

**UNITED STATES-AUSTRALIA AND
UNITED STATES-MOROCCO
FREE TRADE AGREEMENTS**

HEARING
BEFORE THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
ONE HUNDRED EIGHTH CONGRESS
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JUNE 15, 2004



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TUESDAY, JUNE 15, 2004

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

The hearing was convened, pursuant to notice, at 10:39 a.m., in room SD-215, Dirksen Senate Office Building, Hon. Charles E. Grassley (chairman of the committee) presiding.

Also present: Senators Lott, Snowe, and Baucus.

OPENING STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. Good morning, everybody.

As you know, our meeting did not start on time. Originally it was 10:00, and we changed it to 10:30 because the president of Afghanistan, Mr. Karsai, spoke to a joint session of Congress. So, all of you who had to change your schedules, we thank you for doing that.

Today, as you know, we are gathered here to hear testimony on the U.S.-Australia and the U.S.-Morocco Free Trade Agreements.

Today, the committee will briefly meet in executive session to consider Senate Joint Resolution 39, which are to approve the renewal of sanctions for Burma. If we do not get a quorum to do that, I think Senator Baucus and I have agreed that we will vote off the floor today in the Senate.

So I would, first, want to thank our panelists, many of whom traveled a long way to be here to testify about the importance of these agreements to their industries, and I especially want to thank John Kneen and Ron Heck, both of whom traveled here from Iowa. I know Senator Baucus has constituents here as well.

I am confident that their testimony, along with the testimony of all witnesses, will show that both the Morocco and the Australia free trade agreements are solid agreements which deserve broad bipartisan support of the Congress.

Each of these agreements was negotiated using the trade promotion authority procedures established by Congress in the Trade Act of 2002. These procedures require intensive consultation with Congress throughout the negotiation process.

While I may not agree with the substantive outcomes of these consultations in every respect, I am confident that both agreements will receive bipartisan support.

I am especially pleased with the strong and comprehensive agricultural provisions in the U.S.-Morocco free trade agreement.

To ensure the future support of me and many in the agricultural sector, I would strongly encourage the administration to negotiate comprehensive agreements like the Morocco Free Trade Agreement which do not exclude specific commodities from negotiations.

The Moroccan agreement provisions significant improved market access for Iowa-produced soybean, corn, and beef in the fast-growing Moroccan market. In addition, the U.S.-Morocco Free Trade Agreement contributes to the President's goal of establishing a U.S.-Middle East Free Trade Agreement by the year 2013.

As many Middle Eastern countries are major importers of food and agricultural products, such a free trade agreement would greatly benefit both farmers in the United States and consumers in the Middle East.

I would also like to add that I am pleased that the Australians recently completed negotiations involving the reviewing of the sanitary restrictions regarding U.S. pork, and, due to the science-based decision, Australia will now permit the importation of U.S. processed pork and U.S. pork for processing.

I am hopeful that the U.S.-Australia Committee on Sanitary and Phytosanitary Matters and the Standard Technical Working Group on Animal and Plant Health Measures which are established under this free trade agreement will be able to work successfully to address contested sanitary and phytosanitary barriers that remain between the two countries.

In addition, the recently enacted state-of-the-art Moroccan labor law is an example of the progress that can be made in areas beyond trade as we engage in bilateral free trade negotiations.

Both the Moroccan and Australian free trade agreements will provide important new economic opportunities to America's manufacturing service and agricultural sectors.

Both of these agreements will also help solidify our international alliances with two valuable allies in the war on terrorism. Through trade, our Nations will be drawn even closer together and the friendship among our people very much strengthened.

I now call upon our friend Senator Baucus to speak before we go to testimony.

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

Senator BAUCUS. Thank you, Mr. Chairman. First, I thank you for holding today's hearing.

Thank you, also, to our witnesses, Ambassadors Allgeier, Shiner and Johnson, who have worked very hard and worked very closely with members of Congress. I thank you for your service to our country. You have done a very good job.

And to Montanans who are here, I want to thank them. Lynn Cornwell is here. He has been a staunch member of the Montana agricultural community and national agricultural community, particularly on the cattle side, for years; Lochiel Edwards, representing grain producers; and also Jeff Ruffner, a business man in Montana who is looking for export opportunities, especially in

Australia. I thank you for coming and spending some time with us and giving us your insights.

Congress will soon consider implementing legislation for the Australia and Morocco Free Trade Agreements. But the Australia agreement, I must say, created considerable anxiety in Montana's farming and ranching industries, and I want to focus a little bit on that agreement today.

When Ambassador Zoellick first raised this with me as the idea of an Australian trade agreement, I was concerned. On the one hand, Australia is a valuable ally, including in the WTO. Australia is an important export market for U.S. products and a platform for exports into Asia. It has high labor and environment standards.

But Australia is also a major exporter of agricultural goods, many of the same goods that we produce in Montana. So I face a tough choice. I could oppose this agreement and play a little role in shaping it, or I could engage negotiators and work to improve the agreement to make it reflect the needs and interests of Montana and the country.

After consulting with Montanans, especially in the agricultural sector, I chose to work to improve the agreement. From the beginning, I worked closely with our negotiators. I also met with the Australian prime minister and other officials to make sure they understood our concerns.

Last December, as the negotiations entered a crucial phase, I gave Ambassador Zoellick a list of my priorities on behalf of Montana farmers and ranchers and offered a few ideas on how to proceed.

My staff and I worked closely with the administration in the final months of the negotiations, and in the end we achieved an agreement that addresses most of my concerns.

For beef, this agreement offers a long transition period of 18 years and includes two strong safeguards to preserve the integrity of U.S. beef markets.

For dairy, it also includes a long, 18-year transition period and leaves over-quota tariffs unchanged. For sugar, the agreement gives no additional access, and for wheat the agreement provides that Australia will work with the United States in our efforts to reform export state trading enterprises as part of the Doha Round.

Beyond agriculture, the agreement offers the United States and Montana manufacturers an opportunity to expand their share of the Australian market. Already, Montanan companies export more than \$3 million worth of products to Australia, a figure that will only grow with this agreement.

In fact, with this agreement the United States' manufacturers are expected to export \$2 billion more every year. Moreover, the agreement provides new opportunities for the United States' service industries, which are fast becoming the cornerstone of America's export economy.

For these reasons, I have decided to support the Australia trade agreement and I commend Ambassador Zoellick, along with Ambassadors Shiner and Johnson, for your solid work on this agreement.

On the Morocco agreement, I worked hard to ensure that American producers would have the very same access to Morocco that

the Europeans have, especially for wheat. I made clear to both the U.S. Trade Representative and Moroccan officials that I would strongly oppose an agreement that did not open Morocco's market to United States wheat exports. I am glad that we were able to negotiate strong access.

Let me end with two issues that I think we should think about as we move forward. First, we must focus our trade agenda on jobs. American agriculture and American workers need to see a trade agenda that benefits their bottom line. I urge the administration to put more resources into negotiating economically meaningful agreements and I urge it to redouble its efforts on enforcement.

Second, we need to do better on labor and environment standards. Too often, U.S. negotiators simply negotiate against themselves. Other countries will accept strong provisions, but we tell them that they do not have to, or we let them think they do not have to.

But they will accept higher standards, in my judgment, if we, at the outset, ask for higher standards. We should not be negotiating against ourselves. If we want to pass trade agreements with broad Congressional support, this area requires improvement.

Now, I expect the Congress will pass both the Australia and Morocco agreements with significant margins, but looking ahead I see some problems. The U.S.-Central American agreement will not pass Congress without further efforts on labor and environment provisions. I will work hard to improve that agreement, but we have a lot of work to do.

I look forward to the testimony, as I indicated earlier, from all of you, and thank you for your very hard work.

Mr. Chairman, thank you again for holding this hearing. I think we are making some progress here.

The CHAIRMAN. Thank you, Senator Baucus. I appreciate your remarks.

Senator Trent Lott asked if he could speak just for a few minutes.

Senator BAUCUS. Well, I do not know about that.

The CHAIRMAN. All right. Without objection, go ahead.

OPENING STATEMENT OF HON. TRENT LOTT, A U.S. SENATOR FROM MISSISSIPPI

Senator LOTT. Thank you, Mr. Chairman and Ranking Member. Thank you for having this hearing. As we all know, we do not have a whole lot of time left in this session. I think it is very important that we move both of these agreements.

I have had occasion to discuss these agreements with agricultural interests, manufacturing interests, with the Prime Minister Howard of Australia, who has talked a lot about it in every trip he has made to Washington in the last 2 years, and King Abdullah.

I think these agreements will benefit American interests and will benefit these two countries that have proven to be very strong allies. I just wanted to be here to go on record in support of both of these agreements.

I thank you, Mr. Chairman, for having the hearing, and I urge that the committee act as expeditiously as possible so that we can

squeeze these agreements through the process before we end the session the first of October. Thank you.

The CHAIRMAN. Thank you, Senator Lott.

Our first three witnesses are no stranger to this committee or to a lot of people in Washington, DC. We have Peter F. Allgeier, Deputy U.S. Trade Representative. We have Hon. Josette Shiner, Deputy U.S. Trade Representative, and we have Allen Johnson, Chief Agricultural Negotiator, and he is also in the Office of the U.S. Trade Representative.

I think we will do it in the direction I have introduced you, so would you go ahead, Mr. Allgeier?

**STATEMENT OF HON. PETER F. ALLGEIER, DEPUTY U.S.
TRADE REPRESENTATIVE, WASHINGTON, DC**

Mr. ALLGEIER. Thank you very much, Senator. I would like to thank you, Senator Baucus, Senator Lott, and the other members of the committee who have worked so closely with us as we move forward with our free trade agreements.

Ambassador Zoellick and Minister Fassi Fihri will be signing the Moroccan agreement this afternoon. I appreciate the opportunity today to discuss this agreement with you and to receive your comments.

Before talking about the specifics of the agreement, I would like to make one broader point about the agreement. That is that the administration's trade agenda is a fundamental part of the President's broader efforts to advance reform in North Africa and the Middle East.

In May a year ago, the President announced the initiative for a U.S.-Middle East Free Trade Agreement by the year 2013. Our trade strategy is predicated on the idea that sustained economic growth can best be brought to this region through internally generated reforms with market-based trade liberalizing policy, so that is the broader environment for this agreement.

Working in close partnership with Congress has been critical to our success to date. The Trade Act of 2002 provided the procedures and the basis on which we are able to complete negotiations that address the pressing need for greater U.S. engagement in this region that provide benefits for U.S. economic interests, but also that bolster the economic and social reforms in our partner countries.

Certainly this is the case with Morocco, where Morocco has signaled, by completing this agreement with us, its serious intention to pursue and to lock into place profound economic reform.

Now, as far as the benefits for the United States, we are confident that this agreement will bring significant benefits for U.S. exporters, workers, investors, farmers, and ranchers.

I would like to identify two dimensions in which this agreement is going to level the playing field for our U.S. interests.

First of all, vis-a-vis Morocco itself, right now the average tariff that we face on consumer and industrial goods in Morocco is 20 percent, whereas they face tariffs in the United States of 4 percent.

Under this agreement, more than 95 percent of the two-way trade in industrial and consumer products will go to zero on the day that the agreement enters into force.

The second dimension of leveling the playing field has to do with our competition vis-a-vis the Europeans. As you know, the Europeans have had preferential access to Morocco. We will now level that playing field and the competitiveness that we have in that market.

Al Johnson will talk about the agricultural negotiations and the benefits that we received there. Let me simply say that we have been able to craft an agreement that balances Morocco's development needs with our own economic interests.

In the case of services, we have achieved significant market access improvements there, particularly in the areas of banking, insurance, audio visual, telecommunications, and computer-related services.

The agreement also provides for a high level of intellectual property protection. It includes state-of-the-art protections for trademarks, for digital copyrights, and also expanded protection for patents and for product approvals for marketing of pharmaceuticals.

Government procurement and the Customs chapters provide for transparency and greater efficiency, and therefore improved market access for us as well.

The agreement includes rules of origin provisions that will enable us to count the value of inputs from other free trade area partners in the region. This is important in achieving our goal of an integrated region under the Middle East free trade area, and it also promotes greater trade among the countries which is a missing, but very important, ingredient in their development.

You all have mentioned the labor and environment provisions. We have included in this agreement those provisions that meet the objectives set forth by Congress in the Trade Promotion Act.

They are a part of the text of the agreement itself. Parties commit to enforce their own laws, and this, of course, is enforceable through the dispute settlement procedures in the agreement.

The other thing I think that Senator Grassley referred to, is that these types of negotiations provide us with the opportunity to promote improved practices in these countries.

In the case of Morocco, we have seen a new labor law passed which just entered into force a week ago, which has some very important provisions for protection of workers, and particularly raising the minimum age for workers. Morocco also passed a new framework environmental law and air pollution law.

Further important elements in the agreement are its transparency, its public notification, and its anti-bribery provisions.

The agreement also establishes investment provisions that improve the protections for United States investors. We have an existing bilateral investment treaty with Morocco, but we think that the provisions in the free trade agreement provide improved protections for our investments.

So, in conclusion, the U.S.-Morocco Free Trade Agreement is a comprehensive, well-structured agreement that will provide concrete benefits for U.S. interests, but also for Moroccan interests, and will promote the broader interests that we have in economic reform in that region.

With your guidance and support, we will continue to pursue the Middle East free trade area initiative, and working together we feel

confident that we can build a trading and investment community within the Middle East and North Africa that will stimulate economic growth, generate prosperity, promote democracy, and be in the economic interests of the United States.

Thank you. I will be happy to respond to any questions or comments that you have.

The CHAIRMAN. We will have questions at the end of the panel. [The prepared statement of Mr. Allgeier appears in the appendix.]

The CHAIRMAN. Ms. Shiner?

**STATEMENT OF HON. JOSETTE SHEERAN SHINER, DEPUTY
U.S. TRADE REPRESENTATIVE, WASHINGTON, DC**

Ms. SHINER. Mr. Chairman, Senator Baucus, Senator Lott, I welcome this opportunity to feature the significant accomplishments of the U.S.-Australia FTA and to hear the committee's views on the implementation of this agreement and the legislation required.

I especially appreciate your leadership, Mr. Chairman, and I am grateful to you and to Senator Baucus, members of this committee, and your staffs for the guidance and advice you have provided Ambassador Zoellick, me, Ambassador Johnson, Chief Negotiator Ralph Ives, and the rest of our USTR and interagency team during this negotiation.

You are forceful advocates for America's farmers and workers and for the farmers and workers in your States. Our close cooperation helps ensure that we close strong win-win agreements.

This is an historic trade agreement, as you pointed out, Mr. Chairman, with one of the United States' closest friends and allies. The United States and Australia have long had a special partnership. Our Nations' sons and daughters stood side by side against tyranny throughout the last century, and they do so again today in Afghanistan and in Iraq.

This is only the third FTA ever negotiated between two developed countries. The first, between Australia and New Zealand, and the second 16 years ago between the United States and Canada. It will eliminate virtually all duties, including more than 99 percent of the tariff lines covering U.S.-manufactured goods and exports to Australia on day one.

This is the most significant immediate reduction in industrial tariffs ever achieved in a free trade agreement. It will immediately make our manufacturers, from household goods, to chemicals, to machine tools, better able to compete in Australia against European, Japanese, Korean, and Chinese traders.

The International Trade Commission estimates that the tariff cuts alone will increase U.S. exports to Australia by about \$1.5 billion annually. In fact, the United States enjoys a hefty trade surplus with Australia. We currently export about twice as much to Australia as we import from Australia. Our trade surplus on industrial goods alone topped over \$6 billion in 2003.

American businesses, farmers, and workers see exciting new opportunities from this agreement. When I travel the world, I see Caterpillar tractors and road graders dotting the world's landscapes. In Australia, this is this icon's second-largest export market already.

But with the immediate elimination of duties from the FTA, Caterpillar expects its annual sales to Australia to increase to \$1 billion annually over the next decade.

It is not just large companies that expect to benefit. In Iowa, a company named Vermeer Manufacturing, which manufactures equipment in Pella, Iowa, and employs 1,700 workers, as you know, Mr. Chairman, sells \$7 to \$10 million in Australia yearly, including this horizontal direction drill, which I think works that way. They say they expect, with the elimination of the 5 percent duty on this product, that they will increase sales between \$500,000 and \$700,000 a year.

In addition to the benefit to the manufacturing sector, duties on all U.S. farm exports to Australia, which Ambassador Johnson will speak of more, literally from soup to nuts, nearly \$700 million in 2003, will be eliminated on the first day the agreement goes into force.

And, as you pointed out, we have made progress on food inspection procedures that have posed barriers in the past to keep out products such as pork, and Ambassador Johnson will address those.

Just to briefly note some of the other highlights of the agreement, in the services area, Australia will provide substantial new market access in the telecommunications, computer services, tourism, energy, construction, education, and other services sectors.

The agreement ensures improved market access for the U.S. entertainment industry, including films and television, and provides new rights for life insurance and express delivery providers.

Australia and the United States invest deeply in each others' economies, and the agreement fosters this partnership by exempting most U.S. investments from screening by the Australia government. This FTA is the first to include non-tariff market access provisions to address issues in the pharmaceutical sector.

This is an agreement for the digital era, with innovative electronic commerce provisions and state-of-the-art intellectual property protections for U.S. trademarks, copyrighted works, including digital works and patented products. It strengthens penalties for piracy and counterfeiting, providing strong deterrents against these illegal activities.

In the area of government procurement, U.S. suppliers will be a step ahead of most other nations by obtaining through this FTA non-discriminatory rights to bid on contracts from 80 Australia central government entities.

In this agreement, once again, the United States has been able to include the world's highest standards of enforceable labor and environment provisions in any trade agreements anywhere.

We are the leaders on the nexus between trade and workers' rights and care for the environment, and this agreement is no exception. This is an achievement forged in close partnership with Congress and this committee, and we are grateful for the leadership in these areas.

Finally, on enforcement—Senator Baucus, you raised this issue in particular—I believe our FTAs are our single most effective tool in setting the world's highest standards for a level playing field in trade.

Our FTAs typically contain hundreds of pages of enforceable obligations that are the bedrock of building a fair, level, and enforceable playing field for trade between nations.

The U.S.-Australia FTA is no exception to this tradition of excellence. The nearly 1,500 pages of rules and commitments that comprise this FTA will form the basis of our enforcement program.

In closing, let me just point out that in addition to the specific benefits of this agreement, there are other benefits as well. Australia has been one of our closest and most reliable partners in pursuing trade liberalization around the world.

Both our countries are strongly committed to advancing the Doha development agenda, and our alliance in the WTO has been further fortified through the FTA negotiations.

We are sure that this alliance will improve, on the FTA, the prospects for a successful outcome in these global negotiations which are the highest priority for both nations' trade agendas.

The FTA will also help us advance our goals in the Asia Pacific region and will allow our companies to be more competitive in that region. I thank you for your attention and also for your help in moving these agreements forward, and look forward to answering any questions you may have.

Thank you.

The CHAIRMAN. We just learned that we have a vote at 12:15, so I am going to ask this panel and the succeeding panels to try to stay within the 5 minutes. I do not mean to demean. It was my fault that it went on. But I did not realize we had that vote this soon.

[The prepared statement of Ms. Shiner appears in the appendix.]

The CHAIRMAN. Mr. Johnson?

STATEMENT OF HON. ALLEN JOHNSON, CHIEF AGRICULTURAL NEGOTIATOR, OFFICE OF THE U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Mr. JOHNSON. Well, first of all, thank you, Mr. Chairman and Senator Baucus. I appreciate the opportunity to be here. I think it is fair to say that in both of these agreements one of the most critical issues for us to address was a successful conclusion to the agricultural provisions. The challenge with any agreement is trying to balance our offensive interests and opportunities with some of our more import-sensitive issues.

By meeting with you and members of your staff and the agricultural community over the last several months, I think we were able to strike that balance on these important issues. I think both of them are good agreements for U.S. agriculture in both creating equitable and fair treatment, as well as new opportunities.

Briefly, let me just go through a couple of the things that I know would be of interest. First of all, I would like to point out the broader fact, which is that, of course, creating good opportunities for other sectors outside of agriculture is important to agriculture.

A strong economy at home is important for maintaining and growing our domestic markets for agricultural products, and I can say that the Australian Free Trade Agreement clearly does that, as Ambassador Shiner just said.

It also creates new opportunities for our exports. Duties on all farm exports, which are about \$700 million in 2003, are going to be eliminated on the first day. A little known but interesting fact is that, on a per capita basis, Australia spends about \$4.50 per person on our products, compared to each dollar that we spend on Australia products.

The United States is already the second-largest supplier of agricultural products to Australia's \$56 billion food market, and our position is going to continue being strengthened with the preferred treatment we get under this agreement.

Again, currently Australia maintains a tariff between 5 and 30 percent, and these will be going to zero on the first day. The beneficiaries of that are oilseed products, notably soybeans, processed foods, fresh fruits and processed fruits, vegetables and nuts, olives, dried onions, and the list goes on.

Of course, one of the things that was extremely important to our agricultural community and our members of Congress was addressing SPS concerns. We worked very closely on these issues since 2001 in trying to address a broad range of issues, which included not just specific products, but also process, ensuring that we have a process in place for working through these issues. And, as you mentioned, Senator Grassley, we have established bilateral committees and working groups for continuing this work.

One success story has been table grapes. We accessed that market for the first time in 2002 by addressing the SPS concerns. That is now a market of about \$3.2 million for our grape producers.

Processed pork products and pork processing is another success. Again, we resolved many of the SPS issues that are going to result in an estimated market of \$30 to \$60 million.

Other issues obviously still need work, and we are going to continue to work on them, whether it is poultry, citrus, stone fruit, or apples, but many are done that get less note, which include a few issues related to beef and sweet corn seed.

Another issue with important sensitivities, as it relates to Australia, was beef. As I told some Montana ranchers last week when I was there, your help, Senator Baucus, in engaging on these issues was extremely important in ensuring that we were able to deal with these issues sensitively, while at the same time creating, again, opportunities not just in Australia, but more broadly for our beef producers. We can talk more about that in the question and answers if you want the details.

When it comes to dairy, again, the top priority of our dairymen was maintaining the out-of-quota tariff, which we did in this agreement, and expanding and keeping the TRQs at a manageable level.

In the first year, the TRQ is 0.2 percent of the annual value of U.S. dairy production and that will allow us to maintain our dairy programs. The growth factors for these TRQs will be reflective of the sensitive items that were in the program, or products that we tended to produce less in the United States. Then, of course, as it relates to sugar, the WTO access was maintained, but no additional access was given.

Finally, on Australia, I will just note that we have a very close working relationship with Australia in the WTO. I was just with Australia in Brazil over the weekend, and will be with them again

next week in Geneva. I was with them the week before last in Geneva.

They are working very hard with us and trying to create a successful round because we share a lot of the same objectives in eliminating export subsidies, substantially reducing domestic support and increasing market access around the world.

Finally, on Morocco, there are over 30 million people in Morocco, and some 50 percent of those people live in rural areas. About 70 percent of the land area is in agriculture. It is a growing economy with this FTA, but we targeted trying to create a stable environment for their economy for reform and increasing our agricultural exports.

When it comes to beef and poultry for the first time, we are going to have access to markets that had not existed previously. When it comes to durum and common wheat, we have caught up to the Europeans and the Canadians, and in some ways passed them, potentially increasing our wheat exports by about five times.

Senator Grassley, as you know, you were very helpful in getting Morocco's markets opened in very short order for U.S. farmers, as it related to sorghum, corn, soybeans and products, and inclusion of a preference clause that ensures that for all these products that I just mentioned we will always be treated as good, or better, than anyone else in the Morocco market.

Again, let me just close by saying that these agreements are solid in their own right. They achieve the objectives defined by Congress and TPA. More importantly, they create new opportunities for U.S. farmers and ranchers. While sensibly dealing with their sensitivities, it does add to the message that the United States is moving forward on agricultural trade.

This creates new and strengthened partners in our global agenda. With about 96 percent of our potential customers outside our borders, it is extremely important that we take advantage of this opportunity to send this message and build these partnerships as we move into the future. Thank you.

The CHAIRMAN. Thank you.

We will take five minute rounds of questions.

I am going to start with you, Ambassador Allgeier. Mr. McGraw, who is on the next panel, is going to be testifying along these lines, and I would like to ask you to react.

He states that having just returned from trips in Europe and China, he has seen firsthand how governments and business leaders are looking to our country for leadership in moving the trade agenda along.

First, do you agree with his statement? Second, what is your perspective on how Australia and Morocco FTAs fit into this administration's broader effort to move the trade agenda forward?

Mr. ALLGEIER. First of all, I agree completely with his observation that throughout the world, governments and businesses look to the United States to provide leadership.

I think this is most clear in the multilateral negotiations in the WTO, where the United States is seen as, and relied upon as, the primary energizer and creative thinker for that negotiation.

In terms of how Morocco and Australia contribution to our broader trade agenda and to this leadership, I would cite three things.

First of all, these negotiations give other countries, especially in these regions of North Africa, the Middle East, and Southeast Asia or Asia Pacific, an incentive to negotiate with us. Nobody wants to be left behind in terms of access to the largest market in the world.

Second, these sorts of high-quality, comprehensive FTAs set the standard, both in multilateral negotiations and in further free trade agreements. Third, these agreements demonstrate to the world that Congress and the administration can work together to bring into force high-quality trade liberalizing agreements. This gives us credibility as negotiators and it undercuts those who criticize the United States as being protectionist.

The CHAIRMAN. All right.

Ambassador Shiner, it is my understanding that Australia is one of the few developed countries that is not a party to the World Trade Organization government procurement agreements.

Could you elaborate then on the benefits of the government procurement chapter that is in the Australia free trade agreement, considering the fact that they do not participate in the WTO aspect of it?

Ms. SHINER. Mr. Chairman, organizations as diverse as the National Association of Manufacturers and many of our high-tech firms like EDS have lauded this particular provision in the agreement because, prior to this FTA being negotiated, we did not have access to bid on government procurement contracts in Australia.

They are not a party to the WTO plurilateral agreement, which means their bidding is not open, and has not been open to the United States. We, under this agreement, will be able to bid for those contracts. We will not be subject to local content rules.

It is something that, in particular, our small and medium manufacturers feel will be an excellent opportunity for them, and our data processing high-tech groups, and others. So, we feel this is a significant benefit here and one that will be immediately open opportunity for our workers.

The CHAIRMAN. Yes.

Ambassador Johnson, it is my understanding that South American countries are major competitors to the United States for Morocco's corn and soybean market. Would you know the share of the Moroccan market currently held by U.S. corn producers and soybean producers in comparison to their South American counterparts, and do you have any projection as to how the U.S. market share for these products might change following implementation of the U.S.-Morocco agreement?

Mr. JOHNSON. Well, Senator, just to give you some idea, in 2003, as related to corn, Argentina exported about \$56.5 million worth of product to Morocco, and Brazil about \$14.8 million. We exported about \$34.6 million. As it relates to soybeans, Brazil sent about \$33.8 million, we sent about \$54.6 million.

So, our share has been strong, but obviously in some years—and particularly, as I just mentioned in corn—their actual percentage of the market is higher than ours.

We would anticipate, obviously, that when you address a 40 percent duty on corn and a 22.5 percent duty on soybeans, and that we will have duty-free access within a very short period.

Basically the way the agreement is, we will get a 50 percent down payment on the first year, and then it phases out over the next five, and our percentage of that market will be increasing and strengthened significantly.

The CHAIRMAN. As you know, U.S. agricultural producers remain concerned about the number of sanitary and phytosanitary measures imposed by Australia that they contend are not based on science.

How confident are you that the Committee on SPS Measures and the Standing Technical Working Group on Animal and Plant Health Matters, both of which are established under this free trade agreement, will be able to resolve differences between the United States and Australia regarding these sanitary and phytosanitary measures?

Mr. JOHNSON. I feel confident that we are going to have very constructive engagement, as we have had in the past. As I mentioned earlier, for the first time we got access to grapes because we were able to work through some SPS issues. We are about to get some significant access as it relates to pork because we have been working through some SPS issues.

I think there is a pattern of behavior and confidence building that we have done between us and our Australian counterparts that, fortunately, I think is yielding results for U.S. agriculture and the other products on the list.

We have a clear plan for how we are going to address them and work through them, so I have every confidence that we will be able to deal with these things on a science basis and resolve them.

And I should just point out more generally that Australia also has moved not just with the United States, but has moved on issues related to bananas with Thailand, apples with New Zealand. We are seeing Australia interacting in these SPS issues on a broad basis and trying to address the concerns that we and other countries have raised.

The CHAIRMAN. My time is up. I have one more question for Mr. Johnson, and I will submit it for answer in writing.

[The question appears in the appendix.]

The CHAIRMAN. Senator Baucus?

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

I would just like to nail down that the safeguard provisions on this Australian agreement are automatic, that is, they are not discretionary.

Ambassador Johnson, since it is agricultural, could you maybe expand on that? There is just some uncertainty as the degree to which they are automatic, that is, if 110 percent is reached and the price safeguard trigger is reached. Or is it discretionary? My understanding is that it is automatic. If you could confirm that, I would appreciate it.

Mr. JOHNSON. Yes, it is automatic. There are two safeguards, a volume phase safeguard during the transition and a price-based safeguard after the transition that continues indefinitely, and both of them are automatic.

Senator BAUCUS. All right.

Could you shed some light, too, on the negotiations with regard to the state trading enterprises? I know that Australia would not

agree to reform, but yet Australia would agree to work with us, I guess, in the next round, this round, the Doha Round. Are they pushing that off or is that real? What is going on here?

Mr. JOHNSON. No, I think it is real. Obviously, as you enter these negotiations we have our objectives and they have theirs. We push very hard, and you pushed us very hard related to export state trading enterprises, like the Australian wheat board.

It is important to understand what we got with the Australia agreement and how it fits in the global negotiations. Obviously, Australia had on their list of things, what they wanted were our subsidy programs, credits, and other things. Both of us realized that we needed to address these issues in the broad context of the WTO.

One of the challenges that we had in the WTO, frankly, was that consistently we would find Australia, Canada, and a few others pushing hard on maintaining the export state trading monopolies. We feel strongly, as part of a comprehensive agreement, those should be addressed.

Australia agrees, as part of this agreement, that they should be addressed. That then has allowed us in the WTO, even in the last few weeks, to be making progress on addressing these concerns in the WTO, and, frankly, it puts Canada in a position where they are one of the few advocates for maintaining these monopoly powers after export subsidies and other issues have been addressed.

So, I think it has been very helpful to us in the WTO context, and Australia is certainly living up to their part of the bargain of constructively engaging.

Senator BAUCUS. I know you know this, but just continue to press because it is a big issue for a lot of people in our country, that is, in grain States, to address this. It is just not fair. Maybe we have to deal with some of their concerns about our system at the same time, but, nevertheless, I think we should deal with those.

Next, this is not Australia, but it is beef. How are we going to get more beef sold? Can you give us a status report, to the degree you know, on Japan or Korea, for example, with BSE? What is going on?

Mr. JOHNSON. Well, it does relate to Australia in the sense that Australia is working with us in trying to get international standards.

Senator BAUCUS. That is to their interests, too.

Mr. JOHNSON. Exactly. So it is worth noting that in our agreement the TRQ expansion does not begin until the third year, or our exports recover from this BSE incident back to our 2003 levels. So, Australia is sensitive to that. They are working with us in the international environment in trying to address these concerns on a science basis.

When it comes to Japan and Korea, obviously USDA is working through this on the regulatory side. But I think there have been a couple of good meetings with the Japanese. There is another meeting scheduled in a couple of weeks. The Koreans have been here recently.

I think people are feeling good that we are providing them the information that they need in order to justify, based on science,

opening these markets. From our side, we certainly have stressed this in our meetings with the Koreans and the Japanese from a trade perspective, that we see it important that they base their decision on science and open those markets.

Senator BAUCUS. Because Japan imported 10 percent of our exports at one time.

Mr. JOHNSON. Yes. I think, obviously, Japan is an extremely important market. Korea is right after, and Mexico is right after that. In Mexico, we have gotten back to the point, about 91 percent, of our pre-BSE problems. So, we are making progress. I would expect progress in the coming weeks on both of those markets.

Senator BAUCUS. If I could ask a general question here. Really, it gets to, what opportunities do you see and how can free trade agreements and negotiations help, that is commercially, but also our standing in the world? I am addressing some of the tension that is existing today between other countries, namely our allies, and in some countries in the Mid-East and the United States.

There is some improvement, clearly, with the U.N. resolution. G-8 seemed to make some progress, but I am assuming that trade agreements are also a way to kind of help with communications and to get some agreements, and so on, and so forth.

All of these things are somewhat tied together, but if any of you could just expand a little bit on the opportunities that trade has to help us deal with this matter that we Americans seem to be facing worldwide.

Mr. ALLGEIER. Well, I think that the principal contribution that the trade agreements make is to give people a sense of hope in their economic future, and certainly that is what we have seen, for example, in the Middle East in the case of Jordan. We expect that to be the case with Morocco and with other agreements.

Senator BAUCUS. Australia, Jordan and Morocco are all friends. But I am just curious as to how else we can use it, if you will, almost as a foreign policy tool in addition to a trade tool.

Ms. SHINER. Senator, if I could say, briefly, it is very interesting. As we lead up to discussions with countries about free trade agreements, we end up in a very complex and deep dialogue with them about our systems and the differences and how they mesh, and in many ways it drives reforms and creates the kind of atmosphere that our businesses are used to, the rule of law, courts, transparency, and expeditious Customs processes.

So, I think this fabric that you see being built between us and our FTA partners, because the standards are much higher than we are able to achieve in the WTO, is quite profound.

I am headed out to Vietnam this summer. It is interesting, as countries want to be on the list, want to be considered by the United States, they look at where they need to improve their systems, and it is really creating, from my point of view, the highest standards in government transparency, in openness, and enforceable trade rules.

So, I think beyond the WTO, these FTAs allow us to move the bar forward and allow us to plow some new ground, as we have in labor and environment with your help.

Senator BAUCUS. Do you have any FTA negotiations with France?

Ms. SHINER. If they would be open to discussing agriculture. We would never do it without taking care of our farmers.

Senator BAUCUS. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Now, the Senator from Maine, please.

Senator SNOWE. Thank you, Mr. Chairman.

Ambassador Shiner and Ambassador Johnson, with respect to the provisions regarding dairy, as you know, a number of members of Congress wrote a letter concerning the original dairy provisions, and I understand there has been a compromise as a result of maintaining the tariff.

I would like to hear your response to this entire issue to ensure that we have, in fact, maintained fairness in this agreement with respect to our dairy farmers in this country.

I have 395 dairy farmers that employ more than 2,000 workers in my State, and I know there are a number of issues regarding the dairy industry and they are not entirely supportive of the provisions in this agreement.

So, can you address these issues and how you can assure us that U.S. producers got a good deal in the final analysis?

Mr. JOHNSON. First of all, I want to compliment the industry, because I know the industry had certain frustrations throughout this process, and yet they stayed very engaged with us throughout the process, and making it clear to us what their priorities were.

We tried to work with them very closely right up, I can assure you, until 11:59, so to speak, which is really 3:00 or 4:00 in the morning, in terms of trying to deal with their concerns.

One, they told us that their top priority was maintaining the out-of-quota tariff, which we maintain in this agreement; and two, that they wanted to make sure that the quota quantities were such that they are manageable and not a threat to the program.

The TRQs that we agreed to in this agreement basically equal about 0.2 percent of the annual value of U.S. dairy production. On a tonnage basis, for example, it is about 0.03 percent of the milk production in 2003. Then in addition to that, we were sensitive to the dairy programs, obviously, because that is an important part of our farm policy.

So, our analysis shows that it allows for the support of our programs. In other words, it does not undermine them. The growth factors that we use for the products that were in the programs were much lower than they were for other products, particularly products that we tended to not produce as much of in this country.

So I think, overall, it is a fair agreement. I understand the dairy industry's concerns. We continue to talk to them not just on Australia, but all the other negotiations, and have worked very closely with them in trying to address the priorities.

Senator SNOWE. Well, on their concerns, exactly how would you address them currently? I mean, how would you mitigate their concerns? Do they have legitimate concerns with this current agreement? To maintain the quota, I understand that.

Mr. JOHNSON. Right.

Senator SNOWE. I think the real issue is who, now, will be affected, and why.

Mr. JOHNSON. Well, in terms of the maintaining of the program, the short answer is, basically what sets the price or ensures the price stability is our out-of-quota tariff, so that is maintained and so that concern has been addressed.

The second concern is, well, that is directly related to our farm program. Does, then, what we have done undermine the farm program? The answer to that is no. So I think when it comes to the dairy industry's concerns, we have addressed them pretty effectively.

Now, would they have preferred, obviously, not to have any additional dairy coming into this country? That is probably a fair statement, that they would prefer not to have that. But I think the major concerns that they had, we have addressed. I feel pretty comfortable with that.

I know they have a list of other issues not related to this agreement that they are interested in trying to develop and push forward in promoting their product or securing their markets, not just here, but abroad. I think the administration will continue to work with them on those issues.

Senator SNOWE. What has been the reaction of the Australian dairy industry with respect to this agreement?

Mr. JOHNSON. Well, I think it is fair to say that they did not get everything that they wanted out of this agreement by a fair amount. Their expectation originally was a completely free market with the United States.

Having said that, I think they realize that there are economic opportunities for them here as well. Again, sometimes these products become complementary. As I mentioned, some of the products, we have a higher growth factor on just simply because they are products we do not produce as much of.

But I think it is fair to say that they recognize that it is a benefit to them, but maybe not everything that they had expected.

Senator SNOWE. Ambassador Allgeier, on the Moroccan Free Trade Agreement, as we know, the wood and lumber industry in this country has been devastated by their inability to have access to other countries.

I know, as a State that represents the wood products industry, I can tell you that their competitors in other parts of the world have truly had an enormous competitive advantage because of the high tariffs and the escalation of those tariffs applied to U.S. wood products.

I understand under this agreement that there really is a long staging process with respect to the tariffs. I understand it is going to be 8 years.

What impact is that going to have on our industries? I mean, it is going to take a long period of time to obviously phase out these tariffs, as I understand it, under this agreement. Is that correct, for the wood products industry, 8 years?

Mr. ALLGEIER. Some of the wood products go into Morocco with a faster phase-out of the tariffs, 5 years instead of 8. Of course, we work with our industry to identify those products which are of highest priority in terms of their market access objectives.

Senator SNOWE. So some of them are going to be 5 years instead of 8.

Mr. ALLGEIER. Yes.

Senator SNOWE. Was there a reason why this just could not be done immediately? I mean, obviously it would provide a better opportunity.

Mr. ALLGEIER. Well, it is all part of the negotiation. It is all part of the negotiation. We certainly try to get tariffs eliminated as quickly as possible on our priority products, and certainly wood and paper products are very high priority for us, as indicated in our proposals to have these go to zero in the WTO negotiations.

Senator SNOWE. Well, I hope we do not use this as a basis for future free trade agreements, this slow process, because it really has had an impact on the wood and paper products, and the lumber industry I know has been devastated because they have not had equal access to other countries.

They have had to face these tariff and non-tariff barriers that have really limited their ability to compete in other countries. We ought to be striving for immediate elimination of those tariffs. So, five, eight years is not, clearly, ideal under the circumstances.

Mr. ALLGEIER. Let me assure you that we place a very high priority on this industry. They are one of the strongest supporters of liberalizing trade. Actually, Ambassador Zoellick is meeting this week with key CEOs from this industry to talk about our joint strategy going forward, and we certainly do not accept this as the baseline for future negotiations.

Senator SNOWE. Well, we have had low and non-existent tariffs on wood products entering the United States, and I just think enough is enough at this point. We ought to be very aggressive in pursuit of fairness and equity for this industry that has been long hard hit by unfair trade practices, as well as tariffs.

Mr. ALLGEIER. We certainly agree with that.

Senator SNOWE. Thank you.

Senator BAUCUS. Thank you, Senator.

Thank you all, panelists, for helping us out here and providing your testimony.

We will now turn to the next panel who will speak on the U.S.-Australia Free Trade Agreement. I would like to welcome Harold McGraw, who is chairman, president, and CEO of The McGraw-Hill Companies, who has traveled here from New York to testify on behalf of the Business Roundtable.

Jon Kneen, who is chairman of Al-Jon, Incorporated, is from Ottumwa, Iowa, and will testify on behalf of the National Association of Manufacturers.

Lynn Cornwell, a cattle rancher from Glasgow, Montana, a member of the Montana Stock Growers, will testify next.

He will be followed by Jeff Ruffner, senior vice president and general manager of MSE Technology Applications of Butte, Montana.

Mr. McGraw, why do you not begin?

