he supported a dispute resolution system where we win and we win and we win on the appeal and there is not an effective resolution undermines support.

So I agree with that, four square. On the particulars of the ban at issue, since that one is front and center at present, I have had a chance to talk with the two primary companies involved. As you know, they have a slightly different approach to this issue. I have also tried to ensure that the approach the United States is taking has basic support throughout the Caribbean. I know that Mr. Rangel is very interested in that, as well as Latin American countries, and I think all but one basically support the approach we are taking.

We have a near-term issue here that I will be discussing with my European colleague, which is that I would like to at least have some time to be able to try to negotiate with him to see whether we can resolve that issue, working closely with the companies involved. The European Union is about ready in March to take a position in a lower-level committee, that would preclude the follow-through of negotiations that occurred in the past because it would be creating a new system. I said quite clearly that if they do that, I see no recourse other than to start to use the carousel provisions.

If we do that, the European position is that they will follow up with the foreign sales corporations. So it is again important that everybody be aware of what we are heading off into here. But I feel as strongly about this as you do, and I think that, at a minimum, we need some time to try and see if we can close gap, and so I have urged our European colleagues to give us that time period to try to do that.

Mr. PORTMAN. Thank you, Mr. Ambassador.

Thank you, Chairman.

Chairman THOMAS. Thank the gentleman.

Does the gentleman from Wisconsin wish to inquire?

Mr. RYAN. Thank you for being here today, Ambassador Zoellick, and I am excited about your testimony, especially with regard to agriculture. I represent southern Wisconsin, and we like to call ourselves America's dairyland. I know some Californians may disagree with that, but in our part of Wisconsin, we produce basically class three and class four milk, which is butter, cheese and dry, powdered milk. I wanted to bring an issue to your attention, the milk protein concentrate issue. It is something that has come about since the Uruguay round. It is becoming a growing problem in the dairy industry with respect to its content in cheeses.

A lot of folks in the dairy industry are encouraging you to exercise section 201, 301. There is a lot of angst out in dairy land. Just to kind of give it to you in a paraphrasing way, when you bring more milk protein concentrates abroad into the content of cheeses,



you are displacing the dairy products we produce right here in America. So there is a lot of concern out there. I wanted to bring it to your attention, but more importantly, have you looked at this? What is your take on this? What do you think would be reasonable solution to this?

Ambassador ZOELLICK. Unfortunately, Mr. Ryan, I have not had a chance to look at this, but I would be pleased to do so and get back to you on it.

Mr. RYAN. I would appreciate that. Thank you.

Chairman THOMAS. Does the gentleman from Massachusetts wish to inquire?

Mr. NEAL. Mr. Ambassador, there is a quote that you used in your written testimony which I thought was not only timely, but catchy. You stated that, as President Bush has stated, free trade is about freedom; quote, "Economic freedom creates habits of liberty, and habits of liberty create expectations of democracy." What is wrong with Cuba?

Ambassador ZOELLICK. Well, Cuba is not a democracy. That is for certain, as a starting point. Are you talking about in terms of trading relations?

Mr. NEAL. Yes; China, Vietnam.

Ambassador ZOELLICK. Well, I think that Cuba—I know people often try to compare Cuba to China, and I honestly see them as quite different for the following reasons. We have seen no evidence of Castro being willing to implement any change, and hope always springs eternal, but instead what we see is him shooting down unarmed planes. We see him getting defectors and trying to rope them back into his country. So, just again to be slightly more factual about this, I first visited China in 1980, and I last visited China a year or two ago. There have been enormous changes in China. Depending on how you count, about 30 to 50 percent of the economy is in the private sector in China.

Right now, the problem in Cuba is that any economic opening just ends up supporting his dictatorship. If one can try to figure out a way to change that, as it has been changed in others, well, then it could provide the basis of opening. But right now, that is not the Castro we have seen; and I have to say, based on a 31-year record, I do not see him changing his spots.

Mr. NEAL. There are many of us who believe that Castro's demise would be hastened by opening up trade between the two countries and ending many of the problems that have existed over the past four decades. But my sense is that this is an example where we sometimes miss the point. I mean, we are really talking about Florida and the electoral count, and we have to get past that in this debate as it relates to Castro.

My sense is that Mr. Crane has been more than fair here as chairman of the Subcommittee on Trade, and there are many Republican members here, incidentally, who have been very open-minded about this. They have been terrific. I sense that in the House—that we could come very close to passing a resolution reversing this policy. There is growing support here for opening up trade with Cuba, and we cannot continue to say that the world's largest nation, which has taken this great leap of faith that we did by ending annual MFN votes and proceeding with a permanent

trade agreement with China, and then in the next breath say we cannot trade with this small nation, 90 miles off the American shore which is not terribly important to America's daily interest any longer. There is a real chance, I think for you folks at the White House in this instance, to reverse this policy toward Cuba.

As for our side, let me tell you, Mr. Ambassador, that we were as guilty of many of these things as I suspect you are, even in the argument that you gave me. There is room here for honest disagreement. But at the same time, I hope that you will use the private moments with the President to urge him to take a new look at this. There are Republican members here, as I said earlier, who are willing to take a new look at it. On the Democratic side, I think we are willing to take a good look at it. And I hope that you might offer a new perspective when you are back to see us in the near future.

Ambassador ZOELLICK. Well, I take your point. I understand what you are saying.

Mr. NEAL. Thank you, Mr. Ambassador.

Mrs. JOHNSON OF CONNECTICUT. [Presiding.] Welcome, Mr. Ambassador, and since the next person to question is Mr. Shaw, and after him was myself, I am going to just go ahead with my question while he returns from voting. First of all, let me say how very important it is that I think you deal directly with the issue of trade promotion authority.

There is no question but that we were compromised in the last few years in the international arena by not having proper negotiating authority resting solidly in our U.S. Trade Representative, and I look forward to working with you on that. But also want to mention that Egypt is one of America's most important allies in the Middle East, and a U.S.-Egyptian free trade agreement, when combined with free trade agreements with Israel and Jordan and the Palestinians, would form the basis of a Middle East free trade region with our essential peace partners.

I would like to work with you as my colleague, Howard Berman, and I worked with the preceding USTR on promoting this kind of agreement, because I think it not only would be important to ensuring the integration, the economic integration of our friends in the region, but also our competitiveness in the face of an increasing number of association agreements between the EU and, not only countries in that region, but also in North Africa.

I think those association agreements are very compromising of the competitiveness of American businessman and American products in those countries, and bode ill for the future. Any comment on that proposition?

Ambassador ZOELLICK. Well, I certainly share your objective and I certainly share the importance that you place on Egypt, which I think is about 90 percent of the population of the Arab world. I believe President Mubarak may be coming to visit before long, so it is a subject I suspect that he will also raise. I have discussed with my staff what are the practical steps we could start to take on this.

As you may know, we have a trade and investment facilitation agreement, and I think we have to build in an important discipline in this process. I know you would agree. People sometimes like the idea of free trade until they actually have to do the work to make

it happen. Right now, the Egyptians have not been as cooperative as I wish they would be in the WTO negotiations. So maybe there is one way that we can have some common ground there, as well.

In terms of their intellectual property and their tariff issues, we have got a ways to go there. But my own view on this would be to try to set a path and some building blocks to see whether we can make some progress and work toward the long-range goal, because we do not do either them or ourselves any good by just saying, "Oh, well, we are going to have this agreement," but without recognizing that there has to be some serious, serious reforms in Egypt to accomplish this.

As you know, our aid program is about \$2 billion a year to Egypt, so it certainly makes sense that we try to facilitate trade. But, unfortunately, I have sometimes seen in the past that that aid has precluded the reforms that they need to make.

Mrs. JOHNSON OF CONNECTICUT. I certainly appreciate the importance of the comments you just made. It is also true that it is very difficult for countries to make some of the progress they need to make in some of these areas, both reforming their own laws, intellectual property issues and so on and so forth, without, in a sense, some clear opportunity for the country at the end of that road. So I think that is the tension that we are confronted with in Egypt. We have used American aid dollars exceptionally well to promote some analysis of Egyptian law and American law and so on and so forth, and make progress in the discussions in these areas; but I think it is important to begin looking at what is the broader goal, and how do we enable other countries, as well as ourselves sometimes, to make the tough steps that are necessary.

Now I would like to both yield the chair and the right to question to my colleague, Mr. Shaw, from Florida.

Mr. SHAW. [Presiding.] Thank you and I join my colleagues and welcome you before the hearing. My district is in South Florida. I have been told that much of the questioning has become somewhat parochial, but that is the way we do business around here on many things. But I wanted to ask you about two issues that I think are important to the entire country.

One is, as you probably are aware, there probably will be a permanent home for the Secretariat of Americas, and South Florida is in there as a strong contender. I think that from a language standpoint and an ethnic standpoint, as well as certainly an economic standpoint, that we should prevail in that. I would hope that we would have your support in making Miami Dade County the permanent seat of the secretariat.

But I also want to talk to you just a moment about Haiti and what is going on there. We have, I think, probably a tremendously failed policy in Haiti. The country is suffering terribly because of the failed policy that we have had, partly because of it and partly because it has not gone in the right direction. I think one thing that we have learned in Haiti is that you cannot have a democracy without an economy. People have to have something to hold onto, and it is hard to tell somebody how important democracy is when the children are suffering and going to bed hungry. People are liv-

ing in cardboard shacks down there with open ditches for sanitation waste. It is just a nightmare.

I do not know whether the administration has had time to really try to formulate some type of a Marshall plan or some way to return an economy to that island nation, but I think it really speaks very poorly of our country, that we have one of the poorest countries in the world right there at our doorstep. What do you see as what you might be able to do as the trade representative of the United States in order to bring that economy up to something that would certainly be much better than what it is today?

Ambassador ZOELLICK. If I could, Mr. Shaw, let me just address your first point for a moment, and that is I think it would be an excellent idea to have Miami be the location of that for the Free Trade Area of the Americas. I have to say I think the commitment by people in Florida, in general, and Miami to try to support the overall concept is a testament to why it would be a good location. Just as a small area of trying to both support that, it also demonstrated, we agreed to have the next round of our talks with Chile later this month in Miami.

In the process, I must say that one of the reasons that helped us do it is that some of the civic institutions in Miami were particularly cooperative in helping us be able to put that forward. So they have a record of demonstrating some support for the trade issue in a practical sense, as well as in a sense of a policy commitment. So I think that would be a wonderful result.

On Haiti, like you—it is a tragic and sad story in that we occupied this country for about 17, 18 years earlier in the century. We occupied it again. We put billions of dollars, as I understand, into it, and yet it is sinking back. I think, as Mr. Rangel had probably pointed out more generally in the Caribbean, the best way that we can help in the trade area is to try to provide the openings so that if some businesses start to develop and small businesses develop, they are going to do so in sectors that are sometimes somewhat sensitive here.

One of the things that this Committee managed to reach some agreement, and in doing so talked to some of the industries that were most concerned about that, as to how we could create special trade preferences. I think that is the best way we can approach—as you know, you cannot do this for another country. They have to be willing to build the small-business sector, the rule of law, deal with the violence issues. But if they do, then we really do have to be ready to buy their goods so that those people have jobs and so they have some sense of improving their livelihood.

Mr. SHAW. Also, of course, following on to what you are saying, is it will also promote a great deal of investment, which is tremendously important.

Mr. Hulshof.

Mr. HULSHOF. I appreciate that, Mr. Chairman.

Welcome, Mr. Ambassador.

Mr. Chairman, mindful to your suggestion to us that we may be speaking to a broader audience, I want to seize on something that you said in your written testimony, and that is helping make the case to the American people. I appreciate that fact that you have acknowledged that, in addition to your primary role of sitting at

the table and negotiating with other nations, that the case has to continue to be made to our own domestic citizens.

Out on the hustings, Mr. Ambassador, NAFTA, to some, is a four letter word. The battle in Seattle was a cause celebre for those opponents of globalization. Even now, protectionists look at this unprecedented trade deficit and they say there is a disaster waiting to happen. To the displaced worker, for instance, whose sees simply the disparity in labor cost in this country than, say, with other nations, and they see a plant closing in our country, relocating to that other nation, often to that displaced worker it is simply a matter of cheaper labor when, in fact, as we know from this Committee, it could be the international tax laws that we have that put our businesses at a competitive disadvantage.

It could be, for instance, as we have been interrupted by these votes, with these upcoming rule on ergonomics that is going to impose an additional cost of American business, that Congress, I think, bears some responsibility that we often create an unfriendly business climate, and that is part of the discussion, although that is probably a little bit more than you wish to take on as far as helping make the case. But I do want to talk about a specific, and Mr. Watkins very passionately talked about agriculture, as Mr. Ryan did.

I want to focus just a little bit on biotechnology. The European reluctance to accept the importation of GMOs, and again, that is the terminology, genetically modified organisms, although I prefer to call it genetically enhanced foodstuffs. GMOs have been a source of tension, as you know, in United States-European Union relations. It has been our position that GMOs are safe for human consumption; that we are in compliance with not only sanitary, but phytosanitary measures. The EU contends that GMOs have not been proven safe for human consumption. What I would say to them anecdotally is that after visiting my parents this past summer on our Missouri family farm, that part of our fare was BT corn on the cob, and I am none the worse for wear, but I know that is probably not something we can go to the European Union with.

I do want to seriously get to this point. The University of Missouri, which is in my hometown of Columbia, is becoming really a national leader in biotech research, and whether you are talking with those who make their living in agriculture—you mentioned your own experience of having family connections to agriculture—or whether you are talking to the dedicated researchers like the University of Missouri, I think the sentiment is shared that biotech does offer some really innovative ways for farmers to be more productive and to continue to meet the world's ever-expanding need for food.

So my concern is with the EU's hostility to biotech. They are our third-largest export market for agriculture goods, but the restrictions on GMOs are really hurting our ability to sell commodities abroad. My question generally to you then is, if you want to comment on anything that I have mentioned to date, but what assurances can you give to those researchers, to those producers in our own country, that this administration will continue to pursue this issue to ensure that our farmers and ranchers are not put at a competitive disadvantage? Let me just say I do recognize the polit-

ical sensitivity of this issue in the European Union. How are you planning to work with the EU Member States on this issue?

Ambassador ZOELLICK. Let me just answer your first comment briefly and then go to the core of it, because I think your first comment does bear a moment, and that is it is going to be vital that all of this, and this is going to be something I am going to try to do with the limited resources of USTR, try to communicate more broadly. As you can tell even today, I am trying to say this is not simply a matter of economics and business, as important as that is. It also relates to freedom and security. I think, in the whole globalization debate, we are going to have to be sensitive to the values and anxieties that are developed. There are different ways we can do that.

One that I have mentioned in some contest is, given the high sensitivity to HIV-AIDS, I was trying to be very quick in making sure people recognize we are not changing the policy and wanted to work with people to try to address that problem, because it is going to be core to building support. But on your core issue here, I am in 100 percent agreement with you. This gives me extraordinary frustration, and like you, I call them GEMs as opposed to GMOs, because this is, to me, a classic situation of where science is developing something with enormous potential and people are acting as if they are in the dark ages or the Luddite era in terms of refusing to understand the safety that is associated with science and bioengineering.

They are willing to consider how a map of DNA can help their health, but they are unwilling to use the same processes in what they eat. It is even, in my view, to try to address it, we need to try to draw the support of others, the developing countries, for example. Many of the developing countries, including China, are much more supportive of this because they see the importance of how this might help with vitamin A and rice and deal with blindness and disease, might help with health, might help with dealing with hunger in parts of the world. So in part, as in many areas, we are going to have to build a coalition to get better support.

Second, we are going to have to deal with the fears, in terms of food safety. In the case of Europe, much of this is not based on us. It is based on the fact they do not trust their own health systems because of the problems of blood and the various meat issues and others. If you are going to deal with the real problem, you have to deal with that real issue. This, in part, I think will require the Europeans to clean up their own act in terms of safety.

I think it is vital that in our work on this, that we keep emphasizing the importance of having decisions based on sound science. When I talked with some agricultural groups, they emphasized to me the importance of the Codex process and how we needed to work with the agricultural department, and Ann Veneman and I are already doing that. I have tried to emphasize that process. We are also going to have to do a better job of educating people to understand this.

The last point I would mention is that the fight is often in the trenches. Tolerances. At the end of the day, the way this is going, it might end up being that there will be different lines drawn, and then it will be a critical question of what degree of tolerance do you

allow? When I was actually in Kansas, in the course of the last year, people were pointing out to me the danger of pollen that might spread from one crop to another, or the trucks that these products are hauled in.

So I am in 100 percent agreement with you on the issue. The last point I will say is, as my overall theme, this is going to be one of the key issues we are going to have to try to get done in another WTO round. I cannot do that unless you give me trade promotion authority.

Chairman THOMAS. [Presiding.] Thank the gentleman. It is an important area and it clearly needs additional discussion and approaches, but the gentleman's time has expired.

The gentleman from North Dakota?

Mr. POMEROY. I thank the chairman.

Mr. Ambassador, I congratulate you to your new position and I think your background is really exciting in terms of the broad experience you bring to bear on our collective behalf. As the administration looks for fast track authority, I think it will be very important for us, particularly those in the other party, to have a sense of how this administration views trade deals. I tend to be, representing an agricultural production area, strongly in favor of market expansion.

On the other hand, we have seen good trade deals and we have seen bad trade deals, trade deals that have insufficiently protected our interest. That is why there is a bipartisan group of us in the House and Senate that have formed a Farmers and Ranchers for Trade Caucus, to make certain that even while we promote trade deals, we do not end up with the kind of differential that works to our disadvantage, as was pointed out so well by my colleague from Oklahoma.

I think in terms of getting initial credibility, entree, Mr. Ambassador, the Jordan deal is very, very important. Some describe the turmoil in the Middle East now as really more about forces of modernization versus antimodernization. I think the Jordanian leadership, in advancing this trade deal, clearly comes down on behalf of the forces of modernization. Prompt recognition of that through prompt action on this trade deal, I think, gives us a wonderful foreign policy opportunity and trade opportunity at the same time. It is also an excellent opportunity for the administration to, I think, gain some credibility from those of us that will be watching carefully.

That was my observation. Now, to my question. Durham wheat, and specifically the conduct of the Canadian Wheat Board. State trading enterprises is one of those areas where I do not think we have sufficiently protected our interest versus the operation of a monopoly marketing system that controls completely through the vertical flow of product in other areas, and we have certainly seen that, grain farmers trying to compete against the Canadian Wheat Board have absolutely seen that.

We are convinced that there has been inappropriate, trade-violative activity of the Canadian Wheat Board, and that was why we supported strongly the petition advanced by growers in our region for a section 301 investigation. Your predecessor approved the petition, and I understand now that your office has embarked upon the requisite investigation of whether or not there have been illegal or

inappropriate activities of the Canadian Wheat Board. Can you advise us of the status of the investigation?

Ambassador ZOELLICK. Certainly. Let me just comment briefly on your first point. I definitely agree with you, and just to give you an example that probably hits home, I have pointed out to the Chinese that the bilateral agreement they made with us on agriculture, I believe in 1999, has been blocked in the area of wheat because of them stopping things at the border related to alleged phytosanitary standards, and that I noticed they just did an agreement with Canada at the same time.

So when we talk about WTO accession, I have said if you are going to be able to be in a position to say you are going to keep one agreement, you have got to keep all your agreements, and I think this phytosanitary issue is going to be one that we are going to have to fight a lot harder on. Secretary Veneman and I just, I think, made some headway with Brazil on what, on this issue, as well. So I am full score with you on that.

On Jordan, I would be pleased to work with you. I would like to get this done. I have some issues we are going to need to discuss, I think, and I hope to do that as quickly as possible. On the 301, as a mentioned in the Senate, I support this investigation. I have had enough sense about how the Canadian Wheat Board works that I can see the problems that it causes for our people in terms of their ability to price accordingly. Obviously this is not going to be an easy issue related to changing Canadian practices, but I very sympathetic to what you are saying and that is why I want to try to use the 301 in part to get additional information, and to be able to develop a stronger overall case.

This is another one of the issues that is on our list of four or five that we are emphasizing in the global round, which is dealing with these State trading enterprises, and this is the one that frankly hits us the most. So I share your interest in it and am trying to use that process to learn more about what we can do with it.

Mr. POMEROY. That is excellent. I am very pleased to hear that response. I would just finally note that even while we feel like we are at the receiving end of a deluge of subsidized or dumped Canadian grain, they have brought an antidumping action against our corn basically under the guise that it is sold below the cost of production. Well, that is just the sad reality of commodity pricing right now. We are not recouping the cost of production in market prices, but that does not mean it is dumping. They may be taking steps to make their initial action permanent. Are you addressing that with the Canadians, and that is my final question?

Ambassador ZOELLICK. I would just mention briefly I raised the issue with my Canadian counterpart, and as you know, it goes through their process, like we have our process in terms of the International Trade Commission. I pointed out the same points that you did. It will run through their process.