**STATEMENT OF HAROLD McGRAW III, CHAIRMAN, PRESIDENT
AND CEO, THE MCGRAW-HILL COMPANIES, NEW YORK, NY,
ON BEHALF OF THE BUSINESS ROUNDTABLE**

Mr. MCGRAW. Thank you very much, Senator. Thank you to this entire committee for the leadership that you have brought forth on trade.

Mr. Chairman, I am Terry McGraw. I am chairman of the Business Roundtable's International Trade and Investment Task Force, and I am chairman, president and CEO of The McGraw-Hill Companies.

It is a pleasure to be here speaking about support of the U.S.-Australia Free Trade Agreement on behalf of the leading U.S. corporations, with a combined workforce of more than 10 million employees in the United States.

Mr. Chairman, Senator Baucus, and the committee, I again thank you for your leadership in moving the trade agenda ahead. Since the time that this committee pushed to restore trade promotion authority, much has taken place: the Singapore Free Trade Agreement, the Chile Free Trade Agreement, we are now talking about Australia and Morocco, and soon the Central American Free Trade Agreement with the Dominican Republic, then Bahrain. Mr. Chairman, America is on the move.

The Business Roundtable believes that the U.S. policies that promote trade like the U.S.-Australia Free Trade Agreement, coupled with policies that promote education, training, investment and innovation, will result in more economic growth and job creation in the United States and a strengthening of ties and relationships with our partner nations. It is a win-win situation and one that we must seek.

Ninety-five percent of the world lives outside the United States. U.S. trade agreements designed to open up foreign markets are more important than ever. Isolating the United States from the world economy is a losing strategy for American companies, its workers, farmers, and consumers.

Although the simple truth often gets lost in the popular debate, there is an increasing array of economic evidence that is clarifying and quantifying the benefits of open economics and expanded trade.

I have included with my written testimony a copy of our recent report, "Securing Growth in Jobs: Improving the U.S. Prosperity in a Worldwide Economy," which sets out the facts and details.

Mr. Chairman, as you previously noted, I have just returned from trips to China and to Europe, and I can tell you firsthand that the government and business leaders that we met with are looking to the United States for this leadership and moving the trade agenda ahead.

For many years, the United States lost ground to its foreign competitors who, recognizing the benefits of trade liberalization, forged ahead with one bilateral free trade agreement after another.

Prior to the enactment of trade promotion authority, the European Union, as we know, had 27 free trade agreements in force and was negotiating another 15, compared to just three free trade agreements benefitting America at that time.

Mexico had free trade agreements in effect with at least 28 countries. Even Japan was considering free trade agreements with six trading partners. The United States' companies and their workers were forced to stand on the sidelines and export opportunities were lost.

This committee's leadership and Congressional enactment of trade promotion authority got us back on the field. Today, because of Congressional action, the U.S.-Singapore and U.S.-Chile free trade agreements are already helping to boost U.S. exports and employment.

The U.S.-Australia Free Trade Agreement is another important opportunity for promoting U.S. economic growth and the good jobs that come with it. We urge the Congress to put this agreement to work for the United States.

The U.S.-Australian trading relationship has always been a strong one. Our trade surplus with Australia has been a growing one, and steadily. Australia, like the United States, is an advanced economy. Workers in both countries earn similar wages and both countries have the same strong commitment to workers' rights and environmental protections.

The U.S.-Australia Free Trade Agreement would improve this picture even more. We can expect gains from the U.S.-Australia Free Trade Agreement because the agreement includes a number of key features sought by both Congress and American businesses at the outside of these negotiations.

Our negotiators have done a terrific job for their insistence that the agreement specifically expand market opportunities for U.S. goods and services and provide a higher level of certainty regarding investment rules.

Mr. Chairman, sector by sector this free trade agreement is a big plus for America, yet we should also recognize its importance to overall U.S. trade policy. Implementing the free trade agreement is important in keeping the momentum of trade liberalization going.

Indeed, it is no exaggeration to say that the world is watching what Congress does with this agreement. Delay in approval could slow down other negotiations under way, whether they be bilateral, regional, or multilateral levels.

Forward-looking trade policies that include the U.S.-Australia Free Trade Agreement will create increased economic opportunity and higher standards of living. A retreat on trade, which no one is suggesting, would imperil the prosperity and the quality of life available to Americans of all ages and walks of life.

Further, it would be inconsistent with the leadership expected by us of our global partners. Every generation faces new challenges. Our challenge is found in a global economy with new requirements, new dynamics, and many new players.

Our world is different and it is changing at a stunningly rapid pace. It is in our Nation's best interests to align our economic and commercial interests with the increasingly complicated geopolitical picture that we face.

Mr. Chairman, in closing, we urge this committee and Congress to approve the U.S.-Australia Free Trade Agreement which advances our broad range of interests with Australia, a longtime

friend and ally of our Nation, and further demonstrates U.S. leadership on trade policy.

Thank you for hearing those views.

The CHAIRMAN. Thank you, Mr. McGraw.

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

The CHAIRMAN. Now, Mr. Kneen?

**STATEMENT OF JON KNEEN, CHAIRMAN, AL-JON, INC.,
OTTUMWA, IOWA, ON BEHALF OF THE NATIONAL ASSOCIATION
OF MANUFACTURERS**

Mr. KNEEN. Thank you, Mr. Chairman, Senator. My name is Jon Kneen. I am the founder of a company called Al-Jon, a manufacturer based in Ottumwa, Iowa.

I am here to represent my company and the National Manufacturers Association regarding the benefits of the U.S.-Australia Free Trade Agreement.

Our company, Al-Jon, designs, manufacturers, and markets machinery used to recycle scrap metals and manage wastes in an environmentally friendly fashion. This equipment includes car crushers, metal balers, metal loggers, hydro-tractors with engine pullers, and landfill compactors.

Our machines process old junk cars, refrigerators, stoves, and other light metal gauges for recycling purposes. Then our landfill compactors are used to demolish, compact, and reduce waste and garbage into an environmentally acceptable condition.

Al-Jon is over 40 years old. The company is privately owned by my family and in the second generation. We do not employ quite as many as you do. We only employ 100 people. But they are good people.

People in Ottumwa, and our ability to sustain growth for our local workforce, are increasingly dependent on our ability to penetrate new markets abroad. Today, we export approximately 10 to 15 percent of our production. In recent years, this has included a number of sales to Australia.

While we have numerous potential customers in Australia, our sales have been limited by two factors there: the 5 percent tariff the Australian government charges on our exports, and the cost of shipping our heavy equipment that far.

The U.S.-Australia Free Trade Agreement will immediately eliminate the first factor, the 5 percent duty. I believe this will greatly enhance our prospect of expanding trade and sales to Australia.

Let me explain. Our products are highly technical, highly valued manufactured goods. For example, an Al-Jon car crusher is priced at \$118,000. The duty paid by our Australian customer on each of these is nearly \$6,000, which is no small piece of change. No Australian company that I know of makes similar equipment. Our main competition for business in that country comes from Europe.

Once Congress approves the FTA and it goes into effect, we will gain an immediate \$6,000 advantage over our competitor, giving us strong reason to believe that we can significantly expand our sales of car crushers and other equipment which would receive similar duty breaks.

The instant competitive advantage that Al-Jon will receive from the agreement would be achieved by many other American manufacturers. Mr. Chairman, if you say, give me one good reason to support the U.S.-Australia Free Trade Agreement, I would say I will give you 19,000 reasons.

That is the number of U.S. companies that already export to Australia, according to the Census Bureau. My company is far from being alone in the small- and medium-sized manufacturers exporting to Australia. Over 85 percent of all U.S. exports to Australia are small- and medium-sized firms.

Australia is already a great market for smaller U.S. firms and the trade agreement is only going to make it better. The NAM, which represents 14,000 U.S. manufacturers, includes 4,000 large firms and 10,000 small and medium companies like ours. We believe the benefits are so widespread and substantial that we have taken to calling the deal with Australia the Manufacturers' Agreement.

The U.S.-Australia FTA deserves that label because 96 percent of all U.S. exports to Australia are manufactured goods. Over 99 percent of Australian duties on U.S. manufactured goods will be eliminated the moment this agreement goes into effect. That is an unparalleled achievement.

In previous trade, many had industrial trade-offs that were phased out in 5 to 10 years, delayed the benefits available to competitive American companies like mine, but the Australian agreement, to an extent, provides immediate cost-saving benefits to Al-Jon and other manufacturers.

The NAM estimates that the accord could result in \$1.8 billion annual sales for U.S. manufacturers' exports to Australia.

Another reason this agreement is so commercially meaningful to American manufacturers is the fact that it is built on an extremely solid trade and investment relationship already in place.

The United States sold more than \$12 billion in manufactured products to Aussies last year, and we are the largest bilateral industrial trade surplus in the world, nearly \$7 billion in the United States favor. Building on this strong foundation, FTA should allow us to further integrate economics and expand our Australian market.

I have made comment on the non-tariff barrier government procedures and customer procedures, and other ones. They are in my brief, which you may want to read.

In conclusion, I would like to thank you, Mr. Chairman and the members of the committee, for listening to the views of Al-Jon and the National Manufacturers Association on this important agreement.

We strongly urge that your committee and Congress approve the agreement as soon as you can so that American manufacturers such as myself can begin to take care of the lower barriers and stronger rules provided.

Thank you.

The CHAIRMAN. Thank you, Mr. Kneen.

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

The CHAIRMAN. Now, Mr. Cornwell?

**STATEMENT OF LYNN CORNWELL, RANCHER, MONTANA
STOCKGROWERS, GLASGOW, MONTANA**

Mr. CORNWELL. Thank you, Mr. Chairman, Senator Baucus, and other members of the committee. My name is Lynn Cornwell. I am a rancher from North Central Montana in Glasgow.

I appreciate the opportunity to testify today on behalf of the Montana Stockgrowers Association on an issue that is very important to the livestock industry in our State.

Agriculture has long been the cornerstone of Montana's economy and maintaining the viability of that industry is vital to our economic growth in Montana. As livestock producers both in Montana and nationwide work to become more efficient in increased production, it is critical that we have the ability to market our product to 96 percent of the world's population that lives outside our borders.

Trade agreements such as the Chilean Free Trade Agreement, as well as the recently negotiated Moroccan and Central American agreements, have the potential to create new marketing opportunities for our products.

As an industry, however, we generally support the negotiation of multilateral agreements, as they are much more likely to improve trade conditions for U.S. agricultural producers than would bilateral agreements with nations whose export strength rests in their agricultural production.

We also believe that these multilateral negotiations provide our industry with the only mechanism to reduce high tariffs in Japan and South Korea, our number one and number three markets, as mentioned earlier, for U.S. beef exports.

That said, we recognize that a country like the United States, with its diverse production capability, must approach trade negotiations from a broader position than from any single industry segment. As this committee and the entire U.S. Senate proceed to consider any bilateral agreement, there are a number of issues that must be addressed.

This issue is of such significance in Montana that the 58th Montana legislature passed overwhelmingly HJR 17. That resolution identifies the following provisions that must be addressed in any bilateral agreement signed by the United States.

The United States' farm programs within this country may not be unilaterally reduced or phased out. Agricultural tariffs in this country may not be further reduced unless the other country reduces its tariffs to the United States' levels. Market access must be reciprocal. Non-tariff barriers must be eliminated. Export subsidies must be harmonized or eliminated.

Last, health requirements for imports must be strictly adhered to, and utmost caution must be used to protect the U.S. livestock industry from bovine spongiform encephalopathy, otherwise known as BSE, foot and mouth disease, bovine tuberculosis, and other highly transmittable diseases.

In the case of the Australia Free Trade Agreement, it is our opinion that the goal of these negotiations should have been to prevent any potential negative impact on our beef industry until such time as our industry would have an opportunity to increase our ability

to export more of our product as a direct result of a successful WTO agreement.

Even though the last two WTO meetings have yielded very little progress, we acknowledge and appreciate the untiring effort of U.S. Trade Representative Zoellick to not abandon this important process.

While the Australia agreement is unusual in that it provides very little benefit to Montana agriculture, we appreciate Senator Baucus' efforts to assure that the Australian Free Trade Agreement contains adequate safeguards for the U.S. beef industry. Thank you.

We fully anticipate that a new WTO agreement will be in place well before the next 10 years when the first changes in the terms of trade with Australia begin to take place, the expectation being that a WTO agreement will increase market access and beef trade globally and that such an agreement would mean greater access for U.S. beef around the world via a multilateral reduction in tariffs on beef and an expansion in the size of TRQs.

As economies around the world improve, we need to position ourselves to compete via fair trade for the anticipated increase and anticipated demand for higher quality beef products.

In summary, and in view of an obvious decision to move forward with a bilateral agreement, we simply ask that you provide adequate safeguards for the U.S. beef industry in such agreements until new market opportunities can be provided through WTO negotiations.

Thank you, Mr. Chairman and Senator Baucus.

The CHAIRMAN. Thank you, Mr. Cornwell.

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

The CHAIRMAN. Now, Mr. Ruffner?

**STATEMENT OF JEFF RUFFNER, SENIOR VICE PRESIDENT
AND GENERAL MANAGER, MSE TECHNOLOGY APPLICATIONS, INC., BUTTE, MT**

Mr. RUFFNER. Chairman Grassley, Senator Baucus, I would like to thank you for the opportunity to speak today on what I believe are the positive impacts of the Australia Free Trade Agreement on a company such as ours.

First, if I may provide some background. Our company is a small engineering and research company located in Butte, Montana. We employ 200 people, with the majority being highly-skilled engineers, scientists, and technicians.

We currently have three significant business lines in addition to our standard engineering services. They include aerospace research, engineering and technology for the defense industry, and engineering and technology for various waste clean-up applications.

The nature of our work limits the services and products that we may market overseas. However, we do have specialty engineered products and services for waste clean-up and supervisory control and data acquisition products that lend themselves well to the overseas market.

Now, you may ask, why is a small company in Butte so interested in the Australia Free Trade Agreement? The answer is, be-

cause we must be. The nature of today's world and increased globalization means even a small company in Butte must look globally if they are to succeed. Clearly, the future expansion of certain portions of our business must be overseas to ensure our long-term success.

Now, while neither I nor our company has experienced and credentials comparable to many of today's speakers, we—and I, personally—have the battle scars and lessons learned from our adventures overseas. Our company has provided specialty engineered products or services in Japan, Korea, Poland, Greece, and the U.K.

While most of these adventures have been successful, they have certainly provide some valuable insight to the issues associated with international business development, marketing, and execution.

I look at all the free trade agreements our country is currently pursuing very parochially. I follow some with great interest and some with no interest at all, based on the potential for our company.

Because we are a specialty engineering business, we focus on highly technical market niches. When evaluating our overseas market potential for our company and where to put our limited resources, we need to look at the product or services, the need for that in their country, the state of the industry in the country, the regulatory enforcement framework, financial situation, and, of course, the likelihood of payment. Certainly Australia has always met these criteria, and is even now more attractive based on this agreement.

I am sure my experiences do not differ dramatically from anyone else who has tried to develop business overseas: the language differences, cultural differences, as well as business practice are what make it interesting.

However, the rubber meets the road on the business practice issue. Transparency and a clear, well understood set of rules which all are working to are a necessity for a small business when working overseas.

I can make the determination for myself as to my interest in participation in that market as long as I know the rules of the game. I believe that this agreement clearly lays out the rules and the guidelines for the game in Australia.

I am very pleased we have signed the Australia Free Trade Agreement and look forward to implementation. The agreement clearly outlines a path forward for development of professional service, and clearly delineates the requirements for government procurement, two areas in which I have a keen interest.

However, I believe the most important aspect of the agreement is the overall delineation of a transparent and clear set of rules and guidelines by which we all work. Australia is certainly not a market in which we have previously participated, but it is in the same region that we need to be.

It clearly meets our internal requirements, and this will help us make our decision, as well as our financial resources at the time to look into expanding it to Australia.

I would like to take this opportunity to thank all of those from the Office of the U.S. Trade Representative and all the other agen-

cies who have participated and worked so hard to get this agreement negotiated and finalized.

I would also like to thank Chairman Grassley, Senator Baucus, and the other members of the committee for giving me an opportunity to speak today. I would go on record in support of this agreement. This agreement has outlined the rules of the game and created a fair and level playing field for our business. The rest is up to us. The government can only do so much.

Thank you very much.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. We will take five-minute rounds.

Mr. McGraw, I am going to start with you. I think you laid out very clearly the advantage of the U.S.-Australia agreement, because 99 percent of our manufactured exports will become duty-free immediately.

From your perspective, speaking for the Business Roundtable, could you elaborate on the potential impact of the Australia Free Trade Agreement on U.S. manufacturing jobs and job growth? In other words, where it makes a real difference to the people of this country if we create jobs.

Mr. MCGRAW. Yes, I can. Thank you, Mr. Chairman. I think that at the outset, the agreement really solidifies the relationship that has grown already very significantly.

Right now, we have trade of some \$26 billion, with a nice surplus accounting for the Australian investment in the United States, which accounts for some 80,000 jobs. I think that with increased investment here, you are going to see a nice increase of jobs somewhere probably in the 10, 15 percent range immediately.

I think that you are also going to be able to see correspondingly the benefit that Australia will achieve in terms of being able to house American interests in Australia.

So, I think it is one that is really going to be more incremental in strengthening an already strong relationship and I think a terrific model for what good trade policy should be.

The CHAIRMAN. Mr. Kneen, your presence here is a reminder of a very positive impact that trade was going to have on our small manufacturers. I think you noted in your testimony that over 85 percent of all U.S. exporters to Australia fall into this category of small- or medium-sized firms.

Could you elaborate on the competitive advantage that your firm stands to gain from the Australian agreement, in effect, in terms of duty differential? I think you touched on that in your testimony, so maybe you do not have to go about the duty differential. But in terms of easier access to the Australia market versus your competitors.

Mr. KNEEN. It is going to be helpful to many small manufacturers in the United States. You heard from one in your own State, Vermeer, which builds equipment that they sell a lot of in that country. We sell some, but not as much as they do.

But, yes. The immediate relief we get will give us a much more competitive advantage to our European people that build similar type things. Duty will be the main thing. Freight probably is not

going to change too much, other than as we begin to ship more we may be able have a little more competitive relationship with freight.

The CHAIRMAN. All right.

And Mr. Cornwell, as you know, this agreement contains a volume-based safeguard which will terminate in 18 years. This safeguard will be replaced with a permanent price-based safeguard for beef. Do you know if the United States' producers are generally aware of those safeguards?

Mr. CORNWELL. I do not know that. I assume they are. I think most producers are so euphoric about trade and generally accept the enhanced opportunity to sell these products, that they are willing to live with the restrictions and the time allotted. It is going to take some time to get all this done, but I think most producers are pretty comfortable with that.

The CHAIRMAN. All right.

Mr. Ruffner, you testified about the lessons that your company has learned. You called them "adventures" doing business overseas as a small engineering company. Could you share with the committee an example of a problem that your company had doing business in a foreign country and how the U.S.-Australia FTA will establish clear and transparent rules that will prevent such problems in the future, particularly for small companies?

Mr. RUFFNER. Well, certainly. I have spent much time in Taiwan and really have nothing to show for that. I think that is clear because we were dealing typically with government agencies, and government agencies in which I really did not speak the language. I was relying on interpreters. They had a lot of middle men working with major engineering companies.

So, our experience there has shown that I wasted a lot of time because we did not have the government procurement rules set up in place. Most of our technology is either going to go to the government of that country or to a rather large engineering company.

And just that whole experience as part of the lessons learned, that clearly the transparency, the set of rules for government procurement and for professional services, from our standpoint, is what is needed.

I like to look back on that with fondness, because I think I am a lot smarter because of it. Clearly, that highlights the direction that we will move in the future.

The CHAIRMAN. All right.

This agreement contains a cutting-edge provision on e-commerce and our two countries will be cooperating on e-commerce issues to facilitate government procurement.

As an engineering firm, does your company provide any goods or services by electronic means, and will the existence of e-commerce provisions in the agreement make it easier for your company to access the Australian market?

Mr. RUFFNER. Yes, it will. First of all, like I said, we have not been to Australia yet. We have spent most of our time in Korea, Taiwan, and Japan. But, also, we have moved drawings, we have moved things back and forth electronically with those other countries. Given the language similarities, almost, the cultural similarities, it will make it very easy for us.

The CHAIRMAN. All right. Thank you all.

Now, Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Cornwell, what are the best foreign market opportunities for cattle, for beef?

Mr. CORNWELL. Currently, Japan, Korea, Mexico, Thailand, as you well know. You have made more trips to the Orient than anyone on behalf of Montana producers, but nationwide as well.

Senator BAUCUS. So you are saying, basically, Asia.

Mr. CORNWELL. The Asian market.

Senator BAUCUS. Asian markets.

So what can we do more to help? I guess it is pretty obvious, just to get Japan to open up again.

Mr. CORNWELL. That is the real importance of signing this free trade agreement with Australia, is, if you will, to give us some leverage to help renegotiate to lower the tariffs with Japan and Korea. Japan is currently 50 percent, Korea is 40 percent, I believe, and Thailand is as high as 80 percent.

We really need to be able to sell more product to these countries with a lower tariff. As a result of signing these free trade agreements, I think we will have that opportunity.

Senator BAUCUS. Are you concerned about Argentina or Brazil or other countries down the road?

Mr. CORNWELL. Well, having been familiar with the industry the last several years, there are so many animal health issues and so many restrictions, that those countries were being watched carefully by USDA. I am not real fearful of that.

And they raise a different kind of beef. Frankly, we are the high-end producers of the grain-fed beef and we have a different market than they do. As an example, when we export a pound of beef, maximum, it is \$1.66 in value. What we import is \$1.21. We need to be able to sell our products to other countries, as you well know.

And we will get a higher value for them. If we keep them here, we grind them and they become ground. So, putting dollars in our producers' pockets makes a lot of sense. I really do not see a lot of competition from Argentina and Brazil in the near future.

Senator BAUCUS. The main thing is just to get more aggressive and get these markets opened.

Mr. CORNWELL. Yes, sir.

Senator BAUCUS. Thank you.

Mr. Kneen, I was just curious, since you are in, as I understand it, somewhat in the scrap metal recycling business. So what about China? I read that China wants all the scrap metal in the world.

Mr. KNEEN. They are buying all the scrap metal in the world.

Senator BAUCUS. Are you selling it to them?

Mr. KNEEN. Yes. China is a very big factor in the steel market. Today, the major part of scrap metal from this country on the west coast is exported directly to China, and they are making steel and selling it back to us, in some instances, plus building automobiles. No, it is very much of a factor in that business.

Senator BAUCUS. Do you expect that to last a little while, too, as long as China does grow?

Mr. KNEEN. Yes, it looks like it ought to be a fairly long-time arrangement. In some instances it is very good, and in some in-

stances it is not real good, but it is something that we have to learn to live with and be competitive with.

Senator BAUCUS. Right. That is interesting.

Mr. McGraw, could you kind of tell us a little bit about the platform potential for trade and U.S. trade with Australia?

My guess is that if we increase our trade with Australia, the estimates I see up to \$2 billion more a year, that there are also opportunities to use that as a springboard for Southeast Asia and other countries.

Could you expand on that a little bit, please?

Mr. MCGRAW. Well, I think so. Senator, as we have discussed before, trade policy overall establishes a language by which nations can discuss economic growth and can talk about job creation. To show the kind of momentum that we have shown in the last year and a half, establishes a platform, I think, for others to want to cooperate, to want to be a part of that kind of expansion.

I think that the progress we have made to date, and if we can get passage of Australia and then Morocco, I think it sends a tremendous message about the openness with which the United States wants to achieve a much broader framework for those kind of discussions, and I think that will lead to even more.

My hope is that our progress will also open up more impetus to get back to the Doha Round, to get regional agreements like the Free Trade Area of the Americas back on the agenda. But at this point, it is going to be back to bilaterals. To show this kind of progress and this kind of momentum, I just think establishes a terrific precedent to get it done.

Senator BAUCUS. I appreciate that. My time is running out here.

Mr. Ruffner, Montana is known for many things, and one is agriculture. But could you tell us what more our country could do, either the USTR or other agencies, to help small manufacturers, small engineering companies? Not the Morris and Knudsens. They do all right by themselves. But some of the smaller firms in our State, as well as other States. How do we get them rolling even more in future agreements?

Mr. RUFFNER. And I appreciate the question because I get that from, actually, a lot of folks in the government, what can we do more to help. From my perspective, the company has to, first of all, decide, do they want to go overseas. I have been fortunate. We have been able to look and decide that we need to be overseas if we are going to succeed. In Montana, we call it strategically isolated. That is what we are.

But once the small company makes the decision to go overseas, I think where I have found critical support, to be honest, is with the Commercial Service at the embassies. I have had excellent support from those offices. Those folks go out of their way to help us. You could go into a country and spend 2 days and have a good feel for whether you have a market there or not.

If I could encourage anything, I would encourage strengthening those offices. Currently they charge for their Gold Key service. I think it is well worth it. But many other small companies may not be able to afford that. Maybe make that more affordable.

Also, on the free trade agreements, as I go through these, some of it, as the term goes, is above my pay grade. But what I need

to look for at these free trade agreements is whether 10 percent is the right number, 5 percent is the right number, I do not know.

What I need to know, is what the ground rules are, because when I know the ground rules I can figure it out for myself. Basically, once you get to that point it is up to us. We either have a good product to sell or not, and we are on our own.

Senator BAUCUS. So, more transparency, and just know what the rules are.

Mr. RUFFNER. That is right. As long as I know the rules and know what is going on, I can make the rest of the decisions and rely on myself to go forward.

Senator BAUCUS. Thanks for taking the time to come. It is a long distance. Both of you. Thank you very much.

The CHAIRMAN. Thank you very much.

I would call the next panel. Would you come while I make an announcement to the rest of the committee?

Because of the vote that we are expecting at 12:15, members cannot accommodate the meeting scheduled to consider the Burma resolution, so we will postpone that meeting and hopefully consider the resolution off the floor later today.

Our third panel is testifying on the Morocco Free Trade Agreement. I would welcome John Schulman, corporate executive vice president and general counsel of Warner Brothers Entertainment, Burbank, California, to testify on behalf of Time Warner and the Entertainment Industry Coalition for Free Trade.

Then, David Mengebier, senior vice president of governmental and public affairs at CMS Energy Corporation. He is from Jackson, Michigan.

Then we have a friend of mine, Ron Heck, who will speak on behalf of the American Soybean Association. He is president of that association and he is also a family farmer in Perry, Iowa.

Our last witness is Lochiel Edwards, who is president of the Montana Grain Growers Association, and he is a producer from Big Sandy, Montana.

Let us go in order. Mr. Schulman, go ahead. Oh, let me say something else. I alluded to this, but just in case we do call a vote at 12:15, we will now shut down. One of us will go vote and continue the hearing and then come back and the other person will go vote. Just so you understand, we are not running out on you.

Mr. Schulman?

STATEMENT OF JOHN SCHULMAN, CORPORATE EXECUTIVE VICE PRESIDENT AND GENERAL COUNSEL, WARNER BROTHERS ENTERTAINMENT, BURBANK, CALIFORNIA, ON BEHALF OF TIME WARNER AND THE ENTERTAINMENT INDUSTRY COALITION FOR FREE TRADE

Mr. SCHULMAN. Thank you very much, Mr. Chairman.

First, on behalf of Warner Brothers and Time Warner and the Entertainment Industry Coalition, I thank you for the opportunity to be here today to discuss the benefits of the U.S.-Australia and U.S.-Morocco Free Trade Agreements.

Our company, the Entertainment Industry Coalition, and the U.S. workers and creative talent we represent strongly believe that both agreements will create valuable opportunities for our industry

that will result in new jobs, will increase exports, and will bring in revenue to help reduce our trade deficit.

As an indication of our own company's strong support for both agreements, Time Warner has served as co-chair for both the American-Australia Free Trade Agreement Coalition and the U.S.-Morocco Free Trade Agreement Business Coalition.

Through Time Warner, Warner Brothers is a member of the Entertainment Industry Coalition which represents the interests of men and women who produce, distribute, and exhibit many forms of creative expression, including films, videos, TV programming, music, and video games.

Our members are programmers, exhibitors, producers, distributors, guilds and unions, trade associations, and individual companies involved in the industry. That industry is one of the U.S. economy's greatest assets. We create more than 5 percent of the Nation's GDP. We bring in more international revenues from exports than aircraft, agriculture, automobiles, or auto parts.

We are creating new jobs in the United States three times the rate of the rest of the economy. Our movie industry alone has a surplus balance of trade with every single trading partner in the world.

But our industry is under attack. There are two primary threats we face: market access barriers and lax or non-existent anti-piracy laws or enforcement. We seek not special treatment, but elimination of special impediments.

Market access barriers prevent the U.S. entertainment industry from competing in many countries where the market is instead ceded to the locals. Tariffs and quotas are examples.

Piracy, whether physical or online, is having a devastating impact on our industry. It is growing dramatically with the advance of digital technology. Without strong protection, the ability of the entertainment industry to continue to export, to expand jobs, and to increase revenue from international trade is being jeopardized.

These troubling trends increase the importance of international trade agreements, including those with Australia and Morocco. Why are we such big supporters of both? First, both agreements include strong intellectual property rights protections that will allow our industry to continue to grow and prosper.

Both agreements have important market access provisions, including zero tariffs on all our products, resulting in both market access and national treatment for all of our services and products.

Finally, both agreements are important statements to the rest of the global trading community that high standard commitments in trade and cultural products can be made in a way that opens markets while still promoting cultural diversity.

Specifically, both agreements include provisions that go beyond the TRIPS protection. Both agreements establish strong anti-circumvention provisions to prohibit tampering with technologies designed to prevent piracy and unauthorized Internet distribution.

Both agreements protect copyrighted works for extended terms, in line with emerging international trends, to allow companies like ours to reinvest, to restore older works, and to take the significant risks necessary to create new ones.

Finally, and most importantly, both FTAs strengthen IP enforcement by increasing criminal and civil penalties and authorizing the seizure, forfeiture, and/or destruction of pirated products and the equipment used to produce them.

The entertainment industry's top trade policy priorities are two: ensuring market access for our products and services and protecting the intellectual property through strengthened laws and effective enforcement.

The Australia and Morocco agreements meet those goals. We wish to continue to export our product, not jobs, and reduce, not increase, trade deficits. The Australia and Morocco FTAs help us do so. We urge their swift passage.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

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

The CHAIRMAN. Mr. Mr. Mengebier?

STATEMENT OF DAVID G. MENGEBIER, SENIOR VICE PRESIDENT, GOVERNMENTAL AND PUBLIC AFFAIRS, CMS ENERGY CORPORATION, JACKSON, MICHIGAN, ON BEHALF OF THE U.S.-MOROCCO FREE TRADE AGREEMENT BUSINESS COALITION

Mr. MENGEBIER. Mr. Chairman, I am grateful for the opportunity to testify today in support of the U.S.-Morocco Free Trade Agreement. I am here today representing both my company, CMS Energy, as well as the U.S.-Morocco Free Trade Agreement Business Coalition.

The coalition is comprised of nearly 100 companies and associations, all of whom strongly support Congressional approval of the FTA.

We believe the FTA is a high-standard, comprehensive agreement that will stimulate economic growth and opportunity in both the United States and Morocco. It will advance the concept of a Middle East free trade area and it will deepen ties with a country that is a long-time and steadfast friend of the United States.

With your permission, Mr. Chairman, I would like to insert into the record background materials prepared by the Morocco FTA Coalition, as well as the full text of my statement.

The CHAIRMAN. It will be included.

Mr. MENGEBIER. Thank you.

[The information appears in the appendix.]

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

Mr. MENGEBIER. CMS Energy is an integrated energy company based in Jackson, Michigan. In Morocco, CMS operates and is the 50 percent owner of the Jorf Lasfar power plant, located in the province of El Jadida on the Atlantic Coast.

This 1,356 megawatt \$1.3 billion facility supplies approximately 60 percent of Morocco's daily demand for electricity. For such investments to succeed, they must be based on partnerships with host country authorities and stakeholders that entail collaboration, trust, and a common vision.

By these standards, our experience in Morocco, where we are the largest American investor, has been outstanding. In our opinion, the proposed free trade agreement will dramatically expand levels of trade and investment from the United States that will sustain American jobs, promote U.S. exports, and increased revenues for U.S. firms.

We believe that, as other U.S. companies establish themselves in Morocco under the FTA, they too will bring new technology, best practices, and vigorous corporate citizenship efforts, and likewise strengthen the Moroccan economy. The FTA is truly a win-win proposition.

In order to operate and maintain our facilities, we employ more than 500 Moroccan nationals. Because electricity must be produced in proximity to its market, let me underscore the fact that we did not export one job from the United States in making this investment.

Instead, the Jorf Lasfar product created and sustains a variety of U.S. jobs not only in Michigan, but also in places where our suppliers are based such as New York, Virginia, Tennessee, California, Connecticut, the State of Washington, Washington, DC, New Jersey, and elsewhere.

In the area of Moroccan labor, the jobs that we have created in Morocco include management level positions, pay fair wages and benefits, and involve rigorous training and education programs.

We are more than pleased with the quality and sustainability of the workforce we have created in Morocco. Morocco still has major infrastructure requirements, including in the energy sector, and the FTA will accelerate opportunities for U.S. companies to meet those requirements and bring a similar approach to employment and labor practices.

The labor situation took it a significant step forward with the adoption last year of a new labor code, a development that many believe was driven, in part, by the FTA negotiations with the United States.

Over time, implementation of the new code will improve labor conditions further still, creating stability and predictability for employers and other potential foreign investors.

On environmental issues, CMS has worked closely with Moroccan officials and other parties to implement world-class standards on water quality and air emissions that utilized state-of-the-art pollution control technology and practices.

We have developed, for example, major recycling programs, including an effort to recycle 85 percent of the fly ash from the plant for use in concrete production. In addition, we have collaborated with local officials to implement strict environmental training, monitoring, compliance, and reporting.

Since our facility has operated for several years, the FTA will not affect the prices of major components and equipment that were brought in for construction. That said, we import about \$8 million in goods and services from Europe and about \$2 million from the United States annually to operate and maintain the plant.

Since goods and services purchased from the United States are subject to as much as a 42 percent Customs duty, we anticipate that many of our go-forward O&M needs can be met instead more

cheaply from the United States once the FTA comes into effect and these duties are eliminated.

The fact that the FTA includes specific coverage of energy service, while Morocco's trade agreement with the EU does not, gives an important advantage to U.S. service companies.

To conclude, both CMS Energy and the entire U.S.-Morocco FTA Coalition urge the Congress to improve this important agreement. I want to acknowledge your leadership efforts, Mr. Chairman, to move the Morocco agreement quickly. It is a strong agreement. It is good for the United States. It will serve as a standard for economic progress across the region and it will help an important friend and ally in a key part of the world.

Thank you.

The CHAIRMAN. Thank you.

Now, Mr. Heck?

**STATEMENT OF RON HECK, PRODUCER AND PRESIDENT OF
THE AMERICAN SOYBEAN ASSOCIATION, PERRY, IOWA**

Mr. HECK. Good morning, Mr. Chairman.

The CHAIRMAN. Good morning.

Mr. HECK. I am Ron Heck, a soybean and corn farmer from Perry, Iowa. I am currently president of the American Soybean Association, representing 25,000 producer members on national issues of importance to all U.S. soybean farmers. ASA appreciates the opportunity to appear before you today.

ASA welcomes the conclusion of the free trade agreement negotiations between the United States and Morocco. The agreement is fair. It does not exclude any products, and it creates opportunities for our industry to export more soybean and livestock products to Morocco.

We commend you, Mr. Chairman, for your active participation and leadership in the process and for looking out for the needs of soybean producers during negotiation of the agreement.

Morocco is an important market for U.S. soybean producers. It imports approximately 300,000 metric tons of soybeans annually, valued at \$90 million. It also imports 300,000 metric tons of crude soybean oil and 100,000 metric tons of soybean meal annually.

Let me quickly review the present pre-implementation status of the soybean trade between Morocco and the United States. Currently, import duties are imposed on virtually all U.S. soybean products entering the Morocco market.

Soybean seed imported for planting and soybeans imported by the crusher has an assessed ad valorem duty of 2.5 percent. A differential duty is applied to soybeans imported for crushing.

In the case of soybeans imported for other forms of processing, the duty is 22.5 percent ad valorem. The duty on soybean oil is 22.5 percent ad valorem, with an additional amount applied to shipments for which the declared price is below a reference value.

The import duty is 25 percent ad valorem on soybean meal and for high-value soy protein products used in human foods such as soy flour, soy concentrate, soy isolates, and textured soy protein, the assessed duty is currently 75.5 percent.

Under the FTA agreement, the duty on soybeans imported for processing will be eliminated immediately. We expect this will ben-

efit U.S. exporters by at least partially offsetting aggressive pricing practices by South American suppliers.

Currently, South American supplier countries do not have a free trade agreement with Morocco, but receive most favored nation status which assesses a tariff rate equivalent to the pre-FTA tariffs applied to imports from the United States.

The higher duty on soybeans imported for other forms of processing has made it uneconomical for feed compounders or others in Morocco to invest in the production of full-fat soybean meal.

Full-fat soy is a product that would find a ready market among producers in Morocco's rapidly expanding and relatively advanced poultry industry. Therefore, we applaud the elimination of the duty on soybeans.

Duties on crude soybean oil will also be eliminated immediately. Duties on soybean meal and other processed soy products will be reduced by 50 percent in the first year of the agreement, and then phased out over the next 5 years.

This should encourage expansion in the U.S.-Morocco soybean meal trade. There have been occasional imports of soybean meal at the current 25 percent duty rate, but the tariff has usually been sufficiently high to protect the Morocco crushing industry from import competition.

While it is in the best interests of U.S. soybean producers for Morocco to continue to have a healthy domestic crushing industry, a preferential duty on soybean meal allows the U.S. industry to compete for a share of Morocco's rapidly growing market for livestock and poultry feed.

We are satisfied with the timeframe given in the agreement which will allow the Moroccan industry to adapt to increasing import competition from U.S. soybean meal.

ASA is also looking for opportunities to expand trade in high-value, processed soybean products used for human consumption, such as soy flour. As developing countries grow wealthier and can afford a more nutritious diet, consumption of soy protein products also grows.

Morocco is only beginning to become interested in soy for human consumption because of the prohibitively high duty on these high value products, and has made it difficult to import samples for product demonstrations and other market development activities. Therefore, we are pleased to see the initial 50 percent reduction and eventual elimination of tariffs on these products.

In addition to increased opportunities for soybeans and soy products, there is a significant expansion in the market access for U.S. beef and poultry products which are large domestic markets for the United States.

The CHAIRMAN. Mr. Heck? Would you stop just there, and Mr. Edwards? Senator Baucus will be right back. There is only one minute for me to get over there. I have not missed a vote in 11 years and I do not intend to miss this one.

[Whereupon, at 12:27 p.m., the hearing was recessed to reconvene at 12:31 p.m.]

Senator BAUCUS. The committee will come back to order. I have got to get caught up here. Were you testifying, Mr. Heck?

Mr. HECK. Yes. I was almost ready to conclude.

Senator BAUCUS. Why do you not proceed?

Mr. HECK. I will just wrap up and then we will pick it up again.

Senator BAUCUS. All right. Thank you.

Mr. HECK. I was just discussing the increased market access for beef and poultry into Morocco, which we appreciate, since they are good domestic markets for the U.S. soybean producers.

Previous to this agreement, there was no access to the Moroccan beef and poultry markets, despite high demand in the restaurant industry in Morocco for high-quality beef.

The agreement provides for a tariff rate quota for U.S. beef and immediate access for certain poultry products. We understand that certain sensitive poultry products, such as chicken leg quarters, will have a lengthy phase-out of the TRQ and a permanent safeguard mechanism. However, this will be a new market that was previously inaccessible.

We are also pleased that Morocco has adjusted their state trading enterprise system by eliminating special financing, increasing transparency, and eliminating restrictions on the right to export to give us a truly free market.

In conclusion, this agreement is very benefit to U.S. soybean producers and to our customers in the domestic livestock industry. ASA strongly supports and urges quick passage of the Morocco FTA.

I would be pleased to respond to any questions.

Senator BAUCUS. Thank you, Mr. Heck.

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

Senator BAUCUS. Mr. Edwards, thanks for coming all this distance again, and for your testimony.

STATEMENT OF LOCHIEL EDWARDS, PRODUCER AND PRESIDENT OF THE MONTANA GRAIN GROWERS ASSOCIATION, BIG SANDY, MONTANA

Mr. EDWARDS. Yes. Good afternoon. It is an experience, getting a plane out of Montana to Washington, DC. It always is.

Good afternoon, Senator Baucus. My name is Lochiel Edwards. My family and I raise high-quality wheat on the prairies of Montana for domestic flour mills and for the export market.

I appreciate this opportunity to speak to you on behalf of the three national organizations that represent America's wheat growers: the Wheat Export Trade Education Committee handles trade policy; the National Association of Wheat Growers addresses domestic policy; and the U.S. Wheat Associates handles export promotion for wheat. I also represent the Montana Grain Growers Association in my comments here today.

Let me begin by highlighting two points that wheat producers look at when they are examining trade issues. First, as Mr. Cornwell indicated earlier, 96 percent of the world's consumers live outside our borders.

That, of course, leaves 4 percent in the United States and our wheat industry has got to have export opportunities to survive. We grow a lot of wheat in this country and export 50 percent of our total production. Back home in Montana, the figure is closer to 80 percent.

As you can imagine, every market, regardless of size, is important to us. Mr. Gilliland called to talk to me about the Moroccan trade agreement the other day, and at first I thought he said Monaco. I was pretty excited, even about that small market. I did not know there was a Monaco free trade agreement, and obviously there is not.

Senator BAUCUS. There is a big futures market in Monaco. [Laughter.]

Mr. EDWARDS. Yes. Well, the great thing about that, is I think they grow hardly any wheat, and I think they could pay for everything they bought.

But, nonetheless, we are excited about the Moroccan opportunities. We support bilateral and multilateral agreements wherever they may be, as long as they are good for wheat.

Long-term, the WTO process is important for liberalizing the world wheat trade. The U.S. wheat industry is clearly focused on achieving our goals in this round of negotiations, and a completed Free Trade Area of the Americas could even surpass these WTO expectations.

But we expect the larger WTO and FTAA agreements to take some time, and we see FTAs as stepping stones to pave the way for free and fair trade worldwide. As part of this process, the U.S. wheat industry strongly suggests and supports the passage of this agreement this summer.

This is an important agreement for wheat. Without the strong determination of our U.S. Trade Representative's office, the USDA, and I happen to know the efforts of Senator Baucus, and probably other members of this committee, we would have been excluded from this agreement.

We firmly believe that no commodity should be exempted from any free trade agreement. We know that once a commodity is allowed to be taken off the table, other countries will demand the same right for what they would define as sensitive products.

We applaud the negotiators and the members of this committee for the long, hard battle they successfully fought on behalf of the U.S. wheat industry.

In the Moroccan wheat market, the United States has been handicapped with regard to other origins in terms of proximity. European Union export subsidies are also a difficulty. Morocco's former colonial ties to Europe and a Moroccan import duty structure that puts U.S. wheat at a disadvantage to other origins are all difficult positions, difficult factors when it comes to gaining wheat's place at the table in this free trade agreement.

Morocco has a tariff rate of well over 100 percent for durum and other wheat that they could impose at any time.

Implementation of this agreement will phase out in-quota tariffs on durum wheat over the next 10 years. The quota will start at 250,000 tons, which is compatible with current market levels, and is set to grow by 10,000 tons per year thereafter. Unfortunately, the tariff on durum beyond the quota will remain under most favored nation treatment and is not scheduled to go to zero.

For all wheat other than durum, the tariffs will continue under this agreement. However, there is favorable provision to lower this tariff.

The wheat industry understands that trade agreements must take into account the internal needs of a population. Tariff rate quotas were also established for all wheat products. While the TRQs may serve as protection for Moroccan millers and bakers, they also serve to quantify the levels of imports for these products.

We are extremely pleased that the negotiators secured in this agreement a commitment on state trading enterprises that will commit Morocco to working with the United States toward an agreement in the WTO negotiations to do three things: eliminate restrictions on the right to export; eliminate the special financing granted to those state trading enterprises which export agricultural products; and, third, to ensure greater transparency regarding the operation of export state trading enterprises.

This is very important and we have asked the administration to secure this commitment in all future free trade agreements, including those currently under negotiation and those yet to be initiated.

The final, and equally important, element of this agreement guarantees that if Morocco provides any other trading partner better treatment for any product, Morocco must immediately provide the same treatment for our product. We find this very important, and it helps offset some of the reluctance of the Moroccan wheat farmers to give up some of their advantages at this time.

The U.S. wheat industry applauds our negotiators for their hard work and tenacity to reach this agreement for wheat. We strongly support the agreement and urge Congress to pass it this summer.

Thank you for this opportunity to present these views from the wheat industry.

Senator BAUCUS. Thank you very much, Mr. Edwards.

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

Senator BAUCUS. Let me just ask the four of you, generally, for some guidance in future FTAs. These seem to be working, that is, the Morocco and Australia, and we have had Chile and Singapore, and so forth, and there is a lot of talk about FTAA, but that is pretty ambitious. There are some countries that are kind of difficult to deal with on that one.

But just your general advice on where you think we should be going, what should our priorities be in pushing for trade agreements, and just thoughts on what seems to be working from your perspective, and what not. I know, Mr. Schulman, you are concerned about cultural preferences that countries advocate, and also piracy.

I think you mentioned earlier the intellectual property problems, and so forth. But just to give all four of you an open, running field here, just whatever comes to mind. This is your opportunity. Let her rip if you have got some complaint or something that has been bothering you.

Mr. MENGEBIER. Senator, maybe I can just start by saying this. CMS Energy is the largest American investor in Morocco and we have already seen positive effects of the U.S.-Morocco FTA even before it has gone into force and before Congress has approved it.

As I mentioned in my testimony, we saw the adoption last year of a very progressive labor code in Morocco, and much of the impe-

tus for that was the negotiations between the United States and Morocco on this FTA.

I think the U.S. Government, the USTR, and the Congress is on the right track in terms of negotiating individual FTAs with countries like Morocco, like Jordan, like Bahrain, like Australia, and other countries. And if you have an FTA that is a high-standard, comprehensive agreement like the U.S.-Morocco FTA, I think that sets a standard for other FTAs in other regions.

I think the U.S.-Morocco FTA is going to be a driver for the goal of establishing a Middle East free trade area, and in a region that is as integrated and as connected as the Middle East, it is vital, I think, to have a regional approach. But I think these individual FTAs do go a long way towards advancing that goal.

Senator BAUCUS. How would you approach the FTAs differently? I mean, I have sometimes thought that perhaps we should go to countries that have greater commercial value, greater bang for the buck, not to denigrate Bahrain or some of the smaller countries. But, of course, there are foreign policy considerations here, too, to some degree.

But any thoughts on, for example, Thailand? Is it another one of the southeast Asian countries where there is more commercial value? Do you have a thought on which FTAs to pursue that would be a higher priority in comparison to others?

Mr. SCHULMAN. Two comments on that. First, the sky really is the limit. Certainly we would look where the economic potential is greatest, China, India, eventually. I recognize that there are, as you point out, foreign relations impediments and other conditions that make that difficult, if not impossible.

We would hope that, even where we cannot achieve, secondly, a free trade agreement right now, that dialogues continue and markets remain open as much as possible, even with the absence of an agreement.

Senator BAUCUS. How about intellectual property? I mean, it just seems to me that we are not doing very well in intellectual property, that we are not enforcing agreements very well in this country.

Mr. SCHULMAN. Two particulars there. One is access, one is protection. Even when we have access, where there is no protection, the access is worthless. You can buy, on the streets of the Far East right now, copies of "Harry Potter," the movie that has been out in the movie theater two and a half weeks right now.

It incredibly undercuts the entire market and reduces the participation of all the people who make the movie, and removes their livelihood, or at least endangers it.

Senator BAUCUS. Why do you suppose our government is not pressing harder?

Mr. SCHULMAN. I would flip the question to you, sir.

Senator BAUCUS. Well, I will flip it back. [Laughter.]

Mr. SCHULMAN. You sit on that panel, and I will have to answer. We have done very well on our own. We have competed in a free market with attractive products that people have bought around the world.

More and more countries are trying to support their own cultural industries with quotas, with import duties, the rest. I would hope

that the strength of the product, one, will continue to be desired around the world.

Second, that we will erode the attractiveness of the illegality by attracting partnerships in those various countries. Right now, we have started to do some theaters in China, and the only way we can do it is with government-sponsored entities as our partners, initially 50 percent owners or more. Now we are reducing that. More and more of that joint operation, I hope endorsed by the U.S. Government, will go a long way.

Senator BAUCUS. As you know, it was not long ago, a few months ago, I was walking down the street. And you all know where it is. It is in Beijing, right near the American embassy, and you have people who are tugging at you, grabbing your sleeve to sell you something that is counterfeit. I raise it frankly with the Chinese and I raise it with American officials, and I cannot understand why there is not more done.

Mr. SCHULMAN. If they will not let the product in, it will get in. If they will not let it in legally, it will get in illegally. If they price it too high, they will force others to sell it cheaply. All of those things, we hope you will help us erase.

Senator BAUCUS. I appreciate it.

Mr. HECK. I would like to speak in support of that, too, from an agriculture view. The lack of intellectual property protection in other countries in the world is a problem for us in seed and crop protection of products, and the price on machinery and patents. It also hurts our agriculture to not have the intellectual property protection that we need.

Senator BAUCUS. All right.

Lochiel, where is our greatest market potential?

Mr. EDWARDS. Well, as a Montanan, I love the Asian rim because we can reach that market. But a rising tide raises all boats, so to speak, and shipping wheat out anywhere in the United States greatly improves our market.

You look at the population in Southeast Asia and the western side of the Pacific, and the potential is huge. I see those standards of living raising more quickly than we could ever have imagined 10 years ago. Thus, the tastes are going to change and the products that they demand will change.

Senator BAUCUS. I was over in China and it is incredible. China makes no pretense at being self-sufficient. Not too many years ago, they said, we will produce everything we consume. They make no pretext whatsoever.

I think they have an deficiency like 50, if I recall, or 40 million metric tons deficiency, with people moving away from the farms, and do not want to double crop, and the Gilbe Desert encroaching, and so forth, that they are going to be buying big time.

Mr. EDWARDS. They are an industrious nation and I do not think they need to produce all their food, if they are comfortable with that.

Senator BAUCUS. They cannot. They cannot.

Mr. EDWARDS. Yes.

Senator BAUCUS. They admit they cannot.

Mr. EDWARDS. Right. So, they are going to have to accept that. We run into that with all these free trade agreements. There is an

innate desire for countries to be self-sufficient in their food, and these free trade agreements initially cause some trepidation on their part as far as giving up maybe a portion of their farm economy. But we are becoming a global economy. There are people who are uncomfortable with that along the way, but it is coming whether we like it or not.

Senator BAUCUS. My time has been up for some time. I am sorry.

The CHAIRMAN. Mr. Schulman, you noted in your testimony that both the Australia and Morocco agreements include strong protections for intellectual property rights that are so important for your industry. You also noted that the agreements recognized the impact that emerging technologies have on those businesses.

Could you elaborate on how these agreements may serve as a model for addressing the impact of emerging technologies in the entertainment and media industries?

Mr. SCHULMAN. Sure. For approximately the last 10 years, it has been said that 5 years from now we will be serviced by video on demand, or near video on demand. We will not go to the video stores and take home cassettes or disks, but rather we will be able to dial up and choose various things to come in either on our television set or on our monitors.

That technology, providing a great new opportunity, also provides a great threat. To the extent that it is not being taxed in the two FTAs and the free trade, and digital downloads in e-commerce is one of the key elements here.

It will be the revenue source of tomorrow. I do not know when the tomorrow is. It has always been 5 years out, as I said earlier, and I still think it is five years out. But so long as that is allowed and protected, we will go forward.

The CHAIRMAN. Mr. Mengebier, you mentioned that you are confident that the free trade agreement will result in increased foreign investment in Morocco. Do you believe that this would be the case due to the specific investment provisions in the free trade agreement, or for other reasons?

Mr. MENGEBIER. Mr. Chairman, I think the specific investment provisions in the FTA will promote trade and investment between the United States and Morocco. We were on the phone yesterday with the plant manager at our power plant in Jorf Lasfar in Morocco, and we were asking him about where we source the supplies and products that we used to maintain our power plant there.

About \$8 million comes from the European Union right now, and about \$2 million comes from the United States. What our manager told us, was that with the FTA going into effect, he hopes the next couple of years to shift suppliers from the EU to the United States and get about \$5 million in products and services from U.S. firms. There is a lot of opportunity there for computer, engineering, and other types of suppliers for our project here in the United States.

Let me just give you one example. Chemitron is a New Jersey-based company that produces a desulfurization technology that allows us to remove fine particulates from our stack when we burn low-sulfur coal.

So, that is an opportunity that we have already taken advantage of, and we see a lot of other opportunities in the areas that I mentioned if the FTA goes into effect.

The CHAIRMAN. You also spoke about the advantage of this free trade agreement with Morocco having a positive impact on moving ahead their new labor code.

Do you believe that other changes, presumably positive changes, would result in Morocco's domestic regulations following implementation of an FTA?

Mr. MENGEPIER. Yes, I do, Mr. Chairman. I think that what the FTA is going to do with regard to Morocco's new labor code, is it is going to continue to provide impetus for the implementation of the code.

I think it is going to reinforce to the government of Morocco that they are on the right track in terms of labor and other regulatory issues. So, I think it is very much going to continue to lead to progressive changes in the regulatory environment in Morocco.

The CHAIRMAN. Are you knowledgeable about any other U.S. service companies that might invest in Morocco because of the free trade agreement?

Mr. MENGEPIER. Let me just give you a couple of other examples. We have a company that is based in New Jersey called Fan Services Associates, FSA, that provides axial fans for our generating unit. They cool the generators. So, we are having conversations with them about additional supplier opportunities.

I have mentioned Chemitron. I said that was from New Jersey, but it is from the State of Washington. That is the desulfurization technology.

Combustion Engineering is an engineering and contracting firm based in Connecticut. I think that the opportunities for products and services from that company are going to increase as a result of the FTA. Then as I mentioned, we are talking to a number of American-based suppliers on circuit boards which would go into the computers that we use to operate the plant.

The CHAIRMAN. Yes.

Mr. Heck, you mentioned that you are pleased that the Moroccan agreement and negotiations did not exclude any products. I need to know why you feel strongly about that.

Mr. HECK. Well, we know that when some products are excluded in some agreements, that it leads to other products being excluded in larger agreements. We know that, in general, U.S. agriculture is much better off in a world where we have more market access and reduced tariffs because we are very competitive overall in agriculture. We do not like to see the exceptions, because at some point they will come back and we will be the ones that are accepted.

The CHAIRMAN. My last question would be in regard to your feeling that you are very optimistic about increasing soybean sales to Morocco because of this agreement. Would increases sales to Morocco assist in any way in expanding U.S. sales to any other countries in the region or is that unrelated?

Mr. HECK. Well, I listened earlier this morning to the first panel and USTR said that having a free trade agreement helped them in negotiations with other countries and with WTO, and I believe that is accurate. When Moroccan citizens are enjoying the benefits of the reduced tariffs on soybean products, we are hopeful that it will lead to agreements with other countries in the area, too.

The CHAIRMAN. All right.

Senator Baucus, do you have anything else?

Senator BAUCUS. No, Mr. Chairman. Thank you.

The CHAIRMAN. All right.

We thank all of you. We think we have had a very good, thorough discussion of everything dealing with these two agreements, and look forward to it. I might suggest that there might be additional questions. I should have said this for the first two panels, too.

But we are going to keep the record open for additional questions and we would like to have answers, if you could get them to us within 7 days, just in case you get any from us or from the people who could not be here, for sure. Thank you all very much.

[Whereupon, at 12:55 p.m., the hearing was concluded.]

A P P E N D I X

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

U.S. – MOROCCO FREE TRADE AGREEMENT

**Written Statement of
Ambassador Peter F. Allgeier
Deputy U.S. Trade Representative
Before the
Committee on Finance
United States Senate
Washington, D.C.
June 15, 2004**

INTRODUCTION

Mr. Chairman, Senator Baucus, and Members of the Committee:

I would like to thank Chairman Grassley, Senator Baucus, and others on the committee who work in such close partnership with us on our free trade agreements. Today we count another success in our mutual efforts in this area: an FTA with Morocco. Ambassador Zoellick and Minister Delegate Fassi Fihri will sign the Agreement later this afternoon. I welcome the opportunity to discuss this Agreement with you now. I know that you share in our interest in expanding our trading relationships with countries in North Africa and the Middle East.

The Administration's trade agenda is a fundamental part of the President's broader efforts to advance reform in North Africa and the Middle East. In May 2003, President Bush announced our goal of creating a U.S. – Middle East Free Trade Area by 2013. This trade agenda is one element of a comprehensive approach to address the economic, social, and political challenges facing the region and U.S. interests in the area. In particular, our trade strategy is predicated on the idea that sustained economic growth can best be brought to the region through internally generated reforms and market-based, trade liberalizing policies.

Our strategy toward developing countries – to engage them at their levels of development, to provide them access to the U.S. market based on reciprocity, and to require that they adopt high standards for trade and investment - is working. In addition to our FTA with Morocco, we completed an FTA with Jordan in 2000, concluded FTA negotiations with Bahrain last month, and signed five additional Trade and Investment Framework Agreements with countries in the region in the last year. Important to our progress has been the strong desire among countries in the region to conclude FTAs with the United States to benefit from more certain market access for goods and services, and the high standards for intellectual property, transparency, and anti-corruption that only such agreements can provide.

Working in close partnership with Congress has been critical to our successes to date. The Trade Act of 2002 has put in place procedures that make it possible to negotiate the types of agreements that not only address the pressing need for engagement with such regions as the Middle East and North Africa, but also bring real benefits to American workers and the U.S. economy.

The FTA with Morocco is illustrative of these positive developments in our trade agenda in the region. As Ambassador Zoellick has noted, "our agreement with Morocco is not just a single announcement, but a vital step in creating a mosaic of U.S. free trade agreements across the Middle East and North Africa." Under the courageous leadership of King Mohammed VI, Morocco has made legally binding commitments to liberalize trade with the United States. With this Agreement, Morocco has signaled its serious intention to pursue and, lock in place profound economic reform.

THE AGREEMENT

This Agreement will result in significant benefits for U.S. exporters, workers, investors, farmers and ranchers. Morocco is an emerging market at the crossroads of Europe, Africa and the Middle East. It imports \$11.6 billion in products each year. Currently, however, U.S. products entering Morocco face average tariffs of more than 20 percent, while Moroccan products are subject to average duties of only 4 percent in the United States. Under this Agreement, more than 95 percent of two-way trade in consumer and industrial products will become duty-free immediately upon the Agreement's entry into force, with all remaining tariffs on currently traded products to be eliminated within nine years, making this the best market access package of any U.S. free trade agreement signed with a developing country. This Agreement will also serve to level the playing field for U.S. companies vis-à-vis their EU competitors.

Negotiating market access for agricultural goods was a significant challenge. Ultimately, negotiators from both sides were able to craft an agreement that balances Morocco's development needs and our free trade principles. U.S. access to the Moroccan market has been enhanced, while complementing Morocco's agriculture reform efforts, and taking into consideration the importance of economic and social stability in a sector of the economy that employs an estimated 44 percent of the population. Our beef and poultry producers will get new access to a market that was formerly closed to them. Tariff rate quotas for durum and common wheat could lead to five-fold increases in U.S. exports over recent levels.

We also achieved significant market access in services sectors. This will allow U.S. services providers to compete on a level playing field with Moroccan companies. Under the Agreement, Morocco has made broad commitments to create a wide array of new opportunities in its services sector including banking, insurance, audio-visual, telecommunications and computer-related services, while better protecting intellectual property.

The Agreement provides for a high level of intellectual property protection, consistent with the standards set in U.S. law. This includes state-of-the-art protections for trademarks and digital copyrights, expanded protection for patents and product approval information and tough penalties for piracy and counterfeiting. Overall, Morocco has committed to substantially enhance protection and enforcement of intellectual property rights.

The government procurement and customs chapters of this agreement will promote transparency and efficiency. The Agreement establishes important obligations between the two countries,

such as prohibiting discrimination by government purchasers between U.S. and Moroccan suppliers when making covered government purchases in excess of agreed monetary thresholds.

The rules of origin provisions allow for the possibility of counting the value of inputs from FTA partners in the region in determining whether goods receive preferential tariff treatment. This feature will facilitate the weaving together of our bilateral agreements as we move to a more integrated, region-wide agreement. It will also encourage trade among countries in the region, an important but missing ingredient for the region's development.

The labor and environment provisions also meet the objectives set out by Congress in the Trade Act of 2002. Each chapter's obligations are parts of the core text of the Agreement. In both cases, each Party commits to enforcing their own laws. This obligation is enforceable through the Agreement's dispute settlement procedures. Moreover, each government commits to promote high levels of environmental protection, to strive to ensure that its labor laws provide for labor standards consistent with internationally recognized labor principles, and to not weaken or reduce labor and environmental laws to attract trade and investment. Also notable are provisions calling for panel expertise in the event of labor or environmental disputes, as well as an innovative mechanism that allows for monetary assessments to induce a country to address its labor or environmental problems. The Agreement also establishes processes for further cooperation on labor and environmental issues, building on already extensive cooperation in these two areas.

Further important elements of this Agreement are its transparency, public notification, and anti-bribery provisions. These provisions will help to improve the business and investment environment in Morocco by providing more certainty and predictability for firms and individuals operating and investing there. In turn, by increasing the attractiveness of doing business in Morocco, such provisions will allow the Moroccan economy to realize the full potential for growth and development that an FTA provides. The agreement also establishes investment protections that will improve the conditions for investment by U.S. companies and are fully consistent with TPA objectives.

The trade advisory committees have shown widespread support for this Agreement. The most senior committee, the Advisory Committee for Trade Policy and Negotiations, found the agreement "to be strongly in the U.S. interest and to be an incentive for additional bilateral and regional agreements." Advisory committees on services, goods and intellectual property also expressed broad support. These committees highlighted the comprehensive nature of the Agreement and its rapid elimination of tariffs on U.S. exports. Several committees identified in particular the Agreement's strong protection of intellectual property rights, with the advisory committee on Intellectual Property Rights saying that the Morocco FTA contains "the most advanced IP chapter in any FTA negotiated so far." Agricultural advisory committees voiced broad support for the agreement as well. We recognize that the Labor Advisory Committee has concerns about all FTAs that relate to the Committee's assessment of this Agreement. The U.S.-Morocco FTA, however, fully meets the guidance that the Congress gave us in the Trade Act of 2002.

CONCLUSION

The U.S.-Morocco FTA is a comprehensive, well-structured agreement that will provide concrete benefits for both Americans and Moroccans. The Agreement is an essential building block not only for Morocco's economic and structural reform effort, but also for the Administration's goal of building a more market-oriented, liberalized economic regime in the Middle East and North Africa. In addition, progress made bilaterally and regionally will support our global trade agenda and complement our efforts in the Doha round of negotiations.

This Agreement sets a benchmark of high quality for other potential FTAs in the region. It demonstrates that it is possible to tackle successfully some of the most contentious issues facing trade with developing countries, such as agriculture, and that agreements benefiting both sides can be reached. To ensure that this Agreement meets the high expectations we have for it, the Administration has refocused its assistance program with Morocco to help ensure the Agreement generates the benefits both sides expect. U.S. assistance will focus on helping the Moroccans to meet their FTA obligations, stimulate business development, and promote economic reform.

With your guidance and support, we will continue to pursue the Middle East Free Trade Area initiative. Working together, we feel confident that we can build a trading and investment community with the Middle East and North Africa that will stimulate growth, generate prosperity, and promote democracy.

**SUMMARY OF THE
U.S.-MOROCCO FREE TRADE AGREEMENT**

Market Access for Goods

Morocco is an expanding economy strategically situated at the crossroads of Europe, the Middle East and Africa. More than 95 percent of two-way trade in consumer and industrial products will become duty-free immediately upon entry into force of the Agreement, with all remaining tariffs on traded products to be eliminated within nine years. This is the best market access package to date of any U.S. free trade agreement signed with a developing country.

Upon implementation of the Agreement, 98 percent of current U.S. non-agricultural (non-textile) imports from Morocco will be duty-free. This includes all products for which Morocco currently enjoys duty-free access under the Generalized System of Preferences (GSP) program.

Tariffs on the remaining two percent of U.S. imports from Morocco will be eliminated through equal annual cuts over a nine-year period. Among the products subject to this longer tariff phase-out are: sardines, rubber footwear, ceramic and porcelain products, metals, ball bearings and other machinery parts, and cathode ray tubes.

Morocco will provide immediate duty-free access to 92 percent of Moroccan non-agricultural, non-textile imports from the United States, including imports of many goods of significant commercial interest to the United States. For example, most U.S. exports of civil aircraft, capital intensive machinery, chemicals, construction, and medical equipment will enjoy immediate duty-free access upon entry into force of the agreement. And during the course of the FTA negotiations, Morocco agreed to become a participant in the WTO Agreement on the Expansion of Trade in Information Technology (ITA). As a new member, Morocco recently eliminated tariffs on a significant number of IT products.

For the remaining 8 percent of non-agricultural, non-textile imports from the United States, Morocco has made the following commitments:

- Morocco will eliminate tariffs over a two-year period on certain mineral fuels, ferrous and non-ferrous metals, chemical and pharmaceutical products, rubber, motor vehicles and parts, and machinery.
- Morocco will eliminate tariffs over a five-year period on certain forest products, household goods and appliances, building products, precious stones and metals, ferrous and non-ferrous metals, chemical and pharmaceutical products, rubber, motor vehicles and parts, recreational equipment, and machinery.
- Morocco will eliminate tariffs over a nine-year period on certain fish, mineral fuels, cosmetics, fertilizers, motor vehicles and parts, footwear, leather goods, forest products, paper, building products, household goods and appliances, electric and non-electric machinery, ferrous and non-ferrous metals, and furniture.

In addition, Morocco has committed to eliminate tariffs on a small number of used goods (tires, machinery, and vehicles) over the course of ten years. The United States does not currently export any of these products to Morocco.

Market Access for Agriculture

As a result of the Agreement, U.S. farmers and ranchers will gain new tools to compete with Canada, the EU and others in Morocco's market. Our beef and poultry producers will get new access to a market that was formerly closed. TRQs for durum and common wheat could lead to five-fold increases in U.S. exports over recent levels. Almond exports could double under a new TRQ. Moroccan tariffs on sorghum, corn, soybeans, and corn and soybean products will be cut significantly or eliminated immediately. Morocco also will lift its duties immediately on cranberries, pistachios, pecans, whey products, processed poultry products, and pizza cheese. Tariffs on other products will be phased out in five years, including on walnuts, grapes, pears, and cherries.

Market Access for Services

The Agreement creates substantial market access opportunities for U.S. service providers, subject to very few exceptions. The Agreement uses the so-called "negative list" approach, meaning that all sectors are covered unless specifically excluded. Key service sectors that the Agreement opens to U.S. participation include:

Banking, Insurance, Securities and Other Financial Services: The Agreement generally will provide U.S. financial service suppliers with the right to establish wholly-owned subsidiaries or joint ventures in Morocco (foreign equity in insurance agency and brokerage limited to 51 percent). In addition, banks and insurance companies will have the right to establish branches (four-year phase-in required for most insurance branching rights).

Regarding cross-border rights (for example, supply through electronic means), the United States negotiated the ability for U.S.-based firms to supply key markets including reinsurance, reinsurance brokerage, and, subject to a two-year phase-in, marine, aviation and transport (MAT) insurance and brokerage. The Agreement will also allow U.S.-based firms to offer services cross-border to Moroccans in areas such as financial information and data processing, and financial advisory services.

Audiovisual Services: The Agreement requires national treatment [and MFN treatment] for audiovisual services supplied by U.S. firms, subject to a few narrow exceptions that should not have any significant impact on trade in this sector. The Agreement provides sufficient flexibility for Morocco to promote its cultural interests without taking a broad cultural exception.

Express Delivery: The Agreement provides important benefits to the express delivery industry, including a clear definition of express delivery services, commitments to

provide MFN and national treatment, and provisions to facilitate customs clearance, which is essential to the efficient operation of express carriers.

Computer and Related Services: The Agreement ensures full market access and national treatment for computer and related services with no reservations. The negative list approach for application of services disciplines assures that new services in this rapidly evolving sector will be covered by the Agreement.

Engineering and Environmental Services: The Agreement provides protections for cross-border trade in engineering and environmental services, including a prohibition on the maintenance of local presence through representative offices or domicile in Morocco as a condition to supply such services.

Telecommunications: The FTA contains a full range of market access commitments on telecommunication services, consistent with the regulatory regimes of the U.S. and Morocco. Each government must ensure reasonable and non-discriminatory access to the telecom network, thereby preventing local firms from having preferential or “first right” of access to telecom networks. U.S. phone companies also gained the right to interconnect with former monopoly networks in Morocco at non-discriminatory, cost-based rates. U.S. firms will have the ability to lease circuits of Moroccan telecom networks on non-discriminatory terms and to re-sell telecom services of Moroccan suppliers to build a customer base. U.S. firms seeking to build a physical network in Morocco will have non-discriminatory access to key facilities, such as telephone switching facilities and submarine cable landing stations. In addition, the Agreement requires each government to maintain an independent regulator whose rulemaking will be transparent and subject to appeal.

E-commerce: The Agreement establishes high standards that will develop Morocco as a leader in the Middle East and North Africa in electronic commerce. Each government commits to non-discriminatory treatment of digital products and agrees not to impose customs duties on digital products transmitted electronically. For digital products delivered on hard media such as DVDs or CDs, customs duties will be based on the value of the media (e.g., the disc) and not on the value of the movie, music or software contained on the disc.

Market Access for Textiles

The Agreement requires elimination of tariffs for most textiles and apparel goods after 6 years, while some goods will be subject to immediate duty-free treatment. For 43 goods in the six-year basket, the Agreement provides for tariff-rate quotas (TRQs), allowing duty-free access for certain quantities of imports into both the U.S. and Morocco; the above-quota rate will gradually decrease until it is eliminated in year 6.

A textile or apparel good will generally be eligible for preferential tariff treatment under the Agreement only if all processing after fiber formation (e.g., yarn-spinning, fabric production, cutting, and assembly) takes place in the territory of one or both of the Parties. The Agreement

provides for a temporary transitional Tariff Preference Level (TPL) for the first 10 years of the Agreement, to allow apparel made in either the United States or Morocco from non-originating yarns or fabric to be traded at the preferential tariff rate, in order to provide U.S. and Moroccan producers an opportunity to develop and expand business contacts. The TPL is set at 30,000,000 square meters equivalent (sme) for the first four years of the Agreement, and then declines by 14 percent per year over the remaining six years it is in effect. Yarns and fibers present in less than 7 percent by weight of a textile article are disregarded as *de minimis*, except in the case of elastometric yarn. Lastly, the Agreement contains a provision which permits the use of Sub-Saharan African cotton in the production of certain yarns and fabrics, without disqualifying those goods from preferential treatment, up to an annual level of 1 million kilograms.

The Agreement includes a special textile safeguard mechanism that permits a Party to re-instate duties for a limited period of time if imports from the other Party cause serious damage, or actual threat thereof, to domestic production. The special textile safeguard mechanism is available for a good until ten years after tariffs have been eliminated on that good.

The Agreement requires the Parties' customs authorities to cooperate in implementing the Agreement. The Agreement provides for exchanges of information and documents and provides each Party the right to conduct verifications, including through visits by Customs authorities, and deny entry or to deny preferences, as the case may be, if origin cannot be established.

Investment

The Agreement will improve the bilateral investment climate and provide important protections for investors, and is consistent with the investment objectives regarding investor-state dispute settlement in the Bipartisan Trade Promotion Authority Act of 2002 (TPA). The Agreement will provide a secure, predictable legal framework for U.S. investors operating in Morocco and provides a basic set of substantive protections that Moroccan investors in the United States currently enjoy under the U.S. legal system. All forms of investment are protected under the Agreement, including enterprises, debt, concessions, contracts and intellectual property. The Agreement guarantees U.S. investors in almost all circumstances treatment no less favorable than Moroccan investors or any other foreign investor, except in certain sectors that are specifically exempted. This so-called "negative list" approach is the most comprehensive way to protect U.S. investors in Morocco.

Among the rights afforded to U.S. investors are due process protections and the right to receive a fair market value for an investment in the event of an expropriation. The Agreement removes certain restrictions and prohibits the imposition of other restrictions on U.S. investors, such as requirements to buy Moroccan rather than U.S. inputs for goods manufactured in Morocco.

These investor rights are backed by an effective, impartial procedure for dispute settlement that is fully transparent. Submissions to dispute tribunals and tribunal hearings will be open to the public, and interested parties will have the opportunity to submit their views.

Intellectual Property Rights (IPR)

The Agreement requires Morocco to provide for a high level of IPR protection, consistent with U.S. law, including state-of-the-art protections for trademarks and digital copyrights, as well as expanded protection for patents and product approval information. The Agreement requires the governments to complement these protections with tough penalties for piracy and counterfeiting, and to maintain procedures for seizure and destruction of counterfeit products and the equipment used to produce counterfeit products. The governments are also required to provide for statutory and actual damages for violations. Morocco will accede to certain WIPO Internet Treaties, extend the term of protection for copyrighted works, and maintain criminal penalties for circumvention of technology protection measures and for trade in counterfeit goods.

Trademarks: The Agreement requires Morocco to accede to the Trademark Law Treaty, ensures that all trademarks can be registered in Morocco, and ensures that licensees will no longer have to register their trademark licenses to assert their rights in a trademark. The Agreement also ensures an appropriate procedure for the settlement of domain name disputes, based on the principles established in the Uniform Domain-Name Dispute-Resolution Policy. This is important to prevent “cyber-squatting” of trademarked domain names. Each Party must provide full protection for trademarks and geographical indications, including protecting preexisting trademarks against infringement by later geographical indications.

Copyrights: The Agreement contains provisions designed to ensure that only authors and other copyright owners have the right to make their works available online. Copyright owners maintain rights to temporary copies of their works on computers, which is important in protecting music, videos, software and text from widespread unauthorized sharing via the Internet. The Agreement provides that copyrighted works and phonograms are protected for extended terms, consistent with international trends. And strong anti-circumvention provisions will help to limit tampering with technologies (like embedded codes on discs) that are designed to prevent piracy and unauthorized distribution over the Internet.

The FTA requires that governments only use legitimate computer software, thus setting a positive example for private users. The Agreement also provides for protection for encrypted program-carrying satellite signals as well as the programming carried by such signals, thus addressing satellite television piracy.

The Agreement requires limitations on liability for Internet Service Providers (ISPs), reflecting the balance struck in the U.S. Digital Millennium Copyright Act between legitimate ISP activity and the infringement of copyrights.

Patents & Product Approval Information: Under the Agreement, a patent term can be adjusted to compensate for unreasonable up-front administrative or regulatory delays in granting the original patent. The grounds for revoking a patent are limited to the same grounds required to originally refuse a patent, thus protecting against arbitrary revocation. The Agreement ensures protection for newly-developed biotech plants and

animals. Information submitted to a government for the purpose of product approval will be protected for a period of 5 years for pharmaceuticals and 10 years for agricultural chemicals. In addition, the Agreement contains provisions designed to ensure that government marketing-approval agencies will not grant approval to products that infringe patents. The obligations concerning IPR do not affect the ability of either Party to take necessary measures to protect public health by promoting access to medicines for all, in particular concerning cases such as HIV/AIDS, tuberculosis, malaria, and other epidemics as well as circumstances of extreme urgency or national emergency.

IPR Enforcement: The Agreement requires streamlined procedural rules for bringing copyright and trademark claims and provides for effective remedies including statutory damages, expeditious *ex parte* searches to gather evidence and civil remedies to seize and destroy infringing goods. It requires criminal penalties for companies that make pirated copies from legitimate products. The Agreement also requires that IPR laws be enforced against traded goods to deter violators from using U.S. or Moroccan ports or free-trade zones to traffic in pirated products. Enforcement officials may act on their own authority in border and criminal IPR cases, including with respect to in-transit merchandise, without waiting for the filing of a formal complaint, thus providing more effective enforcement.

The Agreement mandates both statutory and actual damages for piracy and counterfeiting. This serves as a deterrent against piracy, and provides that monetary damages can be awarded even if actual economic harm (retail value, profits made by violators) cannot be determined.

Customs and Rules of Origin

The Agreement promotes transparency and more efficient customs operations in Morocco. The Agreement requires transparency and efficiency in customs administration, including publication of laws and regulations on the Internet and certain procedural guarantees. In addition, the governments have agreed to share information to combat illegal transshipment of goods. Strong but simple rules of origin will ensure that only U.S. and Moroccan goods benefit from the Agreement. Rules are designed to be easy to administer and are consistent with other U.S. free trade agreements in the region.

Government Procurement

Morocco is not a member of the WTO's Agreement on Government Procurement, so the Agreement establishes important obligations between the two countries, such as prohibiting discrimination by government purchasers between U.S. and Moroccan suppliers when making covered government purchases in excess of agreed monetary thresholds. The Agreement includes disciplines on the purchases of most Moroccan central government entities, as well on the purchases of the vast majority of Moroccan regional and municipal governments. U.S. suppliers will enjoy increased certainty and a more transparent procurement environment as a result of advance public notice of purchases and timely and effective bid review procedures.

Each government has committed to maintaining criminal and other penalties for bribery in government procurement.

Labor

The Agreement fully meets the labor objectives set out by Congress in TPA and labor obligations are part of the core text of the Agreement. Both governments reaffirm their obligations as members of the International Labor Organization (ILO) and commit to strive to ensure that domestic laws provide for labor standards consistent with the internationally recognized labor principles of the ILO. The Agreement makes clear that it is inappropriate to weaken or reduce domestic labor protections to encourage trade and investment. Each government is required to effectively enforce its own domestic labor laws, and this obligation is enforceable through the Agreement's dispute settlement procedures. An Annex to the Labor Chapter sets out a labor cooperation mechanism, which includes a focus on eliminating the worst forms of child labor.

Environment

The Agreement fully meets the environmental objectives set out by Congress in TPA. Environmental obligations are part of the core text of the Agreement. Each government is required to effectively enforce its own domestic environmental laws, and this obligation is enforceable through the Agreement's dispute settlement procedures. Each government commits to establish high levels of environmental protection, and to not weaken or reduce environmental laws to attract trade and investment.

The Agreement promotes a comprehensive approach to environmental protection. Provisions that promote voluntary, market-based mechanisms to protect the environment complement procedural guarantees that ensure fair, equitable and transparent proceedings for the administration and enforcement of environmental laws.

As a complement to the Agreement, the governments will soon sign a Joint Statement on Environmental Cooperation and EPA has already begun to implement a new capacity-building project in Morocco.

Transparency and Commitments to Combat Bribery

This Agreement promotes high standards of transparency. Each government must publish its laws and regulations governing trade and investment, and beginning one year after the Agreement enters into force, Morocco will be required to publish proposed regulations in advance and provide an opportunity for public comment on them. In addition, the each government must apply fair procedures in administrative proceedings covering trade and investment matters directly affecting companies from the other country. To further improve the business environment, each government will prohibit bribery, including bribery of foreign officials, and establish appropriate criminal penalties to punish violators.

QUESTIONS FOR THE RECORD

**U.S. Senate Committee on Finance
Hearing on the U.S.-Australia and U.S. Morocco
Free Trade Agreements
June 15, 2004**

Questions for Ambassadors Allgeier, Shiner and Johnson

QUESTIONS FROM SENATOR BUNNING:

- 1. Could you please address the impact that these agreements are likely to have on the U.S. textile and apparel industry?**

Response 1:

For the United States, Australia and Morocco are relatively small trading partners in the textile and apparel sector, each accounting for less than one percent of total U.S. imports and one percent of U.S. exports of textiles and apparel by value. Therefore, the free trade agreements are not expected to have a significant impact on the U.S. industries. This view is shared by the Industry Sector Advisory Committee on Textiles and Apparel (ISAC 15), in its report to the U.S. Trade Representative on the U.S. – Morocco Free Trade Agreement pursuant to Section 2104(e) of the Trade Act of 2002, and by the U.S. International Trade Commission (USITC), in its report, *U.S.-Australia Free Trade Agreement: Potential Economywide and Selected Sectoral Effects*, Investigation No. TA-2104-11, Publication 3697, May 2004. (A similar report by the USITC on the effects of the U.S. – Morocco FTA is not yet complete.)

- 2. With a number of manufacturing facilities in Kentucky, I am very concerned about the international competitiveness of our U.S. factories. Many U.S. companies feel that the duty drawback program is one of the last remaining export promotion programs aimed at helping U.S. companies compete in the global market place against trading partners that have significantly lower costs of production. Could you please comment for me on this program and how it is addressed in these agreements?**

Response 2:

USTR held extensive consultations with industry and the Hill to determine whether our current FTAs should continue to require the elimination of drawback programs, and we received clear advice from U.S. manufacturers and Congress regarding the importance of allowing drawback programs to continue in our FTAs. Our response was to shift our approach, and our recent FTAs with CAFTA, Morocco and Australia do not include any restrictions on the use of duty drawback programs.