Chairman THOMAS. Does the gentleman from Georgia wish to inquire?

Mr. COLLINS. Mr. Chairman, only to say welcome, Mr. Ambassador. I appreciate the earlier comments you made. I was not here to hear them, but I heard about them, particular in the area of the Canadian softwood lumber. We have had several discussions as to



that subject. Hope you are able to work something out with that. I understand time is drawing down on us, but we look forward to working with you over the next few years.

Ambassador ZOELLICK. Thank you, Mr. Collins.

Mr. COLLINS. Thank you, Mr. Chairman.

Chairman THOMAS. Does the gentleman from Pennsylvania wish to inquire?

Mr. ENGLISH. Yes, Mr. Chairman.

Welcome, Mr. Ambassador. I want to start by saluting you for your commitment to pursuing a new round of negotiations within the WTO. I think this is of paramount importance, but as someone who attended Seattle and was aware of some of the issues that led to a breakdown of the process in Seattle, one of the most troubling for me was the insistence by the Japanese and some of our other trading partners that our antidumping laws be reopened.

I am concerned about that because I feel that our antidumping laws play a critical role in allowing us to police our own markets against unfair trading practices. I think they are helpful to a wide range of domestic producers and are intended, perhaps not always in practice, but certainly in intent, they are to provide a level playing field and some fairness. My question is does the administration continue to support the position that our antidumping laws should not be on the chopping block in a new round of negotiations with the WTO; and second, is the administration open to the possibility of trade law reform consistent with the WTO guidelines, both in the areas of Section 201 and 301, to strengthen those laws and make them more accessible to American companies?

Ambassador ZOELLICK. Well, first, on the general principle, I agree with you that the antidumping laws play an important role in dealing with unfair practices. As you know, there is always a debate about how they are applied and the methodologies. This gets very complicated, but I think they are vital to the overall trading system and they are certainly vital to maintaining public support for open and free trade.

One of the issues we are going to have to look at here is that other countries are now starting to develop their legal regimes, and for all the criticism of ours, theirs are nowhere near as transparent or based on a set of rules and a regime that exporters can get some appreciation that they are going to get fair treatment. This is true in Brazil and South Africa, and these are going to be growing and important markets for the United States. So frankly, Congressman, as we look at the issues going into any round of negotiation, that is another feature that we have to examine.

In terms of your question about whether I would be willing to discuss or consider changes in our laws, as long as they conform with the WTO, certainly. I do not know the specifics, but as I mentioned in my answer to Congressman Levin on steel, I believe, I think 201 plays a vital role in the process. In fact, I think 201 could be much more useful than some of the other unfair trading practices if we put it in place quickly and we get serious restructuring, similarly the 301 process. So I am certainly willing to consider any set of ideas. I do believe we need to try to do them in a way that fits within the WTO system, because fundamentally we are the most competitive major country in the world. We want to

make sure the system is a set of rules that works for us in a way that is fair, but also allows us to export abroad.

Mr. ENGLISH. Thank you, Mr. Ambassador. Let me urge you in addition, in thinking about conventional trade promotion authority, which I understand the administration is committed to seeking, as someone who was skeptical of several of the fast-track proposals that came before this committee in the past, I hope that the administration will keep an open mind when it comes to how to deal with issues like labor and the environment. It seems to me there may be a middle ground available here that would address the scruples of a wide variety of people concerned with this issue. I hope the administration will keep an open mind about the possibility in structuring this authority to provide for preauthorization of specific negotiations, as one feature of that authority.

That would give Congress greater control over the process, but also give you the authority that you need if we can work it out procedurally. Your are welcome to comment on that if you like.

Ambassador ZOELLICK. Well, on the first one, I definitely agree with you. As my statement said, I have an open mind about this both because I think it is the right thing to do and I think it is the thing to try to build a basis of support. It goes to my larger point about trying to have a sense of how trade relates to our values and what we are trying to accomplish more broadly in the world. On the second one, I am afraid I am not familiar with the details of the preauthorization, but I would be pleased, if you give me more information, to give you a fuller response.

Mr. ENGLISH. I will follow up. Thank you, Mr. Ambassador.

Thank you, Mr. Chairman.

Chairman THOMAS. Thank the gentlemen.

Does the gentlewoman from Washington wish to inquire?

Ms. DUNN. Thank you very much, Mr. Chairman.

Welcome to our committee, Ambassador. It is good to see you and I want to particularly thank you for making yourself available to sectors of our economy that are very interested in presenting our views to you, particularly the high-tech sector, very, very helpful to them and we appreciate that. I have three probably brief questions to ask you, and I apologize if these questions have been asked while I was over taking the vote. We have concluded an agreement with Vietnam, the first free trade agreement since the war in Vietnam, and I would like to have some sense of update on when this treaty will be delivered to the Congress.

Ambassador ZOELLICK. Do you want me to do each one or do you want to do all three?

Ms. DUNN. I can do all three if you like.

Ambassador ZOELLICK. Whichever.

Ms. DUNN. The second question I have has to do with the TRIPS agreement. At the world economic summit, I heard more talk than before about how developing nations are very concerned about meeting the TRIPS agreement, and yet the lack of compliance with this agreement is costing us billions of dollars every single year in the loss and the piracy of software. I would like you to comment on that and let us know where that stands and how you believe that is affecting industry in the United States.

Last, I am interested in knowing about the FISK situation. We have had a lot of discussion about that in the last year, rewrote the FISK provision, and the EU has indicated thumbs down on this. What happens next on FISK? I know that Pascolomi is going to be in town shortly and you two will be getting together. What is our position on FISK and what do you see ahead on that issue?

Ambassador ZOELLICK. Well, first, Congresswoman, I would like to thank you with your help with the high-tech community. I know that this is a particular interest of yours and you obviously have an extraordinary set of ties, and you brought these people into the public policy process. So the thanks really goes to you and I would be delighted to work with you in the future on these issues, because I think it is important economically and it certainly is important, as many people have mentioned, in terms of broadening base of support on trade.

On the Vietnam issue, as a mentioned to Mr. Levin, this is another issue that I have gotten a strong sense that there is an eagerness to try to move forward promptly. As you probably know, it is actually an agreement that just brings Vietnam to a normal trade relationship, like China was, but it does in the course of it have some very important market access and other arrangements. There is an issue that has been brought to my attention related to textiles, and that the possibility of the textile imports that would come in and whether there is a need for a separate agreement, and if so, whether it would follow some of the provisions that Mr. Levin was interested in related to the Cambodia context; and so that is an issue that I think we are going to have to deal with here.

I understand that regardless the administration has the authority, if need be, to set quotas for textiles; and so it is my understanding that the Vietnamese desire is to get the agreement going forward and deal with that later, but that is a topic I need to get more wisdom from you and others on. In terms of the TRIPS provisions, I share your view that this is a critical area, not only because of the competitive advantage of the United States, but actually it is in the long-term interest of other countries, because if they are going to draw the investment that they are going to need to grow, often it is related to the intellectual property that is often associated with that investment.

So I believe that—I know there is a concern about the implementation of those provisions. My first preference, Congresswoman, would be to try to add their capacity, to be able to implement them, than to adjust them. But I am willing to listen to others as they try to figure out how we achieve this, because the goal is to make sure we get that protection. On the Foreign Sales Corporation, this committee and your counterparts on the Senate side, I think, did an extraordinary job in trying to make a fix of what the WTO found to be a violation.

As you probably know, the WTO will issue another ruling on that. The EU continues to challenge that. We will certainly do all that we can to defend that provision, and I have had some conversations with Stu Eizenstat, who I know is very involved with that. Under the WTO procedures, the EU is a position to be able to retaliate if they so choose, and they have picked a number related to the revenue estimate of about, I think, \$4 billion, which

is a rather large sum. That does not mean that is the number that would be accepted by the WTO, but that is what they are using.

Up to now, they have taken a position that they will not retaliate until the WTO makes a ruling. This brings us back to the carousel issue and bananas and beef. I have met with a coalition of the companies involved with the foreign sales corporation, just so I could get a better understanding of their interest and where they would like to go on this. I have also alerted them to the reality that if we follow through on the points, as Mr. Portman was raising in bananas, we have to be prepared for the counteraction. We cannot have it both ways. I am certainly willing to do that, because I think it is important that we defend our rights, but people all need to be on notice that that is the path that we are on.

I hasten to emphasize, my prepared path is to try to get some time to negotiate with Commissioner Lamy, for whom I have the greatest respect, to see whether we can at least give ourselves a few months to try to see whether we can resolve this issue. It has been kicking around for nine years. I do not see why the Europeans cannot give me a few months to give it a try.

Chairman THOMAS. Thank the gentlewoman. It is pretty obvious that every sword in trade is a double-edged one, and what is useful for us can be useful for others, and we have to be very careful about how we not only empower you, but how it is exercised, and I appreciate the ambassador's comments.

Does the gentleman from Colorado wish to inquire?

Mr. MCINNIS. Thank you, Mr. Chairman.

Mr. Ambassador, thank you for coming today. Before I begin my comments, I did hear your response in regard to Mr. Neal's inquiry on Cuba and China. I want to caution or at least add to those comments that I am not sure China is the one to compare in talking about the good guy and the bad guy. I certainly agree that Cuba is a bad guy, but I would want to just note that China has a number—while you mentioned that Cuba shoots down airplanes—China has extensive, extensive human rights violations. China has made its intentions toward the United States very clear. I think China is very clear on where its missiles will be aimed, and furthermore, yesterday China just announced they are going to increase their military budget 17 percent. So I would approach China with great caution, as what they show on the face is not necessarily what they have in the mind. They are kind of like a gigantic iceberg, in my opinion.

That said, I am concerned really primarily about two things, one on the WTO, that as you began your tenure here, that we be very careful in these trade agreements that we preserve our voice or our vote to be somewhat in proportion to our budget. In WTO, for example, WTO and our budget obligations, I think it is about 40 percent. You could correct me, but it is a significant amount of the total budget as compared to the one vote out of the total number of votes—and I think that we have to have some tough negotiations in regards to our budget contributions so that they are relative or somewhat relative, and we are not taken advantage of, which I think, frankly, under the previous administration, that we were taken advantage of on the budget issues, because that was not their focus, and our focus here sometimes is so intent on the trade

agreement and on the future of the trade agreement, we ignore the budget obligations that we sign onto.

As the Ambassador knows, it took a great deal of negotiations and certainly a withholding of our dues to the United Nations to get our budgetary obligations dropped, I think, 1.5 percent; I think from 26 percent to 24.5 percent. I am not sure, but it is in that ballpark, right in there, those numbers. So I would ask that you watch those budgetary obligations with some care.

Finally and I would like your concern about this, of course, coming from Colorado, we have a lot of ranch country and so on. I am deeply concerned about the hoof-and-mouth disease that has broken out. In the United Kingdom, as you know, it has created a collapse, and as I understand it, once they determine that this disease is in existence on a farm, not only do they take out the animals—and understand that in the European Union countries, they are paying for those animals—but in order to cleanse of the disease, the farm then has to sit idle for 6 months thereafter.

I am wondering what your thoughts are and what kind of provisions we have in these kind of trade agreements to, for example, immediately stop importation of a product that may threaten the well-being of our products or health over here. Could you comment? I just do not know about that and I was curious about that, if you could help me?

Ambassador ZOELICK. It is an excellent question. First, on China, I take your point. I used to deal with China in a different context and I know what they can be like. I do believe that, and obviously this Committee believes, that there is an openness in China that we need to work with, in terms of developing the rule of law, and I do believe there are opportunities there, but it does not take anything away from any of the security points that you mentioned, including espionage. On the WTO budget I will look into the percentage. I do not know for sure. It is a good point. I would just like to put it in a little context.

I do recall seeing the size of the WTO budget not long ago, and it is minuscule. I do not remember the exact size. It is like \$25 million or \$35 million, and remember, the dues that we were paying for all of the U.N.—it was like a \$900 million appropriation. So while we look at the percentage, we also have to look at the amount, given what we get from it, but it is a fair point about the U.S. share. On the hoof-and-mouth question, this goes to the issue of SPS, the sanitary and phytosanitary standards. It is not directly, at least to my understanding, within the USTR area, because the monitoring of this would be done by agriculture and other services.

I believe, but I will check for you, that there are a series of provisions that would allow us to take emergency action. For example, even recently under the NAFTA accord, when the Canadians were concerned about lack of data from Brazil dealing with mad cow—there was not even any evidence of the BSEs. It was just data—that they stopped Brazilian beef, as you may know, and under our NAFTA accord, we went along with that. Fortunately we worked that out and no one had any sense of a problem with that, but clearly there is an ability to respond in emergency fashion.

The tricky thing about the SPS standards is how others can use them against us. So it needs to be based on a reasonable scientific

basis. We have a problem with Australia right now—Chairman Crane was asking about it—related to grapes. So I think again what I answered, I think to—maybe it was Mr. Hulshof's question—about the key role—that we need to rely on the Codex and others to be able to act immediately, if necessary, but make sure this is done on a sound scientific basis. Otherwise, our agriculture is going to be the big loser.

Chairman THOMAS. Thank the gentleman.

Does the gentleman from New York, Mr. Houghton, wish to inquire?

Mr. HOUGHTON. Yes. Thank you, Mr. Chairman.

Ambassador, great to have you here. Thanks so much for taking your time. I have not been here recently, and therefore I may be redundant. If so, just skip over some of these questions. One statement and really one question; the Washington Post this morning had an article called Sabotage in the Senate. I do not know whether you read this thing, and it talks really about the steel industry. It said: "Mr. Zoellick is due to appear before the House Ways and Means Committee today. It will be interesting to see whether there are saboteurs in that chamber, also."

Classify me as a saboteur, because I really think that the golden rule should apply; that if people are going to sabotage our markets, which is the most precious thing we have, we have got to somehow have some sort of a mechanism to protect ourselves, whether it is 301 or 201 or whatever it is. It is very easy to create a statement like this, but when your job is on the line, whether you are in Pittsburgh or wherever it is, it is a very, very serious issue. I, as a Republican, as a free trader, really strongly believe in this.

Let me just ask you a question. When a businesses is in trouble and it is going through economic difficulties, it tries to increase its sales, because you cannot shrink yourself rich. You have got to be able to increase your volume. What are those things, those mechanisms under your control or under our control, we can try to go out and sell the other 95 percent of the world and some of our products to be able to keep our employment up?

Ambassador ZOELICK. Well, first, I can once again thank the Washington Post for helping me with an issue at a sensitive point in time. But I want to say a word on steel, because if you were not here, I wanted to emphasize that the way that Secretary O'Neill and Secretary Evans and I are all trying to look at this is in the context of a possible 201 investigation. The op-ed actually referred, or the opinion piece referred, to antidumping and countervailing duty. Those have been used with varying degrees of success, and what we honestly believe might be the best course here is if we can get some significant restructuring of the industry, as you know from your own experience.

Mr. CARDIN. Could I ask my colleague to yield on that point?

Mr. HOUGHTON. Yes. Absolutely. If it is all right. Do you mind, Mr. Ambassador? All right. Go ahead.

Mr. CARDIN. I appreciate that. We have had a chance to talk and I very much support your position on trying to look at the 201s and enforcing our laws. You have mentioned over and over again the restructuring of the industry, and I just at least want to put on the record that the industry has gone through a significant restruc-

turing already today. They have invested an awful lot of money. There has been a lot of downsizing as far as the number of steelworkers. There has been a lot of consolidation and a lot of reduced capacity in this country already.

I just really want to put on the record that there has already been a significant restructuring within the steel industry, and they are finding that as a result of what happened in 1998, we have not recovered from the low prices of steel. That is having a major impact. I know that you are aware of this, and I just really want to put that on the record, and I thank my colleague for yielding.

Ambassador ZOELLICK. I appreciate it. It is a good point. I am sorry I did not include it myself. So what we are actually trying to do is to work with the industry and the unions and see whether we might be able to follow that course, and we have got a group together that is trying to gather some of the data and some of the industry analysis to do that, and as I also mentioned, it occurs in global context. So that is how we are trying to deal with that one.

On your larger point about increased volumes, the first thought that comes to my mind, Mr. Houghton, but I will be pleased to give it additional thought, is that this goes to the basic issue about trying to reduce barriers around the world for our products. I believe, in many industries around the globe, the United States can certainly at least hold its own, but whether we deal with traditional barriers like tariffs, barriers related to investment so you can have some of your operations there with the trade flowing with investment, whether it is related to various standards and regulations, this is what interrupts the trade flows.

As my prepared testimony stated, it has been quite extraordinary what has happened with additional trade flows in terms of growth and income. That same op-ed, to give the Washington Post its due, noted that the increase in terms of income in the United States due to the increase of these two or three or four percent trade flows, is quite enormous. So I think that is, to me, the best way to try to approach the question of helping companies work through difficult times.

Mr. HOUGHTON. Just one other thought. There are long-term important measures to be taken, and you have just cited one, reducing the tariff barriers and making it easier for our products and services to go elsewhere; but there are also short-term emergency measures. Maybe you could think through that a little bit, and I would be willing to talk to you, because there are a variety of different examples here that could be used, because in surges or in pullbacks, certain things are necessary in the short-term period that are not in the long.

Thank you.

Chairman THOMAS. Thank the gentleman.

Mr. Ambassador, we promised we would get you out by one o'clock, and obviously our goal was to try to keep on a general focus in terms of the broad-based tools that we might need, but in any discussion of trade it gets down to specific interests fairly quickly. But I do want to conclude on a specific point, and that is this. The chairman and the ranking member, the chairman of the Trade Subcommittee and the ranking member of the subcommittee, and especially those who worked hard in addition to those individuals,

Mr. McDermott, Mr. Jefferson, and others, are somewhat concerned about the way in which the African CBI agreement has been interpreted by our own government, and we would very much like to engage very quickly the rationale that has led to what we believe to be a failure to properly follow the intent of the law in particular areas.

So moving from a general to a specific, we might as well roll up our sleeves and get to work. I want to thank you on behalf of the Committee, especially in terms of your knowledgeable and frank answers to a number of very specific questions without knowing what was going to be thrown at you. It clearly shows that the President has made an excellent choice. It will be our pleasure to work with you to make sure that the international competitiveness of the United States is enhanced. Thank you very much.

The hearing is adjourned.

[Whereupon, at 1:00 p.m., the hearing was adjourned.]

[Questions submitted by Messrs. Thomas, Crane, Jefferson, and Doggett, and Mr. Zoellick's response are as follows:]

#### **Implementation of the Trade and Development Act of 2000**

**Question 1: Last year, Congress passed provisions to expand trade with the Caribbean Basin and sub-Saharan Africa. Although scheduled to take effect on October 1, various elements of the program have been delayed and, in fact, some have still not been fully implemented. Can you give your assessment of the success of the program thus far (particularly in terms of increasing trade) and an outline of what you expect to do to ensure that the program becomes fully operational in a manner consistent with Congressional intent? Also, what are your plans to convene and promote the various trade meetings that Congress directed in the legislation?**

**Answer 1:** I have been generally pleased with implementation of the Trade and Development Act since its enactment on May 18, 2000. Through an interagency process, chaired by the Office of the U.S. Trade Representative, 35 sub-Saharan African countries and 24 Caribbean Basin countries have been designated as beneficiary countries. In December 2000, over 1,800 products were designated as eligible for duty-free treatment under the enhanced Generalized System of Preferences (GSP) Program when produced in, and exported from, beneficiary sub-Saharan African countries. The GSP product review process normally takes one year, but was accelerated and completed in half that time in the case of AGOA.

We have determined that four of the designated beneficiary countries have satisfied the additional statutory criteria for eligibility for the AGOA's textile and apparel benefits. We are working closely with nine other countries that are seeking these benefits and expect that several of these countries will satisfy the criteria soon. These additional criteria—the adoption of an effective visa system and related customs laws or regulatory procedures—are important statutory safeguards against unlawful transshipment of textile apparel products. Implementation of these safeguards is a time-consuming process that has required a substantial amount of coordination between beneficiary countries and the U.S. Government. This effort has been complicated by the fact that as of May 2000 when the AGOA was enacted, none of the sub-Saharan African countries had an effective visa system to prevent unlawful transshipment.

I am meeting this month (April) with the diverse group of AGOA supporters to reaffirm the Administration's commitment to a strong Africa trade policy and to hear and exchange views on AGOA implementation and elements of U.S. trade policy. I am also meeting with the African Ambassadors Corps to exchange views on AGOA implementation and ways in which we can work cooperatively to strengthen our trading relationship with Africa.

With respect to CBI, twelve of the 24 designated beneficiary countries have met the customs-related requirements established in the legislation, and these countries are receiving benefits. While it is too soon to track statistical trends, we have anecdotal evidence that the new preferences in AGOA and CBI are being applied and that trade and investment in the relevant products are increasing.



Consistent with the AGOA, we are planning to hold the inaugural U.S.-Sub-Saharan Africa Trade and Economic Cooperation Forum this year. I look forward to joining the Secretaries of State, Treasury, and Commerce in hosting the Forum. I also look forward to convening a meeting with the CBI trade ministers, as provided for in the CBTPA, and hope to have such a meeting later this year.

**Question 2: What are your thoughts on how the United States, and your agency in particular, can facilitate greater participation by beneficiary countries in the African Growth and Opportunity (AGO) program?**

**Answer 2:** The U.S. government is working cooperatively with the eligible AGOA beneficiary countries to ensure they receive maximum benefits from the Act. We have a four-pronged approach. First, we have worked to ensure that information about the AGOA's benefits and requirements is readily available through extensive outreach to the African and U.S. private and public sectors. These efforts have included more than 10 regional workshops, a comprehensive AGOA implementation guide, an AGOA website, a customs workshop attended by over 90 African Customs officials, and U.S. Customs missions to five African countries. In addition, we work extensively on a daily basis with the countries seeking apparel benefits by providing guidance on the requirements that must be met to obtain these benefits. Second, we are encouraging sub-Saharan African governments to strengthen enabling economic and political reforms to complement the trade preferences accorded in AGOA. Third, we are helping to facilitate business-to-business linkages between U.S. and African companies including through assistance to trade missions. Lastly, we are working to provide additional trade capacity-building and related technical assistance through USAID.

I look forward to my meetings this month (April) with the African Ambassadors Corps and with a diverse group of AGOA supporters, in order to exchange views on AGOA implementation and explore ways that we may work cooperatively to strengthen our trade relationship.

**Question 3: Currently, there are a number of outstanding implementation issues which are impeding use of some of the apparel benefits under the AGOA as Congress had intended. For example, I was greatly disturbed to hear Customs deny preference for shipments from Mauritius because of an overly restrictive definition of what constitutes knit-to-shape apparel. This is significant because knit-to-shape sweaters have been seen as a product that Africa could produce competitively. Has USTR taken a position on this issue? How can you ensure Congress that this program will be implemented as Congress had intended?**

**Answer 3:** U.S. Customs Service and other Treasury Department officials are reviewing comments they have received regarding U.S. Customs' interim rules. USTR's position is that the benefits of the AGOA should be made available to the full extent possible under the law and in a way that reflects the trade-liberalizing spirit of the Act. USTR has conveyed these views to appropriate U.S. Customs and other Treasury officials.

**Question 4: With respect to the CBI provisions, I have heard some disturbing reports that some eligible goods will be excluded from the program. These include goods knit-to-shape in the U.S. from U.S. yarn and finished in the CBI region or goods assembled in the CBI region from fabric that was cut in both the United States and the CBI. Can you tell me your plans to ensure that, as this program is implemented, these kinds of goods are not excluded?**

**Answer 4:** I understand that the U.S. Customs Service is considering revisions to the interim rules for the new CBI benefits, based on public comments. Issuance of final rules falls within the authority of the Treasury Department and the Customs Service. We support implementation of the Caribbean Basin Trade Partnership Act in a way which achieves the trade-expanding spirit of the legislation, and will continue to work with our counterparts at Treasury and Customs toward that end.

**Question 5: The Committee for the Implementation of Textile Agreements (CITA) recently issued its procedures for making yarn and fabric short supply determinations under the apparel provisions of the Africa and Caribbean trade initiatives. As drafted, these procedures appear to have ignored Congressional intent that the short supply process be fair and transparent.**

**For example, under the procedures, CITA could deny a short supply petition based on business confidential information supplied by domestic producers, to which the petition would have no access or ability to comment. There is also nothing in the procedures as announced that ensures that a domestic producer that claims it can make a product in commercial quantities in a timely manner actually delivers on its assurances. What does the administration plan to do to correct these deficiencies?**

**Answer 5:** On March 6, 2001, the Committee for the Implementation of Textile Agreements (CITA) published procedures for considering petitions under the short supply provisions of the Trade and Development Act of 2000. To date, no short supply decisions have been made under these procedures. Consistent with Executive Order 13191, the procedures are intended to ensure appropriate public participation in these decisions. CITA will announce the receipt of short supply petitions in the Federal Register and all interested parties are provided an opportunity to comment and provide relevant information. At the same time, however, the procedures protect sensitive business information. I understand that CITA will monitor and, if necessary, revise its procedures in light of its experience. As a CITA member, USTR office will seek to ensure maximum transparency in CITA decisionmaking.

**Questions from Hon. Philip Crane:**

#### **Renewal of the Andean Trade Preferences Act**

**As you know, authorization for the Andean Trade Preference program expires on December 4, 2001. This program has proven to be a valuable weapon in the war against drugs, but more needs to be done. What can Congress do to enhance the ATPA so that the program will truly be effective in increasing trade and investment with these countries and better address the unique challenges that they face?**

**Answer:** The Administration shares your view that the ATPA program has helped strengthen the legitimate economies in the Andean countries and create viable alternatives to the drug trade, and we agree that more can be done. The Administration is conducting a review of the products previously excluded from eligibility for ATPA preferences in order to form a position on product coverage under a renewed ATPA. Congress can and should do the same. I look forward to working with you and other Members of Congress on this important legislation.

#### **Sanctions Reform**

**I am preparing to reintroduce legislation that would establish a procedural framework for the consideration of future unilateral trade sanctions, including cost-benefit analysis and an opportunity for public comment. As you know, unilateral trade sanctions are rarely, if ever successful, but can have significant consequences for U.S. firms and workers in terms of lost trade opportunities. What are your views on this subject?**

**Answer:** In general, I am skeptical about the use of unilateral sanctions. Sanctions can be a significant foreign policy tool, but they must be used judiciously. If they are not used effectively, sanctions will hurt U.S. business, farmers, and workers. President Bush has also called for the exemption of food and medicine exports from new unilateral trade sanctions.

#### **Question from Hon. William Jefferson:**

**The last USTR to visit sub-Saharan Africa was Mickey Kantor. I would like to challenge you to commit to a mission to Africa that will focus on the implementation of AGOA and on increasing U.S. capital flows to Africa. Would you consider such a trip in the near future?**

**Answer:** Early in my tenure, I contacted several African Trade Ministers by phone to initiate cooperative working relationships with them, and will be making more of such calls. This month, I am meeting with a group of AGOA supporters and with the sub-Saharan African Ambassadors of the African Diplomatic Corps to reaffirm the administration's commitment to a strong Africa trade policy and to exchange views on ways to strengthen our trade and investment relationship.

Expanding our trade and economic relations with the countries of sub-Saharan Africa is an important part of this Administration's trade agenda. I will seriously consider opportunities to visit the region. I visited Africa when I was with the State Department. If a trip to Africa would help us with the reform and trade opening process, I would be pleased to go.

**Questions from Hon. Lloyd Doggett:**

**Question 1:** Please provide the Committee with a firm date by which you expect to re-issue the formal notice of an environmental review of trade negotiations for Agriculture and Services agreements within the World Trade Organization?

**Answer 1:** On April 19, 2001 I sent to the *Federal Register* a notice initiating the environmental review of the WTO built-in agenda negotiations on agriculture and services.

**Question 2:** Now that the quantitative analysis part of an environmental review of the Free Trade Area of the Americas (FTAA) appears to be underway, please provide the Committee with a firm time line of the implementation regarding legal and regulatory impacts on the environment.

**Answer 2:** We have published a Federal Register Notice (FRN) initiating an environmental review of the FTAA. The FRN provided an outline for the scope of the review, and introduced a proposed quantitative methodology, which would, as a first step, identify some of the anticipated environmental effects associated with changes in the terms of trade in the hemisphere. We received numerous public responses to the FRN, some of them quite significant, and are currently assessing those responses as well as the scope of the review and the proposed methodology. The quantitative part, however, as your question points out, is only part of the process. The regulatory review is an important component of an analysis, and we anticipate that as the quantitative portion of the review proceeds, and the texts of the FTAA are further developed, the regulatory portion would be performed along a time line that would allow for the review to inform the negotiating process in a meaningful way. The recent decision in Buenos Aires at the FTAA Ministerial to release the consolidated negotiating text after the Quebec Summit only enhances the ability of the public to participate effectively in the environmental review.

**Question 3:** Please provide the Committee with a copy of the U.S. negotiating proposals and the consolidated draft text of the FTAA, which has already been provided to hundreds of US advisors and to the other 33 countries involved.

**Answer 3:** USTR has already provided both sets of texts to the Committee.

**Question 4:** Do you agree that greater openness and opportunity for public participation in the operation of the World Trade Organization will assist in broadening public support for reducing trade barriers? What specific steps will you be taking to open panel dispute deliberations and meetings to the public, including observation, participation, and *amicus curiae* designation? What are the appropriate mechanisms to ensure citizen groups are represented at the same level as commercial interests?

**Answer 4:** I share your view of the importance of greater openness at the WTO, and I agree that the benefits of open trade can only be achieved if we build public support for trade at home. This is a priority for the Bush Administration. With respect to dispute settlement proceedings, we continue to press our trading partners to agree to more openness in the proceedings, and at the same time we take steps on our own to make the process more transparent. For example, USTR seeks public comment, through a *Federal Register* notice, on every dispute settlement proceeding to which the United States is a party. We make our own written submissions to panels and the Appellate Body available to the public as soon as they are submitted, and we routinely request parties to all WTO cases to provide us with a copy of their submissions or non-confidential summaries for release to the public. We also release panel reports to the public on receipt; and as we pursue broader reforms, we have made a standing offer to all countries with which we have disputes (either as plaintiff or defendant) to open the panel meetings to the public.

To ensure that all interests are represented, we are committed to frequent consultation with all stakeholders and the sharing of information, where appropriate

and consistent with our ability to advocate effectively the interests of the United States.

I would note that in the case of trade initiatives in the WTO, such as preparation for the upcoming ministerial meeting in Doha, Qatar, USTR has published, on behalf of the Trade Policy Staff Committee, a solicitation for public comment on our priorities for the meeting. This is one in a series of solicitations we have made with respect to the built-in agenda negotiations, and more recently on the question of WTO transparency and institutional reform. We routinely ask for comments in other WTO negotiations. For example, in the accession negotiations, we always seek public comment and publish notices in addition to meeting our other consultative requirements.

**Question 5: Do you believe that the environmental representatives on Industry Sector Advisory Committees (ISAC) 10 (Lumber and Wood Products) and ISAC 12 (Paper and Paper Products) have made a positive contribution to the US trade policy review and the advisory process?**

**Answer 5:** I am committed to ensuring that diverse stakeholders are represented in the formulation of trade policy. It is somewhat early to ascertain the impact of the environmental representatives on these two Committees. ISAC-10 has only met twice and ISAC-12 has met three times since the environmental members were appointed in May 2000. ISAC-12 did recently issue a resolution recommending the elimination of paper tariffs in upcoming trade negotiations, with a business member consensus and a minority view from the environmental representative. I believe that it is useful for the government to receive broad-based advice from various stakeholders, even if this advice is sometimes conflicting.

As you may be aware, USTR and the Department of Commerce also recently announced that the two agencies will seek to appoint an environmental representative to another committee, ISAC-3 (Chemicals & Allied Products). This was in response to requests by environmental and other non-governmental groups for greater participation in the development of U.S. trade policy, and specifically for participation on ISAC-3. Currently, an environmental representative from the Trade and Environment Policy Advisory Committee (TEPAC) is serving in an interim capacity on ISAC-3, until a permanent environmental member can be appointed.

I believe it is necessary for the Administration and Congress to work together to explore broader reforms to the existing trade advisory committee system, established by Congress under the Trade Act 1974. I look forward to close consultations with Congress on this matter.

**Question 6: Since the Trade and Environment Policy Advisory Committee (TEPAC) has not met since November, how do you plan to make more effective use of this important advisory group? Do you plan to provide a more defined role, including regularly scheduled meetings, and a higher profile for the TEPAC?**

**Answer 6:** The TEPAC has played a very active role in advising USTR on a number of key policy issues related to trade and the environment. In 2000, the TEPAC met three times at the Member level and five times at the staff liaison level, and was also consulted several times by conference call. Last year, the TEPAC provided advice on environmental issues related to the Jordan FTA, the Singapore FTA, guidelines for the Executive Order on Environmental Reviews of Trade Agreements, the advisory committee review process, and other matters. In 2001, TEPAC has provided comments to USTR on the proposed methodology for quantitative analysis of the Free Trade Area of the Americas, and has also been included in discussions with cleared advisors on the Chile FTA. Over the past year, TEPAC members have also sponsored a number of open public workshops on trade topics, attended by USTR and EPA staff, and we look forward to additional workshops in the future.

I intend to continue this important relationship with the TEPAC and look forward to regular meetings. Recently, Administrator Whitman and I met informally with a number of TEPAC members at their invitation, to hear their individual views and the trade and environment priorities of the organizations they represent.

**Question 7: How can monetary fines alone be sufficient sanctions to discourage labor and environment trade violations when you find such fines insufficient to sanction commercial violations?**

**Answer 7:** Given the increasing diversity of our trading relationships, and the scope and variety of our trade agreements, we need to think creatively about how we can

shape dispute resolution procedures to adapt them to the particular countries and commitments our agreements cover. Among other things, that means exploring the full range of methods available to secure compliance with dispute settlement panel decisions. One idea is to consider using monetary assessments instead of trade sanctions to enforce certain agreements.

In principle, there is no reason why monetary assessments could not be used to help secure compliance both with trade obligations and with labor, environmental, and other types of commitments that foreign governments may make to the United States. Like trade sanctions, the ability of monetary assessments to exert useful leverage will vary according to their size, the likelihood they actually will be applied, and the circumstances of a specific dispute. The key would be to set the assessment in a specific case at a level that would create the necessary incentive for the government concerned to bring its measures back into line with its obligations.

Monetary assessments have one clear advantage in the case of disputes over trade-related environmental or labor issues. The revenue generated from monetary assessments can be used for environment—and labor-related purposes.

The NAFTA supplemental agreements on labor and environmental cooperation, for example, provide for monetary assessments in case of non-compliance and call for the funds generated from those assessments to be used for environmental and labor purposes. The Canada—Chile agreements on labor and environment use a similar approach. By contrast, trade sanctions create additional trade barriers without necessarily advancing environmental protection or worker rights.

**Question 8: Now that you have had a chance to study investment issues, how can you ensure that investment protections in our trade agreements are not misused to undermine legitimate U.S. environmental and health laws and regulations?**

**Answer 8:** An important U.S. objective for international investment policy is to seek to ensure that investment provisions are not misused to undermine legitimate environmental and health laws. The investor protections that exist in U.S. investment agreements have continuously received bi-partisan support, but we recognize that concerns have been raised which threaten to weaken this support. For this reason, the administration has a process to examine some of the controversial issues to see if changes should be made. In general, the protections in our investment agreements for U.S. investors abroad are intended to match the protections that are already provided to both domestic and foreign investors under U.S. law and therefore we are hopeful that we will not need to make substantial changes in investment provisions. While investors cannot be prevented from bringing unjustified claims, we are confident that such claims will not prevail and that our regulatory objectives will not be undermined.

**Question 9: How do you plan to implement environmental reviews of our trade agreements so that we can have objective information about the consequences not only within this country, but around the world?**

**Answer 9:** Executive Order 13141 provides that, as a general matter, environmental reviews will focus on impacts in the United States, but that, as appropriate and prudent, reviews may also examine global and transboundary impacts. We will seek to strike the proper balance in implementing the Executive Order for individual reviews, and we will consult with interested stakeholders to help us determine where the balance lies in a particular case. In implementing the reviews policy, I hope we can tap into a broad range of expertise, both inside and outside the government. In addition, we have been encouraging our trading partners to conduct their own environmental reviews, as Jordan did (with USAID support) and as Singapore has announced it will do.

**Question 10: Are you committed to ensuring that any future trade agreements revise existing dispute resolution processes which do not allow for public participation and observation? In the interim, are you committed to ending secret panel deliberations and instead implementing transparency in the dispute process where the other party is agreeable?**

**Answer 10:** I believe we should take every opportunity to encourage more openness and transparency, both when negotiating new dispute settlement provisions and in the context of individual disputes in which we are involved. Every time we are a party to a new WTO dispute, we urge the other parties to open the proceedings to public observation.

In dispute settlement proceedings arising under the U.S.-Jordan Free Trade Agreement, the two governments have agreed our briefs will be made available to the public; panel hearings generally shall be open to members of the public; panels shall accept and consider *amicus curiae* submissions by entities with an interest in the outcome of the dispute; and panels shall release their reports to the public at the earliest possible time.

In addition, Jordan has agreed that if a dispute between the United States and Jordan arises over our respective WTO obligations, in any WTO panel proceedings we will make our briefs public and will seek the appointment of panelists who will agree to open hearings. We hope we can reach similar bilateral agreements with other WTO Members.

**Question 11: Are you willing to consult with Congress, cleared advisors, and interested parties before the U.S. makes any decisions to challenge foreign environmental, health, or safety regulations? If so, how will you accomplish this?**

**Answer 11:** USTR is committed to consulting with Congress, cleared advisors, and other interested parties in the development and implementation of U.S. trade policy, including with respect to dispute settlement proceedings regarding foreign environmental, health, or safety regulations.

USTR seeks public comment, through a *Federal Register* notice, on every matter involving the United States where a party has requested consultations, both where the United States is requesting consultations and where a U.S. measure is the subject of a request for consultations. We consider the comments that we receive prior to initiating dispute settlement proceedings and consult regularly with congressional staff and interested advisors at all stages of a dispute, and that will continue to be our practice.

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[Questions submitted by Mr. Matsui, and Mr. Zoellick's response follows:]

1. During the enactment of the implementing legislation of the Uruguay Round, one of the issues that this Committee debated was sovereignty. We included section 129 to address this issue. Has section 129 ever been used? Is there a current situation in which use of section 129 would be appropriate? If you choose not to use section 129 wouldn't an unfavorable trade precedent be set?

**Answer:**

Section 129 has been used by the Commerce Department to bring an antidumping determination into conformity with a WTO ruling, and on March 13, 2001, I requested the International Trade Commission to commence an inquiry under section 129 with regard to the WTO Appellate Body ruling that our Section 201 relief on wheat gluten is inconsistent with the WTO Agreement on Safeguards.

2. Specifically in terms of the wheat gluten case, if section 129 is not invoked are we sending a signal to the EU and other trading partners that we are not going to actively enforce our safeguard measures and that we are going to accept automatically WTO Appellate Body decisions? Shouldn't the ITC have a chance to cure the safeguard measure on wheat gluten?

**Answer:**

I have asked the ITC to issue an advisory report on whether Title II of the Trade Act permits the ITC to take steps in connection with the wheat gluten case that would render its action in that proceeding not inconsistent with the Appellate Body findings. It is required to issue such a report within 21 days, but I have asked that it be done as quickly as possible. If a majority of the ITC issues an affirmative report, we will consult with the Ways and Means Committee and the Finance Committee on the appropriate next step.

3. I am concerned that March 31, 2001, is fast approaching and there will be no final resolution with Canada concerning softwood lumber. President Bush is preparing to go to Quebec to discuss the Free Trade Area of the Americas with leaders from all over the hemisphere—asking our neighbors in the Western Hemisphere to adopt free trade policies. Before President Bush arrives in Quebec, shouldn't we con-

sider free trade for softwood lumber and not merely repeat old claims that have been adjudicated in the past?

**Answer:**

The United States' basic policy is to support open markets for fairly traded goods, unencumbered and undistorted by government intervention. That is the principle upon which the NAFTA is founded, and what we aim to accomplish in the Free Trade Area of the Americas.

Since the 1980s, the United States has sought to persuade the Canadian provinces to reform their timber harvesting and forestry management practices. Unfortunately, the Canadian provinces have refused to move to more market-oriented practices, which has exacerbated cross-border tensions over trade in softwood lumber products.

Finally, U.S. trade remedy laws are expressly intended to permit U.S. industry to seek relief from injurious, unfairly traded imports. The U.S. industry claims that Canadian lumber is now sold in the United States at dumped prices, a claim they have not raised before. With regard to the claims of subsidization, our statute gives the U.S. industry the right to request another investigation regardless of whether certain issues may have been adjudicated in the past. Both factual circumstances and the legal framework for addressing them have changed since the previous lumber investigation, which preceded the completion of the Uruguay Round and the many changes that were implemented in U.S. countervailing duty law.

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[Submissions for the record follow:]

**Statement of the American Forest & Paper Association**

This statement is submitted by the American Forest & Paper Association (AF&PA) for inclusion in the record of the Committee's March 7 hearing on the Bush Administration's trade agenda.