However, there may be negotiations where it is in our interest to restrict duty drawback programs. In markets where our trade partners heavily rely on such programs, we want to have

the opportunity to evaluate the implication of continuing drawback in the context of the overall market access package. We also want to ensure that we take into consideration the impact of our trade partner's drawback programs on our import sensitive industries, such as textiles and apparel.

3. **Mr. Johnson, I have been very pleased with many of the recent trade agreements that have come before this committee with regard to the treatment of tobacco exports. Obviously this is an aspect of these types of agreements that is particularly important to my state of Kentucky. Can you comment for me on both of the agreements that we are discussing today with regard to their treatment of the exportation of tobacco products – are tobacco products treated like other commodities? Can you comment for me on how you expect that the exportation of tobacco products will be dealt with in the various other free trade agreements that are currently being negotiated?**

Response 3:

In the case of the Australia FTA, Australia is locking in the current duty free treatment for U.S. tobacco and tobacco products. Under the Morocco FTA, Morocco will phase out tariffs over five years for tobacco products that currently have tariffs of 17.5% and will phase out tariffs over 10 years for tobacco products with a 25% tariff.

With regard to future trade negotiations, the United States' current policy is to include all agricultural products in the negotiations.

4. **Ambassadors Allgeier and Shiner, I was gravely concerned to learn that Morocco has apparently granted a monopoly right for the wholesale distribution of tobacco products in Morocco to one privately-owned company until the end of 2007. Obviously, this will restrict the ability of American companies to distribute these products in this market for the first few years that the agreement is in effect. Can you please explain why this monopoly is permitted under the terms of the FTA and what the level of access to the market will be for American companies distributing these products in 2008 and after?**

Response 4:

Under the U.S.-Morocco FTA, both Parties have the right to take limited reservations from the core obligations, such as market access and national treatment, under the Services Chapter. One of the reservations that Morocco took from the market access obligation was the right to maintain a State monopoly over the wholesale distribution of tobacco products until December 31, 2007. While we were not able to convince Morocco to drop this reservation entirely, we were able to convince Morocco to narrow it significantly by excluding the right to impose restrictions on investment and shortening the duration of the existing monopoly.

Morocco's right to impose monopoly restrictions on wholesale distribution of tobacco will end on December 31, 2007. After that date, American companies that distribute such products should no longer face any market access restrictions in Morocco.

5. **I would be interested in any insight the witnesses could provide regarding the effect these agreements might have on the export of American distilled spirits – I have a special concern about the prospects for increased exports of bourbon products, of course.**

Response 5:

Under the U.S.-Australia FTA, Australia is eliminating immediately its five percent tariff on all distilled spirits. Under the U.S.-Morocco FTA, Morocco will immediately eliminate its 50 percent tariffs on distilled spirits.

6. **A criticism I have often made of some previous trade agreements is that those agreements called upon the United States to lower its trade barriers and tariffs more quickly than did the other parties to the agreement. Could you please address this issue of reciprocity in the context of the two agreements before us? Please identify the categories of products in which the United States exporters would face less positive treatment by the importing country's trade rules than that country's exporters would face when exporting to the United States.**

Response 6:

Australia

In the U.S.-Australia FTA, the two sides achieved a balanced agreement that will eliminate most tariffs immediately upon implementation of the agreement. Australia will eliminate tariffs on more than 99 percent of U.S. manufactured exports. Australia currently maintains tariffs of between 5 percent and 15 percent on a variety of these products. U.S. tariffs on more than 99 percent of Australian manufacture exports will be eliminated when the FTA goes into effect.

On the most sensitive products, the FTA will allow each side to phase in the tariffs over a set timeframe. One chemical product and 17 non-rubber footwear items were considered sensitive to both sides and these received reciprocal staging. For the United States, other sensitive products included ceramic tile, certain electronic products, and certain glass products, all of which are subject to staging from four to 10 years. For Australia, passenger cars (not SUVs or light trucks) were sensitive and these duties will be phased out over four years. Because U.S. automotive exports are comprised mainly of SUVs, trucks and auto parts, (U.S. auto exports to Australia total \$9 million of \$12 billion in U.S. exports) this staging is not likely to have a significant effect on U.S. auto manufacturers.

Duties on all U.S. agricultural exports to Australia, which totaled nearly \$700 million in 2003, will be eliminated immediately upon entry into force of the Agreement. The United States used a variety of mechanisms to lower our barriers to Australian agricultural products over a number of years. U.S. duties on most imports from Australia will be phased out over periods of between four and 18 years. U.S. duties will be maintained on sugar and certain dairy products. In addition, for certain products, including beef, dairy, cotton, peanuts and certain horticultural products, the United States will maintain preferential tariff rate quotas and some safeguards.

The tariffs on textile and apparel products will be phased out over a maximum of 15 years.

Morocco:

Upon implementation of the U.S. – Morocco FTA, 98 percent of current U.S. non-agricultural (non-textile) imports from Morocco will be duty-free. This includes all products for which Morocco already enjoyed duty-free access to the United States under the Generalized System of Preferences (GSP) program. Tariffs on the remaining two percent of U.S. imports from Morocco will be eliminated via equal, annual cuts over a nine-year period. This staging category includes products from sectors and sub-sectors where the United States has identified specific U.S. import sensitivities: sardines, rubber footwear, ceramic and porcelain products, metals, ball bearings and other machinery, and cathode ray tubes.

Morocco will provide immediate duty-free access to 92 percent of Moroccan non-agricultural, non-textiles imports from the United States. This is the best market access package to date of any U.S. free trade agreement signed with a developing country. Included in this immediate duty-free category are products of high commercial interest to the United States such as civil aircraft, capital intensive machinery, chemicals, construction and medical equipment. Tariffs on less than one percent of Moroccan imports from the United States will be eliminated over a two year period. Products such as mineral fuels, ferrous and non-ferrous metals, chemicals, rubber, motor vehicles and parts are included in this category. Tariffs on an additional one percent of Moroccan imports from the United States will be eliminated over a five year period. This category includes some household goods, building products, and recreational equipment. Only products of import sensitivity to Morocco accounting for approximately five percent of Moroccan imports from the United States were placed in a nine-year tariff phase-down category. This group includes a small number of fish, mineral fuels, cosmetics, fertilizers, household goods, leather goods, and furniture. Tariffs on these goods will be reduced annually, improving U.S. access to the Moroccan market each year until tariffs are finally eliminated in year nine. Tariffs on a small number of used goods (tires, machinery, and vehicles) will be eliminated over the course of 10 years. The United States does not currently export any used goods to Morocco.

In respect to non-tariff barriers, what we have negotiated represents the *status quo* in the United States. It reflects the current state of our transparent system, which facilitates the movement of goods. On the other hand, the agreement requires Morocco to undertake significant reforms and uphold new commitments to further reduce non-tariff barriers. These commitments will greatly enhance the trading environment in which our exporters operate.

QUESTIONS FOR THE RECORD

U.S. Senate Committee on Finance
Hearing on the U.S.-Australia and U.S. Morocco
Free Trade Agreements
June 15, 2004

Questions for Ambassador Johnson

QUESTIONS FROM SENATOR DASCHLE

Why has this Administration not sought to fully utilize our WTO permitted allocations for dairy products under the Dairy Export Incentive Program, even at low prices and purchase product under the CCC (Butterfat)? Our export subsidies are miniscule in comparison with those employed by the EU; we should be striving to fully use what little ammunition we have in our fight to gain ground against the EU's heavily subsidized products. Towards this end, would this Administration consider requiring the full utilization of the DEIP allowances each year in order to help mitigate the negative impact the Australian FTA will have on dairy producers' incomes?

Additionally, to further offset the negative effects in the dairy sector that the Australian FTA will impose, would this Administration consider putting in place the import assessment on foreign dairy products that Congress has already passed as part of the 2002 Farm Bill? USDA has to date refused to subject imported dairy products to the same \$0.15 promotional assessment that U.S. dairy farmers pay, despite this measure having already been passed into law.

Response:

The U.S.-Australian FTA is expected to have minimal impact on U.S. dairy producers. The United States retained the over-quota tariff, which will not decline as requested by the U.S. dairy industry. In addition, the amount of Australian dairy products that enter duty free under the tariff rate quota will increase only marginally further limiting imports. The initial additional quantities provided for under the tariff rate quotas amount to 0.2 percent of the value of U.S. dairy production in 2003 and about 2.3 percent of the nearly \$2 billion in total U.S. dairy imports.

The U.S. Department of Agriculture projects that farm milk prices will probably reach record levels in 2004, up by as much as \$4 per hundredweight (cwt) from levels in 2003. Current estimates predict that the all milk price will exceed \$16 per cwt; in 2003, the price was \$12.52 per cwt. Irrespective of the Australia FTA, dairy prices are expected to moderate in 2005. Current estimates are for milk prices in 2005 to average \$13-\$14 per cwt. According to the U.S. Department of Agriculture, due to the carefully crafted provisions on TRQ dairy products, the Australia FTA will not affect the operation of the Commodity Credit Corporation's dairy support program.

The U.S. International Trade Commission concludes that the FTA will likely have a small effect on U.S. milk production and employment in the dairy industry. The ITC cites testimony by the National Milk Producers Federation that by the 10th year of the FTA, dairy income loss from the FTA will be “about 0.25 percent of cumulated farm receipts from sales of milk over a 10-year period based on annual receipts of \$23 billion.” (Source: U.S.-Australia Free Trade Agreement: Potential Economywide and Selected Sectoral Effects. USITC Publication 3697; May 2004)

Regarding the Dairy Export Incentive Program (DEIP), on August 15, 2003, USDA announced the initial DEIP allocation for the July-June 2003/04 year. The total World Trade Organization (WTO) allowable limits for that year’s DEIP were 68,201 metric tons of nonfat dry milk, 21,097 metric tons of butterfat, and 3,030 metric tons of various cheeses. The initial allocation made available 22,733 metric tons of nonfat dry milk, 7,032 metric tons of butterfat, and 1,010 metric tons of various cheeses. Due to strong market prices for both butterfat and cheese, invitations for offers were only issued for nonfat dry milk.

On December 24, 2003, USDA announced the second DEIP allocation for the June-July 2003/04 year. The second allocation made available 45,468 metric tons of nonfat dry milk and 2,020 metric tons of various cheeses, making the total WTO allowable quantities of nonfat dry milk and various cheeses available for export under DEIP. USDA began accepting offers for the export of cheese under DEIP beginning the week of January 5, 2004, as the market price for cheese weakened considerably since announcement of the initial allocation in August of last year. During the June-July 2003/04 year, the WTO allowable quantities of both cheese and nonfat dry milk were exported under DEIP.

USDA did not issue any invitations for offers for the export of butterfat under DEIP for the July-June 2003/04 year. USDA constantly reviews market conditions for butter, cheese, and nonfat dry milk and adjusts DEIP invitations and acceptances to make sure the DEIP is being implemented in a way that does not increase market uncertainty and price volatility. The market price for butter was considerably above support during the June-July 2003/04 year, indicating the market for butter was relatively tight. Under these market conditions, acceptance of offers for the export of butterfat under DEIP could lead to a sharp increase in butter prices, contributing to price volatility. However, USDA is prepared to act quickly should market conditions change. During the June-July 2002/03 year, for example, when the market price for butter fell to support and USDA began purchasing butter under the Milk Price Support Program (MPSP), USDA awarded DEIP bonuses for 10,000 metric tons of butterfat, the highest volume of butterfat exported under the DEIP since 1997.

The 2002 Farm Bill amended the Dairy Production Stabilization Act of 1983 (Act) to assess imported dairy products for inclusion in the dairy promotion and research program, subject to the requirement in Section 1505(g) of the 2002 Farm Bill that “The Secretary, in consultation with the United States Trade Representative, shall ensure that the order is implemented in a manner consistent with the international trade obligations of the Federal Government.” USTR consulted with the Secretary in 2003 as required. We understand that USDA is working with Congressional committee staff to recommend amendments to the statute to ensure that the Secretary meets the provisions of 1505(g).

**MONTANA STOCKGROWERS ASSOCIATION
TESTIMONY REGARDING FREE TRADE
AGREEMENTS**

Mr. Chairman and members of the committee, my name is Lynn Cornwell and I am a rancher from Glasgow in North Central Montana. I appreciate the opportunity to testify today on behalf of the Montana Stockgrowers Association on an issue that is very important to the livestock industry in our great state. Agriculture has long been the cornerstone of Montana's economy and maintaining the viability of that industry is vital to our economic growth. As livestock producers, both in Montana and nationwide, work to become more efficient and increase production it is critical that we have the ability to market our product to the 96 percent of the world's population that lives outside the United States. Trade agreements such as the Chilean Free Trade Agreement as well as the recently negotiated Moroccan and Central American agreement have the potential to create new marketing opportunities for our products.

As an industry, however, we generally support the negotiation of multilateral agreements as they are much more likely to improve trade conditions for U.S. agricultural producers than would bilateral agreements with nations whose export strength rests in their agricultural production. We also believe that these multilateral negotiations provide our industry with the only mechanism to reduce high tariffs in Japan and South Korea, our number one and number three markets for U.S. beef exports. That said, we recognize that a country like the U.S., with its diverse production capability, must approach trade negotiations from a broader position than from any single industry segment.

As this committee and the entire U.S. Senate proceed to consider any bilateral agreement, there are a number of issues that must be addressed. This issue of is such significance in Montana that the 58th Montana Legislature passed overwhelmingly HJR 17. That resolution identifies the following provisions that must be addressed in any bilateral agreement signed by the United States.

- United States farm programs within this country may not be unilaterally reduced or phased out.

- ❑ Agricultural tariffs in this country may not be further reduced unless the other country reduces its tariffs to the United States levels.
- ❑ Market access must be reciprocal.
- ❑ Non-tariff barriers must be eliminated.
- ❑ Export subsidies must be harmonized or eliminated.
- ❑ Health requirements for imports must be strictly adhered to and utmost caution must be used to protect the U.S. livestock industry from bovine spongiform encephalopathy (BSE), foot-and-mouth disease, bovine tuberculosis, and other highly transmissible diseases.

In the case of the Australian free trade agreement, it is our opinion that the goal of those negotiations should have been to prevent any potential negative impact on our beef industry caused by the terms of the agreement until such time our industry would have an opportunity to increase our ability to export more of our product as the result of a successful WTO agreement. Even though the last two WTO meetings have yielded little progress, we acknowledge and appreciate the untiring effort of U.S. Trade Representative Zoellick to not abandon this important process.

While the Australian agreement is unusual in that it provides very little benefit to Montana agriculture, we appreciate Senator Baucus' efforts to assure that the Australian Free Trade Agreement contains adequate safeguards for the U.S. beef industry.

We fully anticipate that a new WTO agreement will be in place well before the next ten (10) years when the first changes in the terms of trade with Australia begin to take place. The expectation being that a WTO agreement will increase market access in beef trade globally and that such an agreement would mean greater access for U.S. beef around the world via a multilateral reduction in tariffs on beef and an expansion in the size of tariff rate quotas (TRQ). As economies around the world improve we need to position ourselves to compete, via fair trade, for the anticipated increase in an anticipated demand for higher quality beef products.

In summary, and in view of an obvious decision to move forward with a bilateral agreement, we simply ask that you provide adequate safeguards for the U.S. beef industry in such agreements until new market opportunities can be provided through WTO negotiations.



Statement of Senator Tom Daschle on the Australian Free Trade Agreement

Thank you Mr. Chairman. Australia is a very important ally and trading partner. Australia's participation, as we know, they have joined with us in our military efforts in Iraq and in Afghanistan is vital and it is appreciated. While it is important to continue our cooperative relations, I am extremely concerned about the negative impact the FTA could have on my state of South Dakota and the rest of rural America, particularly on the agricultural sector of our economy.

For many months, I urged our negotiators to exclude beef and cattle from the agreement. I am disappointed that they have not only rejected this suggestion, but have proposed that we allow the Australians additional access to our beef markets. The FTA would establish an 18-year phase-in of increased Australian access to American markets. While 18 years may seem like a long time to some people, I know many ranchers in South Dakota to whom it won't seem so long when the phase-in starts and depresses our beef and cattle markets.

Both beef and cattle are very sensitive sectors, and they have become even more so with the recent Mad Cow Disease scare. Beef and cattle are more sensitively traded items because they are both perishable and have cyclical market dynamics. For these reasons, leaving beef and cattle off the table seemed to make a lot of sense.

In addition, the U.S. dairy industry should not be faced with added unfair competition by allowing the Australians increased access to our dairy markets. Dairy producers from around the nation have expressed this concern to me. The increased access to our U.S. dairy markets is particularly troubling for South Dakota, as we have been working aggressively to expand our dairy operations.

I am also concerned about the current U.S. tariffs on wool that the our negotiators have agreed should be gradually eliminated over four years. We have a small, but important wool industry in South Dakota, and anyone familiar with lamb and wool knows that it is a very import-sensitive industry. Most producers have struggled over the last decade to simply stay in business.

While it is only indirectly related to the FTA, I also want the record to reflect my continuing concern about the recent treatment of Australia with regard to the Oil for Food Program. Specifically, I am concerned about what many believe was preferential treatment given to the Australians in regard to both wool and wheat contracts in Iraq.

I ask consent that an exchange of letters with Agriculture Secretary Veneman be included in the hearing record. Secretary Veneman has had USDA personnel review these contracts and has told me that she is certain that no such preferential treatment was granted. I hope that is the case and that Paul Voelcker, who was recently asked by United Nations Secretary General Annan to review all contracts let under the Oil for Food Program, will access the information that USDA used to come to this conclusion.

Finally, South Dakota and rural America can't afford to close our doors to the rest of the world. I

understand that. Last year, South Dakota was the sixteenth-largest exporter of agricultural goods in the United States, selling over \$1 billion in farm products.

However, the Australia FTA goes too far and treats our farmers and ranchers unfairly. It is extremely important that we have a level playing field on which American producers can compete. Given a fair chance, American producers are some of the world's finest. But the deck must not be stacked against them. I've concluded that this FTA is bad for South Dakota and bad for our nation. Regretfully, I will oppose it.

Thank you.

United States Senate

WASHINGTON, DC 20510

October 22, 2003

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

We read with interest a news report today that indicates that in January of this year, Saddam Hussein's government agreed to buy Australian wheat from the Australian Wheat Board (AWB) at a price nearly double the price of comparable U.S. wheat. This matter concerns us greatly.

The high prices, the news article states, "... would appear to support charges that the AWB was involved in kickbacks to Hussein or his family before the war and raises questions about the prices the Iraqis have been paying for Australian wheat under the United Nations' Oil for Food program since the U.S.-led coalition provisional government took over." This matter is further complicated by the fact that Mr. Trevor Flugge, the former chairman of the Australian Wheat Board, jointly leads the Coalition Provisional Authority's (CPA) agricultural effort in Iraq.

Notably, the CPA agreed in September to purchase from the AWB 800,000 metric tons of wheat under a remaining Oil for Food contract. The contracts were made, we are told, between the government of Iraq and AWB Ltd. under the Oil for Food program. The prices, however, have not been released to date.

This is a matter of serious concern that deserves your immediate attention. We urge you to raise the issue with Prime Minister Howard on your visit. We also urge you to act immediately to ensure that all such wheat purchases by the CPA are examined closely and addressed appropriately. Insofar as our nation is contributing so heavily to Iraq's recovery, it is of critical interest to U.S. taxpayers that all funds devoted to Iraqi reconstruction be used efficiently and effectively and that any purchase be at reasonable prices.

Prior to Senate consideration of a possible Free Trade Agreement with Australia, troubling issues such as this one must be addressed thoroughly.

Thank you for your thoughtful and immediate attention to this important matter.

Sincerely,


Tom Daschle
United States Senate


Conrad Burns
United States Senate

Sam Johnson
Henry L.

Tom Hall
Byron L. King

04/27/2004 06:34 FAX

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United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250 04 APR -8 PM 3:02

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- Randy
- Jody

FEB 20 2004

The Honorable Tom Daschle
 United States Senate
 509 Hart Senate Office Building
 Washington, D.C. 20510-4103

Dear Senator Daschle:

Thank you for your letter of October 22, 2003, cosigned by your colleagues, to President George W. Bush regarding the sale of Australian wheat to the former Iraqi regime under the United Nations Oil for Food (OFF) program. The White House has asked me to respond on the President's behalf.

The OFF program was designed to prevent the former Iraqi regime from using oil sales proceeds to fund illegal weapons programs. Contracts for humanitarian goods were negotiated directly between the former regime and suppliers, and United Nations approval signified only that the contract goods were not seen as supporting any illegal program.

The risks associated with OFF contracts under the former Iraqi regime affected all contract costs, and many countries, including Australia, sold grain to the regime. Grain prices were influenced by a number of factors such as the seller's lack of control over in-country costs for deliveries of grain, vessel demurrage for which the seller was responsible but could not control, and unpredictable quality acceptance procedures. The news report referenced in your letter inappropriately compared nominal domestic U.S. prices with a contract price involving wheat delivered to warehouses throughout Iraq. Based on this price comparison, the news report arrived at a conclusion that cannot be supported.

The Coalition Provisional Authority (CPA), in cooperation with the United Nations and the interim Iraqi authorities, is overseeing the orderly transition of the OFF program to an open, transparent commercial system. We are pleased to report that the Iraqi Ministry of Trade, which is responsible for ordering and distributing food, is functioning and working with CPA, United Nations OFF program officials, and the World Food Program to

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04/27/2004 06:23PM

04/27/2004 06:35 FAX

003/003

The Honorable Tom Daschle
Page 2

complete this transition. Throughout the process, as with other efforts to rebuild Iraq, we are working to ensure the effective use of resources for the sake of both Iraqi and American interests.

Again, thank you for your letter. A similar response is being sent each of your colleagues.

Sincerely,

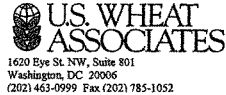


Ann M. Veneman
Secretary

04/27/2004 06:23PM



National Association of
Wheat Growers
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Before the Senate Committee on Finance

***Review of the Free Trade Agreement Between
the United States and the Kingdom of Morocco***

Presented by

**Lochiel Edwards
On Behalf of**

**Wheat Export Trade Education Committee
National Association of Wheat Growers
U.S. Wheat Associates**

June 15, 2004

***Review of the Free Trade Agreement Between
the United States and the Kingdom of Morocco***

Presented by

Lochiel Edwards

June 15, 2004

Good Morning Chairman Grassley and Members of the Committee. My name is Lochiel Edwards and I farm on the prairies of Montana. My sister, brother, and children work together with myself to raise high quality wheat for domestic flour mills and for overseas export.

I appreciate this opportunity to speak to you on behalf of the Wheat Export Trade Education Committee, the trade policy arm of the wheat industry; the National Association of Wheat Growers, the organization responsible for domestic policy and farm programs; and for U.S. Wheat Associates, the industry's foreign market development and promotion organization.

Let me begin by highlighting two points that wheat producers in the United States take into account when looking at export trade opportunities. First, 96 percent of the world's consumers live beyond our border. The four percent within the United States do not consume enough wheat to sustain a viable wheat industry.

Second, we consistently export nearly 50 percent of our total production. As you can imagine, our success or failure hinges on the ability of U.S. wheat to be exported around the world. Trade is a vital component for ensuring the financial viability of U.S. wheat farmers. All trade agreements, bilaterals such as the Moroccan Free Trade Agreement (FTA), and negotiations for the Free Trade Area of the Americas (FTAA) and in the World Trade Organization (WTO), must offer unique potential for expanding market opportunities for American wheat growers. Every market, regardless of size is an important market.

The U.S. wheat industry strongly supports moving forward aggressively in Free Trade Agreements and in the World Trade Organization and Free Trade Area of the Americas negotiations. The WTO process is important for liberalizing world wheat trade, and the U.S. wheat industry is clearly focused on achieving our goals in this round of negotiations. However, the FTAA negotiations have the potential to extend beyond the level of liberalization achieved in the WTO and the U.S. must be prepared to take full advantage of this opportunity. As these two negotiations have not moved forward as smoothly or as quickly as we would have liked, the wheat industry views the Administration's efforts to open markets bilaterally through FTAs as the logical alternative. The FTAs should be seen as critical stepping-stones to free and fair trade on a worldwide scale. As part of this process the U.S. wheat industry strongly supports the

U.S.-Morocco Free Trade Agreement (FTA) and urges its prompt passage by Congress this summer.

Before going into the details of the agreement, let me highlight the importance of the agreement achieved for wheat. First, without the strong determination of our U.S. negotiators from both the U.S. Trade Representative's Office and the Department of Agriculture, Morocco would have taken wheat off of the negotiating table. We firmly believe that no commodity should be exempted from any FTA negotiations. We all know that once a commodity is allowed to be taken off the table other countries will demand the same right for what they would define as sensitive products. Not only was keeping wheat in the negotiations a win for the U.S. negotiators, but I also believe that wheat posed the most difficult set of hurdles to overcome in this negotiation. We applaud the negotiators for the long hard battle they successfully fought on behalf of the U.S. wheat industry. Keeping wheat on the table and achieving a very positive outcome for our growers was not an easy task.

In the Moroccan wheat market, the United States has been handicapped with regard to other origins in terms of proximity. The European Union export subsidies, Morocco's former colonial ties to Europe and a Moroccan import duty structure put U.S. wheat at a disadvantage vis-à-vis other origins. Morocco has a GATT bound tariff rate of well over 100 percent for durum and other wheat that they could impose at any time.

The current import duty is designed to promote the importation of the higher quality wheat necessary to meet Morocco's evolving industry needs, but it is flawed because it is based on a series of reference prices which are further handicapped by a worldwide lack of pricing transparency.

The FTA raised the issue of how the wheat duty can be better structured to reflect the demands of an increasingly sophisticated and diverse wheat sector in Morocco. First of all, we acknowledged that any modification to the current duty structure could create enormous political, strategic and social implications. We also acknowledged the overwhelming challenge to implement a fair and effective farmer compensation program, particularly given the highly fragmented nature of land tenure and use.

Once the FTA is in place we will have very positive changes for U.S. wheat. The in-quota tariffs on durum wheat will go to zero. Unfortunately, these will take 10 years to phase out. U.S. durum does not, as a rule, compete with Moroccan produced durum. However, it is beneficial that the initial in-quota tariff for durum has been set at a level (250,000 metric tons) that is compatible with current market levels, and is set to grow by 10,000 metric tons a year thereafter. Unfortunately, the out of quota tariff on durum will remain under Most Favored Nation (MFN) treatment and is not scheduled to go to zero.

We are disappointed that for all wheat other than durum, tariffs will continue under this agreement. However, there is a favorable provision to lower the tariffs. If the prevailing MFN rate is equal to the base rate, the reduction will be 62 percent of the base rate, and the reduction of an additional .275 percent of the MFN rate for every percentage point

difference between the base and the MFN rate. These reductions enter into force on January 1 of the first year of the signed agreement.

In-tariff quotas for common (non durum) wheat under the agreement are well within the current import levels. Growth in the in-quota volume is contingent upon domestic Moroccan production. Thus, Moroccan producers are protected at two levels, one at 3 million metric tons of production and at domestic production being less than 2.1 million metric tons. However, there is a generous growth potential for common wheat regardless of domestic production.

The Moroccans also insisted on greater protections for their industry through what are known as seasonality provisions. During the months of June and July with the possibility to extend through August, the Moroccan harvest season, the negotiated quota would not apply.

For durum wheat there is a clause that would suspend the quota according to market conditions and the preference clause would apply.

The wheat agreement also involves a complicated auction system that is somewhat equivalent to the one Morocco structured with the EU. In the fourth year of the agreement, the U.S. and Morocco will review the auction system to decide whether to continue or offer wheat quota access on a first come, first served basis.

Tariff rate quotas (TRQs) were also established for all durum and common wheat products. While the TRQs may serve as a protection for Moroccan millers and bakers they also serve to provide quantified levels of imports for these products.

We are also extremely pleased that the negotiators secured a commitment on State Trading Enterprises. Morocco has committed to work with the U.S. in the WTO negotiations to:

1. Eliminate restrictions on the right to export;
2. Eliminate the special financing granted to state trading enterprises that export for sale; directly or indirectly, a significant share of their country's exports of an agricultural export; and
3. Ensure greater transparency regarding the operation and maintenance of export state trading enterprises.

We have asked the Administration to secure this commitment in all future FTAs, both those currently under negotiation and ones yet to be initiated.

The final and maybe the most important element of the agreement, especially since we will not go to zero tariffs on non-durum wheat, is the clause guaranteeing preferential treatment. A preference provision that is beneficial to U.S. suppliers for all products is included in the agreement. It guarantees that if Morocco provides any other trading partner better treatment for any product, Morocco must immediately provide the same

treatment to the like U.S. product. (Thus Canada can not negotiate an agreement that would put our growers at a disadvantage in this market.)

The U.S. wheat industry applauds our negotiators for their hard work and tenacity to reach this agreement for wheat. We strongly support the agreement and urge Congress to pass it before the summer recess.

Thank you for the opportunity to present the views of the U.S. wheat industry on this important agreement.



News From: _____

U.S. Senator Russ Feingold

506 Hart Senate Office Building
Washington, D.C. 20510-4904
(202) 224-5323

<http://www.senate.gov/~feingold>

Contact: **Trevor Miller**
(202) 224-8657

**Statement of U.S. Senator Russ Feingold
For the Senate Finance Committee Hearing on the
"U.S. - Australia and U.S. - Morocco Free Trade Agreements"**

June 15, 2004

I am pleased that the Senate Finance Committee is reviewing the effects of adopting a bilateral free trade agreement (FTA) with Australia. I hope that my comments will bring to light some of the flaws in this proposal, illustrating the negative impact that the agreement would have on Wisconsin's dairy industry, were it to be enacted.

As you know, the U.S.-Australian FTA proposes to increase quota access to the U.S. market for Australia's dairy producers, and for many products this access will be duty-free. Wisconsin is still the number one producer of cheese in the U.S., but the increased imports would hurt Wisconsin cheesemakers as they attempt to compete against the ever-rising flood of Australian imports. In the first year alone, the expansion of the quotas will amount to nearly a three-fold increase in dairy imports from Australia. This would make it even more difficult for Wisconsin's dairy industry to succeed, and Wisconsin's cheesemakers deserve a better deal than this agreement.

The agreement also fails to close the tariff loophole that allows milk protein concentrate (MPC) products into this country. Imports of MPCs enter the U.S. virtually tariff-free and with no volume quotas, making imported MPCs an unfair alternative to domestic milk. A recent U.S. International Trade Commission report found that MPCs have displaced 318 million pounds of domestically produced milk proteins. Greater imports of Australian dairy products will displace even more domestic milk supplies, putting downward pressure on dairy prices. This is likely to translate into a loss of dairy farms, something I have long been working to stop. I urge this Committee to consider not only the omission of MPCs from this agreement, but also the need for broader legislation, such as S. 560, the Milk Import Tariff Equity Act, to address the unfair treatment of all MPC imports.

I continue to hear from an increasing number of dairy farmers as well as dairy processors

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(608) 828-1200

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Milwaukee, WI 53202
(414) 276-7282

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401 5th St., Room 410
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(715) 848-5660

425 State St., Room 232
La Crosse, WI 54603
(608) 782-5585

1640 Main Street
Green Bay, WI 54302
(920) 465-7506

across Wisconsin about how unfair trade agreements like this hurt their industry. The U.S.-Australia Free Trade Agreement turns a blind eye to the concerns of Wisconsin's dairy industry. Of course, our dairy farmers and cheesemakers can outperform anybody, but they deserve a level playing field that allows them to do just that. I will continue to fight against measures that hurt our dairy industry, which is a such a critical part of Wisconsin's agricultural economy.

I urge the Committee to give full consideration to Wisconsin's dairy industry during your evaluation of the U.S.-Australia FTA.

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U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

Opening Statement of Sen. Chuck Grassley
Hearing on the Implementation of the U.S.-Australia and U.S.-Morocco Free Trade Agreements
June 15, 2004

Today we will hear testimony on the U.S.- Australia and U.S.- Morocco Free Trade Agreements. Following today's hearing, the Committee will meet briefly in executive session to consider Senate Joint Resolution 39, which would approve the renewal of sanctions on Burma. I first want to thank our panelists, many of whom traveled a long way to be here to testify about the importance of these agreements to their industries. I especially want to thank Jon Kneen and Ron Heck, both of whom traveled from Iowa to be here today. I am confident that their testimony, along with the testimony of our other witnesses today, will show that both the Morocco and Australian FTAs are solid agreements which deserve the broad, bipartisan support of the Congress.

Each of these agreements was negotiated using the Trade Promotion Authority procedures established by Congress in the Trade Act of 2002. These procedures require intensive consultation with Congress throughout the negotiating process. While I may not agree with the substantive outcome of these consultations in every respect, I am confident that both agreements will receive strong bipartisan support in the Congress.

I am especially pleased with the strong and comprehensive agriculture provisions in the U.S.-Morocco Free Trade Agreement. To ensure the future support of myself and many in the agriculture sector, I would strongly encourage the administration to negotiate comprehensive agreements like the Morocco FTA which do not exclude specific commodities from negotiation. The Moroccan agreement provides significantly improved market access for Iowa-produced soybeans, corn, and beef in the fast-growing Moroccan market. In addition, the U.S.-Morocco FTA contributes to the President's goal of establishing a U.S.-Middle East Free Trade Area by 2013. As Middle Eastern countries are major importers of food and other agricultural products, such an FTA would greatly benefit both farmers in the United States and consumers in the Middle East.

I would like to add that I am pleased that Australia recently reviewed its sanitary restrictions regarding U.S. pork, and due to a science-based decision, Australia will now permit the importation of U.S. processed pork and U.S. pork for processing. I am hopeful that the U.S.-Australia Committee on Sanitary and Phytosanitary Matters, and the Standing Technical Working Group on Animal and Plant Health Measures, which are established under the FTA, will be able to work successfully to address contested sanitary and phytosanitary barriers that remain between our countries. In addition, the recently enacted state of the art Moroccan labor law is an example of the progress that can be made in areas beyond trade as we engage in bilateral FTA negotiations.

Both the Morocco and Australia free trade agreements will provide important new economic opportunities to America's manufacturing, services, and agricultural sectors. Both of these agreements will also help solidify our international alliances with two valuable allies in the war on terrorism. Through trade, our nations will be drawn even closer together, and the friendship among our people strengthened. I look forward to working with the Administration and Ranking Member Baucus to get these agreements implemented before the August recess, and to continue our bipartisan efforts to open foreign markets for U.S. goods and services.

**STATEMENT BY RON HECK
PRESIDENT, AMERICAN SOYBEAN ASSOCIATION**

before the

**COMMITTEE ON FINANCE
UNITED STATES SENATE**

on

THE U.S.-MOROCCO FREE TRADE AGREEMENT

June 15, 2004

Good morning, Mr. Chairman, and Members of the Committee. I am Ron Heck, a soybean and corn farmer from Perry, Iowa. I am currently President of the American Soybean Association, which represents 25,000 producer members on national issues of importance to all U.S. soybean farmers. ASA appreciates the opportunity to appear before you today.

ASA welcomes the conclusion of the Free Trade Agreement (FTA) negotiations between the United States and Morocco. The agreement is fair, it does not exclude any products, and it creates opportunities for our industry to export more soybean and livestock products to Morocco. We commend you, Mr. Chairman, for your active participation and leadership in the process, and for looking out for the needs of soybean producers during negotiation of the agreement.

Morocco is an important market for U.S. soybean producers. It imports approximately 300,000 metric tons of soybeans annually, valued at \$90 million. It also imports 300,000 metric tons of crude soybean oil, and 100,000 metric tons of soybean meal annually.

Let me quickly review the present, pre-implementation, status of the soybean trade between Morocco and the United States. Currently, import duties are imposed on virtually all U.S. soybean products entering the Moroccan market:

Soybean seed imported for planting and soybeans imported by the crusher has an assessed *ad valorem* duty of 2.5 percent. A differential duty is applied to soybeans imported for processing. In the case of soybeans imported for other forms of processing, the duty is 22.5 percent *ad valorem*. Duty on soybean oil is 22.5 percent *ad valorem*, with an additional amount applied to shipments for which the declared price is below a reference value. The import duty is 25 percent *ad valorem* on soybean meal, and for high-value soy protein products used in human food – such as soy flour, soy concentrate, soy isolates, and textured soy protein – the assessed duty is currently 75.5 percent.

Under the FTA agreement, the duty on soybeans imported for processing will be eliminated immediately. We expect this will benefit U.S. exporters by at least partially offsetting aggressive pricing practices by South American suppliers. Currently, South American supplier countries do not have a free trade agreement with Morocco, but receive most favorite nation status which assesses tariff rates equivalent to the pre-FTA tariffs applied to imports from the United States. The higher duty on soybeans imported for other forms of processing has made it uneconomical for feed compounders or others in Morocco to invest in the production of full fat soybean meal. Full fat soy is a product that would find a ready market among producers in Morocco's rapidly expanding and relatively advanced poultry industry. Therefore we applaud elimination of the duty on soybeans.

Duties on crude soybean oil will also be eliminated immediately. Duties on soybean meal and other processed soy products will be reduced by 50 percent in the first year of the agreement, and then phased out over the next five years. This should encourage expansion in U.S.-Morocco soybean meal trade. There have been occasional imports of soybean meal at the current 25 percent duty rate, but the tariff usually has been sufficiently high to protect the Moroccan crushing industry from import competition. While it is in the best interest of U.S. soybean producers for Morocco to continue to have a healthy domestic crushing industry, a preferential duty on soybean meal allows the U.S. industry to compete for a share of Morocco's rapidly growing market for livestock and poultry feed. We are satisfied with the time frame given in the agreement, which will allow the Moroccan industry to adapt to increasing import competition from U.S. soybean meal.

ASA is always looking for opportunities to expand trade in high-value processed soybean products used for human consumption, such as soy flour. As developing countries grow wealthier and can afford a more nutritious diet, consumption of soy protein products also grows. Morocco is only beginning to become interested in soy for human consumption because the prohibitively high duty on these high-value products has made it difficult to import samples for product demonstrations and other market development activities. Therefore, we are pleased to see the initial 50 percent reduction and eventual elimination of tariffs on these products.

In addition to increased opportunities for soybeans and soy products, there is significant expansion in market access for U.S. beef and poultry products, which are large domestic markets for U.S. soybean producers. Previous to this agreement, there was no access to the Moroccan beef and poultry markets, despite high demand in the restaurant industry for high quality beef. The agreement provides for a tariff-rate quota for U.S. beef, and immediate access for certain poultry products. We understand that certain sensitive poultry products, such as chicken leg quarters, will have a lengthy phase-out of the TRQ and a permanent safeguard mechanism. Overall, however, there will be new access to a previously inaccessible market.

We are also pleased that Morocco has agreed to adjust its State Trading Enterprise (STE) system by eliminating special financing, increasing transparency, and eliminating

restrictions on the right to export. We believe STEs significantly hamper trade and that, by restructuring them, the free trade agreement with Morocco will truly be “free.”

In conclusion, Mr. Chairman, this agreement is very beneficial to U.S. soybean producers, and to our customers in the domestic livestock industry. ASA strongly supports and urges quick passage of the Morocco FTA. I would be pleased to respond to questions you or other Members of the Committee may have.

Statement of

**Mr. Jon Kneen
Chairman of the Board
Al-Jon, Inc.**

**On Behalf of the
National Association of Manufacturers (NAM)**

**Before the
Senate Finance Committee**

On

The U.S.-Australia Free Trade Agreement

June 15, 2004

Good morning. My name is Jon Kneen. I am the Chairman of the Board of Al-Jon, Inc., a manufacturer based in Ottumwa, Iowa. I am here today to represent my company and the National Association of Manufacturers (NAM) regarding the benefits of the U.S.-Australia Free Trade Agreement.

Our company, Al-Jon, designs, manufactures, and markets machinery used to recycle scrap metal and manage waste in an environmentally friendly fashion. This equipment includes car crushers, metal balers, metal loggers, hydro tractors with engine pullers, and landfill compactors. Our machines process old junk cars, refrigerators, stoves, and other light-gauge metals for recycling purposes. Then our landfill compactors are used to demolish, compact and reduce waste and garbage to an environmentally acceptable condition.

Al-Jon is over forty years old. The company is privately owned by my family and is in second-generation management. We employ about 100 people in Ottumwa, and our ability to sustain and grow our local work force is increasingly dependent on our ability to penetrate new markets abroad. Today we export approximately ten to fifteen percent of our production, and in recent years this has included a number of sales to Australia.

While we have numerous potential customers in Australia, our sales there have been limited by two factors: 1) the five percent tariff the Australia government charges on our exports, and 2) the cost of shipping our heavy machines that far. The U.S.-Australia Free Trade Agreement (FTA) will immediately eliminate the first factor – the five percent duty – and I believe this will greatly enhance our prospects for expanded sales to Australia.

Let me explain. Our products are high-technology, high-value manufactured goods. For instance, an Al-Jon Car Crusher is priced at \$118,000 apiece. The duty paid by our Australian customers on each crusher is nearly \$6,000, which is no small piece of change. No Australian company that I am aware of makes equipment similar to ours. Our main competition for business in that country comes from Europe. Once Congress approves the FTA and it goes into effect, we will gain an immediate \$5,000 price advantage over our competitors, giving us strong reason to believe that we can significantly expand sales of our crushers and other equipment, which would receive similar duty breaks.

The instant competitive advantage that Al-Jon will achieve from the agreement will also be achieved by many other American manufacturers. You know, Mr. Chairman, if you were to say, "give me one good reason to support the U.S.-Australia free trade agreement, I would say, "I'll give you 19,000 reasons!" That's the number of U.S. companies that already export to Australia, according to the Census Bureau. And my company is far from being alone as a small or medium-sized exporter to Australia. Over 85 percent of all U.S. exporters to Australia are small and medium-sized firms.

Australia is already a great market for smaller U.S. firms, and this trade agreement is only going to make it better. The NAM, which represents 14,000 U.S. manufacturers, including four thousand large firms and 10,000 small and medium-sized companies like ours, believes the benefits are so widespread and substantial that it has taken to calling the deal with Australia "The Manufacturers Agreement."

The U.S.-Australia FTA deserves that label because 95 percent of all U.S. exports to Australia are manufactured goods, and over 99 percent of Australia's duties on U.S. manufactured goods will be eliminated the moment the agreement goes into effect. That is an unparalleled achievement. In previous trade agreements, many industrial tariffs were phased out over five or ten years, delaying the benefits available to competitive American companies like mine. But the Australia agreement is unprecedented in the extent to which it provides immediate, cost-saving benefits for Al-Jon and other American manufacturers. The NAM estimates the accord could result in an additional \$1.8 billion in annual sales of U.S. manufactured exports to Australia.

Another reason this agreement is so commercially meaningful for American manufacturing is the fact that it builds on an extremely solid trade and investment relationship that is already in place. The United States sold more than \$12 billion in manufactured products to the Aussies last year, and we had our largest bilateral industrial trade surplus in the world – nearly \$7 billion dollars in the U.S. favor – with Australia. Building from this strong foundation, the FTA should allow us to further integrate the two economies and expand our share of the Australian market.

Non-Tariff Barriers

In addition, the agreement contains provisions for reinforcing the World Trade Organization (WTO) Technical Barriers to Trade (TBT) agreement and for promoting

improvements in bilateral implementation of the TBT agreement. U.S. manufacturers have a strong interest in ensuring that technical standards and regulations governing manufactured products do not constitute barriers to market access. Products with U.S., European and international standards are widely used in Australia.

The Agreement provides the opportunity to go beyond the basic WTO requirements and to find ways to streamline the use of standards conformity assessment requirements in a manner that would lower the cost of bilateral trade and would facilitate trade expansion. This is yet to be built on, but the agreement contains a mechanism that could allow for very important reductions in the effect that standards and conformity assessment can have as trade barriers.

Government Procurement

I would also like to note the agreement's provisions on government procurement, which provide U.S. firms competitive entry to Australia central government entities. Australia is not a signatory to the WTO Government Procurement Agreement, meaning these advantages are not available to competitors in the Australian market. Importantly, Australia will no longer apply to U.S. firms provisions for local manufacturing or local content requirements. Australia will also restrict its use of selective tendering provisions, which will improve U.S. suppliers' ability to compete fairly for government contracts. This will allow American companies to sell U.S.-made products to Australian government entities which previously were off-limits to them.

Customs Procedures and Rules of Origin

Bilateral trade will also be greatly facilitated by the agreement's customs chapter. The specificity of obligations with regard to customs procedures, coupled with the commitments to information sharing to combat illegal trans-shipment of goods and facilitate express shipment, maintain a high standard. Steps to ensure transparency and efficiency are also included. The agreement also provides that the release of goods should be accomplished quickly – and within 48 hours to the extent possible. This is of particular importance for express delivery services that increasingly handle the transport of products exported by smaller and medium-sized U.S. companies.

Conclusion

In conclusion, I'd like to thank you, Mr. Chairman, and the members of the Committee, for listening to the views of Al-Jon and the National Association of Manufacturers on this important agreement. We strongly urge that your committee and the Congress approve the agreement as soon as you can, so that American manufacturers such as myself can begin to take advantage of the lower barriers and stronger rules it provides.

I will be happy to try to answer any questions the Committee might have at the appropriate time.

STATEMENT OF
HAROLD McGRAW III
CHAIRMAN, INTERNATIONAL TRADE AND INVESTMENT TASK FORCE,
BUSINESS ROUNDTABLE

BEFORE THE FINANCE COMMITTEE
UNITED STATES SENATE

IN SUPPORT OF THE U.S.-AUSTRALIA FREE TRADE AGREEMENT

JUNE 15, 2004

Mr. Chairman, Members of the Committee. Good morning. My name is Harold McGraw III. I am chairman of the Business Roundtable's International Trade and Investment Task Force and Chairman, President and CEO of The McGraw-Hill Companies. It is a pleasure for me to speak to you today in support of the U.S.-Australia Free Trade Agreement (FTA) on behalf of leading U.S. corporations with a combined workforce of more than 10 million employees in the United States.

Mr. Chairman, we want to thank you, Senator Baucus and your Committee for your essential leadership in moving the trade agenda forward with your action to pass the Trade Promotion Authority and the U.S.-Singapore and U.S. Chile Free Trade Agreements, and your action now on Australia and Morocco. The Business Roundtable believes that U.S. policies that promote trade – like the U.S.-Australia FTA – coupled with policies that promote education and training, and investment and innovation, will result in more economic growth and job creation in the United States.

Trade Fuels Economic Growth

Trade expansion is one of the most important catalysts for economic growth. As we know, 95 percent of the world lives outside the United States. U.S. trade agreements to open up foreign markets are more important than ever. Isolating the United States from the world economy is a losing strategy for American companies, workers, farmers, and consumers.

Although this simple truth often gets lost in the popular debate, there is an increasing array of economic evidence that is clarifying and quantifying the benefits of more open economies and expanded trade. Our recent report, "Securing Growth and Jobs: Improving U.S. Prosperity in a Worldwide Economy," a copy of which is attached to my testimony, sets out many of these facts in detail.

Having just returned from trips to China and to Europe, I can tell you first hand that government and business leaders are looking to the U.S. for leadership in moving the trade agenda forward. Reforms and economic growth brought about by trade agreements clearly improve the quality of life for Americans and foreign citizens – through access to

a broader set of products and services, and to competition that improves quality, lowers prices and spurs job growth.

In short, more trade means more domestic economic growth, and more and better jobs for Americans. Isolating the United States from the world economy by foregoing opportunities to liberalize trade is a losing strategy.

The Australia FTA Is an Important Piece of the Larger Trade Expansion Effort

Expanding U.S. trade opportunities is vitally important for American workers, farmers, consumers, and companies. As international business executives, the members of the Business Roundtable know from personal experience how competitive the U.S. economy is if foreign trade barriers can be eliminated. The Business Roundtable has always been in the front lines of U.S. efforts to open markets, and we commend this Committee for its continued leadership on these efforts.

For many years, however, the United States lost ground to its foreign competitors who forged ahead, recognizing the benefits of trade liberalization, and negotiated one bilateral FTA after another. Prior to the enactment of trade promotion authority, for example, the European Union had 27 FTAs in force and was negotiating another 15, compared to three FTAs benefiting American companies (the North American Free Trade Agreement, the U.S.-Israel FTA, and the U.S.-Jordan FTA). Mexico had FTAs in effect with at least 28 countries. Even Japan was contemplating FTAs with six trading partners. U.S. companies and their workers were forced to stand on the sidelines and export growth languished.

Congressional enactment of trade promotion authority permitted the United States to get back onto the field. Today, because of Congressional action, the U.S.-Singapore and U.S.-Chile Free Trade Agreements are already helping to boost U.S. exports and employment. The U.S.-Australia FTA is another important opportunity for promoting U.S. economic growth and the good jobs that come with it, and we urge the Congress to put this agreement to work for the United States.

The U.S.-Australian trading relationship has always been a strong one. Even without a free trade agreement, U.S.-Australian trade totaled \$28 billion in 2003. Our trade surplus with Australia has been growing steadily, reaching nearly \$6 billion in 2003. Australia, like the United States, is an advanced economy; workers in both countries earn similar wages, and both countries have the same strong commitment to worker rights and environmental protection.

The U.S.-Australia FTA Is a Solid “Win” for America

The U.S.-Australia FTA would improve this picture even more. The FTA represents a strong “win” for the American economy and for American workers. As U.S. companies’ competitiveness improves, the economy expands and incomes grow. Significant transition and adjustment times have been included in the Agreement for

sensitive products to ensure that they do not disrupt the U.S. economy. We expect these benefits because the Agreement includes the following important features:

- **The FTA opens Australia's industrial goods markets to U.S. exports.** The FTA more than meets the trade promotion authority objective to expand competitive market opportunities for U.S. exports and obtain fairer, more open and reciprocal conditions of trade. More than 99 percent of U.S. manufactured exports to Australia will become duty-free immediately upon entry into force of the Agreement. This is an unprecedented achievement for any U.S. free trade agreement negotiated to date. Manufactured goods account for over 90 percent of total U.S. exports to Australia, so this feature of the Agreement has special significance. While U.S. exports to Australia are large (\$12.4 billion in 2003), the European Union currently is Australia's largest supplier and our companies face stiff competition from Japanese, Korean, and other suppliers.
- **The FTA liberalizes Australia's services markets, and this will benefit U.S. exporters.** U.S. services exports to Australia totaled \$5.2 billion in 2002, most of that reflecting transactions between U.S. parent corporations and their Australian affiliates. Overall, as with merchandise trade, the United States enjoys a surplus in its services trade balance with Australia. Trade promotion authority instructed U.S. negotiators to reduce or eliminate barriers to international trade in services, and the U.S.-Australia FTA achieves this objective. Australia's services commitments are total: all services sectors are covered. Indeed, the Agreement will also cover services yet to be developed. Moreover, the FTA gives American services companies and business professionals greater regulatory certainty and increased transparency.
- **The FTA opens Australian government procurement to U.S. competition.** The FTA establishes new disciplines on purchases made by most Australian central government agencies, as well as the vast majority of regional and municipal governments. This is significant because Australia is not a signatory to the World Trade Organization's Government Procurement Agreement. The FTA guarantees U.S. firms a fair and transparent process to sell goods and services to a wide range of Australian government entities. Australia will no longer apply provisions for local manufacturing or local content requirements to U.S. firms.
- **The FTA provides American investors in Australia with a higher level of certainty regarding investment rules.** Worldwide investment is also a key component in the ability of American firms to remain competitive at home. Most U.S. foreign investment is located in other developed countries, and Australia is an important destination for U.S. investment. It is important to remember that Australia is also an important investor in

America. In 2002, Australian investments here totaled \$24.5 billion, and supported 80,400 jobs in 2001. U.S. negotiators have brought back an Agreement that meets Congressional objectives stipulated in trade promotion authority for foreign investment, including reducing or eliminating artificial or trade-distorting barriers to foreign investment. For example, the FTA excludes all new investment from screening by Australia's Foreign Investment Review Board, and increases the threshold for review/screening of other U.S. investments from A\$50 million to A\$800 million (US\$519.5 million).

Congress Should Move Quickly to Approve the U.S.-Australia FTA

Mr. Chairman, sector by sector, this FTA is a big plus for America, and yet it is also important to recognize the importance of this FTA to overall U.S. trade policy.

Timely Congressional enactment of legislation to implement the FTA is important to keeping the momentum of trade liberalization going, both bilaterally and multilaterally. The Congressional approval of the Singapore and Chile FTAs last year shows how well the new Trade Promotion Authority has enabled the United States to be a full player in international trade again, after many years on the negotiation sidelines. The Australia FTA and other new agreements are helping to make up for the years that America lost ground.

Now that the U.S. economy is growing again, the Congress should avail itself of every tool to strengthen the U.S. economy in the months ahead through new trade opportunities. Indeed, it is no exaggeration to say that the world is watching what Congress does with the FTA. Delay in approval could slow down other trade negotiations under way at the bilateral, regional, and multilateral levels. As I stated at the outset, the world is looking to U.S. leadership to move the trade agenda forward.

The Business Roundtable is convinced that the choices we make as a nation on international trade rank among the important decisions that will define the American economic and social landscape decades from now. Forward-looking trade policies that include the U.S.-Australia FTA will create increased economic opportunity and higher standards of living. A retreat on trade would imperil the prosperity and quality of life available to Americans of all ages and walks of life. Further, it would be inconsistent with the leadership expected of us by our global partners.

We urge this Committee and the Congress to approve the U.S.-Australia FTA as soon as possible this year, so that the United States can start enjoying its benefits.

Thank you, Mr. Chairman, for this opportunity to share our views with you today.



Business Roundtable

Securing Growth and Jobs:
Improving U.S. Prosperity in a Worldwide Economy

March 2004



Business Roundtable

The Business Roundtable is an association of chief executive officers of leading corporations with a combined workforce of more than 10 million employees in the United States and \$3.7 trillion in annual revenues. The chief executives are committed to advocating public policies that foster vigorous economic growth; a dynamic global economy; and a well-trained and productive U.S. workforce essential for future competitiveness.

Securing Growth and Jobs:
Improving U.S. Prosperity in a Worldwide Economy

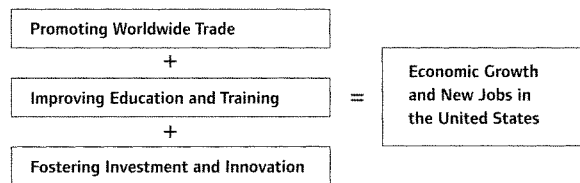
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Executive Summary

Over the past several months, worldwide sourcing and international investment have generated an intense public debate, with dire warnings that the United States is “shipping jobs overseas” due to foreign “outsourcing.” The issues are much more complex than some of the media coverage about U.S. economic and job growth suggests.

The Business Roundtable, an association of chief executive officers of leading U.S. companies with 10 million employees, urges policymakers to pursue substantive initiatives that will help grow our economy and create more sustainable jobs in the United States. The Business Roundtable also recognizes that even though participating in this dynamic world-wide economy is adding to Americans’ overall prosperity, individual workers or businesses do not always benefit. Economic growth alone provides little solace to a person who loses a job because of domestic or foreign competition, new technology, or increasing productivity. Together, policies that promote trade, education and training, and investment and innovation will result in both economic growth and job creation in the United States.



One of the biggest challenges facing the economy is that worried U.S. policymakers, while genuinely concerned about Americans who have lost their jobs, will undertake efforts that actually will stymie growth and job creation by imposing counterproductive laws and regulations. New government restrictions on worldwide sourcing would not create any new private-sector jobs or give any unemployed worker the new skills that he or she needs. Instead, such restrictions would serve only to raise prices for U.S. consumers, give taxpayers less value for their taxes, and start a downward spiral of international recriminations that would reduce economic growth and job creation.

Effective solutions must be based on a balanced assessment of the facts and a correct diagnosis of the problem.

- ▶ Although economists are still studying the current unexpected lag in job creation, one of the causes is known already — higher worker productivity. The sources of higher productivity also are clear — the new technologies that are improving our lives, our homes and our workplaces. Surely no one would argue that the United States should halt technological change.
- ▶ Worldwide sourcing is not a new phenomenon and is not limited to the United States. Its advantages to the United States are twofold: U.S. companies obtain cost-effective services from other countries, and other countries obtain them from U.S. suppliers. Overall, the dollar amount of the services the United States sells to other countries is 25 percent larger than the services they sell to the United States.
- ▶ Twenty years ago, there was a great deal of concern about U.S. policies of economic openness that permitted large flows of foreign investment into the United States. Yet this foreign investment now is widely recognized as having been very beneficial for the U.S. economy, particularly for workers and consumers. Since 1990, foreigners have made direct investments of \$1.5 trillion in U.S. companies and factories, and foreign firms are responsible for more than 6 million U.S. jobs.
- ▶ Assertions that job losses in particular companies diminish the aggregate number of U.S. jobs distort the fact that the dynamic U.S. labor market both creates and eliminates about 30 million private-sector jobs each year.
- ▶ The U.S. economy, recovering from the recession that began in early 2001 and was exacerbated by the tragic events of September 11, 2001, is now growing. The Bureau of Labor Statistics predicts that the United States will net 21 million new jobs between 2002 and 2012.

Now is the time for government to rev up the engines of growth so that more U.S. workers can be employed in high-wage, high-value-added jobs. Better jobs and higher standards of living are created by new investment, which will occur only if there is greater market demand and a good domestic investment climate. As described in this paper, it will take a smart package of policies — to promote export expansion, prevent a U.S. dollar misalignment, stimulate foreign economic growth, facilitate research and development (R&D), encourage new investment in manufacturing technology, improve worker adjustment and education programs, and raise U.S. student achievement — to solve the challenge. No single policy will suffice.

The Business Roundtable supports an active policy agenda to promote U.S. economic growth that should, as a start, focus on the following key areas:

- ▶ **Promoting worldwide trade and stimulating international economic growth.** Trade expansion is one of the most important catalysts for economic growth, and an increasing array of economic evidence is clarifying and quantifying the benefits of more open economies. To help companies export their products to the 95 percent of the world that lives outside of the United States, new U.S. trade agreements to open up foreign markets are more important than ever. Isolating the United States from the world economy is a losing strategy for American companies, workers, farmers and consumers. However, U.S. economic performance alone cannot drive the entire worldwide economy. The U.S. government also must continue to develop and implement vigorous policies to promote international economic cooperation.
- ▶ **Improving education and training.** The United States should be steadfast in its emphasis on improving the skills of today's U.S. workers through better education and training and the skills of tomorrow's workers through dramatic improvement in the education of U.S. students. Each year, U.S. companies invest more than \$70 billion in job training. Even as the United States prospers in the worldwide economy, some workers may experience declining earnings and job instability. So an expanded effort by companies, labor unions and all levels of government is needed to help workers adapt and gain more benefits from the worldwide economy.
- ▶ **Fostering investment and innovation.** Spending on R&D is central to maintaining U.S. technological leadership. Federal investment in basic research has been the foundation for many important commercial advances, and other countries now recognize the importance of increasing government funding for research. Since 1970, the federal share of total R&D spending has declined from 57 percent to 28 percent, and that percentage, particularly for basic research, must be boosted.
- ▶ **Doing no harm.** While enacting and implementing new policies is important, avoiding policy missteps is just as important. As in the Hippocratic Oath, the most important step U.S. economic policymakers can take is to avoid unintended harm to the U.S. economy by resisting counterproductive ideas, such as proposals that would impose new tax, regulatory or procurement restrictions on how U.S. companies invest and trade worldwide or that would isolate the United States from the world economy. Those who would retreat from the worldwide economy with the expectation of "saving" U.S. jobs are ignoring not only the lessons of economic change but also the lessons of history. Instead, government officials should promote policies that encourage economic expansion, spur trade, and enable companies in the United States to grow and create employment at home.

Recommendations for Federal and State Leaders

The following recommendations will be most effective and have the most benefit for the U.S. economy and the American workforce if they are acted on as a package. Taken together, these recommendations to promote trade, education and training, and investment and innovation will result in both economic growth and job creation in the United States.

PROMOTING WORLDWIDE TRADE AND STIMULATING INTERNATIONAL ECONOMIC GROWTH

- ▶ Negotiate more international agreements to open up foreign markets.
- ▶ Ensure all countries comply with their international trade obligations.
- ▶ Continue trying to convince other countries to adopt trade, fiscal, monetary and regulatory policies that will stimulate their own economic growth.
- ▶ Encourage other countries to refrain from policies that keep their currencies artificially weak and distort trade.

IMPROVING EDUCATION AND TRAINING

- ▶ Identify how all of the public programs that now provide worker education, training and adjustment assistance can increase their flexibility, accessibility and effectiveness.
- ▶ Modify existing trade adjustment assistance programs to include workers in services.
- ▶ Launch a national initiative to design a new worker education, training and adjustment system for the 21st century.
- ▶ Stay the course on implementation of the No Child Left Behind Act to improve reading and math achievement of the students who are tomorrow's workforce.
- ▶ Move dedicated support for improving math and science education to the top of the list of federal education funding priorities.
- ▶ Design education and immigration policies to address the impact of demographic and higher education enrollment trends on the scientific and engineering workforce.

FOSTERING INVESTMENT AND INNOVATION

- ▶ Increase federal funding for basic research.
- ▶ Make the current federal tax credit for R&D permanent.
- ▶ Restructure the double tax on corporate income and the alternative minimum tax.

- ▶ Decrease the disincentives for new investment created by excessive government regulation and frivolous lawsuits against U.S. companies and their workers.

DOING NO HARM

- ▶ Avoid high-risk, isolationist policies that would choke off economic recovery.
- ▶ Avoid regulations and tax penalties that will restrict investment, sourcing and staffing decisions of U.S. companies.

I. Introduction

Over the past several months, worldwide sourcing and international investment have generated intense public debate. Many stories have been critical, warning that the United States is “shipping jobs overseas” due to foreign “outsourcing” or “offshoring.”

The issues are much more complex than some of the public debate suggests. Outsourcing is not the cause of the low rate of job growth. Although economists are still studying the current unexpected lag in job creation, a major cause is readily apparent — higher worker productivity. The sources of higher productivity also are clear — the new technologies that are improving our lives, our homes and our workplaces. Surely no one would argue that the United States should halt technological change. Instead, federal and state governments need to do the only thing that will create more jobs for Americans: Help businesses make new investments and help companies export their products to the 95 percent of the world that lives outside of the United States.

Those who think that American jobs can be saved by prohibiting worldwide sourcing are missing a fundamental point — namely, that the United States exports far more services than we import from other countries. In 2003, for example, the surplus of exports over imports was \$59.4 billion.¹ If federal or state governments were to enact new restrictions that make it harder for U.S. companies to purchase services from foreign countries, our trading partners could respond by imposing mirror restrictions on their own companies. The result would be that many individuals who work in U.S. companies that sell services (such as financial, insurance, computer-related, publishing, telecom, construction and energy) to other countries would lose their jobs.

The bottom line is that the United States can gain only greater prosperity by trading more with the world, not by isolating ourselves from the world. The increasingly worldwide economy provides opportunities to develop new markets for U.S. goods, services and technology, which in turn helps the U.S. economy grow and creates jobs here at home.

In suggesting the most promising economic path for the United States to take, the Business Roundtable also recognizes that participating in this dynamic global economy, while adding to Americans’ overall prosperity, does not always benefit every individual worker or business. Economic growth alone provides little solace to a person who loses a job because of domestic or foreign competition, new technology, or increasing productivity. Much better programs are needed to help dislocated workers upgrade their skills and find new jobs. Effective programs should be available, whatever the cause of the unemployment.

One of the biggest challenges facing the economy is that worried U.S. policymakers, while genuinely concerned about Americans who have lost their jobs, will undertake efforts that actually will stymie growth and job creation by imposing counterproductive laws and regulations. In recent months, some politicians and organizations have proposed onerous regulations and tax penalties to restrict investment, sourcing and staffing decisions of U.S. companies. Legislative proposals in Congress and in many states would use government procurement and other laws to micromanage how companies engage with the world in everyday business management decisions. At the state level, proposals have been introduced to inhibit U.S. businesses from using the same worldwide sourcing strategies practiced by the most competitive non-U.S. companies.

One of the biggest challenges facing the economy is that worried U.S. policymakers, while genuinely concerned about Americans who have lost their jobs, will undertake efforts that actually will stymie growth and job creation by imposing counterproductive laws and regulations.

New government restrictions on worldwide sourcing would not create any new private-sector jobs or give any unemployed worker the new skills that he or she needs. Instead, such restrictions would serve only to raise prices for U.S. consumers, give taxpayers less value for their taxes, and start a downward spiral of international recriminations that would reduce economic growth and job creation. The proponents of pressuring U.S. companies to stop worldwide sourcing often characterize their schemes as “protection” of U.S. jobs. Yet surely such “protection” is a bad idea for U.S. workers if it means cutting the U.S. economy off from the sources of future economic growth and opportunity.

The Business Roundtable prepared this paper to:

- ▶ help policymakers and the public better understand the facts about the United States’ role in the worldwide economy;
- ▶ offer context and perspective on employment trends; and
- ▶ recommend a package of policies that will stimulate economic growth, foster innovation, create jobs and help workers develop skills for the jobs of today — and the jobs of tomorrow.

II. Getting the Diagnosis Right

The United States' role in the worldwide economy is sometimes distorted or misunderstood. Too often recently, incorrect information and arguments have been used to suggest that international trade is harmful to U.S. workers and the United States, and there has been a surge in criticism of U.S. companies that engage in worldwide investment and sourcing practices. Yet this criticism ignores the strong evidence that U.S. companies that are fully integrated in the world economy create higher-paying U.S. jobs. Furthermore, U.S. companies continue to invest within U.S. borders and are devoting considerable resources to job training for their U.S. employees and to improving American education.

Worldwide Sourcing in the Spotlight

Much of the current criticism about foreign outsourcing relies on one-sided data. The most common distortion is to publicize job losses in particular companies and then to imply that the aggregate number of U.S. jobs has diminished by that amount. This line of argument disregards that the U.S. labor market is highly dynamic and both creates and eliminates about 30 million private-sector jobs each year.² The jobs gained from trade may be less visible than the jobs lost, but these new jobs are just as real and tend to be higher paying than the jobs they offset. For example, jobs created by exports are estimated to pay 13 to 18 percent more on average than nonexport-related jobs.³

"Adequate private and public investment in skills and lifelong education is paramount in this new world and is where attention should be focusing. But the image conjured up by the self-interested purveyors of alarm, of a hollowed-out America with relentlessly rising unemployment, is not just false but absurd. ... The actual and prospective migration of service-sector jobs is small, and likely to remain so, compared with the background level of job creation and destruction in an economy with as much vitality as America's."

— The Economist, Feb. 19, 2004

Worldwide sourcing is not a new phenomenon and is not limited to the United States. Worldwide sourcing imports are being used by companies around the globe because of advances in technology and communications. The advantages to the United States are twofold: U.S. companies obtain cost-effective services from other countries, and other countries obtain them from U.S. suppliers. Overall, the level of U.S. services exports

(by value) is 24 percent greater than the level being imported.⁴ Given how competitive U.S. producers are in so many sectors of the worldwide economy, the United States can expect to gain billions of dollars of new exports as foreign companies seek high-skill services from the United States.

Furthermore, a balanced assessment of the role that worldwide sourcing plays in international trade would consider the many other benefits that such practices provide to the U.S. economy.

- ▶ **Lowering inflation.** Importing services into the United States, like importing goods, helps to minimize inflation. The rate of inflation during the past year was only 1.7 percent.⁵ Lower embedded inflation gives policymakers less reason to raise interest rates, and the ensuing low rates provide a tangible benefit for consumers, homebuyers and businesses seeking to finance growth and job creation, especially small and medium-sized companies.
- ▶ **Strengthening the role of services.** Services are becoming an increasing share of the U.S. economy. The United States is highly competitive in services overall, with a \$59 billion surplus in services trade last year. Services now account for about 56.4 percent of the U.S. economy compared to 34.6 percent for goods and 9.0 percent for physical structures.⁶
- ▶ **Leading by example.** By importing services from other countries, the United States leads by example so that foreign governments will reciprocate and allow their companies to buy services from U.S. suppliers.
- ▶ **Generating value.** A recent study at the McKinsey Global Institute found that a dollar spent on offshore outsourcing could generate about \$1.12 of direct and indirect income benefit for the United States.⁷
- ▶ **Providing flexibility to meet customer needs.** The flexibility to engage in worldwide sourcing helps U.S. companies meet global customer needs and enables the U.S. economy to take advantage of its core strengths. Moreover, selective non-U.S. sourcing enables U.S. companies to sell more and to use the returns for new investment.

Together, such benefits expand the size of the U.S. economic pie, which creates more resources that can be used to build broader and stronger safety nets to help workers adversely affected by economic change.

Worldwide Sourcing Benefits the United States

Benefit per \$1 of U.S. spending offshore, 2002 (estimated)*

Direct Benefits

Savings accrued to U.S. investors/customers	\$ 0.58
Imports of U.S. goods and services by providers in India	\$ 0.05
Transfer of profits by U.S.-based providers in India back to United States	\$ 0.04
Net direct benefit retained in United States	\$ 0.67

Indirect Benefits

Value from U.S. labor re-employed**	\$ 0.45–0.47
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Potential net benefit to United States	\$ 1.12–1.14
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* Estimated; India offshore services industry example.

** Conservative estimate based on historical re-employment and wage levels; value created from improved global competitiveness of U.S. companies and multiplier effect of increased savings would likely increase amount of value created.

Source: McKinsey Global Institute.

International Investment in the United States

Just as the criticism of worldwide sourcing is misplaced, so too is the criticism of international investment. Twenty years ago, there was a great deal of concern about U.S. policies of economic openness that permitted large flows of foreign investment into the United States. Yet this foreign investment now is widely recognized as having been very beneficial for the U.S. economy, particularly for workers and consumers.

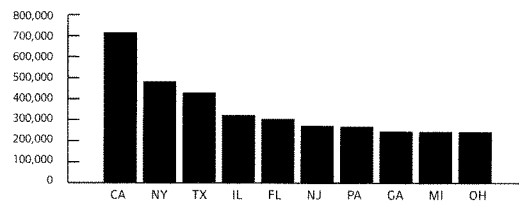
- ▶ Fully 22 percent of the current jobs in the United States were created by U.S.-based international businesses or by non-U.S. companies that have invested in the United States.⁸
- ▶ Since 1990, foreigners have made direct investments of \$1.5 trillion in U.S. companies and factories.⁹ Overall, foreign firms in the United States are directly responsible for more than 6 million U.S. jobs.¹⁰

- Non-U.S. companies investing in the United States spur U.S. productivity and employment growth. About 11 percent of the increase in productivity in manufacturing from 1987 through 1996 (the most recent period studied) stemmed from inward foreign investment.¹¹

Foreign Investment Creates Jobs in the United States, 2001

More than 6 million employees in the United States work for foreign companies

Top 10 States: Number of Employees Who Work for Foreign Companies



Source: William J. Zeile, *U.S. Affiliates of Foreign Companies: Operations in 2001*, BEA, August 2003.

Reasons for Optimism

Even as the U.S. economy continues to strengthen in 2004, some critics argue that the temporary lag in job creation is a sign of a deep malady. This is a misdiagnosis; the reality is that the U.S. economy is growing.

The recent recession, which began in early 2001 and was exacerbated by the tragic events of September 11, 2001, is the primary reason for the larger number (2.1 million) of unemployed Americans as compared to three years ago. Now that the United States has emerged from the recession, U.S. job creation should recover, too. The fact that our major trading partners have had lower growth rates and higher unemployment than the United States should give pause to those who claim that the U.S. economy is heading in the wrong direction.

Moreover, the high rate of domestic investment is a strong signal that the markets maintain confidence in the U.S. economy. Over the past year, U.S. domestic investment in equipment and software has grown at a rate of 5.5 percent,¹² which ultimately will spur greater U.S. job creation. Total private investment rose 4.3 percent in 2003 as compared to its *falling* 1.2 percent in 2002.¹³ As the Business Roundtable looks to the future, the foundation for income and job growth in the United States is solid.

- ▶ **Real growth.** The U.S. economy is dynamic, growing 3.1 percent in 2003 in real terms.¹⁴ Current economic growth projections are 1.9 times as high for the United States as they are for the European Union.¹⁵ Excessive government regulation remains an obstacle to European growth.
- ▶ **21 million new jobs by 2012.** The Bureau of Labor Statistics (BLS) predicts that the United States will net 21 million new jobs between 2002 and 2012.¹⁶ For example, the number of job openings for medical assistants and network systems analysts is projected to increase over 55 percent, and openings for physician's assistants and computer software engineers are projected to increase 45 percent.¹⁷
- ▶ **More U.S. workers employed.** More people (138 million) are working now than ever before, and many sectors are expanding.¹⁸ For example, about 1.5 million jobs have been added to the U.S. economy in management, professional and related occupations during the past three years.¹⁹
- ▶ **Unemployment rate down.** The current unemployment rate (three-month moving average over the period ending February 2004) is 5.6 percent, which is lower than the average rate during the 1970s, 1980s and 1990s.²⁰ The Bureau of Labor Statistics also publishes an alternative measure of the unemployment rate that includes "discouraged workers" plus workers marginally attached to the labor force. By this measure, the rate is 6.7 percent, which has fallen from the recent peak of 7.2 percent in June 2003.²¹ The current 6.7 percent rate is much lower than the average rate 10 years ago, which was 7.4 percent.²²
- ▶ **Productivity gains.** Productivity growth for the business sector in 2003 was 4.5 percent, and during the past two years, productivity has had the highest jump in more than 50 years.²³ High productivity is especially important because it is a major driver of the rate of economic growth and also leads to rising wages.
- ▶ **Inflation under control.** Inflation remains low, at only 1.7 percent during the past year.²⁴
- ▶ **Manufacturing activity growing.** In December 2003, the index of manufacturing activity jumped to its highest level in 20 years.²⁵

Despite these impressive signs, maintaining economic growth in the United States will be challenging. The prospects for expanding economic growth and job creation will depend significantly on policy choices that government officials make in the coming months and years.

The Public Understands the Importance of Economic Change

The U.S. public sees the need for companies and workers to remake themselves in the worldwide economy so that they can continue to excel, meet customer demands, and create sustained growth and jobs. In a recent national survey of 1,049 registered voters, Voter Consumer Research found widespread support for this positive approach and for the belief that the United States is stronger when we work with the world. These results debunk the claim that U.S. citizens oppose economic change and want to see the U.S. economy walled off from international commerce.

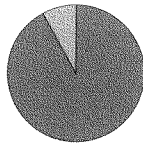
The survey results also indicate that the public does not agree with those who are calling for new government regulation of how U.S. companies work with the world. While the survey found that U.S. citizens do have concerns about the movement of some jobs overseas, three out of four respondents oppose government regulation as the solution to the problem. These results demonstrate that the public sees the difference between the helpful and harmful economic policy actions that the U.S. government might take.

Isolation & Concern over Regulation

Isolating ourselves from the rest of the world is not an answer — we should help American companies compete in the world economy, so they create new jobs and build economic strength in the United States.

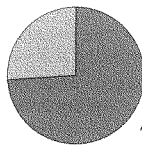
If politicians and bureaucrats start telling companies how to operate, it will raise prices, cost jobs and make things worse.

Disagree 8%



Agree 92%

Disagree 26%



Agree 74%

Source: Voter Consumer Research, 1/7/04-1/11/04, ± 3.1 .

III. Revving Up the Engines of Growth

Now is the time for government to rev up the engines of growth so that more U.S. workers can be employed in high-wage, high-value-added jobs. Better jobs and higher standards of living are created by new investment, and that will occur only if there is greater market demand and a good domestic investment climate. Choosing the right policies will be essential to keeping the United States on the path of greater prosperity for all.

The Business Roundtable supports an active policy agenda to promote U.S. economic growth that should, as a start, focus on the following key areas:

- ▶ **Promote trade and stimulate international economic growth.** The United States needs to negotiate and enforce trade agreements (bilateral, regional and multilateral) to open foreign markets that remain closed to U.S. companies and workers — or that give an advantage to our foreign competitors. Other countries must do their part to develop the worldwide economy and should not rely on the United States to be the sole engine of growth. The U.S. government should encourage countries to adopt growth-oriented policies and to refrain from policies that keep their currencies artificially weak and distort trade.
- ▶ **Improve education and training.** The United States should be steadfast in its emphasis on improving the skills of today's U.S. workers through better education and training and the skills of tomorrow's workers through dramatic improvement in the education of U.S. students. In addition, greater assistance is needed to help unemployed and discouraged workers move to new jobs.
- ▶ **Foster investment and innovation.** Federal and state policies need to emphasize incentives to make the United States more attractive for new investments and support new research so that U.S. industries continue to be world leaders.
- ▶ **Do no harm.** While enacting and implementing new policies is important, avoiding policy missteps is just as important. Policymakers should resist counterproductive ideas, such as proposals that would impose new tax, regulatory or procurement restrictions on how U.S. companies invest and trade worldwide or that would isolate the United States from the world economy.

Businesses Invest in U.S. Economy

American policymakers should resist the temptation to criticize U.S. companies that engage in worldwide operations. Consider that:

- U.S. companies and individuals directly invest 10 times as much in the United States as in other countries.²⁶
 - Each year, U.S. companies invest more than \$70 billion in job training.²⁷
 - In one high-profile sector, information technology, the embrace of global production networks and international trade has lowered prices and contributed 0.3 percentage points of growth to the U.S. economy per year.²⁸
 - As services become an ever-increasing share of the U.S. economy, the prospects for raising worker income will depend on productivity, which will be determined by how successfully managers and workers develop more innovative strategies for producing and delivering services.
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Policies that promote higher productivity in the United States will help U.S. workers, companies and consumers. But productivity growth also presents challenges, such as addressing the implications for those workers who are displaced and have difficulty finding a comparable job.

This is a problem that industry, labor and government must address together. No single policy will suffice. As described in this paper, it will take a smart package of policies — to promote export expansion, prevent a U.S. dollar misalignment, stimulate foreign economic growth, facilitate R&D, encourage new investment in manufacturing technology, and improve worker adjustment and education programs — to solve the challenge.

IV. Promoting Worldwide Trade and Stimulating International Economic Growth

Trade expansion is one of the most important catalysts for economic growth, but this simple truth often gets lost in the popular debate. An increasing array of economic evidence, however, is clarifying and quantifying the benefits of more open economies.

- ▶ From 1950 onward, countries that liberalized their trade regimes, on average, have experienced annual rates of growth that were 1.5 percent higher than the preliberalization period in each country.²⁹
- ▶ Over the past four decades, the countries with fast economic growth have had significantly higher ratios of both investment and trade (as a percentage of gross domestic product) than the slower-growing countries have had.³⁰
- ▶ During the 1990s, income per person in “globalizing” developing countries grew more than three and a half times faster than it did in “nonglobalizing” countries.³¹

The United States also has experienced positive results in gaining income and job creation from expanded trade:

- ▶ During the past decade, exports accounted for about one quarter of U.S. economic growth. Jobs created by exports are estimated to pay 13 to 18 percent more, on average, than nonexport jobs.³²
- ▶ Increases in exports lead to more job growth than comparable increases in domestic demand. A 10 percent increase in U.S. exports leads to a 6.9 percent increase in domestic employment. By comparison, a 10 percent increase in domestic demand creates just a 4.2 percent increase in U.S. employment.³³
- ▶ U.S. plants that export to the world experience a 2–4 percent faster annual growth in employment than plants that do not export. Moreover, they are 8.5 percent less likely to go out of business.³⁴
- ▶ By the end of 2004, the World Trade Organization (WTO) Uruguay Round will be generating an annual income gain of \$600 to \$800 for the average U.S. household.³⁵
- ▶ Working families benefit from trade. The successful completion of the current multilateral trade negotiations could translate into an additional \$2,000 of purchasing power annually for an average family of four.³⁶

International trade continues to benefit the United States even though the nation currently has a \$490 billion trade deficit. The main lesson to be learned from the U.S. trade deficit is that the level of U.S. exports has fallen too low, not that the United States needs to isolate

itself from world markets. U.S. exports are now beginning to recover, and the way to get them growing faster is to expand the customer base in other countries. Moreover, it is important to recognize that imports also make positive contributions to the U.S. economy. Imports help keep inflation under control, which benefits consumers and companies trying to compete in the worldwide market.

Negotiating New Trade Agreements

Isolating the United States from the world economy is a losing strategy for American companies, workers, farmers and consumers. New U.S. trade agreements to open up foreign markets are more important than ever. They will facilitate trade and investment, which will increase income and create jobs in the U.S.

The slowing of export growth shows the potential for new trade initiatives to help restore some of the opportunities lost between 1995 and 2002, when the U.S. president lacked trade-negotiating authority. For many years, European business held an advantage over U.S. business because the European community had consummated so many free trade agreements (FTAs). With the congressional enactment of trade promotion authority in 2002, the United States now has the opportunity to catch up. Just as past trade agreements helped the U.S. economy grow, the new FTAs with Chile and Singapore, which went into effect at the beginning of 2004, already are starting to deliver new export opportunities.

Isolating the United States from the world economy is a losing strategy for American companies, workers, farmers and consumers. New U.S. trade agreements to open up foreign markets are more important than ever. They will facilitate trade and investment, which will increase income and create jobs in the U.S.

The agenda for trade should be to negotiate more international agreements to open up foreign markets and to ensure that other countries honor their legal commitments. (Of course, the United States also has to meet its legal commitments.)