AF&PA is the national trade association of the forest, pulp, paper, paperboard and wood products industry. The vital national industry which we represent accounts for 7% of total U.S. manufacturing output. The industry employs approximately 1.7 million people, with an annual estimated payroll of \$51 billion. Sales of the paper and forest products industry top \$250 billion annually in the U.S. and export markets.

**U.S. TRADE NEGOTIATING OBJECTIVES**

AF&PA strongly supports the Administration's multi-front approach to opening world markets. In pursuit of that goal, we believe that the global elimination of tariffs on wood and paper products merits continuing designation as a priority U.S. negotiating objective.

**Tariff elimination in our sector was a priority U.S. negotiating objective in the Uruguay Round, but was not achieved.** As part of a zero for zero package, eight economies (the U.S., the EU, Canada, Japan, South Korea, New Zealand, Singapore and Hong Kong) agreed to eliminate their paper tariffs by 2004 (five years beyond the Uruguay Round formula for tariff cuts at this level—on the insistence of the EU) and to reduce their wood tariffs by approximately one-third. The U.S. was not able to get agreement from the major producing countries in Asia or Latin America to make any tariff cuts on either wood or paper products.

**The Uruguay Round Agreements Act (URAA) specifically identified the elimination of tariffs in forest products and other zero for zero sectors as a U.S. negotiating objective to be pursued as a priority matter by the Administration—independent of any subsequent round of negotiations—and provided the Administration with the requisite authority to conclude agreements in this area.** This provision of law reflects Congressional intent that elimination of tariffs on forest product should be a priority U.S. trade negotiating objective, and the expectation that it would be achieved as part of a repair to the deficiencies in the Uruguay Round agreement.

**IMPACT OF TARIFFS ON U.S. INDUSTRY'S COMPETITIVENESS**

Global elimination of tariffs on wood and paper products is the top international trade objective of the U.S. forest products industry. In the period since conclusion of the Uruguay Round, the persistence of tariff inequities in wood and paper be-

tween the U.S. and its major trading partners—especially vis a vis emerging producers in Asia—has caused substantial economic damage to the U.S. industry. The majority of U.S. tariffs on wood and paper products were already at or near zero, making the U.S. market a prime target of opportunity for foreign suppliers. As a result, the U.S. trade balance in forest products significantly deteriorated—from a deficit of \$3 billion in 1995 to 12.5 billion in 2000.

Rising imports and declining exports have contributed significantly to an erosion of prices and profitability for U.S. producers and, consequently, a reduction in U.S. production. In the 1998–2000 period, industry records show that 39 paper and paperboard mills closed their doors, contributing to an overall loss of 28,000 jobs, or 13% of the workforce at pulp and paper mills.

A 1999 investigation by the U.S. International Trade Commission on behalf of the Senate Finance Committee (Conditions of Competition in U.S. Forest Products Trade—October 1999), which identified the persistence of market access barriers in the wood and paper sector, reinforced the fact that tariffs are a principal factor impairing the competitiveness of the U.S. forest products industry.

#### **INDUSTRIAL TARIFF NEGOTIATIONS**

Global elimination of wood and paper tariffs remains the number 1 trade priority of the U.S. forest products industry. If there is a new WTO Round, we will enthusiastically support it. However, we urge the Administration to move on multiple fronts—bilateral, regional and multilateral—to pursue all potential trade agreements that offer substantive benefits for American interests and increase our leverage in WTO. It must be made clear to trading partners that the U.S. will not let trade liberalization stall at this critical juncture.

#### ***WTO Round***

Elimination of wood and paper tariffs—as part of the **Accelerated Tariff Liberalization (ATL)** package of sectoral initiatives that grew out of Early Voluntary Sectoral Liberalization (EVSL) in APEC—was identified as a priority U.S. deliverable for the WTO Ministerial in Seattle. While the Seattle meetings did not result in the launch of a new Round, it is critical that the U.S. make ATL an early deliverable when industrial tariff negotiations are launched in the WTO.

It should also be noted that in advance of Seattle, the environmental impacts from elimination of wood and paper products were examined (Accelerated Tariff Liberalization in the Forest Products Sector: A Study of the Economic and Environmental Effects USTR/CEQ—November 1999) and found to be negligible. We believe the positive results of that environmental review is one more reason why initiatives to further liberalize forest products trade should go to the head of the queue.

#### ***U.S.-Chile Free Trade Agreement (FTA)***

The U.S. forest products industry's objective for FTA negotiations with Chile is zero tariffs on wood and paper products, *immediately upon implementation*. These are the terms accorded our Canadian competitors in the 1997 Canada-Chile FTA. As a result, U.S. forest products suppliers have lost substantial market share in Chile:

*In 1997, U.S. paper and paperboard exports to Chile amounted to 156,000 metric tons, with a value of \$99 million; this represented 30% of Chilean imports. In 2000, U.S. exports were only 38,000 metric tons, with a value of \$44 million, which represented just 13% of Chile's paper and paperboard imports.*

Had the U.S. market share held constant, we estimate that our paper and paperboard sales in 2000 would have been \$143 million—\$100 million more than they actually were. If this unequal treatment continues much longer, it will be difficult for these supplier relationships to be re-established and our market share loss could become permanent.

While U.S. exports of wood products to Chile have declined, the Chilean wood products industry is aggressively exporting to third country markets and has dramatically increased its presence in the U.S. Imports of Chilean wood products, which enter the U.S. duty free, have grown from \$16 million in 1988 to over \$420 million in 1999.

A U.S. proposal built on the zero for zero and ATL concepts would send a clear signal that the Bush Administration will pursue early sectoral tariff liberalization, and will also have a salutary effect on parallel industrial tariff negotiations in the FTAA and in the WTO—hastening the day when we achieve global tariff elimination in our sector. Indeed, since Chile has up to now declined to participate in any sectoral liberalization because of its adherence to a uniform tariff structure, agreement to a sectoral approach in the FTA could serve as a strong impetus for a change in their position in the WTO and APEC contexts.



### ***Free Trade Area of the Americas (FTAA)***

Early sectoral tariff elimination in the FTAA—including forest products—would be an important building block for action on a ATL in the WTO. Key markets in the Western Hemisphere (outside of NAFTA) are Mercosur, Chile, Colombia, Venezuela, Ecuador and the Dominican Republic.

To help advance FTAA, AF&PA has established a working group with counterpart Latin American associations to promote common positions on industry issues, including tariffs.

### ***Asia Pacific Economic Cooperation Forum (APEC)***

As part of its WTO accession-related bilateral market access agreement with the U.S., China committed to participate in any ATL agreement that is undertaken in the WTO. In addition, China's priorities during its 2001 chairmanship of APEC include leveraging APEC deliverables at the WTO and making progress in the EVSL sectors, which include forest products.

The U.S. should capitalize on the possibility of new APEC energy on tariffs during the China year by renewing its efforts in APEC to promote early tariff liberalization in the EVSL/ATL sectors.

### **JAPAN**

In the Uruguay Round, Japan was a party to the zero for zero agreement to eliminate tariffs on paper products by 2004. On wood, they succeeded in getting credit for tariff cuts agreed to in settlement of a pre-existing 301 settlement while opposing the inclusion of wood products in the zero for zero package. The wood products industry believes a major outstanding issue between the U.S. and Japan is their tariffs on value-added wood products. The Japanese practice of maintaining low or zero tariffs for raw materials, but high tariffs on processed wood products (e.g., lumber, molding, panel products, plywood, veneer, engineered and laminated products, doors, windows, flooring, siding, etc.) denies equitable market opportunities for U.S. producers by undermining our comparative manufacturing advantage while providing maximum benefit to Japanese domestic producers of value-added products. Tariff escalation distorts access to the Japanese market, and the U.S. industry therefore remains adamant that the U.S. government cannot judge the Japanese market for wood products to be fully open until all wood product tariffs are eliminated.

The Japanese government continues to provide direct aid through both high subsidies and a tariff wall to ensure the survival of the non-competitive domestic wood processing industry. In fact, on November 30, 2000 MAFF requested trade and customs officials to assess the impact on domestic lumber prices of a surge in lumber imports with a view to invoking emergency protection measures under the WTO. MAFF officials have publicly stated that they will take any and all measures to maintain the 20% market share of the domestic wood industry. Recent increases in imports and the domestic demand for kiln-dried product has obviously put the 20% figure in jeopardy. A safeguard action against U.S. wood exporters would have a dramatic impact on a more than billion-dollar market and would turn back the clock on efforts to liberalize the Japanese forest products market.

While tariffs are the most visible hurdle to entering export markets, the U.S. paper industry learned that in Japan tariffs are by no means the most significant barrier. Even with low paper tariffs, over the past decade, Japan—which is one of the world's highest cost producers of paper—has successfully excluded certain grades of U.S. paper, and foreign paper products in general, from its market. USTR negotiated a market access agreement with Japan in 1992 aimed at substantially increasing access to Japan's market for paper products. However, the Japanese government and industry did not comply with the agreements and, instead, used the time to restructure their industry and add new capacity. As a result, today Japan imports just 4.2% of its paper consumption, practically the lowest level of any country in the world.

### **SUBSIDIES**

The elimination of foreign subsidies in natural resource based industries represents a trade and environment win/win and should be pursued as a priority part of the U.S. trade policy agenda. Subsidies not only give foreign competitors price advantages, they have contributed to building uneconomic/unsustainable capacity which has further distorted markets for forest products and increased pressure on forest resource. The U.S. government should identify subsidies as a priority Non-Tariff Measure (NTM) to be addressed on a sectoral basis in a New Round of multilateral trade negotiations.

### **FORESTRY CERTIFICATION**

Certification and other programs designed to ensure sustainable forest practices have emerged as a major new factor in global fiber supply since the June, 1992 Earth Summit. As these schemes have proliferated in recent years, the U.S. industry urges governments to refrain from sanctioning certain certification schemes without the opportunity for mutual recognition of comparable schemes. Some certification schemes give competitive advantages to products based on production methods regardless of similar characteristics and the end-use. Only open and transparent mutual recognition of comparable certification schemes will ensure that certification does not become a market access barrier and continues to achieve the objectives of enhancing forest stewardship and sustainability.

### **CODES AND STANDARDS**

Foreign product standards and building codes often act as technical barriers to trade, curtailing U.S. wood product exports. International standards affect U.S. wood product exports in several important ways; in addition to requiring that U.S. products comply with these standards when used overseas, efforts are underway to bring some international standards to the U.S. domestic market. As wood competitors seek to expand their exports, and also preserve market share at home, more frequent cases of standards being used as trade and market access barriers to U.S. wood products have developed. The U.S. government should continue to support the international harmonization and mutual recognition of product standards and accreditation procedures.

### **CONCLUSION**

More than a decade has passed since the elimination of wood and paper tariffs was designated a priority goal of U.S. trade policy—and this passage of time has been attended by serious, negative economic consequences for the U.S. forest products industry and its workers. We therefore urge the Bush Administration to treat the achievement of global tariff elimination in our sector as unfinished business that deserves to be a priority objective in every forum where the U.S. is negotiating trade liberalization, including the U.S.-Chile FTA, the FTAA, APEC and the WTO. In addition, the U.S. needs to be vigilant in preventing the proliferation of non-tariff barriers, including subsidies, standards and certification schemes, that might be used by trading partners to offset the benefit of tariff reductions.

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### **Statement of Advanced Medical Technology Association**

AdvaMed represents over 800 of the world's leading medical technology innovators and manufacturers of medical devices, diagnostic products and medical information systems. Our members are devoted to the development of new technologies that allow patients to lead longer, healthier, and more productive lives. Together, our members manufacture nearly 90 percent of the \$71 billion in life-enhancing health care technology products purchased annually in the United States, as well as 50 percent of the \$165 billion in medical technology products purchased globally. Our industry currently enjoys a trade surplus of \$7.1 billion vis-à-vis our trading partners.

#### **Global Challenges**

Innovative medical technologies offer an important solution for industrialized nations, including Japan and European Union members that face serious health care budget constraints and the demands of aging populations. Advanced medical technology can not only save and improve patients' lives, but also lower health care costs, improve the efficiency of the health care delivery system, and improve productivity by allowing people to return to work sooner.

However, when regulatory policies and payment systems for medical technology are complex, non-transparent, or overly burdensome, they can significantly delay or deny patient access to the latest, state-of-the-art innovations. They can also serve as non-tariff barriers, preventing U.S. products from reaching patients in need of innovative health care treatments.

AdvaMed applauds President Bush's support of international trade initiatives. To allow the President, and U.S. Trade Representative (USTR) Robert B. Zoellick to reduce tariffs and non-tariff barriers throughout the globe, we would like to echo the comments made by the President in his recent address to the joint session of Congress in calling for Congress to give him presidential trade promotion authority. It should be extended to ensure further work on regional and global trade negotiations, including the Free Trade Area of the Americas (FTAA), the Asia-Pacific Eco-

conomic Cooperation (APEC) forum, the World Trade Organization (WTO) and the Transatlantic Business Dialogue (TABD) with Europe. In addition, the President and USTR should use this authority to continue to pursue bilateral trade agreements in the medical technology sector with our major trading partners.

AdvaMed believes the USTR, Department of Commerce (DOC) and Congress should monitor regulatory, technology assessment and reimbursement policies in foreign health care systems and push for the creation or maintenance of transparent assessment processes and the opportunity for industry participation in decision making. We look to the Administration and Congress to actively oppose excessive regulation, government price controls and arbitrary, across-the-board reimbursement cuts imposed on foreign medical devices and diagnostics.

#### **Key Markets: Japan and Europe**

Efforts to oversee foreign policies impacting the export and sale of US medical devices abroad should primarily focus on our two largest foreign markets, Japan and the European Union (EU). After the U.S., Japan is by far the largest global market for medical technologies (\$24 billion) followed by Germany (\$16 billion) and France (\$7 billion.) US manufacturers annually export over \$2 billion to Japan and manufacture another \$6.5 billion in the region for the Japanese market. Our trade surplus with Japan is an impressive \$1.3 billion. We believe that this statistic is a good indicator our industry's global competitiveness in the field of medical technology and it strongly underscores the importance of critical ongoing efforts with the U.S. government to open the Japanese market further to cost-saving and life-enhancing medical technologies. U.S. manufacturers also export nearly \$8 billion annually to the EU and maintain a \$3.6 billion trade surplus with the EU.

#### **Japan's Soaring Healthcare Expenditures and the Need for Deregulation**

Japan's health care system is facing a grave funding crisis—with estimates of a nearly \$40 billion shortfall and several major insurance associations facing potential bankruptcy within the next 2–3 years. To date, however, Japan has resisted making much-needed structural changes, such as reducing the extraordinarily long average hospital stays (over 30 days) with the help of technological advances, and has instead sought reductions in expenditures by cutting reimbursements for medical technologies and pharmaceuticals, and by shifting some costs to patients. Persistent price-cutting, coupled with slowing safety approval and reimbursement processes for new technologies, has made it difficult to introduce state-of-the-art health care that would increase the productivity of the Japanese health care system.

USTR must exert leadership in promoting market-opening measures in Japan's healthcare market, including reforms that will allow Japan to reap the life enhancing and cost-saving benefits offered by medical technologies, including:

- Reimbursement policies that are more responsive to the innovation process, such as:
  - Measures to expedite the coverage, payment and access to brand-new-to-Japan medical technologies (category C2), as per earlier trade agreement commitments;
  - Avoidance of excessive price control measures as a policy means to control overall healthcare spending, focusing instead on the creation of payment categories that are more reflective of the differences in technologies; and
  - Japan should encourage more reimbursement decisions based on foreign clinical data, as well as create a cost-sharing system for any clinical trials required in Japan.
- Streamlined and transparent safety approval procedures, including (but not limited to):
  - Better definitions and criteria within the product classification system;
  - Improved “pre-consultations” process and use of a standardized “checklist” of submission contents to clearly identify requirements prior to application submission; Also, better documentation practices within MHLW on discussions with industry (to avoid misunderstandings and to create binding decisions);
  - Resolution over the longstanding issue over materials characterization and acceptance of biocompatibility tests of materials conducted according to international standards.
  - Better harmonization with Global Harmonization Task Force recommendations in areas such as “adverse event reporting” where Japan is implementing unique and burdensome requirements on manufacturers.

#### **Europe: Seek Appropriate Policies That Improve Patient Access to Innovative Medical Technologies**

In the EU, enforcement of current trade agreements is key. The US–EU Mutual Recognition Agreement (MRA) must be fully implemented. Bringing healthcare

products to the market faster is an important priority consistent with the protection of public health and the reduction of regulatory costs and redundancy. The European Commission (CEC) should be encouraged to take all proper measures to ensure that the MRA is operational by January 2002, when the current three-year transitional period is scheduled to end.

In addition, European Member States should be encouraged to adopt policies for their health technology assessment (HTA) decisions affecting medical technologies that are transparent and timely, and industry participation should be allowed. US firms, as the leaders in innovative medical technologies, stand to suffer disproportionately from unnecessarily long delays in HTA decisions in Europe. The CEC should ensure that the EU Medical Devices Directives are implemented uniformly by the Member States. Uniform implementation of the Devices Directives is essential to the furtherance of the European Single Market B a concept strongly advocated by the Transatlantic Business Dialogue (TABD). To the extent that additional regulatory requirements are deemed necessary in Europe, Member State must be advised to consult with industry in advance and to ensure that such requirements are consistent with the objectives of global harmonization.

AdvaMed supports the Safe Harbor agreement struck between the EU and US B an agreement that promises the uninterrupted data flow from the EU to the US. The agreement, reached in response to the 1995 EU Data Privacy Directive, provides additional flexibility (along with specific data privacy contracts or compliance with the actual directive itself) for US firms to continue to receive data from EU-based companies. AdvaMed and its member companies look forward to working with both sides on implementing the agreement in such a way that supports transatlantic business and economic activities and, in particular, supports industry's efforts to research, develop, and bring to market medical technologies that offer great promise for patients on both sides of the Atlantic.

#### **Utilize Multilateral Opportunities to Establish Basic Principles to Expand Global Trade and Patient Access to New Technologies**

A primary goal of all economies is to provide high quality, cost effective healthcare products and services to all citizens. The mission, and sovereign right, of a government's regulatory agency is to oversee the efforts of medical technology manufacturers to ensure that their products are safe and effective. Another mission is to ensure their citizens have timely access to state-of-the-art, life-saving equipment and that compliance procedures are efficient and effective. To further expand patient access to safe and effective medical devices and ensure cost effective regulatory compliance, USTR should seek to ensure that regulatory agencies around the world make their policies and practices conform to the relevant and appropriate international trading rules established by the World Trade Organization (WTO).

Toward that end, member economies should agree to make their medical device regulatory regimes conform to these guiding principles:

- Acceptance of International Standards; Conformity/Provision of Transparency and National Treatment;
- Use of Harmonized Quality or Good Manufacturing Practice Inspections;
- Recognition of Others Product Approvals (or the Data Used for Those Approvals;)
- Development of Harmonized Auditing and Vigilance Reporting Rules;
- Use of Non-Governmental Accredited Expert Third Parties Bodies for Inspections and Approvals, where possible.

Similarly, many economies require purchases of medical technologies to take place through centralized and/or government-administered insurance reimbursement systems. To ensure timely patient access to advanced medical technologies supplied by foreign as well as domestic sources, member economies should agree to adopt these guiding principles regarding the reimbursement of medical technologies:

- Establish clear and transparent rules for decision-making;
- Develop reasonable time frames for decision-making;
- Data requirements should be sensitive to the medical innovation process;
- Ensure balanced opportunity for the primary suppliers and developers of technology to participate in decision-making, e.g., national treatment.
- Establish meaningful appeals processes.

#### **Utilize Multilateral and Regional Forums to Eliminate Tariff and NonTariff Barriers to Trade That Unnecessarily Increase the Cost of Health Care**

Many countries maintain significant tariff and nontariff barriers to trade for medical technology. Such barriers represent a self-imposed and unnecessary tax that substantially increases both the cost of health care to their own citizens. Such barriers also delay the introduction of new cost-effective, medically beneficial treat-

ments. As a result, regional forums are striving to enhance market access for a number of important sectors. The Asia-Pacific Economic Cooperation (APEC) forum has made significant strides in developing a tariff reduction schedule that will facilitate trade and access in key developed and emerging markets, though implementation of the Accelerated Tariff Liberalization (ATL) package stalled due to the inability to launch another WTO round. USTR should take strides to ensure ATL and non-tariff barrier reduction initiatives developed under APEC reach fruition via the appropriate trade forum. Moreover, a new WTO round should be seen as an opportunity to improve access to new medical technology on a global basis.

With regard to Europe in particular, the U.S. medical technology industry supports the activities of the Transatlantic Business Dialogue (TABD). TABD provides industry leaders an opportunity to engage in dialogue with high-level U.S. and EU government leaders on important trade and policy issues related to medical technologies. TABD has become an important vehicle for ensuring that the EU and US markets remain open to innovative medical technologies. The success of the medical technology MRA can be attributed in large part to TABD. It is through the TABD that industry expects to make progress on important issues, including technology assessment, reimbursement practices, and appropriate regulations for innovative medical technologies. The medical technology industry looks forward to the new Administration's support for TABD.