Spurring Other Countries To Grow

U.S. economic performance alone cannot drive the entire worldwide economy. The U.S. government also must continue to develop and implement vigorous policies to promote international economic cooperation. The agenda for international economic cooperation should be to convince other countries to adopt trade, fiscal, monetary and regulatory policies that will stimulate their own economic growth and to avoid policies that keep their

currencies artificially weak and distort trade. Although the United States' capacity to produce is stronger than ever, the U.S. trade deficit widened in recent years because exports have not kept pace with demand for imports. There are several reasons for this trend, but the most important is that many of the United States' traditional export markets have sluggish economies. Since 2001, the U.S. economy has grown more than twice as fast as the economies of the European Union, and it has grown faster than any other country in the G-7, including Japan, Canada, France, Germany, Italy and the United Kingdom.³⁷ Since feeble economies in other countries contribute significantly to the stagnation in U.S. exports, particularly manufacturing exports, the administration should give priority to encouraging major trading partners in the G-7 to adopt progrowth economic policies. The United States also needs to strengthen initiatives to help developing countries remake their economies.

World economic growth is not a zero-sum game. When other nations, such as India, employ highly educated and skilled workers, the United States does not suffer. Foreign economic development, technology use and prosperity will lead to more customers for U.S. merchandise and services, as long as the United States continues to pursue progrowth policies. These policies have been, and will be, a source of new jobs and careers that were not even imagined 10 years earlier. In addition to being a good economic strategy for the United States, international trade also enables the United States to achieve its longtime foreign policy goal of helping other countries lift themselves out of persistent poverty. The U.S. business community shares that goal and participates in many partnership programs to help developing countries by promoting best practices to improve labor, environmental and social conditions.

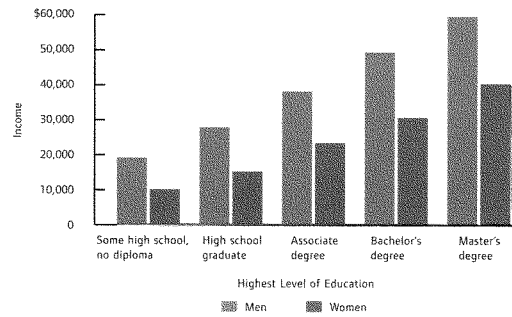
V. Improving Education and Training

U.S. business takes very seriously the need to create opportunities for individual workers. Even as the United States prospers in the worldwide economy, some workers can experience declining earnings and job instability. The current low levels of net job creation stem from several factors, the most important of which are higher productivity, economic uncertainty and caution, the slowdown in foreign investment in the United States, and the overvalued U.S. currency, which is adversely affecting U.S. exports. The business community is concerned about this problem and is committed to help solve it. U.S. businesses acknowledge that:

- ▶ Even though U.S. engagement in competitive markets benefits the U.S. economy as a whole, the effects of global competition are painful to particular individuals.
- ▶ The most vulnerable workers are those with only a high school education or less.
- ▶ An average U.S. worker today with only a high school education makes the same real wage as the average worker 25 years ago.³⁸

More Specialized Education and Training Pays Off for Workers

Workers who are more educated are earning on average a wage premium of 77 percent more than a matched group with fewer skills.³⁹



Source: U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-60, "Money Income in the United States: 2000."

What Business Is Doing

U.S. employers, especially large companies, are providing extensive training and education benefits to their employees. Each year, U.S. companies spend more than \$70 billion on formal worker training.²⁰ Many employers, such as the members of the Business Roundtable, provide a range of services to assist employees who lose their jobs. Companies also are involved in innovative partnerships that help stimulate local and regional economic and job growth.

PERSONAL AND CUSTOMIZED CAREER COUNSELING SERVICES

J.P. Morgan Chase created the Career Services Program (CSP) to provide personal, customized career counseling services to employees until they find a new job. Services offered to employees include: one-on-one counseling, education and training assistance in the form of an education grant, redeployment, job development, a computer learning center, training and skills development workshops, and business information centers. Career services are available to all levels of departing employees for the duration of their active job search until they become re-employed, as long as they maintain continuous contact with their job counselor.⁴¹

AN EDUCATION THEY CAN USE FOR A LIFETIME

According to United Technologies (UTC) Chairman and CEO George David, "Our goal is to have the best educated workforce on the planet." UTC believes that, while no one can guarantee a job forever, the best way to help employees is by giving them the education they can use for a lifetime. Under its Employee Scholar Program, one of the most comprehensive employer-sponsored education programs in the world, UTC pays 100 percent of the costs for employees, both in the United States and internationally, who go back to school. That includes registration, tuition, fees and books — and all costs are paid up front. Employees can enroll in classes and obtain a degree in *any* field, whether or not it is job related. Students can receive up to half of their classroom time as paid time off for studying (a maximum of three hours per week). UTC further rewards its employee scholars when they graduate. U.S.-based employees who complete a bachelor's or graduate degree are awarded \$10,000 in UTC stock, and those who receive an associate's degree are awarded \$5,000 worth of stock.

PUBLIC-PRIVATE COLLABORATION TO ADVANCE RESEARCH

Last fall, the University of Memphis opened the FedEx Institute of Technology, a unique public-private collaboration designed to advance world-class interdisciplinary research and introduce a new generation of highly skilled graduates to the workforce. FedEx Corp. worked closely with the university in shaping the institute's vision and donated \$5 million toward the new facilities. The company has more than 219,000 employees globally and expects the alliance will help develop a highly skilled recruitment pool. The institute will house 10 research centers focusing on an array of studies, ranging from medical breakthroughs in cancer and alcoholism to artificial intelligence and radio

frequency identification tags. The FedEx alliance helped the institute forge relationships with other high-profile companies, including AT&T, AutoZone, Avaya, BellSouth, Cisco Systems, Computer Associates, Dell, EDS, Landmark Graphics, Methodist Healthcare, Morgan Keegan & Company, SteelCase, and Time Warner, and institutions such as the St. Jude's Children's Research Hospital, Oak Ridge National Laboratory, the Technology Resource Foundation and the U.S. Department of Defense. The institute is envisioned as the digital epicenter of the mid-South, with the potential to change business, education, government, health care and the arts.

INVESTMENTS IN EMPLOYEE TRAINING

IBM understands that its success depends on a well-educated and highly skilled workforce. As part of IBM's long-standing commitment to education and training, each IBM employee on average spends an estimated 55 hours each year in formal training — either through online learning activities or in a traditional classroom. In 2004, IBM will invest \$400 million in the United States to develop the knowledge and expertise of its employees. This includes employee training in emerging “hot” skill areas, such as high-value services, business integration skills, open standards and pervasive/wireless technologies. To help its employees compete in the worldwide economy, IBM also announced a \$25 million Human Capital Alliance fund. This fund is dedicated to helping IBM's employees who are concerned that they could lose their jobs to technical experts overseas develop and refresh their skills and find work with the company's 90,000 business partners worldwide.

Next Steps for Government, Business and Labor

Across the federal government, 44 programs in nine different agencies have a principal focus on employment training.⁴² Government programs now provide a wide range of services with different eligibility requirements. There are numerous programs for dislocated workers, including adjustment assistance for trade-related layoffs. These programs seek to improve worker skills and mobility. In addition, the innovative experiment in wage insurance for older workers, authorized by the Trade Act of 2002, may offer lessons for the future.

The president's FY 2005 budget includes nearly \$15 billion for worker education, training and adjustment assistance.⁴³ The proposed community college initiative holds promise for building partnerships between skills training in community colleges and employers in high-demand job sectors. Streamlining all of these programs and making information more readily available to workers will go a long way toward improving existing resources.

An expanded effort by all levels of government, companies and labor unions is needed to help workers adapt and gain more benefits from the worldwide economy. The Business Roundtable recommends a two-part strategy.

The first step is to take immediate action and examine how all of the public programs that now provide education, training and adjustment assistance to people who have lost their jobs and need help in making the transition to a new job can be made more flexible, accessible and effective. In particular, all the relevant federal programs that are up for reauthorization this year — the Workforce Investment Act, the Higher Education Act and the Perkins Vocational-Technical Education Act — need close scrutiny to make sure that they remove barriers that limit adult participation in higher education, increase opportunities for worker training, streamline effective programs and make program outcomes transparent so that workers can make informed decisions. The Business Roundtable also recommends exploring ways that existing programs such as trade adjustment assistance can be modified to include services workers as well as manufacturing workers. Congress should receive annual reports on the numbers of workers that receive adjustment assistance and the program's effectiveness in helping them find new employment.

However, a second step is needed for the longer term. Many of the current federal and state employment and training programs were developed to assist workers for an economy that no longer exists. They were intended to help a static labor market adjust to cyclical business changes. Instead, today and for the foreseeable future, we have a dynamic labor market that must adjust to structural economic changes. To respond to the real needs of Americans who have lost jobs, we must recognize that the patchwork system of programs for educating and training working or unemployed adults is not functioning effectively. The United States should design a more flexible and responsive system for the 21st century. A minor tune-up of these programs is insufficient when a major overhaul is needed to help these workers benefit from economic growth.

That is why the Business Roundtable recommends a second step — a national initiative to design a worker education, training and adjustment system for the 21st century that builds on best practices in training and in providing portable health and retirement benefits. This will necessitate a thorough independent evaluation of what is working and what is not. This long-term initiative should seek to address persistent problems in the current system.

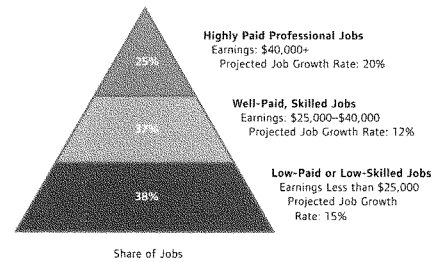
- ▶ Existing public training programs are balkanized.
- ▶ Programs concentrate primarily on people who already are out of work, rather than on incumbent workers who need to upgrade their skills.
- ▶ Most states discourage or prohibit unemployed people from participating in training until they have used up their unemployment insurance.
- ▶ Potential users of the system find it difficult to access relevant information.

Creative ideas are emerging — from wage insurance to a human capital investment tax credit to personal lifelong learning accounts — and more suggestions should be encouraged to ensure that U.S. workers are prepared for the next generation of jobs. This issue requires the best thinking of the private and public sectors, labor and management, and Democrats and Republicans. It is time to get U.S. worker training and adjustment policies and programs moving in a direction that makes sense for a world in which Americans will change jobs frequently and will need to upgrade their skills and knowledge continually.

Helping Today's Students and Tomorrow's Workers

The business community also is concerned that far too many students in our nation's schools are not prepared to succeed in the world economy. The difficulties that today's most vulnerable workers face will persist for the 30 percent of students who leave formal education without a high school diploma and the high school students who graduate but are ill-prepared for either further education or high-skilled work. Today, even entry-level jobs require literacy and proficiency in math. U.S. companies are leaders in education reform initiatives at the national, state and local levels. These efforts are beginning to show results, but the improvements are not keeping pace with a changing economy that, as the chart below illustrates, puts a high premium on knowledge and skills.

More Jobs Are Highly Paid or Skilled, Require More Education



Source: American Diploma Project, 2002.

The No Child Left Behind Act, passed by Congress with strong bipartisan support, provides an essential policy framework for obtaining the education results all students need to achieve. It is imperative that Congress and state leaders stay the course on implementation. New federal initiatives that support math and science teachers and encourage high school students to take rigorous core courses provide important supplements to state and local standards-based reform efforts. Nevertheless, more public-private efforts will be needed, particularly in programs proven to raise student achievement and interest in math, science and engineering — the fields that will drive future innovation. Dedicated federal support for improving math and science education must rise to the top of the list of federal education funding priorities.

At the higher education level, there are additional challenges. According to a recent report by the American Diploma Project, more than 70 percent of high school graduates enroll in postsecondary education, but fewer than half leave with a degree. Transcripts further show that 53 percent of students take at least one remedial English or math class in college.⁴⁴ Higher education also is experiencing a growing gender gap as women considerably outpace men in rates of college attendance and degree attainment. Assuming the current

trends continue, by 2010 women will receive 173 associate's degrees and 142 bachelor's degrees for every 100 earned by men.⁴⁵

Without deliberate focus and intervention, the talent pipeline for research and innovation in the United States, especially in engineering and physical sciences, is in jeopardy.

Perhaps most troubling, without deliberate focus and intervention, the talent pipeline for research

and innovation in the United States, especially in engineering and physical sciences, is in jeopardy. Demographic trends will dramatically change the profile of the current pool of scientists and engineers in the United States — which is now 80 percent white, 75 percent male, 22 percent foreign-born and 25 percent over the age of 50. In the last decade, as the U.S. population grew from 249 million to 281.4 million, the non-Hispanic white population increased 3.3 percent, while the minority population increased 35 percent. In addition, the United States is seeing a decline in foreign students attending U.S. universities. These students currently receive more than half of the graduate degrees in key technical fields awarded at U.S. universities. Due to new national security restrictions, increased opportunities for higher education and employment at home or elsewhere, and tighter immigration policies, more foreign students are staying home or returning to their native countries.⁴⁶

Simultaneously, the U.S. scientific and engineering workforce is aging. The number reaching retirement age is likely to triple in the next decade.⁴⁷ Addressing the impact of all of these trends on the critical scientific and engineering workforce will require consideration of new strategic and creative education and immigration policies.

The Business Roundtable is mindful that the lion's share of resources for prekindergarten through higher education will continue to come from the states. State policymakers face an array of complex and sometimes competing policy and funding decisions, including compelling research supporting investments in high-quality early childhood education,⁴⁸ calls to revamp teacher education courses and compensation programs to recruit and retain talented teachers in the United States' public schools,⁴⁹ promising practices to close the achievement gap between minority and poor children and their majority and more affluent peers, and concerns about the affordability of college. Just as it is time to rethink the nation's worker training and retraining system, the Business Roundtable believes that it is also time to encourage forward-looking education and political leaders to examine new visions for high-performing public schools and colleges in the 21st century.

VI. Fostering Investment and Innovation

Since its 1987 report, *American Excellence in a World Economy*, the Business Roundtable has argued that the quality of the U.S. economic environment and the growth of investment will be key factors in enabling a growing economy.⁵⁰ The federal government needs to adhere to sound budgetary and tax policies that will promote more saving and investment for the future.

Spending on research and development (R&D) is central to maintaining U.S. technological leadership. Federal R&D investment, particularly for basic research, must be boosted. Federal investment in basic research has been the foundation for many important commercial advances, and other countries now recognize the importance of increasing government funding for research. Since 1970, the federal share of total R&D spending has declined from 57 percent to 28 percent.⁵¹ Funding for basic research in the physical sciences has been essentially flat for 30 years, and as a percentage of GDP, it is down 37 percent.⁵² Companies cannot afford to fund basic research that may not lead to development for 10 to 20 years or longer. Numerous studies have sounded alarm bells about this decline. One inevitable byproduct of reduced funding for research in the physical sciences and engineering has been a reduction in the number of U.S. students pursuing those disciplines. In countries that are increasing government funding for research, these fields are attracting increasing numbers of students.

Like many other countries, the United States provides significant tax incentives for private R&D. The current federal tax credit encourages companies to increase their research activities in the United States, at the same time increasing high-skilled jobs domestically because the bulk of credit-eligible research spending is for wages and salaries. However, the credit is scheduled to expire June 30, 2004. As the President's Council of Advisors on Science and Technology recommended in January 2004, Congress should make this tax credit permanent as part of an overall strategy for strengthening the United States' research.⁵³

Unlike many U.S. trading partners, the United States places a double tax on corporate income (a corporate tax at the business level and then an individual tax on dividends and capital gains), so these taxes, including the outmoded and increasingly burdensome alternative minimum tax, discourage private investing. To be sure, considerable progress was made in 2003 when Congress and the president agreed to reduce tax rates on certain capital gains and dividends. Yet more tax reform is needed. Money paid in corporate taxes is money not available for investment in machinery, equipment and human capital.

Another comparative disadvantage that U.S. companies face arises from the differential treatment of taxes under international trade rules. Value-added taxes (and other indirect taxes) are adjustable at the border; income taxes are not. This gives countries that raise a significant share of revenues from value-added taxes, such as all Organisation for Economic Co-operation and Development (OECD) countries except the United States, a potential advantage in international trade not enjoyed by countries that generate a high proportion of revenue from income taxes, such as the United States. As a result, U.S. exports carry a higher share of the burden of government taxation than exports from our trading partners. Moreover, over-reliance on income and profit taxes discourages saving and investment in the United States, which reduces U.S. economic growth.

Another important factor in shaping the investment climate is the array of disincentives for new investment embedded in U.S. law and practice. The United States needs to decrease the impact of excessive government regulation and frivolous lawsuits on U.S. companies and their workers. A recent study prepared for the Manufacturing Institute of the National Association of Manufacturers found that U.S. manufacturers face much higher "structural costs" than competing manufacturers in other industrial economies do.⁴⁴ That study makes several recommendations, including a more objective cost-benefit review process for federal regulations. U.S. workers can and do compete successfully with workers in other nations when U.S. workers have the proper skills and tools and when employers are not impeded with government-created disincentives to invest and create jobs.

Investing and Creating Jobs at Home

In 2003, Texas Instruments (TI) announced its intention to build a new \$3 billion 300-millimeter semiconductor manufacturing facility in Richardson, TX, that will produce the world's most advanced semiconductors. Groundbreaking is expected to occur in 2005. TI looked at sites in the United States and abroad. The company considered Texas because of its cost competitiveness as a place to do business, its existing base for R&D, and its proximity to TI's headquarters, but it was not an automatic decision. TI operates globally, with manufacturing plants worldwide. A commitment to maintain a state tax structure attractive to capital-intensive investments and manufacturing was an essential component of the decision. However, what clinched the deal was how state leaders worked with TI to create an economic development plan centered on R&D. Under the plan, the University of Texas at Dallas will receive up to \$300 million from the state and other sources to enhance its engineering and research programs. TI sees the university as a center that can help address the increasing need for basic research in North Texas and nurture a community of research excellence that can benefit the entire region.

VII. Doing No Harm

With the U.S. economy now climbing out of the recession, it is imperative that policymakers avoid high-risk, isolationist policies that would choke off the recovery. Those who would retreat from the worldwide economy with the expectation of “saving” U.S. blue-collar or white-collar jobs are ignoring not only the lessons of economic change but also the lessons of history.

The economic worries of the early and mid-1980s — the idea that Japan was replacing the United States as the world’s technological leader, the loss of jobs in U.S. manufacturing, the growing U.S. trade deficit and the surge of foreign investment into the United States — sparked numerous proposals to place limits on inward and outward foreign investment. In many ways, the contemporary debate is an echo of the grim predictions that were voiced then.

To its credit, however, Congress resisted the many bad ideas then on the table for trade and investment restrictions. Instead, Congress enacted and President Ronald Reagan signed the Omnibus Trade and Competitiveness Act of 1988 to authorize new trade negotiations and to promote more education, training, technology development and protection of intellectual property rights. Within five years, the worries about the “hollowing out” of manufacturing and “foreign control” of the U.S. economy had faded away. U.S. companies re-established their competitiveness, and the U.S. economy, after a brief recession ending in March 1991, created more than 20 million net new jobs and produced the longest period of economic expansion in U.S. history.

The Business Roundtable does not mean to suggest that the economic picture now is completely rosy. The rate of job creation in the United States should be higher. **As the source of most job creation, the business community is keenly aware of the employment situation and of our role in training employees and in fostering career opportunities. That is why the Business Roundtable advocates an optimal mix of governmental policies that will be most supportive of higher economic growth and job creation.** That is also why the business community opposes ill-considered proposals that would undermine the prospects for U.S. workers and companies in the worldwide economy and prevent them from taking charge of their future.

As in the Hippocratic Oath, the most important step U.S. economic policymakers can take is to avoid unintended harm to the U.S. economy. One of the most counterproductive proposals being advocated today is to stifle the flexibility of U.S. businesses to engage in worldwide sourcing of goods and services. Another proposal is to limit U.S.

companies from investing abroad. Such proposals would handcuff U.S. businesses and workers, limit choices for U.S. consumers, and leave U.S. employers less able to compete with non-U.S. businesses. Restrictive legislation in the United States also could trigger foreign retaliation, which could block the export expansion needed to help maintain the economic recovery and make it even stronger.

Instead of isolationist thinking that creates uncertainty for companies that want to create jobs, government officials should promote policies that encourage economic expansion, spur trade, and enable companies in the United States to grow and create employment at home. Clearly, promoting growth, innovation, American job creation and retraining of U.S. workers is a better approach than government over-regulation of business operations. Do not forget the lesson that Japan learned in the 1990s: When you build walls to protect your own companies and workers, in the long run you end up hurting them. Japan went into a recession 10 years ago from which it is only just beginning to emerge. The return of sustained, strong U.S. eco-

nomic growth could be stopped in its tracks should the United States turn to isolationist policies and away from worldwide economic engagement. Furthermore, the undue attention being given to business sourcing and investment practices diverts attention from the real social and economic challenges that call for more focused federal and state government attention.

Instead of isolationist thinking that creates uncertainty for companies that want to create jobs, government officials should promote policies that encourage economic expansion, spur trade, and enable companies in the United States to grow and create employment at home.

VIII. Moving Forward

With the U.S. economy now climbing out of the recession, this is a dangerous time to promote isolationist policies that — just by being debated — may put a damper on the economic recovery. Instead, this is the right time to renew vigorous efforts to improve education and training and to strengthen the United States' research base. In this paper, the Business Roundtable has offered numerous recommendations for policymakers on how to be proactive in pursuing greater U.S. prosperity that is broadly shared among all U.S. workers. The Business Roundtable and its CEO members are committed to working with Congress, the administration and state governments to achieve these objectives.

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Witness Statement
The U.S. – Morocco Free Trade Agreement
U.S. Senate Finance Committee
June 15, 2004

David G. Mengebier
Senior Vice President
Governmental and Public Affairs
CMS Energy Corporation
Jackson, Michigan

Introduction

Mr. Chairman, members of the Committee, I am grateful for the opportunity to testify regarding the United States-Morocco Free Trade Agreement (FTA).

At the outset I would like to say that I am here representing both my company, CMS Energy, and the US-Morocco Free Trade Agreement Coalition. The Coalition is comprised of nearly 100 companies and associations, all of whom support Congressional approval of the FTA. CMS Energy is honored to serve as the corporate co-chair of this organization along with Time Warner – also represented on the panel here today – and to be joined in the leadership of this endeavor with two outstanding Washington-based associations, the National Foreign Trade Council and the Business Council for International Understanding.

The U.S.-Morocco FTA Coalition strongly supports the FTA and urges its timely passage by the Congress this summer. We believe the FTA is a high-standard, comprehensive agreement that will eliminate tariff and non-tariff barriers to trade for our manufacturing and agricultural sectors, boost bilateral trade for our services sector, help to finance new investment flows, and stimulate economic growth and opportunity in both the United States and Morocco. It will serve as an important building block in the proposed Middle East Free Trade Area. This agreement will deepen U.S. ties with a country that was recently designated a major non-NATO ally of the United States and is a steadfast partner in the war against terror. The FTA is a new milestone in America's historic relationship with Morocco – which was the first country to recognize the fledgling U.S. republic after our independence over 200 years ago and is a counterpart in the longest unbroken treaty relationship in U.S. history.

With your permission, Mr. Chairman, I would like to insert into the record a short background paper prepared by the Morocco FTA Coalition that describes the positive features of the FTA in greater detail, and a list of the entire Coalition membership.

CMS Energy in Morocco

By way of background, CMS Energy is an integrated energy company headquartered in Jackson, Michigan. Most of our assets and operations are located in Michigan, but we also have investments elsewhere in the United States and in international markets.

In Morocco, CMS operates and is a 50% owner of the Jorf Lasfar power plant, located in the province of El Jadida on the Atlantic Coast. At 1,356 megawatts and with a project value of approximately \$1.3 billion, Jorf Lasfar is the largest independent power project on the continent of Africa and supplies approximately 60% of Morocco's daily demand for electricity.

At various times in its history, CMS has had investments or operations in as many as 22 countries. For such investments to succeed, they must be based on partnerships with host country authorities and stakeholders that entail collaboration, trust and common vision. By these standards, our experience in Morocco – where we are the largest American investor – has been outstanding. The investment climate is hospitable and the operating environment stable. When changes have been required in the legal, regulatory or policy regime that governs our project, the needed adjustments have been developed in a cooperative and transparent fashion.

We have tried to establish ourselves as good corporate citizens and as partners in Morocco's growth and development. In practical terms, this means we have gone above and beyond the requirements of our contracts in order to help strengthen the Moroccan economy and society. We have assisted in the planning of a nearby industrial park and support local efforts to establish the area as a regional hub for manufacturing, training and exports. Our charitable contributions support educational, social and health related causes, including adopting and refurbishing several local schools, and undertaking a substantial multi-year commitment to the Moroccan Fulbright program. As a Michigan based company, we are working to establish and expand links between Morocco and the United States in the automotive sector, including arranging several auto-related missions to Michigan. We see particular promise for this sector under the FTA.

Impact of the FTA

In our opinion, the proposed Free Trade Agreement will do a great deal to increase and expand levels of trade and investment from the United States, which will do far more than just sustain jobs, promote exports, and increase revenues for U.S. firms. We believe that as other U.S. companies establish themselves in Morocco under the FTA, they too will bring new technology, best practices, and vigorous corporate citizenship efforts. The FTA promises to do a great deal to strengthen the Moroccan economy and to help the Moroccan people, and it is truly a win-win proposition.

In order to operate and maintain our facilities, we employ more than 500 Moroccan citizens. Because electricity must be produced in proximity to its market, let me underscore that we did not "export" one job from the United States in making this investment. Instead, the Jorf Lasfar project created and now helps to sustain a variety of jobs in the United States in order to deal with ongoing management, technical, financial, legal and other business issues. On top of that, some of our current suppliers and lenders are based in the United States, so there is a multiplier effect that brings jobs not only to Michigan, but also places such as New York, Virginia, Tennessee, California, Connecticut, the State of Washington, Washington, D.C., New Jersey, and elsewhere. This is a phenomenon that will be replicated as other U.S. companies establish trade ties or make investments pursuant to the FTA.

We have taken steps to ensure that the types of jobs that we have created in Morocco include management level positions, pay fair wages and benefits, and involve rigorous training and education programs. We are more than pleased with the quality and

sustainability of the workforce we have established in Morocco. Morocco still has major remaining infrastructure requirements, including in the energy sector, and the FTA will accelerate opportunities for U.S. companies to meet those requirements. As they do, we fully expect that they will bring a similar approach to employment and labor practices.

I would also observe that the labor situation took a significant step forward with the adoption of a new labor code last year – a development that many believe was driven in part by the FTA negotiations with the United States. Over time, the implementation of the new code will improve labor conditions further still, creating stability and predictability for employers and other potential foreign investors.

Our experience shows that the type of economic growth that will occur in Morocco as a result of this agreement can be managed in a way that mitigates concerns about the environment. CMS has worked closely with Moroccan authorities, our financial lenders, and other affected parties to implement world-class standards on water quality and emissions that utilize state of the art pollution control technology and practices. We have worked hard to develop major recycling programs, including a successful effort to recycle 85% of fly ash from the plant for use in concrete production – with the remaining 15% deposited in a world-class, environmentally friendly storage facility, to be recycled at a later date. In addition, we have collaborated with local officials and institutions to implement strict environmental training, compliance and reporting, and to increase environmental monitoring in the area and education at the local university.

Since our facility has operated for several years, the FTA will not affect prices on the major components and equipment that were brought in for construction. That said, we import about \$8 million in goods and services from Europe and about \$2 million from the United States annually to operate and maintain the plant. Since goods and services purchased from the U.S. are subject to as much as a 42% customs duty, we anticipate that many of those can be sourced instead more cheaply from the United States once the FTA comes into effect. This is especially true with regard to services, as the FTA includes specific coverage of energy services and Morocco's trade agreement with the EU does not – which gives an important advantage to U.S. service companies.

To conclude, on behalf of both CMS Energy and the entire US-Morocco FTA Coalition, I would like to urge swift Congressional approval of this important agreement. I also wish to acknowledge and express appreciation to you, Mr. Chairman, for your leadership and your outstanding efforts to move the Morocco agreement quickly. It is a strong agreement, it is good for the United States, it will advance the cause of economic progress, and it will help an important friend and ally in a key part of the world.

Thank you.

Prepared Comments
Jeffrey W. Ruffner
Senate Finance Committee
Australia Free Trade Agreement

Dirksen Senate Office Building, Room 215
June 15, 2004
10:00 AM

Chairman Grassley, Senator Baucus, committee members, I would like to thank you for the opportunity to speak today on what I believe are the positive impacts of the Australia Free Trade Agreement on a company such as ours.

First, if I may provide some background. Our company is a small engineering and research company located in Butte, Montana. We employ 200 people, with the majority being highly skilled engineers, scientists, and technicians.

We currently have three significant business lines in addition to our standard engineering services. They include research for the aerospace industry, engineering and technology for the defense industry, and engineering and technology for various waste clean-up applications.

The nature of our work limits the services and products that we may market overseas. However, we do have specialty-engineered products and services for waste clean-up and Supervisory Control and Data Acquisition (SCADA) products that lend themselves well to overseas markets.

Now you may ask, why is a small company in Butte Montana so interested in the Australia Free Trade Agreement? The answer is because we must be. The nature of today's world and increased globalization means that even a small company in Butte must look globally if they are to succeed. Clearly the future expansion of certain portions of our business must be overseas to ensure our long term success.

While neither I, nor our company has the experience and credentials comparable to many of today's speakers, we do have the battle scars and lessons learned from our adventures overseas. Our company has provided specialty engineered products or services in Japan, Korea, Poland, Greece, and the UK. While most of these adventures have been successful, they have certainly provided some valuable insight to the issues associated with international business development, marketing, and execution.

I look at all of the Free Trade Agreements our country is currently pursuing very parochially. I follow some with great interest and some with no interest at all based on the potential for our company. Because we are a specialty engineering business, we focus in highly technical market niches. When evaluating overseas market potential for our company and where to put our limited resources we look at the need for our product or services, the state of industry in the country, the regulatory and enforcement framework, the financial situation, and of course, the likelihood of payment. Certainly

Australia has always met these criteria and is now even more attractive based on this agreement.

I'm sure my experiences don't differ dramatically from anyone else who has tried to develop business overseas. The language differences, cultural differences, as well as business practices are what make it interesting. However, the rubber meets the road on the business practice issue. Transparency and a clear well understood set of rules by which all are working are a necessity for small businesses when working overseas. I can make the determination for myself as to my interest in participation as long as I know the "rules of the game". I believe this agreement clearly lays out the rules and guidelines.

I am very pleased that we have signed the Australia Free Trade Agreement and look forward to implementation. The agreement clearly outlines a path forward for the development of professional services and clearly delineates the requirements for government procurements, two areas in which I have a keen interest. However, I believe the most important aspect of the agreement is the overall delineation of a transparent and clear set of rules and guidelines by which we will both operate.

Australia is a market in which we have not previously participated but clearly meets our internal requirements as a potential market for our products and services. Based on this agreement and our financial resources we will certainly be looking to expand into that market in the future.

I would like to take this opportunity to thank all of those from the office of the U.S. Trade Representative, and all other agencies that participated who have worked so hard to get this agreement negotiated and finalized.

I would also like to thank Chairman Grassley, Senator Baucus and the other members of this Committee for giving me an opportunity to speak today and go on record in support of this agreement. This agreement has outlined the "rules of the game" and created a fair and level playing field, the rest is up to us.

Thank You

WRITTEN STATEMENT FOR

John Schulman

Executive VP and General Counsel

Warner Bros. Entertainment

of Time Warner Inc.

on behalf of the

Entertainment Industry Coalition for Free Trade (EIC)

BEFORE THE SENATE FINANCE COMMITTEE

JUNE 15, 2004

Mr. Chairman and Senator Baucus, on behalf of Warner Bros., its parent company Time Warner, and the broader Entertainment Industry Coalition for Free Trade (EIC), thank you for the opportunity to appear before you today to discuss the U.S.-Australia and U.S.-Morocco Free Trade Agreements. Our company, the Entertainment Industry Coalition, and the U.S. workers we represent, strongly believe that both of these agreements will create great opportunities for our businesses to increase our exports, and create jobs, and create additional revenue in the United States. As an indication of our own company's strong support for both agreements, Time Warner has served as co-chair for both the America-Australia Free Trade Agreement Coalition (AAFTAC), and the U.S.-Morocco Free Trade Agreement business coalition. In that capacity, and as an industry that will benefit greatly from both agreements, we ask Congress to act quickly to vote in favor of both the Australia and Morocco FTAs.

Warner Bros., through Time Warner, is a member of the EIC which represents the interests of men and women who produce, distribute, and exhibit many forms of creative expression, including theatrical motion pictures, television programming, home video entertainment, recorded music, and video games. Our members are multi-channel programmers and theater owners, producers and distributors, guilds and unions, trade associations, and individual companies.

Our members include AFMA; BMG Music; Directors Guild of America; EMI Recorded Music; Interactive Digital Software Association; The International Alliance of Theatrical Stage Employees, Moving Picture Technicians, Artists and Allied Crafts of the United States, Its Territories and Canada, AFL-CIO, CLC (IATSE); Metro-Goldwyn-Mayer Studios Inc.; Motion Picture Association of America; National Association of Theatre Owners; New Line Cinema; the News Corporation Limited; Paramount Pictures; Producers Guild of America; Recording Industry Association of America; Sony Music Entertainment Inc.; Sony Pictures Entertainment Inc.; Television Association of Programmers (TAP) Latin America; Time Warner; Twentieth Century Fox Film Corporation; Universal Music Group; Viacom; Universal Studios; the Walt Disney

Company; Warner Bros.; Warner Music Group; and The Writers Guild of America, west (WGAw). Additional information regarding our membership can be found in the attached document: ***“The Entertainment Industry Coalition for Free Trade: WHO WE ARE.”***

The goal of the EIC is to work with policymakers to highlight the importance of free trade for the US economy, the positive economic impact of international trade on the entertainment community, and the role of international trade negotiations in ensuring strong intellectual property protections and improved market access for our products and services.

The entertainment industries are one of the US economy’s greatest assets. Based on Department of Commerce statistics, the copyright industries comprise more than 5% of the nation’s GDP. We bring in more international revenues from exports than aircraft, agriculture, automobiles and auto parts. And we are creating new jobs at three times the rate of the rest of the economy. The movie industry alone has a surplus balance of trade with every single country in the world that exhibits our films. No other American enterprise can make that statement.

Unfortunately, America’s creative industries are under attack. Market access barriers plague segments of the entertainment industries. High tariffs on our products, discriminatory customs valuation disciplines, quotas and discriminatory restrictions on the ability to produce and distribute our products prevent the entertainment industries from competing in many markets which pirates readily exploit.

Piracy of copyrighted materials has also had a devastating impact, and the impact has grown in recent years with the advance of digital technology. Losses from physical and online piracy in the industry have reached staggering levels, estimated in 2002 to be in excess of \$25 billion. While the digital revolution has created new ways for all of us to reach consumers with compelling content, and for consumers in turn to access it from almost anywhere, this same technology has also facilitated the efforts of those who steal the innovation and creativity of others. Without strong protections, our ability and the rest of the entertainment industry’s ability to continue to expand jobs, revenue and exports in the international community will be jeopardized.

These troubling trends increase the importance of international trade agreements. In addition to updating traditional copyright protections, our industry needs new agreements that otherwise keep pace with changes in technology. The Australia and Morocco Free Trade Agreements are two such agreements.

While Australia and Morocco are very different countries with very different economies and patterns of trade with the United States, both of the FTAs provide important opportunities for U.S. exporters, including Time Warner and the entire entertainment and media industry sector. Both agreements include strong intellectual property rights protections that will allow our industry to continue to grow and prosper, and they also recognize emerging technologies and the impact that these technologies can have on our businesses. Both agreements have important market access provisions that will allow for increases in trade in our products and services.

Trade agreements have traditionally focused on market access because tariff barriers were the first obstacles facing potential exporters. Through a focused and successful effort, most notably through the Uruguay Round negotiations in the WTO that concluded in 1995, market access barriers throughout the world have steadily decreased, but regrettably barriers do still exist, particularly in the trade in audiovisual products and services. Through the recent FTAs that the United States has pursued with countries throughout the world, including FTAs with Chile and Singapore, important strides have been made to eliminate barriers to trade in entertainment goods and services. The agreements with Australia and Morocco are no exception. In fact, they are important statements to the rest of the global trading community that commitments in trade in cultural products can be reflected in agreements with high standards.

More specifically, both agreements provide for zero tariffs on all movies, music, consumer products, books, and magazines, as well as all the inputs that go into making these products. In addition, commitments have been made to provide zero tariffs on technology products used by service providers and consumers to access the Internet which has become an important new medium for providing consumers access to our content. Finally, both agreements contain important precedent-setting language on customs valuation that addresses unfair valuation of media products in other markets around the world. These market access provisions will help Warner Bros., Time Warner, and the broader entertainment community, increase exports of our products to these markets.

Both agreements also provide for improved market access for all the services that we provide internationally including, but not limited to, computer and related services, telecommunications services, audiovisual services, advertising, and distribution services such as wholesaling, retailing and franchising. On audiovisual services in particular, Australia has agreed to first-time trade commitments that lock in our current market access, as well as cap future restrictions in digital delivery of our content. Morocco too has made first-time trade commitments covering all AV products. The fact that two countries which previously had strongly argued for carving out our sector from trade agreements have now made commitments in that area is a major economic benefit for U.S. exports. Specifically, both agreements contain provisions ensuring market access for U.S. films and television programs over a variety of media, including cable, satellite, and the Internet. The agreements also include commitments for non-discriminatory treatment of digital products, including DVDs and CDs, as well as a commitment not to impose customs duties on these products when digitally delivered.

Breaking down market access barriers and creating a duty-free system of trade between our countries presents opportunities for increased trade. But, the entertainment and media industries cannot survive without strong protections and enforcement of our intellectual property rights. The value of our products, and our investments in them, is undermined with every unchecked case of piracy. These two FTAs set a high bar for IP protections that should be a part of any future trade agreement that the United States negotiates. Significantly, in Australia and Morocco, we have both a developed and a developing country clearly recognizing through their commitments in both trade

agreements that high-standard and up-to-date IPR protection and enforcement are essential bases for trade.

Both agreements meet the challenge by including provisions that go beyond the Trade Related Intellectual Property Rights (TRIPs) Agreement in the WTO by ensuring that products in the digital economy receive world-class IP protections. Specifically, both Australia and Morocco have agreed to implement the WIPO Internet Treaties, including through effective anti-circumvention provisions that prohibit tampering with technologies used to prevent piracy and unauthorized Internet distribution. In addition, the agreements include provisions ensuring that all copyright owners have the exclusive right to make their works available online and protecting copyrighted works for longer terms, in line with emerging international trends.

Perhaps most importantly, these FTAs strengthen IP enforcement, which is the only way to make the legal IP regime have any real value. In this regard, Australia and Morocco have provided strong deterrence against piracy and counterfeiting by increasing criminal and civil protections against unlawful decoding of encrypted satellite TV signals, and criminalizing end-user piracy. The agreements also require both countries to authorize the seizure, forfeiture, and destruction of pirated products (and the equipment used to produce them), and unauthorized goods-in-transit, which deters violators from using ports or free trade zones to traffic in pirated products. These measures by our trading partners will provide content providers, like Warner Bros. and the rest of the entertainment industry, with the increased protections and enforcement desperately needed to safeguard our investments and the jobs through the licensing, sales, export, and distribution of our products.

Time Warner's top trade policy priorities are ensuring market access for our products and services, and protection of our intellectual property through strengthened laws and strong enforcement measures. The Australia and Morocco agreements meet these goals, and we at Warner Bros., the rest of the Time Warner family, together with the entire entertainment industry, strongly support the passage of each of the U.S.-Australia and U.S.-Morocco FTAs. Both agreements represent great opportunities for our businesses and our employees to continue to compete and grow in the world market.

Thank you, Mr. Chairman and Senator Baucus for this opportunity to appear before you today. I would be happy to answer any of your questions.

U.S.-AUSTRALIA FREE TRADE AGREEMENT

**Written Testimony of
Ambassador Josette Sheeran Shiner
Deputy U.S. Trade Representative
before the
Committee on Finance
of the
United States Senate
June 15, 2004**

INTRODUCTION

Mr. Chairman, Senator Baucus, and Members of the Committee:

Thank you for the opportunity to testify today and for the guidance and advice both parties have provided us. We appreciate your leadership, Mr. Chairman, and are grateful to Senator Baucus and Members of this Committee and their staffs for the close cooperation we have enjoyed on trade issues over the past three years.

Working together, we have reenergized the U.S. trade policy agenda and reestablished America's leadership on trade. Passage of the Trade Act of 2002, including Trade Promotion Authority (TPA) was a pivotal step in this effort. In TPA, the partnership between Congress and the Executive branch is manifest, and this partnership has given us the ability to negotiate agreements that will bring real economic benefits to Americans and our trading partners.

Today, I have the honor and privilege of featuring the significant accomplishments of the United States - Australia FTA and hearing the Committee's views on legislation required to implement this Agreement.

This FTA is an historic trade agreement with one of the United States' closest friends and allies. As Ambassador Zoellick stated at the FTA signing ceremony last month, conclusion of this Agreement "is especially fitting for our two countries, which have prized individual liberty and demonstrated the achievements that are possible when governments see their role as freeing people to strive to make their own dreams."

The United States and Australia have long had a special partnership. We have common histories and, as President Bush has put it, a "closeness based on a shared belief in the power of freedom and democracy to change lives." Our countries have common values and an unwavering belief in freedom, democracy and the rule of law. We both have offered opportunities to immigrants from around the world, thriving immensely from this diversity. Both of our countries have been willing to stand side by side to fight for what we believe in. We have done so in Europe, in the Asia-Pacific, and now in Afghanistan and Iraq, united in the fight against global terrorism.

The U.S.-Australia FTA represents an opportunity to build upon this enduring relationship and

deepen our “essential partnership,” as Australian Prime Minister Howard has called it. Fifty years ago, the United States and Australia signed the ANZUS Treaty, an alliance based on our mutual security needs. The FTA will further expand the alliance between our two countries, putting our trade and investment relationship on the same plane as our longstanding political and security relationship and bringing our societies and our people even closer together.

SUMMARY OF THE AGREEMENT

There is no doubt that the U.S.-Australia FTA is a landmark agreement and one that is befitting the special partnership between our two countries and our shared commitment to free trade principles. The Agreement, which some have dubbed the “Manufacturing FTA” will eliminate more than 99 percent of the tariff lines covering U.S. manufactured goods exports to Australia on the first day the Agreement goes into effect. This is the most significant immediate reduction in industrial tariffs ever achieved in a free trade agreement.

Australia already is a major trading partner of the United States. Two-way goods and services trade is nearly \$29 billion. Australia purchases more goods from the United States than from any other country, and the United States enjoys a bilateral goods trade surplus of nearly \$7 billion. The thousands of American jobs supported by these goods exports pay an estimated 13 to 18 percent more than the national pay average. With the further reduction in trade barriers, we expect new opportunities for America’s manufacturers, farmers, and workers. The International Trade Commission estimates that the tariff cuts alone would increase U.S. exports to Australia by about \$1.5 billion yearly.

In addition to the benefits the FTA will bring to the manufacturing sector, duties on all U.S. farm exports to Australia – nearly \$700 million in 2003 – will be eliminated on the first day that the Agreement goes into force. For this achievement, I must pay tribute to Secretary Veneman and our Chief Agriculture Negotiator, Al Johnson, who has joined me today, for working with Members of Congress and our agriculture constituencies to successfully address these particularly challenging issues. Among those agricultural interests that will benefit from these tariff cuts are those producing processed foods, fruits and vegetables, corn oil, and soybean oil and other agricultural industries. As part of the Agreement, the United States and Australia also will establish a special committee to address sanitary and phytosanitary (SPS) issues, a longstanding trade concern highlighted by Members of Congress when we announced our intention to launch these FTA negotiations in November 2002. Through close cooperation and focus on these issues over the last two years, we have seen progress on a range of SPS issues. For example, U.S. table grapes entered the Australian market in 2002 and U.S. exporters are expected to sell to pork to Australia very soon.

Access for U.S. services industries will be opened as well. As in goods trade, the United States already has a significant surplus – \$2.3 billion – in services trade and more than \$6 billion if the surplus in sales of services by majority-owned affiliates is included. The FTA will create new opportunities that U.S. service industries, among the most competitive in the world, are well

positioned to take advantage of. The Agreement ensures improved market access for the U.S. entertainment industry, including films and television; and provides new rights for life insurance and express delivery providers. Australia also made commitments in the telecommunications, computer services, tourism, energy, construction, education, and other services sectors.

Small and medium sized enterprises (SMEs) should particularly benefit from this FTA. The common language and perspective of our peoples combined with the new opportunities provided for by this Agreement should make Australia an especially attractive market for SMEs taking the first steps to join the global market.

Integration between the U.S. and Australian economies and the extraordinary benefits that have flowed from this integration has been fostered not only by goods and services trade but by the flourishing investment between our countries. Australia is the eighth largest foreign investor in this country, and its investments support U.S. jobs in many sectors, including manufacturing, real estate and finance. The FTA will further this linkage by providing a predictable framework for U.S. investors in Australia, exempting investment in new businesses from screening requirements and substantially raising the thresholds for screening of acquisitions in nearly all sectors. These changes would have exempted from screening the vast majority of U.S. investment transactions over the past three years.

The U.S.-Australia FTA is the first to include non-tariff market access provisions to address issues in the pharmaceutical sector. Recognizing the sensitivity of this issue, we drew on studies prepared by the Australian government to propose changes that would improve transparency and the regulatory procedures for listing new drugs in Australia. Under the FTA, the United States and Australia agreed to common principles on facilitating high quality health care and continued improvements in public health, including through government support for research and development in the pharmaceutical industry. We also agreed to establish a Medicines Working Group to discuss emerging health policy issues. Australia committed to specific steps to improve the transparency, accountability and promptness of the listing process, including establishment of an independent review of listing decisions.

The FTA provides for state-of-the-art intellectual property protection for U.S. trademarks, copyrighted works, including for digital works, and patented products. It also strengthens penalties for piracy and counterfeiting, providing strong deterrence against these illegal activities. With IPR piracy and counterfeiting a serious problem in many countries in the Asia-Pacific region, these provisions will serve to reflect the importance of robust intellectual property protection to the development and growth of solid, long-term trade and investment relations.

In addition, the FTA includes innovative electronic commerce provisions, reflecting both countries recognition of the importance of e-commerce in global trade. In addition to commitments to ensure that digital products will receive non-discriminatory treatment, the Agreement facilitates the ability of businesses to authenticate a business transaction in both markets and establishes a program for cooperation on other e-commerce issues.

The FTA opens up the Australia's government procurement market, which is especially significant because Australia is one of the few developed countries that is not a Party to the WTO Government Procurement Agreement. The Agreement requires the use of procedures that are transparent, predictable, and non-discriminatory. U.S. and Australian companies will be able to bid on procurements from each other's central government entities and their states that have agreed to participate. Of particular significance, Australia has agreed to remove industry development requirements that have long been part of its procurement regime.

The United States has been able to include the world's highest standard of enforceable labor and environment provisions in its recent FTAs and this Agreement is no exception. The Agreement includes labor and environment provisions, which commit each country to effectively enforce its law and environmental laws and these obligations are enforceable through the FTA's dispute settlement procedures. Under the Agreement, each government commits to promote high levels of labor and environmental laws and to not weaken or reduce labor or environmental laws to attract trade and investment. The Agreement also establishes processes for further cooperation on labor and environmental issues, supporting our long history of cooperation and coordination in these areas.

Finally, the Agreement includes strong enforcement provisions. Our FTAs raise the bar and provide the best basis for our global work of ensuring a fair and level playing field for our workers, farmers and businessmen. The nearly 1,500 pages of rules and commitments that comprise this FTA will form the basis of our enforcement program. The Agreement creates a Joint Committee to supervise implementation these rules and commitments and assist in resolving disputes. As with each of our trade agreements, we will rely wherever possible on bilateral cooperation and consultations to resolve issues and ensure strict enforcement of trade obligations. The U.S. government team monitors carefully the implementation of our trade agreements, meeting regularly with our foreign counterparts to review implementation of the range of commitments. We also consult closely with U.S. business and other stakeholders to ensure that we are fully apprised of any developing concerns. Our record shows that such consultations have been remarkably successful in ensuring that our trading partners follow through on their commitments and address emerging problems in a expeditious manner. While we frequently rely on the range of other tools available to us, in this FTA as in our other agreements, we of course have ultimate recourse to formal dispute settlement to resolve trade disputes and ensure full and faithful implementation of our agreements.

BROADER BENEFITS OF THE AGREEMENT

In addition to the specific benefits that will flow from the commitments the United States and Australia have undertaken in this FTA, there are other benefits as well that I would ask you to contemplate as you consider this Agreement. Australia has been one of our closest and most reliable partners in pursuing trade liberalization around the world. Both of our countries are strongly committed to advancing the Doha Development Agenda and our alliance in the WTO has been further fortified through the FTA negotiations, which will more closely unite our trade

and economic interests. This alliance will improve the prospects for a successful outcome to these global negotiations, still the highest priority on both countries' trade agendas.

The FTA also will help advance our goals in the Asia-Pacific region. Australia has been a strong partner in APEC and Australia and the United States have a mutual stake in seeing the fruits of the free market expand in this strategic region. This Agreement, which sets high standards for other free trade agreements, will certainly help to do this.

GLOBAL TRADE AGENDA

In addition to the success we have achieved in concluding the Australia FTA, the Administration has acted on the opportunity you presented us with passage of TPA to launch a number of other major new trade initiatives designed to open markets around the world for U.S. products and services. With your support, we have been pressing energetically to secure the benefits of a world trading system that is dramatically more free and open, advancing our goals globally, regionally, and bilaterally.

To reinvigorate the new round of global trade negotiations that was launched in Doha, Qatar in November 2001, the Administration presented bold new proposals to the World Trade Organization (WTO) that embody the U.S. commitment to open markets and spur growth and development. Earlier this year, Ambassador Zoellick traveled around the globe, offering creative and far-reaching plans to remove all tariffs on manufactured goods, open agriculture and services markets and deal with the special needs of developing countries. The U.S. leadership has been critical to keeping WTO members focused on the core issues of market access and optimistic that forward momentum can be maintained.

While pressing ahead on the global trade agenda, the Administration has worked with Congress to successfully conclude FTAs with Chile and Singapore, complete negotiations with Morocco, Bahrain, CAFTA and the Dominican Republic. In addition, we have launched negotiations with the five members of the Southern African Customs Union, Panama, and three Andean countries. Later this month, we will be holding the first round of FTA negotiations with Thailand. At the same time, we have worked to continue negotiations on the Free Trade Area of the Americas, and to lay the groundwork for future market-opening initiatives through the Enterprise for ASEAN Initiative and a Middle East Free Trade Area initiative, as well as through Trade and Investment Framework Agreements with selected countries from all regions, both developed and developing.

CONCLUSION

I have highlighted some of the most significant benefits of the Agreement for the United States. A more detailed summary of the main provisions of this Agreement is attached to this testimony.

While we can describe the benefits we anticipate from this FTA for our trade and economic partnership with Australia, the support this Agreement commands from stakeholders is perhaps a

more persuasive indication of its potential benefits. U.S. and Australian businesses, both large and small, recognize the vast potential of this Agreement in terms of economic growth, jobs, and living standards and are actively promoting it. Businesses, farmers and workers understand that while we have a long-established and well-developed trading relationship, the framework of the FTA will allow them to use their drive, ingenuity, and vision to create even greater opportunities for themselves and their countries in the future.

Before concluding, I want to take a moment to note that there are many essential ingredients that go into negotiating an FTA of this high caliber. These include, of course, the relentless patience, hard work and negotiating skills of the large teams on both sides and especially of the lead negotiators, Ralph Ives and Steve Deady. Tribute also must be paid to the creativity, stamina and leadership of Minister Vaile and Ambassador Thawley and, of course, Ambassador Zoellick.

Conclusion of this FTA also is the result of the hard work and dedication of many leaders from the private sector, including Anne Wexler, R.D. Folsom, and the co-chairs and nearly 300 members of the U.S.-Australia Business Coalition, representing a broad spectrum of the U.S. economy.

Finally, as was intended in the TPA legislation, the quality of this FTA and its successful conclusion are due to the guidance and unflinching support of many Members and their staffs. We are indebted to you, Chairman Grassley for your leadership and advice. We also are extremely grateful for the direction and guidance we received from Senators Baucus, Kyl, Nickles, and many other Members.

With continued Congressional guidance and support, this Administration will continue to pursue an ambitious and multifaceted trade policy. Together, we can demonstrate to the power of free trade to spur economic growth, build prosperity, and promote democracy.

The Administration looks forward to working with this Committee and the full Congress in enacting the legislation necessary to implement this Agreement. Thank you Mr. Chairman, Senator Baucus, and Members of the Committee. I would be pleased to respond to questions.

**SUMMARY OF THE
U.S.-AUSTRALIA FREE TRADE AGREEMENT**

Market Access for Goods

Duties on more than 99 percent of tariff lines covering industrial and consumer goods will be eliminated as soon as the Agreement enters into force. Manufactured goods currently account for 93 percent of the total value of U.S. goods exports to Australia. Duties on other manufactured goods will be phased out over periods of up to 10 years. The Agreement will bring immediate benefits to key U.S. manufacturing sectors, including autos and autos parts; chemicals, plastics, and soda ash; construction equipment; electrical equipment and appliances; fabricated metal products; furniture and fixtures; information technology products; medical and scientific equipment; non-electrical machinery; and paper and wood products. The elimination of duties will result in tariff savings for U.S. manufactured goods exporters of about \$300 million in the first year of the agreement. For duties on textiles and apparel to be eliminated, the goods must meet the Agreement's yarn-forward rule of origin. The Agreement also requires the elimination of a variety of non-tariff barriers that restrict or distort trade flows.

Agriculture

The Agreement achieves a balanced approach for agriculture, providing expanded export opportunities for a range of U.S. agricultural goods, while responding to U.S. sensitivities. Duties on all U.S. agricultural exports to Australia, which totaled nearly \$700 million in 2003, will be eliminated immediately upon entry into force of the Agreement. Currently, Australia maintains duties of 5 percent on fresh and processed fruits and vegetables, soups, processed foods, some grains, oilseeds and other products. For some dairy products, Australia's tariffs reach 30 percent. Duties on most imports from Australia will be phased out over periods of between four and 18 years. Duties will be maintained on sugar and certain dairy products. In addition, for certain products, including beef, dairy, cotton, peanuts and certain horticultural products, the Agreement includes other mechanisms, such as preferential tariff rate quotas and safeguards. The United States and Australia agree to work together in WTO agriculture negotiations to improve market access; reduce, with a view to phasing out, all forms of export subsidies; to develop disciplines eliminating state trading enterprises' monopoly export rights; and to substantially reduce trade-distorting domestic support.

The Agreement also establishes a new forum for scientific cooperation between U.S. and Australian authorities to resolve specific bilateral animal and plant health matters based on science and with a view to facilitating trade. In addition to establishing a bilateral SPS Committee on Sanitary and Phytosanitary Measures to address a range of SPS issues, the U.S. Department of Agriculture's Animal and Plant Health Inspection Service and its counterpart, Biosecurity Australia, will chair a standing technical working group to engage at the earliest appropriate point in each country's regulatory process to cooperate in the development of

science-based measures that affect trade between the two countries.

Pharmaceuticals

The United States and Australia affirm their commitment to several basic principles related to their shared objectives of facilitating high quality health care and improvements in public health. These principles are: (1) the important role played by innovative pharmaceuticals in delivering high quality health care; (2) the importance of research and development in the pharmaceutical industry and of appropriate government support, including through intellectual property protection and other policies; and (3) the need to promote timely and affordable access to innovative pharmaceuticals through adopting or maintaining procedures that appropriately value the objectively demonstrated therapeutic significance of a pharmaceutical. It requires that federal health care programs apply transparent procedures in listing new pharmaceuticals for reimbursement. The two countries also will establish a Medicines Working Group to promote discussion and understanding of pharmaceutical issues. Government procurement of pharmaceuticals is covered by the Government Procurement chapter rather than by the pharmaceutical-specific provisions of the Agreement. Australia will establish and maintain procedures enhancing transparency and accountability in the listing and pricing of pharmaceuticals under its Pharmaceutical Benefits Scheme, including establishment of an independent review process for listing decisions.

Cross-Border Services

The Agreement requires national treatment and most-favored-nation treatment in all sectors not explicitly excluded and prohibits local presence requirements. Under the Agreement, Australia will accord substantial access to U.S. service suppliers, including in the advertising, asset management, audio visual, computer and related services, education and training, energy, express delivery, financial services, professional services, telecommunications, and tourism sectors.

Audiovisual Services. The Agreement locks in access for U.S. suppliers of films and television programming to the Australian market over a range of media, including cable, satellite and the Internet. The Agreement also limits Australia's ability to implement new measures to limit access in the broadcast and audiovisual sector.

Express Delivery. The Agreement ensures non-discriminatory market access for express delivery firms, including facilitation of customs clearance.

Telecommunications. The Agreement ensures access for U.S. firms and includes several important new obligations for major suppliers, including resale, provisioning of leased circuits and co-location.

Financial Services

Regarding investment, U.S. financial service suppliers (banks, insurance companies, securities companies) already enjoy a significant presence in the Australian market through subsidiaries, joint ventures and branches. Australia agreed to provide new rights for life insurance branching. Australia also agreed to exempt new financial services investments from investment screening and to lock-in existing good practice with regard to review of acquisitions in the banking and insurance sectors. Acquisitions of other financial services companies are exempted from screening if less than A\$800 million.

Regarding cross-border supply (via electronic means), Australia confirmed access for reinsurance, MAT insurance, brokerage of reinsurance and MAT insurance, insurance auxiliary services, financial information and data processing services, and financial advisory services and provided new rights for portfolio management.

In addition, Australia and the United States agreed to high standards for regulatory transparency, including procedures applying to licensing systems. Australia also confirmed aspects of its regulatory approach that guarantee expedited introduction of insurance products.

Electronic Commerce

The Agreement ensures that digital products, including software, music, video, and text, will receive non-discriminatory treatment and makes permanent the current practice of not subjecting such transmissions to customs duties. This is the first Agreement to include provisions on facilitating authentication of electronic signatures, encouraging paperless trade and establishing a program for cooperation on other e-commerce issues.

Investment

The Agreement establishes a secure, predictable legal framework for U.S. investors operating in Australia. All forms of investment in Australia are covered under the Agreement, including enterprises, debt, concessions, contracts, and intellectual property. All U.S. investment in new businesses is exempted from screening under Australia's Foreign Investment Review Board. Thresholds for acquisitions by U.S. investors in nearly all sectors are raised significantly, from A\$50 million to A\$800 million, exempting the vast majority of transactions from screening. A work program will be initiated to limit the kinds of investment transactions, such as passive investments, that may be subject to review.

In recognition of the unique circumstances of this Agreement – including, for example, the longstanding economic ties between the United States and Australia, their shared legal traditions, and the confidence of their investors in operating in each others' markets – the two countries agreed not to adopt procedures in the Agreement that would allow investors to arbitrate disputes with governments. This issue will be revisited if circumstances change. Government-to-

government dispute settlement procedures remain available to resolve investment-related disputes.

Intellectual Property Rights (IPR)

The Agreement complements and enhances existing international standards for the protection of intellectual property and the enforcement of intellectual property rights, consistent with U.S. law.

In the copyright area, each Party must provide copyright protection for the life of the author plus 70 years (for works measured by a person's life), or 70 years (for corporate works). The Agreement clarifies that the right to reproduce literary and artistic works, recordings, and performances encompasses temporary copies, an important principle in the digital realm. It also calls for each Party to provide a right of communication to the public, which will further ensure that right holders have the exclusive right to make their works available online. The Agreement includes provisions on anti-circumvention, under which the Parties commit to prohibit tampering with technology used to protect copyrighted works. In addition, the Agreement sets out obligations with respect to the liability of Internet service providers in connection with copyright infringements that take place over their networks. To curb copyright piracy, the Agreement requires the governments to use only legitimate computer software, setting an example for the private sector.

On patents, the Parties agree to make patents available for any invention, subject to limited exclusions, and confirm the availability of patents for new uses or methods of using a known product. To guard against arbitrary revocation, each Party must limit the grounds for revoking a patent to the grounds that would have justified a refusal to grant the patent. The Agreement requires patent term adjustments to compensate for unreasonable delays that occur while granting the patent, as well as unreasonable curtailment of the effective patent term as a result of the marketing approval process for pharmaceutical products. The Agreement protects test data that a company submits in seeking marketing approval for pharmaceutical and agricultural chemical products by precluding other firms from relying on the data. It also requires measures to prevent the marketing of pharmaceutical products that infringe patents.

On trademarks and geographical indications, the Agreement establishes that marks include marks in respect of goods and services, collective marks, and certification marks, and that geographical indications are eligible for protection as marks. Each Party must provide protection for marks and geographical indications, as well as efficient and transparent procedures governing the application for protection of marks and geographical indications. The Agreement also provides for rules on domain name management that require a dispute resolution procedure to prevent trademark cyber-piracy.

The FTA establishes strong penalties for piracy and counterfeiting. The Agreement criminalizes end-user piracy and requires both the United States and Australia to authorize the seizure, forfeiture, and destruction of counterfeit and pirated goods and the equipment used to produce

them. Each Party must apply criminal penalties against counterfeiting and piracy, including end-user piracy. The Agreement specifies that each Party must empower its law enforcement agencies to take enforcement action at the border against pirated or counterfeit goods without waiting for a formal complaint.

Government Procurement

Under the Agreement, U.S. suppliers are granted non-discriminatory rights to bid on contracts to supply Australian Government entities, including all major procuring entities and administrative and public bodies. The Agreement requires the use of tendering procedures that will ensure that procurements are conducted in a transparent, predictable and fair manner. The Australian Government will eliminate its industry development programs, under which suppliers have had to meet various types of local content or local manufacturing requirements as conditions of their contracts. The Australian Government also will restrict its use of selective tendering, which will ensure that U.S. suppliers have a fair opportunity to compete for government contracts. The Agreement provides integrity in procurement practices, including by requiring laws that make bribery of procurement officials a criminal or administrative offense.

Competition Policy

The Agreement proscribes anticompetitive business conduct and requires appropriate action with respect to such conduct. It sets out basic procedural safeguards and rules ensuring against harmful conduct by government-designated monopolies as well as special rules covering state enterprises so that they do not abuse their official status to harm the interests of U.S. companies or discriminate in the sale of goods and services. The Agreement also facilitates cooperation between the United States and Australia on cross-border consumer protection and the recognition and enforcement of supporting the mutual recognition and enforcement of certain monetary judgments to provide restitution to consumers, investors or customers who suffered economic harm as a result of being deceived, defrauded or misled.

Labor

Under the Agreement, Australia and the United States reaffirm their obligations as members of the International Labor Organization (ILO) and under the 1998 *ILO Declaration on Fundamental Principles and Rights at Work*, and agree to strive to ensure that their laws protect the fundamental labor principles embodied in the ILO Declaration and listed in the Agreement. The Agreement makes clear that it is inappropriate to weaken or reduce domestic labor protections to encourage trade or investment and includes procedural guarantees to ensure that workers and employers have fair, equitable and transparent access in the enforcement of labor laws. The Parties also will cooperate on labor standards on bilateral, regional, and multilateral bases. The core commitment, that a Party shall not fail to effectively enforce its labor laws, through a sustained or recurring course of action or inaction, in a manner affecting trade between the Parties is subject to dispute settlement under the Agreement. For Australia, this commitment

covers relevant federal and state laws since responsibility for these matters is shared.

Environment

Under the Agreement, Australia and the United States commit to ensure that their domestic environmental laws provide for high levels of environmental protection and shall strive to continue to improve such laws. The Agreement makes clear that it is inappropriate to weaken or reduce domestic environmental protections to encourage trade or investment. These obligations are enforceable through the Agreement's dispute settlement procedures. In view of the fact that much of Australia's environmental legislation and regulation is at the state level, the chapter's obligations extend to Australian states and territories. In addition, the Agreement includes a commitment to cooperate on environment issues and to consult in the WTO regarding multilateral environmental agreements. The core commitment, that a Party shall not fail to effectively enforce its environmental laws, through a sustained or recurring course of action or inaction, in a manner affecting trade between the Parties is subject to dispute settlement under the Agreement. For Australia, this commitment covers relevant federal and state laws since responsibility for these matters is shared.

Dispute Settlement

The Agreement sets out detailed procedures for the resolution of disputes over compliance with the Agreement. The procedures for dispute settlement set high standards of openness and transparency, including open public hearings, public release of legal submissions by the parties, special labor or environmental expertise for disputes in those areas, and opportunities for interested third parties to submit their views to dispute settlement panels.

Dispute settlement procedures in the Agreement promote compliance through consultation and trade-enhancing remedies, rather than relying solely on trade sanctions. The Agreement dispute settlement procedures also provide for "equivalent" remedies for commercial and labor or environmental disputes. The Agreement achieves this through an innovative enforcement mechanism that provides the parties the option of using monetary assessments to enforce commercial, labor and environmental obligations of the Agreement. Suspension of preferential tariff benefits under the Agreement may also be available for all disputes, while bearing in mind the Agreement's objective of eliminating barriers to bilateral trade.

STATEMENT FOR FINANCE COMMITTEE HEARING, JUNE 15, 2004

SENATOR SMITH – Thank you, Mr. Chairman. I would like to express today my support for this historic U.S./Australia bilateral agreement. This landmark agreement on free trade will further develop our countries' strong relations.

I believe the US/Australia Free Trade Agreement is good for America. An FTA with such a large economy will bring substantial benefits to my state of Oregon and to the U.S. economy as a whole. Australia is an industrialized nation with a high standard of living that is already a large market for U.S. exports valued at over \$23 billion annually. The Australia FTA will boost U.S. manufacturing and create U.S. manufacturing jobs by reducing 99% of all Australian tariffs to zero. Now the United States will have a significant advantage over European and Japanese competitors in the Australian market. U.S. goods and services will be able to compete fairly with other foreign exports in the lucrative Australian marketplace. This will be worth over \$2 billion a year to US manufacturers.

U.S. agricultural exports to Australia will grow by \$700 million, as tariffs on all agricultural goods are zeroed out under the FTA. U.S. farmers are the direct benefactors of this open market.

Australia is an important market for my home state of Oregon. It is the 10th largest export market, and is particularly important for high quality manufactured goods. International trade also supports numerous other high-paying jobs in areas such as transportation, finance and advertising. Oregon exports over \$39 million a year in computers and electronic products to Australia. Access to 19 million potential customers is no small deal for Oregon businesses.

Furthermore, Australia is the ideal trading partner for the United States. It is an advanced, efficient high wage economy with dependable legal and financial regimes. It has labor and environmental standards comparable to the United States. A free trade agreement with Australia is simply a good move.

This FTA will strengthen our relationship with a close long-time ally. Australia and the United States have been true allies through good times and bad. We have fought together in every major conflict in the last 100 years to defend peace and security around the world. We must stand steadfast with our ally, not only in the defense of peace, but also in the prospect and benefits of free trade.

COMMUNICATIONS



**Statement Submitted for the Record by
Stephen J. Collins
President, Automotive Trade Policy Council, Inc.**

"U.S. - Australia Free Trade Agreement"

June 15, 2004, at 10:30 a.m.

215 Dirksen Senate Office Building

The Automotive Trade Policy Council (ATPC) strongly supports prompt approval by the House and Senate of the recently signed U.S.-Australia Free Trade Agreement (FTA). The Agreement will provide concrete market-opening benefits for U.S. automotive manufacturers and boost momentum for further progress in other bilateral, regional and multilateral trade negotiations. ATPC is a Washington D.C.-based non-profit organization that represents the common international economic, trade and investment interests of its member companies: DaimlerChrysler Corporation, Ford Motor Company and General Motors Corporation. ATPC is the only industry association in Washington that is devoted exclusively to the promotion of U.S. international trade and economic policy issues.

General Motors, Ford, and DaimlerChrysler are the first, second and fifth-largest automotive companies in the world. Together they directly employ nearly 400,000 workers in their U.S. automotive operations, nearly 90 percent of all Americans employed by vehicle manufacturers. ATPC member companies spent over \$11 billion last year providing pension and other retirement benefits to over 800,000 retired workers and dependent spouses in the United States. In addition, the three companies provide health care benefits to over 1.8 million current and retired employees and their dependents at a cost of over \$8.5 billion in 2003.

The overall average domestic content of the cars and trucks sold in the United States by ATPC member companies is 80 percent, far higher than our Japanese (31 percent average), Korean (2.1 percent average) and other competitors. Last year, ATPC's member companies purchased \$160 billion worth of automotive parts and components from tens of thousands of automotive suppliers in the United States. These companies employ millions of additional U.S. workers. Total direct and indirect employment in the U.S. automotive sector is more than 7 million American workers. Materials used in the manufacturing of motor vehicles come from nearly every sector of the U.S. economy, including raw materials (steel, iron, aluminum, lead, rubber), manufactured goods (textiles, glass, plastics) and high-tech components (semiconductors, computers, advanced systems, engineering products).

ATPC member companies produced nearly 9 million vehicles in the U.S. last year in 53 assembly plants located in 21 states — over 75% of total passenger vehicle production in the United States. Since 1980, DaimlerChrysler, Ford and General Motors have spent over \$176 billion in direct investment in U.S. facilities and operations, compared with only \$27 billion by our competitors from around the world. ATPC member companies also maintain manufacturing facilities in over 50 countries and sell vehicles in over 150 countries around the world. Collectively, ATPC member companies annually produce over 11.5 million vehicles in the NAFTA region and nearly 20 million vehicles worldwide, accounting for 35% of total global vehicle production and sales.

The Impact of the U.S.-Australia FTA on the U.S. Automotive Sector

ATPC companies strongly support the proposed U.S.-Australia Free Trade Agreement. A U.S.-Australia FTA will strengthen an already close relationship between the two countries and will serve to increase economic growth in both markets. The agreement will allow greater trade opportunities in automotive products between our two countries and facilitate further integration of our companies' manufacturing, distribution, financing, service, and related automotive operations.

Over the past 15 years, Australia's motor vehicle market has gradually become more open and globally competitive. Australia has committed itself over the past decade to removing high tariffs on motor vehicles and has made progress in removing other impediments to free trade in the automotive sector as well. As a result, Australia is an important export market for the U.S. automotive industry. U.S. automotive exports to Australia totaled over \$1 billion in 2003. Automotive imports from Australia came to \$336 million last year, resulting in an automotive trade surplus of over \$650 million. Overall, U.S. auto sector exports to Australia represent almost 10% of total U.S. merchandise exports to Australia.

The three ATPC companies compete in the Australian market and Ford and General Motors, with their local manufacturing operations, produce 70% of the vehicles produced there. ATPC member companies produce over 70% of all passenger vehicles made in Australia, and sold nearly half of the cars and light trucks in the Australian market last year.

To appreciate the size and importance of this market and the impact of a U.S.-Australia FTA, consider that Australia's total annual new passenger vehicle sales of 700,000 is greater than all vehicles sold in *every single country* that the United States has *signed, negotiated and proposed* bilateral free trade agreements with since NAFTA was enacted. Total U.S.-Australia trade in automotive goods mirrors that of global automotive trade, which comprises ten percent of total global trade annually, more than the total of agriculture (9.3 percent).

Tariffs

One of the primary benefits of a U.S.-Australia FTA to the U.S. automotive industry would be elimination or substantial reduction of tariffs on motor vehicles and

associated components. Australia currently maintains a tariff of 15% on imported motor vehicles. Motor vehicle imports from some developing nations enjoy a preferential tariff of 10%, and as a result of being members of the Commonwealth Market imports from Canada have an applied tariff of 7.5%. Australia also maintains a 15% tariff on motor vehicle components and a 5% tariff on commercial vehicles. Upon ratification of the U.S.-Australia FTA, tariffs go to zero on all vehicles, parts, and components in both countries with the exception of Australia's tariff on U.S. car imports, which will drop from 15% to 5% on implementation and phase down on a linear basis to 0% by 2010.

Conclusion

General Motors, Ford, and DaimlerChrysler are enthusiastic in their support Congressional approval of the U.S.-Australia Free Trade Agreement this year. Passage of this agreement will be a solid accomplishment for the U.S. government, with substantial benefits for the U.S. manufacturing sector. The U.S.-Australia agreement also adds momentum to the renewed efforts to expand global trade through the Doha Round of the World Trade Organization, which we strongly support.

Dakota Resource Council

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Testimony by DRC Chair Dean Hulse and DRC Trade Team Chair Link Reinhiller
Statement before the Senate Finance Committee
For Hearing on Implementation of the United States-Australia Free Trade Agreement
Tuesday, June 15, 2004

Senate Committee on Finance
Rm. SD-203
Dirksen Senate Office Bldg.
Washington, DC 20510-6200

On behalf of DRC—Dakota Resource Council, we are submitting comments to the Senate Finance Committee regarding the U.S.-Australia Free Trade Agreement.

DRC is a grass roots, member based organization working for sustainable agriculture, strong local economies and renewable energy for over 25 years. DRC has members throughout the state of North Dakota. Many of our members are family ranchers and farmers.

There are at least three serious flaws in the Australia trade agreement. First, this agreement threatens family farming and ranching, businesses dependent on agriculture, and rural communities. Second, it gives too much economic power to multi-national corporations. Finally, the negotiation process of trade agreements behind closed doors though probably necessary did not provide for progress reports or congressional input. The very people these agreements affect the most are not allowed input into the process—U.S. agricultural producers, specifically the farmers and ranchers of North Dakota.

If passed, this agreement will have disastrous consequences for many farmers, ranchers, small businesses, and rural communities.

The U.S.-Australia Free Trade Agreement is anything but free for America's ranchers and rural communities. In fact, it will cost these communities greatly. This agreement offers no protection for agriculture and the communities and states that rely on agriculture as a major part of their economies. The U.S.-Australia Free Trade Agreement will weaken the strongest foundation of the U.S. economy—our production agriculture.

Australia is already accelerating agricultural trade with the U.S. and currently exports beef, lamb and sheep at rates above its quota, despite tariffs. Reducing and dropping tariffs through a trade agreement with Australia is not necessary to ensure trade between the two countries. This will instead result in the U.S. being more reliant on imported foods with no assurance that this food meets our health and safety standards.

In the case of beef, the 18-year phase out of beef and cattle tariffs will steadily increase imports of beef to the detriment of the U.S. cattle production industry. Under the agreement,

Australian beef imported below the Tariff Rate Quotas (TRQ) would not be tariffed, and that TRQ will increase steadily for 18 years. Beef exceeding the TRQ would continue to be tariffed until year 18 when all tariffs and quotas will expire. The result will be the slow demise of the U.S. cattle producer.

Australia has continued to build its beef herds and is a net exporter of beef. Because Australia now produces more beef than it consumes, there is no opportunity for U.S. producers to develop an export market to Australia. The loss of U.S. domestic markets due to increased beef imports will result in lost jobs for ranchers. When ranchers are driven out of business, the communities they support also suffer. This trade agreement in short will outsource ranchers to Australia, eliminating jobs for others who rely on the American rancher for their economy.

We note that as part of the authorization given to the President to negotiate free trade agreements in the Trade Act of 2002, Congress mandated that the special needs of perishable and cyclical agriculture be taken into account and that special rules be negotiated [19 U.S.C. 3802(10)(A)(ix), (x); 3802(10)(B)(i)]. As reflected in the Senate Colloquy between Senators Enzi, Daschle, Grassley and Baucus, cattle and beef are included within the term "perishable and cyclical agriculture" for purposes of the statute 148 Cong. Rec. S4800 (daily ed. May 23, 2002). We are very troubled that there does not appear to be any recognition of the special needs of cattle and beef trade in this U.S.-Australia agreement and certainly no special rules to deal with rapid declines in prices or rapid increases in volumes.

In addition, these "lengthened phase out periods" are not a solution to the problems agriculture faces in this agreement. "Phase outs" do not address the needs of family agricultural producers and only prolong the problems posed in this agreement.

Other sectors of rural economies will also be hurt under this agreement. Most lamb and sheep meat tariffs will end immediately. The remaining lamb and sheep meat tariffs will phase out over four years. This creates even easier access for an Australian product, which has already devastated the U.S. sheep rancher.

Although there will be no changes in the tariff on Australian dairy products that are above the TRQ, there will be an increase in the quota allowed into the U.S. The agreement allows access to dairy products previously excluded from the U.S. market, such as certain cheese, butter, milk, cream, and ice cream products.

Tariffs on wheat and cereal flour mixes will end. Although not currently a large wheat exporter to the US, Australia is developing its durum market. In addition, all Australian wheat is bought, sold, and controlled through the Australian Wheat Board. This structure does not allow for an open, competitive and transparent market system.

This agreement would also intensify the existing problems of concentration within both American and Australian multi-national food suppliers. Many multi-national agri-conglomerates have investments in both countries. For example, Swift and Co. owns Australia's largest meat processor, Australian Meat Holdings. Swift and Co. is also the second largest meat packer and procurer of beef in the U.S.

The U.S.-Australia Free Trade Agreement would amplify the ability of these multi-national conglomerates to drive down prices to farmers and ranchers in both countries. Multi-national corporations are global traders, whose only allegiance is to their profit. They exploit both importing and exporting countries at the cost of beef producers and the consumers. In the case of beef, these corporations are expected to use international shipments of captive supplies, cattle owned or controlled by those companies, to manipulate the prices paid for both Australian and U.S. cattle. Without enforcement of anti-trust laws, ensuring that cattle are bought and sold in an open public manner, companies like Swift and Co. are able to drive beef prices down in both the U.S. and Australia. This results in more and more independent producers forced out of business.

Negotiating trade agreements, like the U.S.-Australia Trade Agreement, largely happens behind closed doors. Very few people participate, but the chosen few essentially lock in entire business sectors. The very people these agreements impact the most, for all practical purposes, have no voice in this process.

In addition, Congress gave away, through the Trade Promotion Authority Act (Fast Track), its constitutional responsibility to advise and consent on all treaties with foreign governments. The result is that our organizations and members have very limited opportunities to influence this harmful treaty and its impacts on our livelihoods and communities.

Any nation that puts its self in a position where it relies on importing food and feed products has compromised its ability to be a world leader.

We believe that American trade policy should strengthen, not weaken, the public health, environment, food sovereignty, working conditions, labor rights, and transparent, competitive market principles of this country and all countries. This trade agreement violates these principles. Furthermore, this trade agreement with Australia will result in lost jobs for Americans. Imports of Australian agricultural products will drive family farmers and ranchers out of business, forcing them to look for jobs outside of agriculture. The rural communities that rely on these farmers and ranchers for their economy will also lose the jobs that are maintained by agriculture.

For all of these reasons, we respectfully request that you reject the proposed Australian Free Trade Agreement.

Sincerely,



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**DISTILLED
SPIRITS
COUNCIL
OF THE
UNITED
STATES**

United States Senate

Committee on Finance

**Hearing on the United States – Australia
Free Trade Agreement**

June 15, 2004

**Statement for the Record of David Wagner
on behalf of Jim Beam Brands Co.
and
the Distilled Spirits Council of the United States, Inc.**

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A FACT ABOUT ALCOHOL CONTENT:



I am pleased to submit this statement on behalf of Jim Beam Brands and the Distilled Spirits Council of the United States, Inc., (Distilled Spirits Council) regarding the importance of the U.S. – Australia Free Trade Agreement (FTA) to my company in particular, as well as to the U.S. distilled spirits industry as a whole. Jim Beam Brands is an active member of the Distilled Spirits Council, a national trade association representing U.S. producers, marketers and exporters of distilled spirits products. Jim Beam’s corporate headquarters are located in Deerfield, Illinois. The company owns and operates distilleries in Clermont, Kentucky where we produce our famous Jim Beam Bourbon. We also have manufacturing and bottling facilities in Frankfort, Kentucky and Cincinnati, Ohio, and wineries in California. We manufacture and market more than 80 brands in 160 countries. In addition to Jim Beam® Bourbon, the #1 selling Bourbon worldwide and the #1 selling spirit of any kind in Australia, we also produce Knob Creek® Bourbon, the Small Batch Bourbon Collection®, DeKuyper® cordials, the #1 selling cordial line in the U.S., and Geyser Peak® and Canyon Road® wines.

Distilled spirits are highly processed agricultural products, which are classified under Harmonized Tariff System headings 2208 and 2207.10.30. Distilled spirits are produced exclusively from agricultural raw materials and water. Distilled spirits producers are significant consumers of corn, wheat, molasses, rye, barley, and other agricultural raw materials. In 2003, for example, Jim Beam Brands alone consumed more than 3.4 million bushels of corn (valued at approximately \$10.3 million), and more than 650,000 bushels each of rye and malt valued at more than \$6 million. My company’s U.S.-sourced raw materials total more than \$130 million each year and include Florida oranges, California grapes, grain from the Midwest, sweeteners and bulk spirits, glass, plastic and aluminum containers, flavors and blending ingredients, labels, closures, folding cartons, corrugated shipping containers and much more. The U.S.–Australia FTA will expand U.S. distilled spirits exports to Australia, which will, in turn, increase the demand for U.S. agricultural raw materials, packaging materials and numerous other products.