### **Conclusion**

AdvaMed appreciates the President's commitment to expanding international trade opportunities and is fully prepared to work with the President, USTR Ambassador Zoellick and other interested government agencies, such as the Commerce department, to encourage positive action and help secure presidential trade authority to monitor, enforce and advance multilateral, regional and bilateral trade agreements particularly with our key trading partners.

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### **Statement of American Textile Manufacturers Institute**

This statement is submitted on behalf of the American Textile Manufacturers Institute (ATMI), which is the national trade association for the U.S. textile industry. Our member companies operate in more than 30 states and process approximately two thirds of all textile fibers consumed by plants in the United States.

As an industry that is both a major exporter and deeply impacted by foreign imports, the domestic textile industry believes that United States trade policy should be motivated by principles of fairness and equity. The United States, with its history of transparent, open and accessible markets,<sup>1</sup> must likewise insist that its own exporters have access to transparent, open and accessible markets.

The United States government must also recognize the dynamic forces that impact world trade and the domestic industry. In 1997, Asian currencies dropped precipitously and have never recovered. This has resulted in a flood of artificially low-priced Asian imports into the U.S. market. The strong dollar policy on the part of the US government has helped to keep these currencies at record lows and contributed to a wave of plant closings, bankruptcies and layoffs in the U.S. textile industry.

The Asian currency crisis and a strong dollar policy have altered the competitive landscape in textiles and their impact needs to be recognized. The major Asian exporters that today are arguing for new cuts in U.S. textile tariffs must be rebuffed. Indeed, the currency declines and strong dollar policy have already given them de facto tariff cuts of 35% or more. Demands for accelerated quota phase-out schedules should likewise be rebuffed in light of the enormous increases in exports from Asia.

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<sup>1</sup> While there are those who continue to decry the US textile and apparel quota phase-out schedule as "protectionist," they fail to note that textile and apparel imports have increased every year under the program, that 73 countries are now listed in the Commerce Department's "major shippers" textile and apparel report published by the Commerce Department and that since the quota program was instituted in 1972, imports of textile and apparel products to the United States have increased by 3,600 percent, rising from \$3 billion to a record high \$72 billion in 2000.

### ***Regarding Textiles, Basic Rules For Trade Agreements***

Regarding trade agreements with other nations, from the perspective of the American Textile Manufacturers Institute, three basic principles prevail.<sup>2</sup> (1) trade agreements must be fair and equitable to the domestic industry; (2) trade agreements must be enforceable and (3) the U.S. government must exhibit the will to enforce trade agreements.

#### **1. Trade Agreements Must Be Both Fair and Equitable**

Trade agreements must provide a balanced and equitable set of outcomes. The element of fairness should be the basis for judgement. From ATMI's perspective, we must ask, does the agreement provide for real, effective access to foreign markets, are rules and disciplines applied equitably, and are effective safeguards available if agreements fail to keep their commitments?

#### **2. Trade Agreements Must Be Specific and Enforceable**

The second test regarding trade agreements is their enforceability. Agreements which cannot be enforced will be violated. The Uruguay Round agreements are a prime example. In the Uruguay Round's Agreement on Textiles and Clothing (ATC), developing countries are directed to promote improved access—but the agreement spells out no specific benchmarks for what would constitute improved market access. As such, many governments have elected to make superficial changes—such as dropping tariff rates from 70 percent to 50 percent—but have *de facto* kept their markets tightly closed.

In contrast, the United States and other developed countries are directed by the ATC to reduce their tariffs by specific amounts and to increase or entirely remove their remaining quotas by certain dates. This has led to dramatically increased access to the U.S. market—in the last six years, textile and apparel imports into this country have nearly doubled and now total more than \$70 billion.

#### **3. Governments Must Be Willing to Enforce the Agreements They Sign**

Ultimately, the final test of a successful trade agreement is the willpower of the government to enforce the trading regime that it has put in place.

As we have seen, the language in the ATC gave U.S. textile mills little to hope that closed markets around the world would open. However, as part of the Uruguay Round legislation, the U.S. Government developed specific criteria for what it considered effective market access for textile products. These criteria specified maximum tariff levels for different textile products as well as the removal of non-tariff barriers. If these criteria were not met, then the United States pledged to take action against those countries that were keeping their markets closed.

Unfortunately, the U.S. government has thus far taken little or no action against these closed markets. While there are instances where the government has acted—the government successfully used the WTO dispute settlement process to force India to phase out its outright bans on textile product imports is one instance—the government has not acted against other barriers that have kept the Indian market, as well as many others, closed to U.S. textile exports.

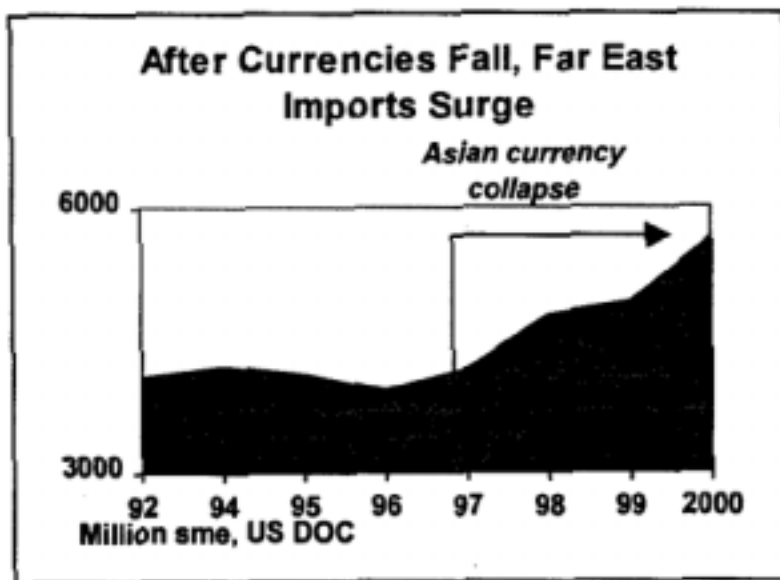
### ***The State of Textile Trade***

#### **The Asian Currency Collapse Has Caused Asian Imports to Soar**

The collapse of Asian currencies in 1997–98 and the resulting collapse of demand in Asia have combined to drive prices for Asian textile and apparel products to artificially low levels. This has caused a flood of low-priced Asian imports into the U.S. market—a market that had seen relatively little growth of imports from the Far East for a decade. A strong U.S. dollar policy has contributed to an unprecedented three-year long period of deflationary price cuts for U.S. textile products. Heretofore successful efforts by the U.S. textile industry to increase productivity, drive costs lower and expand export sales to Mexico and the CBI, have been overwhelmed by devalued Asian imports. The continued viability of major sectors of the U.S. textile industry is now threatened.<sup>3</sup>

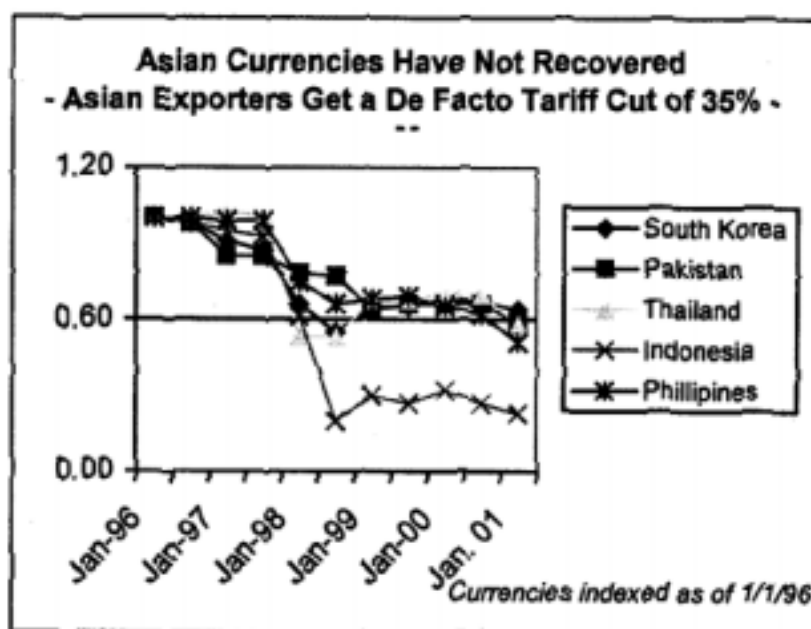
<sup>2</sup>In 1993, the American Textile Manufacturers Institute, along with fiber, textile and apparel trade and labor associations from throughout Europe, Japan and North America, was a signatory to a "Charter of Fundamental Principles of Global Trade for Textile and Apparel." This document, which has been termed a "textile and apparel Magna Carta" established "fair conditions of trade" in textiles. The basic principles which this document drew were "equity," "reciprocity" and "enforceability".

<sup>3</sup>See Attachment I for information on industry successes during the quota phase-out period and prior to the Asian currency collapse.



**Combined with a U.S. Strong Dollar Policy, Major Asian Exporting Countries Now Receive a De Facto "Tariff Cut" of 35% or More**

As noted in the accompanying chart, the East Asian currencies that precipitated the financial crisis have never recovered and, in fact, have dragged down the currencies of other major exporters such as India, Pakistan, and Bangladesh to record (since 1997) lows. As a result, China has increased its use of export tax rebates, which has further depressed prices. At the same time, the U.S. instituted a strong dollar policy in order to boost Asian economic recovery by way of increasing exports to the United States. This has resulted in a de facto tariff break for Asian exporters of 35 percent or more.



**The Flood of Artificially Low Priced Asian Imports Now Threatens Major Sectors of the U.S. Textile Industry**

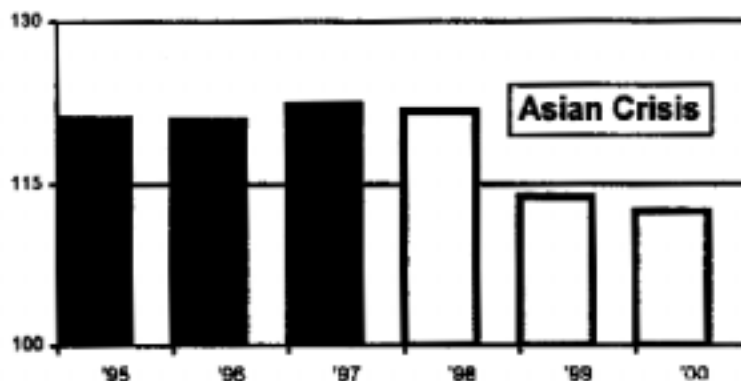
Faced with severely depressed<sup>4</sup> Asian currencies that resulted in low priced competition from Far East imports, prices for U.S. textile products have been falling for several years. The Producer Price Index for processed yarns has declined for four consecutive years and, in 2000, stood nearly seven percent below its 1996 level. The Index for broadwoven greige fabrics fell during each of the past three years and now stands more than eight percent below its 1997 level. The Index for finished knit fabrics has also dropped for three straight years and stands nine percent below its 1997 level.

<sup>4</sup>Currencies of major Asian textile and apparel exporters have never recovered from their 1997-1998 declines. Indonesia is still down 87 percent, Thailand down 52 percent, South Korea down 36 percent, and the Philippines down 35 percent. Other Asian exporting nations have seen their currencies drop as well: Pakistan is down 41 percent (a record low since 1997), India is down 23 percent (a record low), and Bangladesh is down 24 percent (a record low).



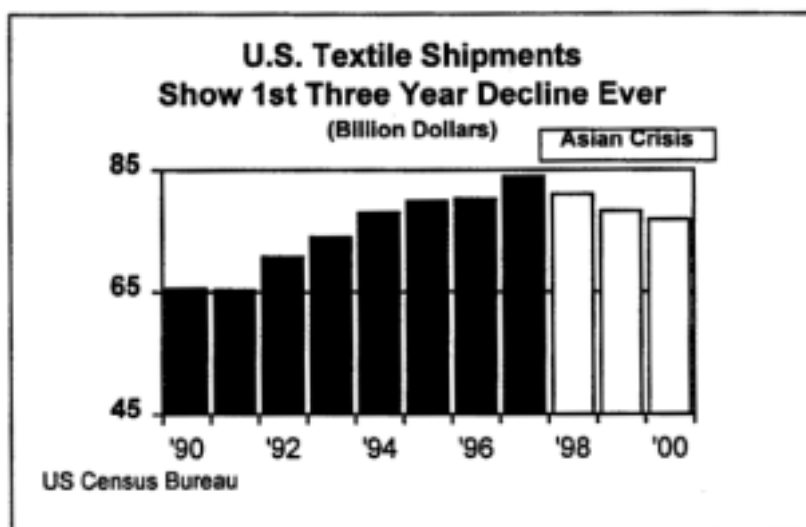
## Since Asia Crisis, U.S. Textile Prices Fall 3 Years In A Row

(Broadwoven fabric)



Most of the cotton and man-made fiber yarns used in apparel and home furnishings fabrics are spun from staple fiber, and consumption of the fiber used in spinning these yarns dropped more than four percent in both 1998 and 1999. During 2000, fiber consumption for spinning yarn for apparel and home textiles products fell almost five percent and was nearly 13 percent below the pre-downturn level in 1997.

As imports increased market share and pushed prices of domestic textiles down, U.S. textile mill shipments fell. Down nearly two percent in 2000, industry shipments have declined for three consecutive years so far. Not since the 1950s have industry shipments fallen for three years in a row.

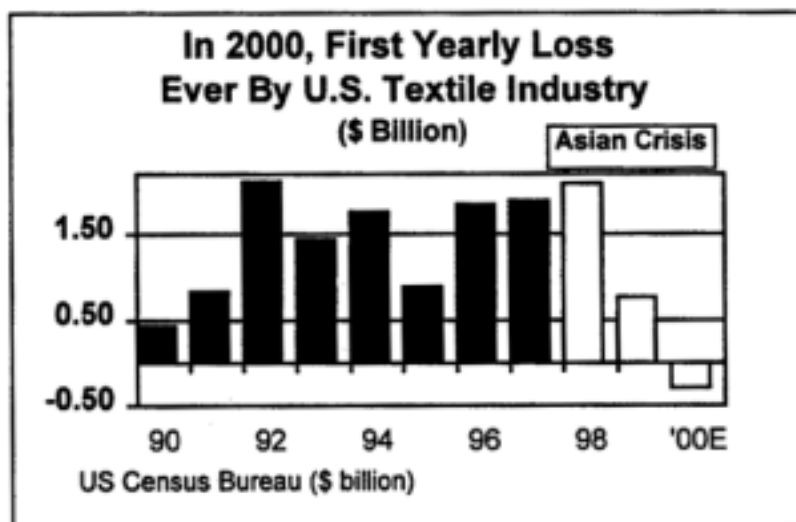


Meanwhile, employment in the textile industry has fallen for six consecutive years, reaching 525,000 workers in December 2000. At the end of last year, industry employment was nearly 150,000 workers, or more than 22 percent, lower than it

was a decade earlier. While a small portion of this employment decline can be attributed to productivity gains, the rest has clearly been caused by imports.

#### **Textile Mill Closings Are Accelerating**

As textile companies' market share was lost to imports, there were at least twenty textile plant closings in 2000 and almost 20 more already announced in the first few months of 2001. Among many others, these plant closings and employment cuts have occurred at Mayfair Mills, Swift Spinning, Armtex, Inc., CMI Industries, Guilford Mills, Inman Mills, Galey & Lord, Burlington Industries, Spray Cotton Mills, Culp, Inc., WestPoint Stevens, Inc., Crown Crafts, Inc., and JPS Textile Group, Inc.



#### **After Three Years of Cutting Prices, in 2000 U.S. Textile Industry Reports First Annual Loss**

As margins were squeezed by falling prices, the textile industry registered its largest quarterly loss in at least twenty years during the third quarter of 2000. The loss in the third quarter was the first quarterly loss in almost five years and will in all likelihood result in an overall industry loss for full-year 2000. If that occurs, it will be the first annual loss for the textile industry in the more than 50 years that these data have been collected.

The poor financial performance of U.S. textile mills has had a significant impact on the stock prices of publicly owned textile companies. The Wachovia Securities Textile Index, which includes the stocks of 10 textile companies, dropped 65 percent between the end of 1998 and December 29, 2000. The index fell nearly 47 percent last year alone. In comparison, the Russell 2000 Index was down only four percent in 2000. Thus, the current crisis adversely affects not only textile mills and their employees, but every individual, institution, pension fund, etc. owning textile stocks.

#### ***Upcoming Negotiations, Trade Agreements and Trade Issues***

##### **1. WTO Negotiations Regarding a New Round**

Many major exporting countries including India, Pakistan and Thailand have called for an "up front payment" for a new round by means of an increase in the textile quota phase-out schedules to which they agreed in 1993. These same countries have kept their markets tightly closed to U.S. exports and have benefited enormously from quota increases over the last six years. In addition, almost all of these countries have rapidly expanded their exports as their currencies have declined.

In contrast, the U.S. textile industry has gotten little or no access to these same countries' markets. The U.S. trade policy regarding a new round should acknowledge that substantial work regarding access to foreign markets for U.S. textile manufacturers has yet to be done. This should be the government's priority regarding textile and apparel trade in any future global talks. In addition, the major exporting

countries have already received a large de facto tariff rate cut in the form of devalued currencies (as shown in a previous chart) and are not entitled, nor should they receive, any new grants of access.

Regarding tariffs, the United States should also take into account the impact that reduced tariffs would have on preferential trade areas already in existence. Over \$25 billion in two-way textile trade has developed between the U.S. and Mexico, and the U.S. and the Caribbean Basin Trade Partnership Act countries, because of the zero duty status that they enjoy. Reduction of textile tariffs worldwide would erode the competitiveness of the Mexican and Caribbean apparel sectors that today employ hundreds of thousands of workers. Economic stability in the areas south of the U.S. border is an important foreign policy goal of the United States—reduction of textile tariffs would threaten that goal.

## **2. Free Trade Agreement with Singapore**

The proposed free trade agreement with Singapore fails all three of the tests used by ATMI to evaluate trade agreements. The agreement is not equitable or fair because it proposes to give Singapore duty-free access for textiles and apparel goods, which would threaten U.S. textile producers, including those who ship large amounts of fabric to Mexico and the CBI. Because the market for U.S. textile and apparel products in Singapore is tiny, there is no prospect for substantially increased U.S. textile exports to Singapore. In addition, the agreement is not enforceable. \$200 billion worth of trade passes through Singapore each year, including a substantial amount of transshipped merchandise.

The U.S. Customs Service's own reports show that Singapore cannot produce the goods it currently exports, yet Singapore officials have refused to cooperate in anti-transshipment efforts.

## **3. Free Trade Agreement of the Americas (FTAA)**

In regard to an FTAA, it is important that the government create a subgroup within the market access negotiating team dedicated to textile and apparel issues. This would mirror the process that has been used in every major multilateral negotiation B including the Uruguay Round, NAFTA and the U.S.-Canada FTA—that has involved textiles and apparel to date. The issues involved in textile and apparel market access, which include quotas, possible transshipments, Customs verification teams and the negotiation of over 1,500 tariff lines, are so technical and detailed that a dedicated sub-group on textile market access is absolutely necessary for a successful outcome.

While ATMI has not yet taken a formal position on an FTAA, in general terms we believe the agreement must be fair and beneficial to U.S. textiles, it must have enforceable rules and the government must be willing to enforce those rules. To use NAFTA as a point of reference, the textile and apparel rules must exclude free-riders, have strict origin requirements, allow for cross-country Customs verification and have reciprocal tariff phase-outs. Enforcement is key; each time that free trade is expanded, the opportunity for goods from outside the free trade region to enter illegally is expanded as well.

Again, to draw upon NAFTA, seven years into that agreement, it has recently become clear that large scale smuggling of textile and apparel goods into Mexico and the United States is now a problem of the first magnitude. These goods, which falsely declare NAFTA origin and which deprive the U.S. Treasury of many millions of dollars in duties, cause great harm to U.S. and Mexican producers of textiles and apparel. Despite the authorization of funds and of dedicated agency personnel to NAFTA textile enforcement in the NAFTA legislation, U.S. Customs has yet to make a concerted effort to crack down on this illegal trade.

## **4. The CBI/AGOA Bill and Possible Extension of CBI Trade Benefits to Colombia and the Other Andean Pact Nations**

Regarding an extension of CBI/AGOA trade benefits to Colombia and the Andean Pact, ATMI will evaluate proposals on their merits, including Senator Bob Graham's newly introduced legislation, S. 525. While ATMI supported the CBI portion of the Trade and Development Act of 2000, ATMI is still concerned about U.S. Customs' interpretation of key provisions of the Act, especially with respect to texturing of U.S. yarn and dyeing and finishing of U.S. fabrics. Moreover, the Sub-Saharan Africa portion of the Act contained sections that were very troubling to the industry. These included the lack of a workable surge mechanism, the size and growth rate of the quota for garments made of non-U.S. components and generally weak anti-transshipment measures. These concerns will be taken into account in our evaluation of S. 525 or any subsequent proposal.

### 5. China WTO Accession Negotiations

The China Working Group negotiations have been extended because China has tried to backtrack on a number of important issues, including several that are textile-related. In addition, China appears to be backtracking on bilateral agreements involving agriculture that it signed with the U.S. in order to show its goodwill during the WTO negotiations.

It is of the utmost importance that China be held to the letter and intent of the U.S.-China WTO agreement. In particular, the textile safeguard and the general product safeguard must remain available for use by the domestic industry. China must not be able to claim developing nation status regarding subsidies and safeguards, in particular regarding the use of export subsidies (including export tax rebates), the serious prejudice clause, privatization programs, de minimis levels and the finding of injury for actionable subsidies. China must also be required to undergo a regular two-year review of its progress in integrating into the WTO.

### 6. Normal Trading Relations (NTR) with Vietnam and a Bilateral Textile Agreement

Vietnam's already impressive textile and apparel capabilities, combined with some of the lowest wages in the world, make it imperative that a bilateral textile agreement be completed before NTR tariffs go into effect, or at minimum at the same time (but certainly not after the NTR tariffs become effective). As evidence of Vietnam's potential, within five years of achieving MFN tariff status with the European Union, Vietnam had become one of the EU's biggest suppliers. Also of note, even without getting NTR tariff rates, Vietnam has become a major supplier of cotton gloves, cotton woven shirts and cotton woven trousers to the United States.

A bilateral textile agreement with Vietnam must also contain stringent anti-transshipment measures.

### 7. Countervailing Duty Laws for Non-Market Economies

ATMI strongly urges the U.S. government to apply its countervailing duty laws to non-market economies. Countries with such economies, which include China and Vietnam, are able to subsidize their industries without fear of penalty. It is foolish for the U.S. government to treat those countries more favorably than it does market economies and, in effect, to provide support to a type of economic system that is in direct conflict with its own free market system. Accordingly, we support Rep. Phil English's proposed legislation along these lines.

#### **Conclusion:**

ATMI believes the U.S. textile industry can and will be able to compete in the global textile and apparel trade environment provided certain basic rules are followed. The U.S. textile industry is going through some very difficult times, caused predominantly by continued under valuation of Asian currencies. Our government must pursue policies and trade agreements which are specific and enforceable, and which incorporate the principles of fairness and equity. And our government must adequately enforce such trade agreements, particularly with respect to ensuring market access for U.S. textile exports. Our government must also consider the impact of future trade agreements on the viability of existing agreements, particularly NAFTA and the CBI.

Under these circumstances, our industry can remain competitive and again thrive in the global marketplace.

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### Statement of Florida Department of Agriculture & Consumer Affairs, Tallahassee, Florida

The Florida Department of Agriculture and Consumer Services follows with great interest developments involving international trade. Florida is a major agricultural state, and approximately 19 percent of its agricultural production is exported. Florida recognizes the benefits that its farmers and ranchers can obtain from increased liberalization of international trade. At the same time, however, Florida is concerned that the United States has negotiated away many of the minimal protections formerly available to its farmers and ranchers—while agricultural producers in other countries remain relatively more protected.

The Florida Department of Agriculture is pleased to submit the following suggestions to the Ways and Means Committee regarding ongoing, and future, international trade negotiations. While a number of trade agreements will likely be debated during the 107th Congress, the Florida Department of Agriculture is most

concerned with World Trade Organization (WTO) and Free Trade Area of the Americas (FTAA) negotiations. In addition, these comments will address possible changes in U.S. trade laws outside the context of international trade negotiations.

#### *Special Rules for Perishable and Seasonal Agricultural Products*

The Florida Department of Agriculture suggests that the United States advance in trade negotiations special rules for perishable and seasonal agricultural products. Rules should be developed that reflect the commercial realities of these products. The Florida Department of Agriculture is not the only entity seeking the development of such rules. For example, the National Association of State Departments of Agriculture (NASDA) and the New Mexico, Florida, Arizona, California, and Texas (NFACT) Agricultural Coalition—which is composed of the agricultural commissioners of those five states—have over the past several years advocated the inclusion of special rules on perishable and seasonal agricultural products in trade negotiations. In addition, agricultural groups in Mexico and Canada have requested that their governments support the development of such rules for future trade agreements as well.

#### *Harmonization*

Given the disparate laws of various countries regulating agricultural chemicals, such as pesticides, herbicides, and fungicides, as well as the differing food safety laws of countries, Florida supports efforts to harmonize internationally such laws. Florida producers do not advocate the lowering of U.S. environmental and food safety standards. Rather, they seek to ensure that farmers and ranchers in other countries also adhere to laws that provide adequate protections for human health and the environment. At the present time, as Florida producers are subject to some of the strictest environmental and food safety laws in the world, they are placed at a cost disadvantage in relation to their counterparts in other countries. Harmonization of food safety and agricultural chemical laws would benefit Florida's farmers and ranchers as well as the citizens of other countries.

#### *Antidumping and Countervailing Duty Laws*

The Florida Department of Agriculture strongly opposes any efforts to weaken the U.S. antidumping and countervailing duty laws, or the ability to use such laws. These laws are essential in permitting Florida's agricultural producers to counter unfair trade practices.

#### *Sanitary and Phytosanitary Measures*

The Florida Department of Agriculture believes strongly that sanitary and phytosanitary (SPS) measures should be transparent and based upon science. Any SPS rules of possible future trade agreements, such as the FTAA, should follow the general guidelines of the SPS Agreement of the WTO.

Florida has been subjected to numerous pest infestations in recent years. Many in the state are concerned that these crises have been caused, at least in part, by the fact that the budgets and staffs of the border inspection personnel of the Customs Service, the Department of Agriculture, and the Food and Drug Administration have not kept pace with increased volumes of trade across U.S. borders that have resulted from new trade agreements. The Florida Department of Agriculture urges that Congress provide sufficient funds to provide for adequate inspections of imported products.

#### *Export Subsidies*

The use of export subsidies distorts the international market for agricultural products. These subsidies provide some of our competitors with an unfair advantage over U.S. agricultural producers. The Florida Department of Agriculture favors the global elimination of export subsidies.

#### *State Trading Enterprises*

State trading enterprises (STEs), like export subsidies, are trade distorting. Their practices harm U.S. farmers and ranchers. The Florida Department of Agriculture would support the elimination of STEs through international negotiations.

#### *Tariffs*

Florida producers are concerned that past trade agreements have reduced or eliminated tariffs on U.S. agricultural products while, at the same time, the tariffs of our trading partners have remained higher in comparison with U.S. tariffs. The Florida Department of Agriculture urges U.S. negotiators to seek tariff parity with our trading partners. In any case, further reductions in U.S. duties on orange juice, sugar, and fresh winter vegetables beyond the agreements achieved during the Uruguay Round are unacceptable.

*International Cooperatives and Marketing Orders*

Due to the growing internationalization of the produce industry, as well as other sectors of the agricultural economy, cooperation among growers in different countries is becoming more essential. Florida requests that U.S. trade negotiators discuss with our trading partners the possible establishment of rules regarding the use of international marketing agreements and international cooperatives. Such mechanisms would better enable U.S. farmers and ranchers, and their counterparts in other countries, to address the problem of major price fluctuations in the international market.

*Tariff Rate Quotas*

Tariff rate quotas (TRQs) provide a modicum of protection for producers of import-sensitive agricultural products who must compete in world markets characterized by price distortions. As such, Florida supports the continued ability of the United States to use TRQ mechanisms. Namely, Florida would strongly oppose any efforts to dismantle, or to widen available quotas of, the U.S. TRQs on sugar and beef.

Florida has significant reservations about the effectiveness of TRQs established under NAFTA for fresh market produce. Under NAFTA, safeguard seasonal tariff rate quotas were negotiated for several of Florida's vegetable products, including tomatoes, onions, and chili peppers. For these seasonal and perishable products, the TRQ mechanism alone has not provided adequate import protection.

Moreover, the mechanism used under NAFTA to liberalize TRQs—duty-free access for an in-quota amount with the over-quota tariffs eliminated over a negotiated phase-out period—has not provided adequate protection for the most import sensitive products. While the Florida Department of Agriculture is strongly supportive of the ability of the United States to impose TRQs, the NAFTA TRQs should not serve as a model for future negotiations in the FTAA context or other free trade agreement negotiations.

*Conclusion*

The Florida Department of Agriculture appreciates the opportunity to submit comments to the Ways and Means Committee on globalization and American trade policy. We would be pleased to provide further information on Florida's views on this subject upon request.

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**Statement of Thomas F. St. Maxens, St. Maxens & Company, and Mattel, Inc., El Segundo, California**

**This statement is submitted on behalf of Mattel, Inc. in connection with the March 7, 2001 hearing conducted by the House Committee on Ways & Means regarding the U.S. trade agenda.** The Committee's formal announcement of this hearing requested public comments in connection with this issue by March 21, 2001.

Mattel strongly supports the continued elimination of trade barriers globally, and supports the initiation of a new round of WTO negotiations. In these negotiations, Mattel attaches the highest priority to the earliest possible conclusion of the Accelerated Tariff Liberalization (ATL) initiative currently under negotiation in the WTO. In addition, Mattel also supports regional negotiations such as the FTAA and free trade area initiatives, particularly if the resulting agreements are "docked" to the NAFTA.

Headquartered in El Segundo, California, Mattel is the world's largest toy company with 1999 sales of \$5.5 billion in over 150 countries. Mattel has 31,000 employees, of whom 7,700 are in the United States.

Mattel and other U.S. manufacturers of toys are among the most competitive in the world, and would stand to reap major benefits from the further dismantling of global trade barriers. Also benefiting directly from a reduction of trade barriers would be the 33,700 U.S. workers employed by the U.S. toy industry.

The U.S. toy industry achieved its position as the world's leader by combining high value-added domestic operations, such as product design, engineering and strategic marketing, with substantial production overseas as well as in the United States. As a result, a large portion of U.S. toy companies' product lines are manufactured overseas, but even those toys incorporate important U.S. value. In the case of Mattel, that value includes the critical functions of product conceptualization and design, design and development engineering, and strategic marketing that are performed for the company's worldwide operations by the 2,000 workers at its El Segundo headquarters.

With only 3 percent of the world's children living in the United States, U.S. toy companies must turn increasingly to foreign markets for industry growth. Although the United States has the largest toy market in the world, the growth in domestic sales by U.S. toy companies has been modest in recent years, reaching \$23 billion in 1999. However, sales by U.S. toy companies in foreign markets (including U.S. exports and sales by overseas subsidiaries) have expanded at a rapid pace, totaling an estimated \$5.5 billion in 1999.

While the toy industry has been successful in penetrating overseas markets, that growth frequently has been limited by significant trade barriers. For example, most major developing country markets throughout the world are protected by tariffs of 20 percent or more on toys. These high tariffs will remain in effect even after the full implementation of all concessions from the Uruguay Round of multilateral trade negotiations concluded in 1994.

In addition, while the United States, the European Union, Canada, Japan and Korea agreed to participate in a zero-for-zero agreement on toys under the Uruguay Round, this agreement left much to accomplish. While the United States immediately eliminated its tariffs on all toy categories, the other four countries participating in the zero-for-zero agreement on toys excluded several major toy categories from their tariff elimination commitments. For example, after the staged implementation of Uruguay Round tariff concessions is complete in 2004, both the European Union and Japan will still maintain tariffs on categories accounting for over half of their respective total imports of toys. Since these economies represent the largest overseas markets for most U.S. toy companies, these gaps pose a major continuing problem.

#### **ATL Initiative**

In an effort to build on the Uruguay Round zero-for-zero agreement on toys, Mattel in 1996 enlisted the aid of the U.S. government to secure the inclusion of toys in the consultations on early voluntary sectoral liberalization (EVSL) conducted under the auspices of the Asian-Pacific Economic Cooperation (APEC) forum. APEC leaders in 1998 then forwarded these EVSL talks, which cover toys and seven other sectors, to the WTO for final agreement as the Accelerated Tariff Liberalization (ATL) initiative.

As currently structured, the ATL proposal on toys calls for the progressive elimination of tariffs on all toys, games and festive articles (HS 9501–9505). Negotiators have pressed hard to ensure that participating countries do not exclude selective product categories, and instead have sought to address import sensitivity problems through the deferred staging of tariff eliminations rather than through product exclusions. Under the most recent “flexibility” proposal adopted during the 1998 APEC negotiations, developed countries would be required to eliminate tariffs on most toys no later than 2005 (with final elimination of tariffs on remaining products by 2006), while developing countries would be required to eliminate tariffs on most toy categories by 2006 (with final elimination of tariffs on remaining products by 2007). Many countries have tabled offers calling for them to eliminate most or all of their tariffs on toys in the year 2000.

Given the importance of the ATL initiative to Mattel and the rest of the U.S. toy industry, it is critical that WTO negotiators reach a final ATL agreement as soon as possible. As a result, Mattel urges that WTO negotiators agree to initiate formal ATL negotiations during the November WTO Ministerial Conference in Qatar, with a goal of completing these negotiations and beginning implementation within one year. The ATL agreement can serve as an early concrete signal of WTO members' commitment to a successful round, with the specific commitments made as part of the ATL agreement considered as an integral part of the overall commitments in the new round.

#### **Other WTO Round Objectives**

##### *Tariffs*

In addition to concluding an ATL agreement, Mattel seeks through the new round's negotiations on industrial tariffs the deepest possible reduction in those foreign tariffs on toys that will remain following the completion of the ATL agreement. Assuming the ATL agreement is concluded along the lines currently envisaged, the primary focus of these follow-on negotiations would be the high tariffs maintained by those countries that did not participate in the ATL agreement. These are likely to include virtually all of Latin America, including the major market countries of Brazil, Argentina and Mexico.

The industrial tariff component of the new round on negotiations must also address any exceptions taken by participants in the ATL agreement. These may include the exclusion of certain toy categories from some countries' tariff liberalization commitments, a failure to reduce tariffs on some toys all the way to Free, and/or overly long tariff staging periods.

*Electronic commerce*

Mattel urges the Administration to ensure that future market access negotiations in the WTO include negotiations on e-commerce that will make permanent the standstill agreement on e-commerce tariffs (i.e., binding such rates at Free) and that will address key trade-related issues associated with e-commerce. Of these, Mattel has a particularly strong interest in matters pertaining to the use of privacy standards as trade barriers and the intellectual property aspects of domain name registration.

One of the most pressing e-commerce issues to be addressed by the WTO is the need to ensure that privacy standards intended to protect personal information do not serve as barriers to trade. In order for companies to undertake e-commerce initiatives, it is critical that they be able to gather personal information voluntarily provided by individuals. For a multinational corporation such as Mattel, it is critical that this information be freely transmitted across borders for use by company subsidiaries in foreign countries.

In addition to the consideration of privacy standards for general personal information, the WTO should also consider the growing implementation of separate privacy standards for the protection of children's privacy on the Internet. While the need to protect the privacy of children's information on the Internet is without question a top priority, it should not be used as an excuse to allow the creation of trade barriers.

Meanwhile, the issue of domain name registration, and related intellectual property considerations, should also be addressed during future market access negotiations in the WTO. There currently exists no internationally-accepted system for the registration of domain names in individual countries, and this has prevented Mattel and other U.S. companies from effectively protecting their trademarks in many countries.

Given the trademark protection aspects of domain name registration, this issue, as well as other intellectual property aspects of e-commerce, should be addressed during future market access negotiations in the WTO. Furthermore, for these reasons, it is appropriate for the WTO to address this topic as part of the WTO's current review of the Agreement on Trade-Related Intellectual Property Rights (TRIPs).

*Customs modernization, harmonization and simplification*

Mattel urges the WTO to establish WTO disciplines that will strengthen ongoing work in the areas of customs modernization, harmonization and simplification. To ensure that the gains from trade liberalization efforts are achieved, the global trading system must be supported by modern, transparent and harmonized customs procedures in line with international business requirements. Many of the potential benefits from the Uruguay Round and other regional agreements remain elusive in the face of existing customs-related barriers. In virtually every market in the world, significant customs-related barriers continue to restrict, distort and raise the cost of cross-border trade. Meanwhile, world trade has grown exponentially and global sourcing and demand have challenged business to produce and deliver goods and services more efficiently and at the lowest possible cost to consumers. This has not been matched by commensurate reform and modernization at the governmental level, leaving customs authorities struggling to keep up with the velocity and volume of world trade.

The new WTO round must focus on the customs function because customs is fundamental to the transactions that make up global trade. Although the WTO imposes some limited disciplines on import and export requirements and procedures (e.g. GATT Article VIII: 1(c), and the Agreements on Import Licensing and Customs Valuation), none adequately address the burdensome customs and data requirements placed on traders.

In particular, the WTO should support the conclusion and full implementation of the ongoing work at the WCO to revise and strengthen the 1973 International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention). This comprehensive set of rules for ensuring high standards for customs procedures and practices should be adopted by WTO member governments and should take the form of a binding, enforceable and truly multilateral agreement.



In addition, the WTO should focus on its mandate to simplify trade procedures by concentrating on customs procedures. A WTO working group on the harmonization and simplification of customs procedures should be established to: (a) analyze the impact of customs-related barriers to trade on WTO commitments; (b) assess the possibility for enforcing a revised Kyoto Convention through the WTO; (c) promote and coordinate the development and implementation of initiatives to modernize and simplify trade procedures; and (d) examine the steps that can be taken under current WTO rules to improve customs transparency as outlined in GATT Article X. These measures will serve as a complement to the WTO's ongoing efforts with regard to customs valuation, non-preferential rules of origin and pre-shipment inspection.

The WTO also should step up its ongoing work to ensure that non-preferential rules of origin are simplified and harmonized so as to prevent them from creating unnecessary obstacles to trade. These rules should be clear and predictable; they should be applied in an impartial, transparent, predictable and consistent manner; and they must not create additional documentation or data retention requirements (i.e., any new rules should be based on existing commercial data/documents kept in the "normal" course of business).

#### **FTAA**

In addition to these WTO negotiations, Mattel also supports the negotiation of the FTAA. In particular, Mattel feels that the FTAA will serve as another important mechanism for securing the elimination of Latin American countries' tariffs on toys. As noted above, no Latin American countries participated in the Uruguay Round zero-for-zero, and few are expected to participate in the ATL agreement on toys. As a result, most major developing country markets throughout the Western Hemisphere are protected by tariffs of 20 percent or more on toys. Furthermore, the two largest developing country markets in Latin America, Brazil and Argentina, have undertaken protectionist actions against toy imports in recent years to further insulate their domestic industries from import competition. Given this situation, it is important that FTAA negotiators seek the earliest possible elimination of hemispheric tariffs on toys.

Mattel urges the United States to seek the earliest possible conclusion of this FTAA agreement, and specifically supports the proposal by Chile and Canada to accelerate the timetable for conclusion of the FTAA negotiations by 2003. Of perhaps greater importance, it is critical for the United States to seek the quickest possible phase-out schedule for the elimination of toy tariffs in these FTAA negotiations.

In addition to the elimination of tariffs on toys, Mattel also supports the inclusion in the FTAA of provisions on electronic commerce, customs harmonization and rules of origin analogous to those sought by Mattel in the new WTO round. Of particular importance in the FTAA talks, Mattel urges that the current *de minimis* allowance for non-originating materials be increased significantly from the 7 percent level provided for in the NAFTA rules of origin (ideally to 25 percent).

Mattel also urges that the FTAA negotiations address standards harmonization. In particular, Mattel supports the adoption of ISO 8124 as the toy safety standard in all FTAA countries, as well as the adoption of self-certification testing programs throughout FTAA countries. In addition, Mattel strongly supports efforts to address intellectual property protection in the FTAA negotiations.

#### **Bilateral Free Trade Agreements**

In addition to these longer-term multilateral and regional trade negotiations, Mattel also supports the Administration's efforts to conclude bilateral free trade agreements with certain countries, including the pending negotiations with Chile and Singapore. As part of these negotiations, Mattel urges that the United States seek the immediate elimination of these countries' tariffs on toys given the lack of any U.S. tariffs in this sector. A commitment by these countries to eliminate their tariffs on toys immediately also would set an important precedent for the negotiation of future free trade agreements, including the new WTO round and the FTAA.

In addition to the ongoing bilateral negotiations with Chile and Singapore, the United States should also explore bilateral agreements with additional countries, including Australia, New Zealand, and others now mentioned as candidates for future bilateral free trade talks. Mattel would strongly support these additional free trade agreements, particularly if they are eventually "docked" to the NAFTA in order to magnify their commercial impact.

### Conclusion

In conclusion, Mattel strongly supports the ongoing efforts of the United States to reduce global trade barriers. In particular, Mattel urges the U.S. government to secure an ATL agreement on toys as quickly as possible as part of a new round of WTO multilateral negotiations.

We appreciate this opportunity to share Mattel's views with the Committee on Ways & Means.

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NATIONAL CONFERENCE OF STATE LEGISLATURES  
 Washington, DC 20001  
 (March 19, 2001)

The Honorable BILL THOMAS,  
 Chairman,  
 Committee on Ways and Means,  
 U.S. House of Representatives,  
 1102 Longworth House Office Building,  
 Washington, D.C. 20515.

**Re: Written Submission to March 7, 2001, Hearing on President Bush's Trade Agenda.**

DEAR REPRESENTATIVE THOMAS: The National Conference of State Legislatures (NCSL) has consistently supported recent international trade agreements, provided that they include adequate federalism protections. NCSL is eager to build on the intergovernmental partnership reflected in recent agreements, including the implementing legislation for the Uruguay Round of the General Agreement on Tariffs and Trade, to ensure that concerns of state legislators are preserved and protected. In this connection, we appreciate the opportunity to comment regarding extension of trade promotion authority, prospects for an agreement to establish a Free Trade Area of the Americas (FTAA) and ongoing and prospective negotiations through the World Trade Organization.

**General Principles**

The National Conference of State Legislatures believes that international agreements that liberalize the world trading and investment system can and must be harmonized with traditional American values of constitutional federalism. In particular, NCSL recognizes that reservations can be made to trade and investment agreements that limit the unnecessary preemption of state law and that preserve the authority of state legislatures. Implementing legislation for trade and investment agreements also can be crafted that includes protections for our constitutional system of federalism, in particular by insuring that no private right of action is allowed to enforce international trade law in U.S. courts.

The states are committed to nondiscriminatory treatment of foreign firms that do business within their borders, based on the broad standard of protection afforded by the Commerce Clause and the Foreign Commerce Clause of the U.S. Constitution. What the states are not prepared to accept, however, is a challenge to their sovereignty and to state authority based on an arbitrary and unreasonable standard of discrimination against foreign commerce, similar to that employed by the GATT panel in the so-called Beer II decision.

Great care must be exercised in crafting dispute resolution provisions in international trade and investment agreements to protect states from challenges to their laws or policies that are not consistent with institutional principles. Only the United States should be allowed to sue a state to enforce an international dispute resolution panel ruling. Similarly, states should not be subject to money damages or similar liability. Particular care also must be exercised to ensure that state tax laws and revenue systems are not subject to unjustified challenge under international agreements, and they generally should be "carved out" of such agreements. In general, federalism protections must be consistent with NCSL's policy on Free Trade and Federalism (see attached).

**WTO Dispute Settlement Understanding**

The National Conference of State Legislatures supports efforts to increase the transparency and effectiveness of the World Trade Organization dispute settlement procedures as part of the review of the Uruguay Round Dispute Settlement Understanding (DSU). In particular, NCSL strongly supports an opportunity in each dispute for submission of *amicus curiae* briefs to the panel and the Appellate Body.

Amicus curiae briefs offer stakeholders a valuable opportunity to enhance panels' information and aid them in drafting reports that will help resolution of the dispute. NCSL has been among the most active *amicus* participants before the U.S. Supreme Court and would be very eager to play a similar role in states rights cases before WTO dispute settlement panels.

#### **Government Procurement**

The National Conference of State Legislatures is eager to work with Congress and the Office of the U.S. Trade Representative (USTR) on government procurement issues to identify ways of reducing trade barriers in ways that respect the constitutional role of the states and state legislatures.

State legislators are very interested in the ongoing Government Procurement Agreement (GPA) negotiations regarding expanded market access commitments for additional subnational government entities taking place through the World Trade Organization. In negotiating trade agreements, it is critical that decisions made about state procurement practices be made in consultation with state legislators. While the executive branch is an important partner in state procurement decisions, state legislators are equally vital. Any change in state law, of course, requires legislative action. Dialogue between the federal government and state executive branch officials related to the GPA negotiations therefore should involve state legislative organizations, including NCSL.

NCSL appreciates efforts to reduce non-tariff barriers to international trade, including those barriers found in foreign and domestic government procurement policies. If the constitutional role of state legislatures in this process is respected, rapid progress is possible.

#### **Electronic Commerce**

State legislators are well aware of the impacts that the Internet and electronic commerce will have on the economic vitality of the states. The marketplace for electronic commerce is not just Main Street USA, but the vast global market.

State legislators share the concern of many members of Congress and the Administration that ill-conceived or over-regulation of the evolving Internet and electronic commerce services could harm our global competitiveness. However, state legislators also recognize that there is an obligation to act, when and if necessary, to protect the general welfare of our constituents.

In the absence of federal law or regulations, state legislators are providing the parameters for conducting business and other transactions over the Internet. In the true sense of the phrase, "states are laboratories of democracy," state legislators are writing the laws on electronic notarization, the legality of electronic documents, financial authentication and what constitutes criminal activity. As with previous technologies, states are setting standards to protect transactions and secure financial resources. The ability of states to protect constituent rights, even in a borderless medium like the Internet, must be preserved in future trade and investment agreements in a manner consistent with NCSL's policy on the Internet and Electronic Commerce (see attached).

#### **Trade Promotion Authority**

NCSL supports efforts to negotiate trade agreements that secure free and open access to overseas markets for American products. In negotiating new agreements, adequate federalism protections must be included. NCSL has worked closely with the United States Trade Representative (USTR) and Congress to ensure that these concerns are taken into account in recent trade and investment agreements and their implementing legislation.

Implementing legislation for the Uruguay Round of the General Agreement on Tariffs and Trade reflects a partnership between USTR, Congress and NCSL in providing federalism protections while at the same time opening overseas markets to American products. NCSL supports continued cooperation and opportunities to build on this relationship. In this connection, NCSL supports proposals to renew the President's bid for "fast-track" negotiating authority. However, states must receive assurances that federalism protections similar to those provided in implementing legislation for the GATT are incorporated into any new trade or investment agreement and its implementing legislation. And NCSL believes that any fast track legislation should require that enforceable labor and environmental standards be included in the core of any new trade agreements.

Federalism protections must be consistent with NCSL's policy on Free Trade and Federalism. These provisions include, but are not limited to: reservations to trade and investment agreements to "grandfather" existing state laws that might otherwise be subject to challenge, and provisions that promote effective and meaningful consultation between the states and the federal government related to any dispute

involving state law or any dispute that could prompt retaliation against states. Provisions must also be made in federal implementing legislation that so far as possible commit the federal government to protecting state authority when it is exercised in conformity with accepted U.S. constitutional principles of nondiscrimination against foreign commerce.

On behalf of the National Conference of State Legislatures, I appreciate your continued communication and look forward to working with you.

Sincerely,

BILL FRIEND,

*Indiana House of Representatives*

*Chair, NCSL Agriculture and International Trade Committee*

*CC: Christina Sevilla, Office of the U.S. Trade Representative.*

### **Free Trade and Federalism**

The National Conference of State Legislatures (NCSL) believes that principles of free trade and efforts to expand U.S. exports through international agreements that liberalize the world trading and investment system can and must be harmonized with traditional American values of constitutional federalism. In particular, NCSL recognizes that reservations can be made to trade and investment agreements that limit the unnecessary preemption of state law and that preserve the authority of state legislatures. Implementing legislation for trade and investment agreements also can be crafted that includes protections for our constitutional system of federalism.

The states are committed and prepared to treat foreign firms that do business within their borders in a nondiscriminatory fashion, under a standard based on the broad protection afforded by the Commerce Clause and the Foreign Commerce Clause of the U.S. Constitution. What the states are not prepared to accept, however, is a challenge to their sovereignty and to state authority based on an arbitrary and unreasonable standard of discrimination against foreign commerce, similar to that employed by the GATT panel in the so-called Beer II decision.

Therefore, reservations must be made to trade and investment agreements to “grandfather” existing state laws that might otherwise be subject to challenge. Particular care must be exercised to ensure that state tax laws and revenue systems are not subject to unjustified challenge under international agreements, and they generally should be “carved out” of such agreements.

Provisions also made in federal implementing legislation that so far as possible commit the federal government to protecting state authority when it is exercised in conformity with accepted U.S. constitutional principles of nondiscrimination against foreign commerce. In addition, provisions must be made to deny any private right of action in U.S. courts based on international trade or investment agreements, especially if it could result in foreign firms gaining an advantage in terms of their tax and regulatory treatment over U.S. firms. Neither the decisions of international dispute resolution panels nor international trade and investment agreements themselves must be binding on the states as a matter of the U.S. law. Implementing legislation for any agreement must include provisions that promote effective and meaningful consultation between the states and the federal government related to any dispute involving state law or any dispute that could prompt retaliation against states. These provisions should include a timetable for prompt notice to states of a potential state issue, as well as the right of attorneys for the state to participate as part of the “team” defending a state law before international tribunals. It is imperative that when state laws are under challenge in World Trade Organization proceedings that the federal government defend state laws as vigorously as it defends federal law.

Because the federal government retains the power to sue a state to enforce international agreements, federal legislation implementing any new trade or investment accord must include appropriate protections for the states related to rules of procedure, evidence and remedies in such litigation. The federal government must bear the burden of proof in court showing that state law is inconsistent with an international agreement, regardless of the finding of an international dispute resolution panel. The President must be required, at least 30 days before the Justice Department files suit against a state, to file a report with Congress justifying its proposed action. In the event of an unfavorable judgment, states must be protected from financial liability. If the federal government agrees, in an international trade or investment agreement, to allow foreign firms to collect money damages for “harm” caused by a state law, then the federal government must fulfill its promise to pay those damages itself, rather than shift the cost to states.

### **The Internet and Electronic Commerce**

The Internet is fundamentally changing the way we communicate, learn, conduct business, transact financial services and are entertained. Every day the nature of the Internet changes, as people add more material, build faster computers, devise cheaper means of electronic storage, create improved software, and develop more capable communications. Such explosive growth is projecting our nation, indeed our world, into a new, almost borderless frontier.

As the Internet empowers citizens and democratizes societies, it also is changing traditional business and economic rules. The Internet provides consumers with access to products and services never before possible. It is estimated that by the dawn of the new millennium commerce on the Internet, electronic commerce, could total tens of billions of dollars.

Geographic borders cannot contain the Internet. Its ability to transcend state and national borders makes some existing laws and regulations of states and nations obsolete. At the same time, the Internet defies detailed one-size-fits-all approach to public policy and regulation. America's federal and state lawmakers, as well as policy makers from other countries should be guided by principles that foster the Internet's progress and ensure the realization of its potential.

The National Conference of State Legislatures supports the following principles in formulating laws and regulations that impact the Internet and electronic commerce:

**Privacy and Security**—Every American should be empowered to protect, assure and secure their privacy and digital property from intrusion or piracy. Advanced technologies, including encryption, that empower people to protect themselves, should be available in the marketplace without onerous government controls, restrictions, technical mandates or threats.

**Free Speech**—The Internet allows persons to communicate and share ideas with others with an ease never before possible. Federal government policy should rigorously protect freedom of speech and expression on the Internet, but not restrict states or local governments from such oversight. New electronic and/or digital technologies adequately enable individuals, families and schools to protect themselves and students from communications and materials they deem offensive or inappropriate.

**Self-governance**—The Internet has flourished in large part due to the unregulated environment in which it has thus far developed. Voluntary codes of conduct, industry-driven standards and individual empowerment, together with a market environment, generally hold greater future promise than does intrusive governmental regulation.

**Dynamic Competition**—New electronic and/or digital technologies are converting industries once characterized by economies of scale and natural monopolies into prototypical competitive markets. Federal government policies, laws and regulations should support the Internet and Internet access by aggressively promoting free entry into markets and replacing government mandates with market competition.

**Growth**—The Internet's continued expansion depends on continuing growth in its capacity. Public policies must be designed to foster ongoing expansion of useful and affordable bandwidth, encourage development of innovative technologies and promote broad universal access.

**Electronic Commerce and Taxation**—Electronic commerce promises to become an increasingly vital component of our states' and national economies. Government policies should create a workable infrastructure in which electronic commerce can flourish. Policy makers must resist any temptation to apply tax policy to the Internet in a discriminatory manner that hinders growth. The federal government should work with state legislatures in ensuring equal tax treatment of all forms of commerce and should encourage and not impede state efforts to achieve simplification and uniformity of state and local sales tax systems.

Our nation's state legislatures are well aware of the impact that access to the Internet and electronic commerce will have on the economic vitality of our states and communities. State legislatures also recognize that the marketplace for electronic commerce is not just Main Street USA, but the vast global market. State legislatures share the concern of many of our colleagues in Congress that ill-conceived or over regulation of the evolving Internet and electronic commerce services could cause much harm to our nation's own ability to compete globally. However, state legislatures also recognize that they have an obligation to act, when and if necessary, to protect the general welfare of their constituents.

The National Conference of State Legislatures will oppose unnecessary or unwarranted federal legislation or regulation that would impede efforts by states to promote access to the Internet, limit competition or increased consumer choice or en-

sure the security of personal information of consumers conducting electronic commerce transactions.

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**Statement of National Electrical Manufacturers Association, Rosslyn,  
Virginia**

***General and Multilateral Issues***

- **Trade Negotiating Authority:** NEMA favors quick approval during the 107th Congress of trade agreement negotiating authority. Over the past three years, the President's lack of such authority has not only impeded the Administration's ability to negotiate agreements, but has been invoked by many of our trading partners as an excuse to delay real negotiations on opening their markets. We must remove this barrier to trade liberalization and leadership by giving President Bush broad "fast-track" authority as soon as possible in the 107th Congress. NEMA favors keeping labor and environmental issues outside of trade agreements. NEMA supports the market opening measures contained in the recently concluded U.S.-Jordan Free Trade Agreement (FTA) but opposes the inclusion of labor and environmental provisions that hold the possibility of trade sanctions. For this reason, the FTA with Jordan as currently negotiated sets a poor precedent for future and more ambitious trade agreements, including a Free Trade Area of the Americas (FTAA).

- **Tariff Elimination:** The world-wide elimination of tariffs on electrical products is a basic NEMA goal. We therefore urge the U.S. to pursue tariff elimination for electrical products in all fora, including via the energy sector of the WTO Accelerated Tariff Liberalization (ATL) initiative or via regional groups and/or other opportunities as they arise. NEMA also urges the U.S. to push for completion of the second phase of the International Technology Agreement (ITA-2), which would eliminate tariffs on a wide range of IT items, including some NEMA products. NEMA also supports continued efforts by U.S. officials to expand the membership of the existing ITA and to negotiate accelerated tariff elimination for electrical products under the North American Free Trade Agreement (NAFTA).

- **Energy Services Liberalization:** NEMA supports liberalization of trade in energy services, in order to allow more people worldwide to enjoy high quality, affordable energy, and also to provide new opportunities to those energy service and electricity providers who use the equipment made and services provided by NEMA's members. Thus, NEMA is an active member of the industry coalition campaigning for the inclusion of commitments on energy services in the WTO's "built-in agenda" negotiations on services. NEMA's primary perspective is that of the industry that provides the equipment and products used to build and maintain electrical energy systems, but many NEMA members are active providers of energy services as well. The liberalization that is good for utilities is also good for our manufacturers, service suppliers, and for the users of electricity. USTR has included energy services in its proposals for the WTO services negotiations and we look forward to continued efforts from the Bush Administration and support from Congress to secure commitments from our trading partners in this crucial area.

- **Transparency in Government Procurement:** The U.S. has been a leader of efforts to achieve a WTO agreement to make government procurement more open and transparent. Preferences for local companies on the part of host governments, as well as a lack of transparency in awarding contracts, have served to unfairly exclude U.S. companies on countless occasions. It is time for U.S. entities to be able to compete on equal footing with domestic suppliers. We look forward to continued leadership from USTR and Congress in pursuing a WTO agreement on transparency in government procurement.

NEMA also urges the Bush Administration to increase efforts to obtain full implementation and enforcement of all signatories to the 1999 OECD Anti-Bribery Convention and the 1997 OAS Convention on Corruption.

- **WTO Technical Barriers to Trade (TBT) Agreement:** NEMA supports the concepts outlined in the WTO TBT Agreement and believes that all countries should implement, to the fullest extent, the obligations outlined there. These obligations include: standards development processes that are transparent and include participants from all interested parties; a conformity assessment system that upholds the principles of most-favored nation treatment (meaning equal treatment in all countries); and national treatment (meaning equal treatment of domestic and foreign products, as well as test laboratories conducting conformity assessment services) in the application of testing and certification procedures.

In addition, the U.S. government must continue working to dispel the misinterpretation that the use of the term “international standards” in the WTO TBT agreement applies only to International Electrotechnical Commission (IEC), International Standards Organization (ISO) and International Telecommunications Union (ITU) standards. An interpretation should also include widely-used norms such as some North American standards and safety installation practices. This misinterpretation can be disadvantageous to U.S. businesses’ efforts to sell in global markets. Moreover, the importance of openness and transparency are lost when focus is only on those three standards bodies. The Bush Administration must continue vigilant monitoring of our WTO partners to ensure their adherence to their TBT commitments.

- **Opposition to Mutual Recognition Agreements (MRAs):** In NEMA’s view, the use of MRAs should be limited and considered only as an alternative for conformity assessment needs when applicable to federally regulated products such as medical devices. MRAs are not the answer to conformity assessment needs in non-regulated areas; if anything, they serve to encourage the creation of unnecessary product-related regulation. In this regard, while we strongly objected to the inclusion of an electrical safety annex in the U.S. MRA with the European Union a few years ago, we are pleased that the Clinton Administration has either excluded electrical products from subsequently negotiated MRAs or refused to sign on to any such accords that include them. We look forward to a continuation of that stance.

- **WTO Accessions:** NEMA looks forward to **China’s** accession to the WTO in the near future, but supports U.S. and EU efforts to ensure that China is fully committed to fulfill all of its pledges and obligations. NEMA welcomes the opportunity to help our member companies take advantage of China’s formal market-opening entry into the rules-based international trading system and will work with the National Association of Manufacturers to assist USTR, the Commerce Department, and Congress to monitor and ensure China’s compliance with those rules. If multilateral negotiations on China’s accession are prolonged into the summer of 2001, NEMA calls on President Bush and Congress to grant a one-year renewal of China’s MFN status. NEMA also looks forward to **Taiwan’s** WTO accession, which should quickly follow China’s.

NEMA also hopes for a greater progress in bilateral negotiations with other WTO accession candidates. NEMA appreciates the ongoing negotiations with **Saudi Arabia** and urges continued emphasis on standards and TBT issues. NEMA representatives traveled to Saudi Arabia in May 2000 to strengthen dialogue with Saudi Arabian Standards Organization (SASO) officials and will continue to develop a cooperative relationship to ensure market access for products made to NEMA standards. USTR should also seize the opportunity for renewed emphasis on negotiations to bring **Russia** and **Ukraine** into the WTO. Although membership is years away for both countries, U.S. leadership is needed to ensure that progress toward that end continues at a reasonable pace and both countries reinvigorate their long processes of legal and economic reform and institution-building.

#### *European Union Regulatory Initiatives and WTO Disputes*

- **Regulatory Cooperation:** NEMA supports continued work toward a U.S.-EU agreement on Principles for Regulatory Cooperation. This agreement could not be worked out in time for the Dec. 2000 U.S.-EU summit in Washington, but both sides should strive to complete an agreement in early 2001.

- **Proposed EU Substance Bans and “Take Back” Legislation (WEEE, EEE):** The EU has proposed two new directives as part of its broader environmental agenda that could form market access barriers for U.S. electrical and electronics products. Approved by the EU Commission in June 2000, the first directive addresses take-back and recycling of Waste Electrical and Electronic Equipment (WEEE) while the second, known as the ROHS (Restriction on the Use of Hazardous Substances) directive, would impose bans on the use of certain substances currently used in manufacturing without providing sufficient basis for processes to identify any needed substitutes. Since the directives’ approval by the Commission, industry concerns have been effectively ignored. The two directives could come into force in 2001, allowing differing standards and procedures among the 15 member states.

In addition, the Commission’s Enterprise Directorate is developing its own Electrical and Electronic Equipment (EEE) directive, which would require manufacturers to comply with a series of requirements throughout the life-cycle of a product. The need for such a directive is questionable and the views of the U.S. government and U.S. industry should be taken into account by DG Enterprise, especially during this development stage.

NEMA urges the Bush Administration and Congress to clearly identify these measures as serious potential trade barriers and to seek an accommodation that

would emphasize rational, cooperative and science-based measures as alternatives to broad-brush regulatory mandates.

- **EU Council Recommendations on Electro-Magnetic Fields (EMF):** In 1999, the European Union issued recommendations that set EMF exposure limits for the general public over a range of frequencies. Member states may provide for a “higher level of protection” than in the recommendations, and thus can adopt more strict exposure limits. Extensive U.S. Government research on low frequencies recently concluded that “the scientific evidence suggesting that ELF/EMF exposures poses any health risk is weak.” Similar conclusions have been made from health risk studies in other countries.

Manufacturers on both sides of the Atlantic have warned their authorities through the TABD process that EMF could potentially become a major point of contention between the U.S. and Europe. NEMA has notified the Commerce Dept. that EU implementation of its EMF recommendations would create a substantial barrier to trade, severely affecting U.S. electrical manufacturing interests. NEMA supports the TABD position that EMF exposure standards must be harmonized internationally. The U.S. government must continue its efforts to work with the leaders in the EU Commission and in the member states to avoid another trans-Atlantic trade dispute.

- **EU Low Frequency Emissions (LFE) Requirements:** On January 1, 2000 the EU implemented unnecessary guidelines on low frequency harmonics emissions. Although many of the products impacted have been exempted by the EU standards body CENELEC, a U.S. industry coalition including NEMA will be seeking to play a more active, effective role at both a technical standards level and trade policy level in anticipation of other LFE-related measures as well as broader trade-barrier issues raised by the guidelines. Commerce Secretary Norman Mineta raised the LFE issue in a recent meeting with the EU Enterprise Directorate’s leadership. Continued attention from the Bush Administration is warranted.

- **Implementation of the Electrical Safety Annex of the U.S.-EU MRA:** As noted above, NEMA opposed negotiation of the Electrical Safety Annex to the U.S.-EU MRA because it adds no value to the existing electrical safety systems in the U.S. and EU. The historical record of electrical safety based on a private-sector-based standards and conformity assessment system is a good indicator that private-sector approaches are successful. The U.S. Occupational Safety and Health Administration (OSHA) has implemented the ESA with the applicable NRTL (Nationally Recognized Testing Lab) Regulations which call for OSHA accreditation of conformity assessment bodies (CABs). EU CABs can be accredited by OSHA (as was agreed under the MRA and available under the NRTL program before the MRA) for testing and certifying EU products to US voluntary standards and for labeling for OSHA recognition in the workplace. The Bush Administration should continue implementation of the ESA in this manner.

- **“Carousel” Retaliation Lists:** NEMA does not consider it appropriate for electrical products to be included among those EU exports assessed 100% retaliatory tariffs as a result of the banana and beef hormone disputes in the WTO. Our view is that our industry’s products should not be caught up in another sector’s ongoing, potentially escalating impasse, and we have made this position clear to USTR.

- **Foreign Sales Corporations (FSC) Dispute:** NEMA supported U.S. efforts to resolve this dispute by repealing the old FSC provision and installing a new regime while seeking to ensure that U.S. exporters suffer no disadvantages. NEMA has urged its EU counterparts to support a resolution of the dispute over the FSC-replacement law so that products in our industry do not become entangled in a cycle of retaliatory tariff hikes on both sides of the Atlantic. NEMA encourages both the U.S. and the EU to manage the dispute responsibly and to avoid any escalation of tensions.

#### *The Americas and Asia-Pacific*

- **Free Trade Area of the Americas (FTAA) Talks,** Particularly the Negotiating Group on Market Access (NGMA): Although talks toward the 2005 creation of an FTAA have moved along slowly, NEMA looks forward to the completion of draft negotiating texts, including a chapter on market access, by the Buenos Aires meeting of trade ministers in April 2001. With that step completed, we support accelerating the timetable for completion of the FTAA. The new deadline should be 2003. NEMA also encourages all FTAA countries to implement the agreed customs facilitation measures by the time of the ministerial, which will precede the Summit of the Americas in Quebec City. Moreover, NEMA urges the U.S. to convince the hemisphere’s countries that any standards provisions included in an FTAA must mirror the WTO TBT Agreement. NEMA will continue to be engaged in the process and



recently coordinated a meeting of hemispheric industry associations to exchange views toward potential industry consensus on FTAA agenda items.

- **NAFTA Implementation and Tariff Issues:** The U.S. and Mexico recently agreed to a cross-border industry petition to accelerate the elimination of tariffs on primary batteries (HTS chapter 8506) to January 1, 2001. Although Mexican tariffs on U.S. electrical products will reach zero in 2003, NEMA is exploring further possibilities for industry consensus on early tariff elimination for specific product sectors. Also, with a new office in Mexico City NEMA is well positioned to work with U.S. authorities to monitor and influence the Mexican standards development process for electrical products to ensure that Mexican norms do not act as barriers to U.S. products.

- **Chile-U.S. Free Trade Area:** In 2001, the U.S. and Chile should take an additional tangible step toward the FTAA by completing and enacting a high quality bilateral free trade agreement. Given the small size of the Chilean economy and the precedent setting benefits of such an agreement, completion of the Chile FTA should be completed expeditiously, and need not await passage of trade negotiating authority legislation.

- **Singapore-U.S. FTA:** The U.S. government should complete a free trade agreement with Singapore as soon as practical under the Bush Administration, taking full account of industry input. This agreement should include an investment chapter, cover energy services, and provide for complete transparency in government procurement.

- **U.S.-Vietnam Basic Trade Agreement:** After several years of negotiations, the U.S. and Vietnam reached agreement in 2000 to open their markets to each other through a basic bilateral trade accord. Congress should act early in 2001 to approve this agreement, which is a crucial step in the long process of opening Vietnam's markets.

- **APEC Standards:** NEMA is actively involved in bringing a greater understanding of conformity assessment alternative processes to the region and looks forward to National Institute of Standards and Technology workshops in 2001–2002 for Asia-Pacific Economic Cooperation forum member countries.

#### *U.S. Government Resources*

- **Monitoring, Enforcement and Overseas Presence:** The U.S. Government needs to do more than simply reach favorable trade accords; it also needs to be vigilant in making sure that other countries live up to their commitments to foster openness, transparency and competition. In this regard, our view is that the Commerce Department's Standards Attache program should be expanded and fully funded. Likewise, we greatly appreciate the assistance provided by Foreign Commercial Service (FCS) offices abroad, and hope that FCS activities will receive ample support in the years ahead.

With the support of a Market Development Cooperator Program (MDCP) grant from the Commerce Department, NEMA opened offices in Sao Paulo, Brazil and Mexico City, Mexico in 2000. The MDCP is an innovative public/private partnership whose grant budget should be expanded so that more organizations can enjoy its benefits. NEMA looks forward to continuing its close cooperation with the Commerce Dept. on this project.

Similarly, the Bush Administration and the 107th Congress should continue the trend in recent years of reasonable increases in funding and staff of the U.S. Trade Representative's Office to better allow it to more effectively negotiate, monitor and enforce trade agreements.

- **Export-Import Bank Reauthorization:** The charter of the U.S. Export-Import Bank (Ex-Im Bank) expires in 2001 and NEMA supports legislation to reauthorize and adequately fund the Bank. Failure to reauthorize and fund the Ex-Im Bank would leave U.S. companies alone to face competitors armed with the aggressive export financing regimes of European and Asian governments. Exports assisted by Ex-Im Bank help to support hundreds of thousands of U.S. jobs and eighty percent of Bank-supported transactions assist U.S. small businesses.

- **Customs Modernization and Enforcement:** Last year, Congress made an important first step in appropriating funds for the U.S. Customs Service's long-overdue reform of its automated systems. We look forward to further congressional support this year for this vital initiative. In addition, we urge to continued vigilance from the Customs Service in ensuring imported electrical products meet U.S. regulatory standards.

- **"Buy America" Procurement Regulations:** Majority U.S.-content restrictions on non-sensitive electrical products should be re-evaluated in the context of both the increasingly global economy and potential savings. By restricting access to

the U.S. market, these restrictions also have the reciprocal effect of disadvantaging U.S. companies seeking to sell into foreign markets.

- **Economic Sanctions Reform:** NEMA supports passage of legislation that would establish a more deliberative and disciplined framework for consideration and imposition of economic sanctions by Congress and the Executive branch. In addition, existing economic sanctions should be reviewed to determine if their effectiveness justifies the costs to U.S. jobs and industries.

- **Export Administration Act Reauthorization:** NEMA supports congressional efforts to enact updated legislation that meets the U.S. need for an efficient, transparent and effective export control system.

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### Statement of Ranchers-Cattlemen Action Legal Fund, Billings, Montana

The Ranchers-Cattlemen Action Legal Fund (R-CALF) is a non-profit association of U.S. cattle producers with membership in 32 states. R-CALF has local and state affiliates including Farm Bureaus, Farmers Unions, and stockgrower organizations and associate membership from many main street businesses. R-CALF monitors international trade issues that affect U.S. cattle producers. R-CALF supports efforts to liberalize international trade as long as such efforts benefit all participating countries and agricultural sectors.

R-CALF notes that the health of the U.S. cattle industry has a substantial effect on the overall rural economy of the United States. The cattle industry is the single largest component of U.S. agriculture with more than one million cattle operators who generate over \$30 million in agricultural revenues annually. For most of this past decade, this vitally important industry has been in a state of significant decline.

The United States has among the most open markets in the world for imports of live cattle and beef. Unfortunately, while recent trade agreements have opened the United States even further to imports, the barriers to entry into the markets of too many of our trading partners remain relatively closed, or off limits altogether, to U.S. cattle and beef. In upcoming trade negotiations, R-CALF suggests that the United States advance policies that will maintain and strengthen fair trading rules, eliminate distortions in the marketplace, and maintain market stability. Also, given recent cattle disease outbreaks around the world, R-CALF strongly urges that the United States not act too hastily in permitting imports of cattle and beef from areas in which debilitating cattle diseases may be present.

#### Tariffs

Tariff negotiations must distinguish between tariffs on cattle and on beef and beef products. U.S. tariffs on imports are either “free,” *e.g.*, for purebred breeding cattle and cows imported for dairy purposes, or 1.4 cents per kilogram, *e.g.*, for live cattle for slaughter.<sup>1</sup> R-CALF endorses expedited duty reductions to zero for imports of live cattle as long as such duty reductions are simultaneous with those of our trading partners, so, consequently, already low U.S. tariffs will not be reduced to zero before those of other countries.

With respect to beef, both in-quota and out-quota U.S. tariffs are low, especially when compared to tariffs of some of our major trading partners. For example, Brazil, which like the United States is both a major producer and consumer of beef, has a bound rate for fresh and frozen beef of 55 percent.<sup>2</sup> In contrast, the U.S. in-quota rates are 4.4 cents/kg., or 4 to 10 percent *ad valorem*, depending upon the specific item, and 27.2 percent for out-quota product.<sup>3</sup>

R-CALF requests that the United States not agree to lower U.S. tariffs on either cattle or beef unless our trading partners also lower their tariffs to the same levels simultaneously.

#### State Trading Enterprises

The impact of state trading enterprises (STEs) such as the Canadian Wheat Board (CWB) is not limited to the commodity markets in which they specifically operate, but also other markets for which these commodities are an input. For example, the CWB’s export restrictions on feed barley distort conditions of trade in cattle; Canadian ranchers and feedlots effectively receive a subsidy for feeding their cattle. Ideally, R-CALF would like to see STEs eliminated. If this is not possible, R-CALF

<sup>1</sup> See HTS 0102.10.00.10–0102.90.40.84.

<sup>2</sup> Based on information provided by the Foreign Agricultural Service of the U.S. Department of Agriculture.

<sup>3</sup> See HTS 0201–0202.

would like, at a minimum, for international trade negotiations to develop disciplines for the operation of STEs.

#### ***Subsidies***

R-CALF is concerned about subsidies provided to cattle and beef producers by foreign governments. R-CALF asks that trade distorting subsidies that harm the cattle industry be eliminated, including subsidies currently permitted under the World Trade Organization (WTO). R-CALF suggests that U.S. negotiators refer to the *Subsidies Enforcement Annual Report to the Congress*, which was last issued by the Office of the U.S. Trade Representative and the Department of Commerce in February 2001, for guidance when preparing for negotiations. This report discusses subsidies for cattle and beef producers provided by some of our major trading partners and competitors.

#### ***Rules of Origin***

R-CALF requests that the United States advocate in trade negotiations that the country of origin of cattle be the country in which the cattle were born. Likewise, the country of origin of beef should be the country of birth of the cattle from which the beef was derived.

#### ***U.S. Tariff Rate Quota***

The U.S. cattle industry has relatively few mechanisms in place to help it weather periods of economic difficulty. One such mechanism is a system of tariff rate quotas (TRQs) which became operative upon the implementation of the Uruguay Round Agreements Act of 1995.

As imports from other countries might grow as a result of trade negotiations, the importance of TRQs in promoting stability in the price sensitive beef sector will be heightened. Thus, a major goal of the United States in trade negotiations should be to maintain the right of the United States to impose TRQs. Given the supply-price sensitivity of the cattle industry, the November 1999 report by then Chairman of the International Trade Commission Lynn Bragg that packers can and do use imports to suppress domestic cattle prices, and the length of the expansion phase of the recent cattle cycle which in part has been due to increasing imports, R-CALF finds it imperative that TRQs be maintained.

#### ***U.S. Special Safeguard***

A second mechanism of the United States to address periods of difficulty in the cattle sector is a special safeguard provision for imports of certain beef products, which went into effect in 1995 and operates in accord with Article 5 of the WTO Agreement on Agriculture. Namely, Article 5 of the WTO Agreement on Agriculture includes a special safeguard provision that permits countries to resort to additional duties in the event that the volume of imports of a particular product exceeds a threshold or "trigger" level, or if the price of those imports falls below a trigger price level. The special safeguard provision provides an important remedy in the event of a sudden surge in imports of beef. The United States should ensure that the special safeguard mechanism for beef remains intact.

#### ***Antidumping and Countervailing Duty Laws***

R-CALF strongly supports the continued availability of antidumping and countervailing duty laws as internationally recognized trade remedies to economic harm caused by unfairly priced or subsidized imports. It is important to recognize that new trade agreements will not necessarily eliminate opportunities and incentives for producers in certain countries to dump their products or to obtain unfair subsidies. Therefore, antidumping and countervailing laws must be maintained and strengthened.

Also, antidumping and countervailing duty investigations are historically too often conducted "after the fact," and in many cases irreparable damage has already been done. A more accelerated process is needed.

#### ***Sanitary Measures***

R-CALF believes that the sanitary standards of countries must be based upon science. Accordingly, R-CALF supports the intent of the Sanitary and Phytosanitary Agreement of the WTO, to require that sanitary and phytosanitary measures have a scientific basis.

R-CALF is concerned, however, that the U.S. Department of Agriculture (USDA) may be too willing to open the U.S. market to imported cattle and beef in instances in which evidence of the lack of threat of imported products is far from clear. As demonstrated by recent outbreaks of foot and mouth disease (FMD) in the United Kingdom, Argentina, and other countries, as well as the continuing bovine

spongiform encephalopathy (BSE) crisis in Europe, diseased imported cattle can pose a very real threat to the United States.

R-CALF believes that the United States acted imprudently in delaying the implementation of a policy to ban, temporarily, the importation of beef from Argentina due to the presence of FMD in that country. The U.S. Department of Agriculture has announced that it will prohibit the importation of Argentinean beef products processed on or after February 19, 2001. However, reports of the presence of FMD in Argentina surfaced during the summer of 2000. The U.S. Department of Agriculture acted too late in addressing this very real threat to U.S. agriculture. In addition, given the presence of FMD in Argentina well before February 19, R-CALF questions whether this policy might still threaten health of U.S. cattle herds. Given the grave threat that FMD poses to the U.S. cattle industry, as well as to other livestock producers, R-CALF would like to emphasize strongly to Ways and Means Committee members its concerns with the U.S. Department of Agriculture's policy.

Also, with the accelerated expansion of FMD, and based on the recurrence of FMD in countries or regions in the process of being certified as "FMD-free" or already certified, R-CALF requests that following certification countries maintain a "disease-free" status for a minimum of three to five years before imports are accepted into the United States.

As a general matter, R-CALF would like to see strong rules implemented by the United States that would ensure the continued FMD-free status of the United States.

#### ***Country of Origin Labeling***

In an issue related to rules of origin, R-CALF strongly supports country of origin labeling of meat. Consumers have the right to know from where the beef they consume was derived. R-CALF believes that beef labeled as a product of the United States should be beef from cattle born, raised, and slaughtered in the United States.

Again, the current international spread of cattle diseases has only heightened the need for country of origin labeling and tracking.

Also, it is important to note that U.S. cattle producers since 1987 have been mandated by the federal government to contribute nearly \$1 billion for research and promotion. Yet they have been unable as an industry to differentiate their product from imported product for the U.S. consumer.

#### ***The EU and Beef Hormones***

R-CALF remains concerned about the refusal of the European Union to open its market to beef derived from cattle treated with growth promoting hormones. The outcome of the beef hormone dispute at the WTO has resulted in U.S. cattle producers having limited faith in the ability of the WTO dispute settlement process to open foreign markets to U.S. products. R-CALF encourages the United States to continue to attempt to open the European market to American beef.

#### ***Instruments to Promote Stability in International Markets***

Due to the peculiar nature of the agricultural industry and the small amount of revenue that is returned to producers, it is critical that ranchers have some ability to maintain minimum prices and be able to control the quality and quantity of their products in the market. For most of this century, the U.S. government has provided such mechanisms to U.S. farmers. These mechanisms have lessened the impact of adverse temporary market conditions that would otherwise have driven producers out of business.

Recognizing the special circumstances faced by the agricultural sector, the United States provides a limited antitrust exemption for agricultural cooperatives, including cooperatives composed of ranchers, from antitrust laws. Courts have held that cooperatives may set minimum floor prices for agricultural products under this law.<sup>4</sup> The United States should work in international trade negotiations to extend the coverage of Capper-Volstead to include international cooperatives composed of agricultural producers.

Likewise, U.S. laws permit certain groups of agricultural producers to set quality and grade standards through marketing orders. These measures can be used to promote stability in the marketplace. R-CALF suggests that the United States advocate in international trade negotiations the development of international instruments that will function in the same manner as marketing orders.

<sup>4</sup>See *Northern California Supermarkets, Inc. v. Central California Lettuce Producers Cooperative*, 413 F.Supp. 984 (N.D. Cal. 1976), aff'd 580 F.2d 369 (9th Cir. 1978), cert. denied, 439 U.S. 1090 (1979).

***Mandatory Price Reporting***

R-CALF's members and other primary agricultural producers in the United States are consistently at a distinct disadvantage in negotiations with buyers. In the livestock sector, a limited number of meat packers very often control prices for regions and indeed the entire country. Rather than buy in open cash markets, packers can feed their own animals or use private marketing arrangements—such as forward contracts, formula pricing, and exclusive purchase agreements—for which prices and terms of sale are not publicly disclosed. This makes it difficult for producers, particularly smaller ones and those that would like to utilize open cash markets, to determine a “fair” market price.

In 1999, the United States passed legislation providing for the mandatory reporting of prices paid by packers for cattle. Such legislation allows producers access to the data needed to compare quickly and easily bids from different packers and to negotiate the best possible price for their livestock. R-CALF encourages the United States to encourage our trading partners to enact or strengthen laws on mandatory price reporting. Such laws would benefit U.S. producers when selling in foreign markets.

***Exchange Rate Manipulations***

Currency exchange rates can have major impacts on trade flows, including the trade flows of agricultural products. Indeed, some countries have used exchange rate controls as a method of altering trade flows in agricultural products. Such manipulations can create serious harm in the international marketplace. R-CALF urges the United States to consider this problem and to attempt to craft a proposal to address it through international negotiations. Indeed, R-CALF proposes that international trade rules prohibit such manipulations.

***Price Collapses***

Various commodities, including cattle, have experienced major international price collapses during the past decade. These price collapses have adversely impacted not only individual producers, but also rural economies throughout the world. R-CALF requests that the United States work with our trading partners to develop a mechanism to remedy the devastating effects of collapses in commodity prices.

Further, on a subject not directly linked to the activities of the Ways and Means Committee, R-CALF is concerned that recent price collapses for cattle have been caused in large part by concentration in the U.S. meatpacking industry. R-CALF supports legislation that would advocate more effective enforcement of U.S. laws addressing concentration in agriculture. R-CALF also supports legislation that would prohibit packer ownership of cattle.

***Conclusion***

R-CALF appreciates the opportunity to provide comments for the Ways and Means Committee's hearing on President George W. Bush's trade agenda.

R-CALF will continue to monitor trade negotiations closely. R-CALF would be pleased to provide further information to Ways and Means Committee members upon request concerning R-CALF's views on trade negotiations.