Australia is an extremely important market for the U.S. distilled spirits industry. U.S. distilled exports to Australia alone were valued at almost \$60 million, representing over 10 percent of global U.S. spirits exports and ranking Australia as the fourth largest export market for U.S. spirits products in 2003. Bourbon accounted for almost 83 percent, by value, of total U.S. spirits exports to Australia in 2003. According to data from the U.S. International Trade Commission, Australia ranked as the third largest market in the world for U.S. direct exports of Bourbon, the quintessential and totally unique American spirit, produced exclusively in the United States.

For Jim Beam Brands in particular, Australia is our largest and most important export market. In 2003, for example, sales of Jim Beam Bourbon in Australia accounted for \$50 million or 13 percent of our company’s total brand contribution. We sold nearly 600,000 cases of Jim Beam Bourbon and more than 4.6 million cases of pre-mixed Jim Beam & Cola or similar products. Our earnings in Australia have been growing at a rate of 8 percent per year, and volume has doubled in just the past five years.

The U.S. spirits industry strongly supports swift Congressional approval of the U.S. – Australia FTA because it will secure immediate duty-free access to one of the most important export markets for U.S. spirits products. Australia has agreed to eliminate its import duty (five percent *ad valorem*) on spirits products imported from the United States immediately upon the agreement’s entry-into-force. The elimination of this duty is estimated to save U.S. spirits companies approximately \$3 million annually (based on 2003 data) in duties paid and, as a result, will make U.S. spirits products more competitive in the Australian market. A five percentage point advantage is significant in the Australian market across the full range of spirits categories. However, it will have a particularly pronounced effect in the category of pre-mixed spirits products, also called ready-to-drink products or RTDs, such as whisky-and-cola,

where Jim Beam is the category leader. The RTD category is a product segment that competes principally on price and accounts for a significant volume of U.S. whisky exports to Australia, reflecting the tremendous – and growing – popularity of these products. In 1991, for example, total Australian consumption of RTDs was 3.3 million 9-liter cases. In 2003, estimated total consumption of RTDs was 30 million 9-liter cases, of which approximately 60% were imported.

Attached to this statement is the Distilled Spirits Council's quantitative analysis of the impact that the elimination of Australia's tariff will have on U.S. spirits exports. As the data show, we believe that the immediate elimination of Australia's tariff on U.S.-origin spirits would lead to an immediate 4.76% reduction in the price of U.S. spirits exports, which will lead to a 3.76% increase in volumes shipped, assuming (as is reasonable) that the price elasticity of demand in the Australian market is similar to that in the U.S. market. The incremental impact will be an increase in U.S. exports of 1.8 million proof liters – a growth that will continue over time. Over the 10-year period 2005-2014, we project that the elimination of Australia's spirits tariff will increase U.S. spirits exports to Australia by a cumulative total of almost \$56 million.

The elimination of Australia's spirits tariff also will level the playing field, since the United States has already eliminated its tariffs on nearly all distilled spirits products from all sources, including Australia. As a consequence, U.S. domestic producers will not face added competition in the U.S. market as a result of the agreement, since U.S. tariffs on nearly all spirits categories are already zero.

In addition to eliminating Australia's tariffs, the Agreement includes certain protections for the use of the terms Bourbon and Tennessee Whiskey. This recognition will ensure U.S. producers of genuine Bourbon and Tennessee Whiskey, as well as Australian consumers, that only spirits produced in the United States, in accordance with the laws and regulations of the United States, may be sold in Australia as Bourbon or Tennessee Whiskey. These are, by far, the United States' leading spirits exports.

In summary, Jim Beam Brands Co. and the entire U.S. distilled spirits industry enthusiastically support the U.S. – Australia FTA because it will secure immediate duty-free access to one of the most important export markets for U.S. spirits products. Exports will continue to fuel this industry's growth: since 1990, U.S. direct exports of distilled spirits worldwide have more than doubled. Total exports of U.S. spirits in 2003, in dollar terms, were 6.7% higher than in 2002. Between 1991 and 2003, U.S. spirits exports to Australia have grown by approximately 161 percent.

Jim Beam Brands and the Distilled Spirits Council appreciate this opportunity to provide our views. We hope the Congress will approve the Agreement at the earliest possible date.

U.S. Distilled Spirits Exports to Australia: Impact of Tariff Elimination

The elimination of Australia's five percent *ad valorem* tariff on spirits products imported from the United States, which will occur immediately upon the agreement's entry-into-force, will undoubtedly make U.S.-produced spirits more competitive in the Australian market. A five percentage point advantage is significant in the Australian market across the full range of spirits categories, and is expected to have a significant positive impact on U.S. spirits exports to Australia. U.S.-produced spirits compete head-to-head with spirits imported into Australia from other major spirits exporters, including, but not limited to, the United Kingdom, France, Italy, Canada, and Mexico, among others. U.S. spirits exports worldwide are dominated by Bourbon whiskey and Tennessee Whiskey, which compete directly with Scotch whisky and Irish whiskey, as well as with all other spirits categories. Indeed, market research conducted in the United States has shown that, for example, nearly half (48%) of all Scotch Whisky drinkers also drink Bourbon; 35% of all Cognac drinkers also drink Bourbon; and 30% of all vodka drinkers also drink Bourbon, demonstrating a high degree of substitutability (Simmons Market Research, Spring 2003).

a) Australian Export Market for U.S. Distilled Spirits

U.S exports to Australia of distilled spirits products have been increasing steadily in recent years, growing to nearly \$60 million in 2003.¹ In fact, the compound annual growth rate (CAGR) between 1996 and 2003, based on export value, was 6.5%. The more recent 2000 – 2003 period has shown an even more impressive 7.9% CAGR.

Table 1

Year	U.S. Distilled Spirits Exports to Australia - FAS Value					Total All Spirits
	Bulk Bourbon	Bottled Bourbon	Total Bourbon	Liqueurs & Cordials	Other	
1996	\$ 18,502,576	\$ 16,976,397	\$ 35,478,973	\$ 243,765	\$ 2,766,464	\$ 38,489,202
1997	\$ 22,124,684	\$ 18,579,463	\$ 40,704,147	\$ 834,098	\$ 1,834,762	\$ 43,373,007
1998	\$ 17,875,502	\$ 22,323,897	\$ 40,199,399	\$ 832,031	\$ 1,811,282	\$ 42,842,712
1999	\$ 19,469,968	\$ 21,739,542	\$ 41,209,510	\$ 210,689	\$ 4,071,822	\$ 45,482,021
2000	\$ 21,752,019	\$ 19,318,295	\$ 41,070,314	\$ 3,374,709	\$ 3,242,853	\$ 47,687,876
2001	\$ 25,845,495	\$ 19,045,290	\$ 44,890,785	\$ 5,749,578	\$ 4,171,922	\$ 54,812,285
2002	\$ 24,807,449	\$ 18,105,733	\$ 42,913,182	\$ 9,812,380	\$ 3,120,744	\$ 55,846,306
2003	\$ 28,307,300	\$ 21,140,432	\$ 49,447,732	\$ 7,176,816	\$ 3,217,023	\$ 59,841,571
CAGR 96 - 03	6.3%	3.2%	4.9%	62.1%	2.2%	6.5%
CAGR 00 - 03	9.2%	3.0%	6.4%	28.6%	-0.3%	7.9%

Distilled spirits exports are dominated by Bourbon, which accounts for nearly 83% of total spirits exports to Australia by value, or approximately \$49.4 million. In recent years, liqueurs and cordials have also grown in importance.

¹ All export figures were taken from U.S. Customs Service data prepared by the Census Bureau.

In volume terms, the U.S. exported 23.5 million proof liters² of distilled spirits products to Australia in 2003, 20.3 million of which was Bourbon.

Table 2

Year	U.S. Distilled Spirits to Australia - Proof Liters					Total All Spirits
	Bulk Bourbon	Bottled Bourbon	Total Bourbon	Liqueurs & Cordials	Other	
1996	7,798,633	2,906,940	10,705,573	19,437	1,165,805	11,890,815
1997	9,801,622	3,208,451	13,008,073	109,482	2,019,893	15,137,448
1998	7,926,350	3,418,410	11,344,760	412,099	694,330	12,451,189
1999	9,089,911	4,155,495	13,245,406	63,393	1,889,950	15,198,749
2000	11,029,909	3,311,612	14,341,521	911,257	3,529,987	18,782,765
2001	14,758,592	4,012,155	18,770,747	1,117,611	4,072,876	23,961,234
2002	14,525,940	4,731,930	19,257,870	851,994	2,196,868	22,306,732
2003	16,167,230	4,140,588	20,307,818	518,611	2,674,207	23,500,636
CAGR 96 - 03	11.0%	5.2%	9.6%	59.9%	12.6%	10.2%
CAGR 00 - 03	13.6%	7.7%	12.3%	-17.1%	-8.8%	7.8%

b) 2004 Projections

According to Distilled Spirits Council projections, total U.S. spirits exports to Australia are projected to grow to 25.5 million proof liters in 2004 (*see* Table 3). The Bourbon projections were made by assuming the CAGR over the 1996 – 2003 period, as shown in Table 2, would continue in 2004. The respective growth rates for both bulk Bourbon and bottled Bourbon (11.0% and 5.2%) appear reasonable when compared to the higher growth rates experienced over the more recent 2000 – 2003 period (13.6 % and 7.7%).

Exports of liqueurs and cordials and “other spirits” to Australia, however, have been much more volatile. Given this volatility, we assumed no change in export volume for liqueurs and cordials and the “other spirits” category.

Table 3

	U.S. Exports to Australia - 2004 Projected Proof Liters					Total
	Bulk Bourbon	Bottled Bourbon	Total Bourbon	Liqueurs & Cordials	Other	
2004 Projected Volume	17,942,386	4,355,271	22,297,657	518,611	2,674,207	25,490,475

For 2004, then, bulk Bourbon exports are projected at 17.9 million proof liters, bottled Bourbon 4.4 million proof liters and total spirits exports to Australia at 25.5 million proof liters.

c) Value of Exports per Liter

After several years of decline, the value per liter of both bulk and bottled Bourbon exports increased in 2003, with bulk exports rising to \$1.75/ proof liter and bottled Bourbon to \$5.11. The value of liqueurs and cordials continued to increase.

² A proof liter is defined as 1 liter containing 50% by volume of ethyl alcohol.

Table 4

Value of U.S. Distilled Spirits Exports to Australia- Per Proof Liter							
Year	Bulk Bourbon	Bottled Bourbon	Total Bourbon	Liqueurs & Cordials	Other	Total All Spirits	
1996	\$ 2.37	\$ 5.84	\$ 3.31	\$ 12.54	\$ 2.37	\$ 3.24	
1997	\$ 2.26	\$ 5.79	\$ 3.13	\$ 7.62	\$ 0.91	\$ 2.87	
1998	\$ 2.26	\$ 6.53	\$ 3.54	\$ 2.02	\$ 2.61	\$ 3.44	
1999	\$ 2.14	\$ 5.23	\$ 3.11	\$ 3.32	\$ 2.15	\$ 2.99	
2000	\$ 1.97	\$ 5.83	\$ 2.86	\$ 3.70	\$ 0.92	\$ 2.54	
2001	\$ 1.75	\$ 4.75	\$ 2.39	\$ 5.14	\$ 1.02	\$ 2.29	
2002	\$ 1.71	\$ 3.83	\$ 2.23	\$ 11.52	\$ 1.42	\$ 2.50	
2003	\$ 1.75	\$ 5.11	\$ 2.43	\$ 13.84	\$ 1.20	\$ 2.55	
Avg. 96 - 03	\$ 2.03	\$ 5.36	\$ 2.88	\$ 7.46	\$ 1.58	\$ 2.80	
Avg. 00 - 03	\$ 1.80	\$ 4.88	\$ 2.48	\$ 8.55	\$ 1.14	\$ 2.47	

d) Incremental Impact of Tariff Elimination

Eliminating the Australian import tariff would lead to an immediate 4.76% reduction in the price of U.S. spirits exports to Australia. Assuming that the price elasticity of demand in the Australian market is similar to the U.S. market, the 4.76% reduction in price will lead to a 3.76% increase in volume.³

Table 5

Incremental Impact of Tariff Elimination - 2005						
	Bulk Bourbon	Bottled Bourbon	Total Bourbon	Liqueurs & Cordials	Other	Total All Spirits
Volume (Proof Liters)	674,705	163,776	838,481	19,502	100,561	1,797,025
Revenue	\$ 1,181,346	\$ 836,182	\$ 2,041,627	\$ 269,877	\$ 120,973	\$ 4,450,005

Applying the 3.76% volume increase to the projected 2004 export volumes shows that the incremental impact on U.S. spirits exports to Australia will be nearly 1.8 million proof liters.

To estimate the value of these incremental exports, the 2003 value per proof liter was multiplied by the incremental volume. The incremental value of the exports is projected to be nearly \$4.5 million in 2005.

³ The U.S. Joint Committee on Taxation uses a price elasticity of -0.79. We believe that this is a conservative figure. A more recent analysis by HSBC Securities estimated the figure at -1.24. See "U.S. Alcohol Taxes: Gone But Not Forgotten," HSBC, June 1, 2003.

Table 6

10 Year Incremental Impact of Tariff Elimination

Year	Volume (Proof Liters)	FAS Value
2005	1,797,025	\$ 4,450,005
2006	1,886,876	\$ 4,672,506
2007	1,981,220	\$ 4,906,131
2008	2,080,281	\$ 5,151,437
2009	2,184,295	\$ 5,409,009
2010	2,293,510	\$ 5,679,460
2011	2,408,185	\$ 5,963,433
2012	2,528,595	\$ 6,261,604
2013	2,655,024	\$ 6,574,684
2014	2,787,775	\$ 6,903,419
Total	22,602,786	\$55,971,688

Naturally, tariff elimination will impact U.S. exports on an on-going basis. Since volume is expected to continue to grow, Table 6 shows the projected impact of tariff elimination over the next 10 years.⁴ Over the 10 year period 2005-2014, tariff elimination is projected to increase U.S. spirits exports to Australia by a cumulative total of nearly \$56 million. Some of this gain will be reflected as an increase in market share for distilled spirits vis-à-vis beer, a trend that began in 2000 when Australia began to harmonize the excise tax for ready-to-drink products (RTDs) and certain categories of beer. Currently, the excise tax for RTDs is the same as the rate that is assessed on packaged beer in excess of 3% alcohol by volume.

e) Ready-to-Drink Products

The category of pre-mixed spirits, also called ready-to-drink products (RTDs), is a major and rapidly growing segment of the Australian distilled spirits market. According to the Liquor Merchants of Australia (LMA), for the period February 2003 through February 2004, the RTD category totaled over 28.9 million 9-liter cases, representing approximately 82.3%, in volume terms, of the total spirits market in Australia.

As stated above, the RTD category is a category that competes principally on price and accounts for a significant volume of U.S. distilled spirits exports to Australia. By volume, U.S. exports of bulk Bourbon in 2003 totaled 16.2 million proof liters, accounting for 69% by volume of total U.S. distilled spirits exports to Australia, and nearly 80% of total exports in the Bourbon and Tennessee Whiskey category. Some of the bulk Bourbon is bottled in Australia and sold as Bourbon. But the majority is used to produce RTDs. According to LMA, Bourbon-based RTDs accounted for approximately 43.6% (12.6 million 9-liter cases) of the total RTD market in Australia, representing, by far, the largest segment within the RTD category. The elimination of the five percent tariff will help ensure that Bourbon-based RTDs will retain a strong and growing position in this important market segment.

⁴ A conservative growth rate of 5% was used for both value and volume.

Written Statement for the Record
Before the Committee on Finance
United States Senate
Regarding the U.S.-Australia Free Trade Agreement
David Reisenbigler
President
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June 15, 2004

Erie Foods is a privately-held, family-owned American company which has been in business in Erie, Illinois since 1938. Erie Foods strongly supports the U.S.-Australia Free Trade Agreement.

The Reisenbigler family started this business, and in the early years, manufactured casein in Erie and other locations in the United States, supplying these materials for a variety of industrial applications. Erie Casein (as it was then known) grew to become one of the largest manufacturers of casein in the country. But the domestic manufacture of casein was abruptly halted in 1949 when Congress passed the Agricultural Adjustment Act. This forced Erie Casein out of casein production, and we sent equipment and technology to other locations – including Australia – to redevelop sourcing. One of the first companies that Erie Casein worked with ultimately became part of the Australian agricultural cooperative Murray Goulburn. Some 50 years later, Erie Foods and Murray Goulburn continue to work closely together. Although we were nearly put out of business by the Congress years ago, we have survived and grown through the years and currently have approximately 100 hard-working full-time employees at our Illinois facilities. Many other businesses in and around our plant locations rely heavily on our support for their livelihood including suppliers of raw materials, bags, and electrical and plumbing services.

The key to Erie's continued success has been the ability to respond quickly to customer demand in the areas of new product development. Developing foods that meet the nutritional needs of

consumers continues to be the focus of food scientists in the 21st Century. As these needs continue to evolve, our product line is designed to offer options to our clients, so that they can continue to be creative in creating new consumer products with unprecedented nutritional advantages.

Although the markets and uses of casein, caseinates and MPC's have evolved through the years, nearly all of their applications continue to depend on specific functional and nutritional characteristics. MPC's can be produced in many ways, but Erie deals principally in the more sophisticated and expensive ultra-filtrated, higher protein MPC's. Erie and Murray Goulburn decided together several years ago to concentrate on the higher protein ultra-filtrated products, as we felt this avenue represented the best approach for becoming value-added suppliers.

Today, Erie only imports Australian MPC's with a 75% and higher protein level from Murray-Goulburn. Over the last 10 years, we have focused our efforts in the functional food and nutritional areas. In fact, in 2002, 15 of our 20 largest clients used our products in health and nutritional applications.

If there were no long-term increase in value for these specialty higher-protein MPC's, Murray Goulburn would not produce them, as they require more difficult processing configurations and monitoring than such products as basic nonfat dry milk and whole milk powder. Our clients for the health and nutritional applications have a number of options to consider when developing their specific formulations and finished products. If not for the functional, nutritional and other attributes associated with these specialty MPC's, our clients would not consider them in their food systems.

The future is bright for these high protein specialty MPC's as we continue to focus attention on addressing general healthcare issues in the United States. The ability to offer not only MPCs but also a variety of fractionated milk proteins as an extension of these materials will be necessary in order for us to meet the growing needs of our clients, who continue to develop milk-protein-enhanced finished products. The U.S.-Australia Free Trade Agreement will ensure that we will be able to continue importing high-quality Australian MPC's in the future.



National
Corn Growers
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Statement of Dee Vaughan
President

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Senate Committee on Finance
"U.S.-Australia and U.S.-Morocco Free Trade Agreements"

June 15, 2004

Chairman Grassley, Ranking Member Baucus and members of the Committee. We would like to thank the Committee for giving us the opportunity to submit a statement regarding the U.S.-Morocco and U.S.-Australia Free Trade Agreements.

The National Corn Growers Association (NCGA) was founded in 1957 and represents more than 33,000 dues-paying corn growers from 48 states. The Association also represents the interests of more than 350,000 farmers who contribute to corn checkoff programs in 19 states.

NCGA's mission is to create and increase opportunities for corn growers in a changing world and to enhance corn's profitability and use. Trade is vital to the future of corn growers as we search for new markets and provide grain that is more abundant and of better quality.

The National Corn Growers Association and sister organization, the U.S. Grains Council, support the Morocco Free Trade Agreement (FTA). Along with the Central America Free Trade Agreement (CAFTA), the Morocco FTA will provide new opportunities and an expanding market for U.S. feed grains. More so than any time in the past, corn producers operate in a competitive international marketplace. For this reason, free trade agreements have never been more essential to the future success of our industry.

The feed grains industry has been active in building markets in Morocco and the sector is already benefiting from strong economic ties between the two countries. Morocco is primarily a bulk commodity market with corn being the largest component of that trade.

In 2002, Morocco imported 1.1 million metric tons of corn, 63 percent originating from the United States. However in 2003, U.S. market share declined to about ten percent due to increased competition from Argentina, Brazil and Eastern Europe. This decline was only a temporary phenomenon due to abundant world grain stocks in 2002. The world grain situation in 2002 saw abnormally high feed wheat and corn stocks being exported from Eastern Europe and ongoing economic turmoil in Argentina.

Fortunately, U.S. market share is returning to normal in 2003 and 2004 as feed grain stocks have returned to their normal levels. In 2003, Morocco imported 330,819 metric tons of U.S. corn, making it the 17th largest market for U.S. corn exports. The U.S. Grains Council projects this market will continue to grow over the next ten years, with additional demand for feed grains of 1.2 million metric tons by the year 2011.

Driving Morocco's feed grain demand is poultry production, the fastest growing meat production sector in Morocco. In 2003, total broiler production was 245,000 metric tons (plus 12,000 metric tons from spent laying hens and breeders and 50,000 from backyard chicken production) and total egg production was 2.35 billion (plus 800 million eggs from backyard production). Per capita consumption of eggs is 105 per year and poultry meat is 10.2 kilograms. During 2003, the poultry sector consumed approximately 825,000 metric tons of corn. There is further room for growth in the poultry sector, as the cost of producing chicken meat in Morocco is one of the highest when compared to other middle-income countries. In addition, corn is no longer seen as a viable crop for production in Morocco due to the large amounts of water it consumes and the fact that domestically produced corn is extremely expensive compared to international prices.

Morocco's beef sector has remained stagnant over the past twelve years, with an annual production level of 150,000 metric tons of beef. Production levels of red meat would have to increase to 512,000 metric tons by the year 2020 to keep up with population growth, given the per capita consumption of 4.3 kilos per year. This level of production can only take place through intensive feeding of a larger number of animals with access to low cost feed grains.

Although Morocco represents a valuable market to U.S. corn growers, high tariffs remain a significant barrier to U.S. exports. The current tariff system in place operates much like a variable levy – when the world price goes up, the overall percentage charged on the value of the corn shipment goes down; and when the world price goes down, the percentage goes up. For example, if a shipment of U.S. corn is valued at \$150 CIF, the first \$80 is assessed an *ad valorem* tariff of 35 percent, while the other \$70 for the amount above \$80 is assessed a duty of 2.5 percent. This gives little incentive for importers to seek the best world price or the most optimal combination of feed ingredients.

The reduction and elimination of tariffs on U.S. feed grains will benefit corn growers upon implementation and in the future. The reduction in tariffs will provide lower feed costs to the Moroccan poultry and livestock industries which will allow further overall expansion of the Moroccan market for feed grains. In addition, the lower tariffs applied to U.S. feed grains versus the most favored nation (MFN) rates that competitor countries will continue to face will allow the United States to capture a larger portion of that important growth market.

The Morocco FTA cuts the tariff on U.S. corn initially in half (to 17.5 percent for lower value per ton shipments based on its reference price system), and then proceeds to zero by year six based on linear reductions. This provides a significant advantage to U.S. exporters and could potentially allow them to capture near 100 percent of the Moroccan market. The duty-free corn would save the Moroccan poultry and livestock industries approximately \$30 million per year based on current imports and applied duties.

While the Morocco FTA will directly benefit corn growers, the importance of the Australia agreement remains to be seen. Under the U.S.-Australia FTA, all U.S. agricultural exports to Australia, totaling more than \$400 million, will receive immediate duty-free access. The U.S. feed grain sector sees little to gain in this agreement since applied rates for feed grain imports are already zero. Our immediate concern, however, is the treatment of sensitive commodities. The National Corn Growers Association believes all commodities need to be part of a final agreement and should not be excluded during the negotiation phase. Exceptions in one agreement will likely lead to exceptions in future agreements that will adversely impact the export potential of crops like corn.

The most significant barrier for U.S. corn growers to the Australian market is the stringent quarantine requirements imposed by Biosecurity Australia (BA) and the Australian Quarantine and Inspection Service (AQIS). These quarantines are meant as a shield against the incursion of exotic weeds and pathogens associated with grain production. However, these requirements drive up the cost of U.S. corn to the point where they can only be competitive in the most extreme drought conditions, as existed in 2002. Even under those marketing conditions, the United States was able to export only approximately 50,000 metric tons of corn.

Potential initiatives to satisfy the sanitary and phytosanitary requirements are underway, but an agreeable solution remains elusive in the near term. Our organization along with the U.S. Grains Council will continue working with the United States Trade Representative and the Department of Agriculture towards a satisfactory agreement.

In conclusion, the National Corn Growers Association remains committed to an aggressive trade agenda and bilateral free trade negotiations. The Morocco FTA is one such example that will expand markets and foster long-term growth. However, U.S. agriculture needs to ensure the Administration selects partners that represent significant future potential for economic activity and trade.

Mr. Chairman, corn growers in Iowa and across the country appreciate your commitment and leadership on this and other issues important to U.S. agriculture. We appreciate the opportunity to comment and please do not hesitate to contact us if we can be of assistance in any way.



**Statement of
Mr. Robert Carlson
President
North Dakota Farmers Union
On behalf of the
National Farmers Union**

**To the
Senate Finance Committee**

**Concerning the
U.S.-Australia Free Trade Agreement**

June 15, 2004

Chairman Grassley, Ranking Member Baucus, members of the Senate Finance Committee, I am Robert Carlson, a farmer from North Dakota. I also serve as president of the North Dakota Farmers Union and I am the chairman of the National Farmers Union (NFU) Legislative Committee. On behalf of the NFU, I am pleased to provide the following statement for the hearing record concerning the proposed free trade agreement between the United States and Australia (AFTA).

The NFU is a general farm organization that represents the public policy interests of its family farmer and rancher members from across the nation. My comments address a number of concerns the NFU has pertaining to the likely impact of the agricultural provisions of the agreement on U.S. farmers and ranchers. By way of background, I would like to make some general observations to preface the discussion of specific sectoral concerns about the agreement as they relate to production agriculture.

Background –

Any discussion of U.S. agricultural export opportunities with Australia must acknowledge several key factors:

- 1) Australia is a surplus producer and competitive exporter of many of the same commodities that comprise major components of U.S. production, domestic consumption and exports.
- 2) As a relatively small and mature agricultural market in terms of population growth and personal incomes, expanded demand potential for agricultural products in Australia is very limited. Compared to our individual states, Australia would rank third in population and sixth or seventh in gross domestic product.
- 3) Because of Australia's geographic location many other suppliers to the limited agricultural import market in Australia have a substantial competitive transportation advantage over U.S. farm exports.
- 4) Over the last several years, the Australian dollar has traded at a discount to the U.S. dollar which acts as an import barrier to U.S. agricultural products and provides an effective discount on their sales to the U.S. For 1990 the average annual real trade weighted exchange rate of the Australian dollar was \$1.212 per U.S. dollar. For the 2000-2003 period the average exchange rate was \$1.725. This level of variability in exchange rates strongly suggests the U.S. may face future difficulties in accessing the limited Australian agricultural import market while Australia's ability to compete in our domestic market can be enhanced.

As a result of these and other factors, over the last 10 years our imports of agricultural products from Australia, over 98 percent of which are classified as competitive imports by USDA, have more than doubled. U.S. agricultural exports to Australia have risen by only 50 percent. Our agricultural trade deficit with Australia has grown from \$577 million in 1994 to over \$1.5 billion for calendar year 2003.

Wheat –

Although the Australian Wheat Board (AWB) has become less a direct arm of the federal government in recent years, it still operates as a State Trading Enterprise (STE), and as such, does not engage in the competitive procurement of the grain it sells. This system conveys a substantial competitive advantage to the AWB, allowing it to engage in differential pricing to its overseas customers. This compares to the U.S. marketing system where grain is typically purchased by merchandisers on the basis of replacement cost in a relatively transparent market.

Rather than address this issue in the FTA, trade negotiators agreed to consider potential disciplines on the AWB and other STE's as part of the World Trade Organization (WTO) negotiations. Similar commitments to address government sponsored merchandising operations in global trade discussions were made during the North American Free Trade Agreement (NAFTA) negotiations with Canada. To this day these issues remain unresolved. For our wheat producer members this agreement has

failed to adequately address the level of discipline and disclosure that should be required of State Trading Enterprises in order to better ensure fair market competition.

Sanitary/Phytosanitary Issues –

Australia has maintained a system of health, safety and quarantine measures that have effectively reduced market access and provided border protection for their domestic producers of a number of commodities including pork, fruits, nuts and vegetables. In many instances, these regulations are far more trade limiting than the application of tariffs and quotas. However, rather than establishing a fixed timeframe for the removal of those measures that cannot be justified by science, the agreement provides for the creation of a working group process to review the provisions.

Under NAFTA, the U.S. and Canada were to harmonize and/or achieve a reduction in a variety of agricultural border measures. As has been the case with the STE issue, little progress has been made in the decade since the trade agreement was ratified. Given the reported promises made by Australian trade officials to those concerned about these issues in Australia, it must be expected that any process which reduces their ability to control agricultural imports through these measures will meet great domestic resistance and is therefore likely to take a considerable amount of time and effort before substantive change is realized.

Beef –

Since 1994, the importation of beef and veal products from Australia has grown by about 50 percent. In 2003, the value of those imports represented over 42 percent of all U.S. agricultural imports from Australia and accounted for more than one-third of total value of all U.S. beef and veal imports.

The proposed agreement provides for a phase out of above quota duties over an 18-year period. It also provides an initial increase in quota of about .17 percent of U.S. beef production which amounts to approximately 45 million pounds after three years or when U.S. beef exports return to their 2003 pre-BSE levels whichever comes first.

The agreement also provides the U.S. the option to impose a quantity-based safeguard in the form of additional duties for years 9-18 of the agreement if the volume of imports exceeds a specified level. Beginning in year 19, the U.S. may impose a price-based safeguard in the form of additional duties if the monthly average index price is 6.5 percent less than the average of the previous 24 monthly average index prices.

While the phase-in levels for increased beef imports under the tariff rate quota appears modest, the cumulative effect over the first 9 years of the agreement could amount to approximately 250-400 million pounds of additional beef imports even if we do not regain the beef export markets lost as a result of BSE. In and of itself, this could have a significant market impact on not only U.S. beef producers but also American dairy farmers who generate 20-25 percent of their gross income from the sale of dairy cattle for

slaughter. In addition, such an extension of increased quota is likely to set a precedent for other competitors to seek additional market access in existing or future bi-lateral negotiations compounding the negative impact on the U.S. cattle sector. By the time the safeguard mechanisms contained in the agreement are available, much irreparable economic damage to this sector will have already occurred.

Dairy –

Over the last decade, the farm-gate value of U.S. dairy production has ranged between \$20-25 billion annually and our production, excluding trade in dairy products has closely matched domestic utilization. However, the surge of imported dairy products that occurred during the last five years contributed substantially to the lowest U.S. farm level prices since the farm crisis of the 1970's and resulted in producers recovering only 70-80 percent of their cost of production from the end of 2001 through mid-2003.

Two issues related to the proposed FTA pose a real threat to the U.S. dairy production industry – imports of casein and milk protein concentrates and the expansion of market access for other dairy products from Australia.

In the case of caseins and other milk protein concentrates (MPC), the FTA failed to begin the process of correcting an important omission in the Uruguay Round Agreement on Agriculture (URAA). Because casein and MPCs were considered industrial rather than food products, no TRQ's were established for these dairy components. In 2003, the U.S. imported about \$500 million worth of these products. Nearly 12 percent of that amount originated from Australia and represent about two-thirds of their total dairy exports to the U.S. There is nothing in the FTA that provides any limits or safeguards against expanded imports of these products or any new dairy product derivatives that may be developed in the future even though processors may adjust the protein level of nonfat dried milk (NFDM) to avoid existing TRQ's on those products. It should be expected that Australia and other exporters will continue to utilize this gaping hole in our trade commitments to further displace domestic NFDM in a wide range of food products.

The proposed FTA also includes additional in-quota market access of 17/100 of one percent of the value of domestic production for dairy products subject to existing TRQ's. While this may seem to be an inconsequential amount, if the quota is filled, it represents \$40-45 million of new market displacement from a single country and is equivalent to the production of about 15,000 dairy cows per year.

After the first year of the agreement, the duty free quota for other major categories of imported dairy products expands by an average of about 5 percent compounded annually, while tariff levels on over quota imports declines until 2030 when the duties are eliminated. Because the issue of transshipment was not addressed in the FTA, the potential exists for Australia to become a platform for expanded dairy exports from third countries such as New Zealand.

Currently a large New Zealand dairy cooperative, Fonterra, not only defines Australia as part of its domestic market but is also seeking a merger with Bonlac Foods of Australia. The U.S. is already Fonterra's largest foreign market. The combination of a large merger, increased market access in the U.S. and the lack of safeguard measures and transshipment restrictions strongly suggests Fonterra's exports to the U.S. could grow substantially. The potential for additional market penetration and displacement provided in the agreement poses a grave and unacceptable short and long term economic threat to U.S. dairy producers

In conclusion, the National Farmers Union fails to see how the U.S.-Australia Free Trade agreement provides any meaningful export sales or economic opportunities for American farmers and ranchers while it poses a substantial competitive threat to a number of domestic agricultural production sectors.

It appears to us that once again, the interests of the American farmer have been traded away to achieve economic gains for non-agricultural sectors as well as those engaged in other agricultural pursuits who benefit from a "Darwinian" level of competition designed to ensure market supplies of agricultural commodities continue to overwhelm commercial demand.

Thank you for the opportunity to present this statement for the hearing record of the Senate Finance Committee.



Statement of the U.S. Chamber of Commerce

ON: "BENEFITS OF THE UNITED STATES-
AUSTRALIA FREE TRADE AGREEMENT"

TO: SENATE COMMITTEE ON FINANCE

BY: R. BRUCE JOSTEN

DATE: JUNE 15, 2004

The Chamber's mission is to advance human progress through an economic,
political and social system based on individual freedom,
incentive, initiative, opportunity and responsibility.

**Statement of R. Bruce Josten
Executive Vice President
Government Affairs
United States Chamber of Commerce**

Benefits of the U.S.-Australia Free Trade Agreement

**Senate Committee on Finance
June 15, 2004**

The U.S. Chamber is a strong supporter of the U.S.-Australia FTA, which will slash trade barriers for U.S. exports, enhance protections for U.S. investment in Australia, and enhance the competitiveness of American companies in the global economy. We see this agreement as a significant step toward advancing trade and economic prosperity with one of America's most important allies in Asia. The Chamber is a steering committee member of the American-Australian FTA Business Coalition, and has been working to inform lawmakers about the merits of the accord and build bipartisan support for its approval. We hope to see the Congress pass the U.S.-Australia FTA at the earliest possible opportunity and without unnecessary linkage to other measures.

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses of every size and in every business sector. Its members have considerable interest in the development of U.S.-Australia commercial ties and efforts to further open markets in the Asia-Pacific region.

Australia and the United States have a strong economic relationship that includes \$26 billion of U.S. investment to Australia and \$24 billion of Australian investment into the United States. Bilateral trade between the United States and Australia reached over \$28 billion last year. Australia is the 13th largest export market for U.S. goods. The United States enjoys a \$6 billion trade surplus in goods and services with Australia, the largest surplus that the United States has with any country in the world. U.S. manufactured goods exports to Australia support more than 160,000 jobs in America.

Australia shares many of America's views on global trade liberalization. The U.S.-Australia FTA will contribute to our shared global and regional trade liberalization objectives and serve as a barometer for other countries in Asia that are interested in completing an FTA with the United States.

The FTA with Australia will further anchor U.S. competitiveness in the Asia-Pacific region, where Australia is already actively engaged in negotiating trade agreements. Australia has implemented a free trade agreement with Singapore and New Zealand and is negotiating with Thailand. Both the U.S. and Australia are active members of the Asia-Pacific Economic

Cooperation (APEC), an organization of 21 economies that is pursuing trade and investment liberalization in the Asia-Pacific region.

In short, once implemented, the FTA with Australia will bring tangible commercial benefits to American companies, workers and consumers. It will offer American companies greater access to Australia's market and increase our competitive position in the region. Below are some details of the specific benefits for U.S. companies as a result of the U.S.-Australia FTA.

Broad Benefits of the FTA to U.S. Companies

Throughout the negotiation process, the U.S. Chamber remained in close communication with the Administration and it is pleased that many of its priorities have been addressed in the final FTA package. Below is a summary of how the final FTA package compares with the Chamber's negotiating objectives.

I. General Provisions

- **Trade in Goods.** The FTA will immediately eliminate tariffs on over 99 percent of U.S. exports of consumer and industrial goods to Australia. This is a significant achievement as manufactured goods comprise over 90 percent of U.S. merchandise exports to Australia. The U.S. Chamber is pleased that the provisions on trade in goods are consistent with its objectives and the Trade Promotion Authority Act (TPA). Once the agreement goes into effect, tariff elimination will bring tangible benefits to U.S. exporters.
- **Investment.** The provisions in the Investment Chapter include high standard protections for U.S. investment in Australia. Once the FTA is implemented, Australia will be required to provide increased protection for all forms of investment under the "negative list" approach (full market access for all service providers unless specified in the negative list). The U.S. Chamber is also pleased that Australia agreed to raise the threshold for screening acquisitions by U.S. investors to A\$800 million. We note the absence of the investor-state dispute settlement provisions. In the view of the Chamber, the investment provisions are important to U.S. companies. The Chamber urges that future FTAs have even stronger protection and benefits for U.S. investors.
- **Government Procurement.** Under the agreement, Australia agreed to allow U.S. firms to bid for Australian central government contracts. As Australia is not a signatory to the WTO Government Procurement Agreement, this will give U.S. firms a significant advantage over competitors who are not afforded similar treatments. Australia also agreed to no longer subject U.S. firms to local manufacturing and local content requirements. The Chamber looks upon these steps as favorable as they should lead to more business opportunities for U.S. companies.
- **Customs Procedures and Rules of Origin.** The FTA contains specific obligations on transparent and fair procedures in customs administration, and sets forth commitments for

Australia to improve its customs clearance process for express delivery shipments. The Chamber sought these commitments and endorses these provisions as a means to help eliminate cumbersome customs procedures and expedite the entry of U.S. products into Australia.

- **Intellectual Property Rights (IPR).** The IPR chapter in the FTA represents an improvement on the already state-of-the-art Singapore FTA, by including, for example, stronger protection for registered trademarks. It should serve as a benchmark for future FTAs with other countries in the Asia-Pacific region. Once put into practice, the FTA will require a higher degree of protection of patents, trademarks, copyrights, and Internet domain names. The U.S. Chamber endorses the IPR chapter as a significant step forward in protecting U.S. IPR rights in Australia.

II. Trade in Services

According to the U.S. Bureau of Labor Statistics, the U.S. services industry accounts for over 80% of Gross Domestic Product (GDP) and employment in the United States, and contributes significantly to the U.S. economy. The U.S. Chamber is generally satisfied with the negotiated provisions of the chapters pertaining to services (Chapter 10 on Cross Border Trade in Services, Chapter 12 on telecommunications, Chapter 13 on Financial Services and Chapter 16 on Electronic Commerce) as they advance the market access goals of U.S. services industries under the "negative list" approach. Services sectors that will benefit from the FTA with Australia include advertising, architecture, asset management services, audiovisual services, computer and related services, education services, electronic commerce, express delivery services, financial services and vessel repair.

The U.S. Chamber hopes the Congress will not delay in passing this important agreement. We oppose efforts to combine congressional consideration of the U.S.-Australia FTA with other FTAs in ways that would slow down this agreement's passage and delay the benefits that American companies are counting on.

WORC

Western Organization of Resource Councils

June 11, 2004

Dear Senator

Enclosed, please find testimony submitted by WORC (Western Organization of Resource Councils) to the Senate Finance Committee regarding the U.S.-Australia Free Trade Agreement.

For the reasons outlined in our testimony, WORC urges you to reject this trade agreement and vote "No" when its implementing legislation comes up for a vote.

WORC is a regional network of seven grassroots community organizations including Dakota Resource Council in North Dakota, Dakota Rural Action in South Dakota, Idaho Rural Council, Northern Plains Resource Council in Montana, Oregon Rural Action, Powder River Basin Resource Council in Wyoming and Western Colorado Congress. Those groups include 8,750 members and 49 local chapters. WORC helps its member groups succeed by providing training and coordinating issue work.

Sincerely,



Gilles Stockton
WORC Trade Team Chair
P.O. Box 182
Grassrange, MT 59032
(406) 428-2183

WORC

Western Organization of Resource Councils

**Testimony by WORC Chair Reed Kelley and WORC
Trade Team Chair Gilles Stockton
Statement before the Senate Finance Committee
For Hearing on Implementation of the United States-
Australia Free Trade Agreement
Tuesday, June 15, 2004**

Senate Committee on Finance
Rm. SD-203
Dirksen Senate Office Bldg.
Washington, DC 20510-6200

On behalf of WORC -Western Organization of Resource Councils, we are submitting comments to the Senate Committee on Finance regarding the U.S.-Australia Free Trade Agreement.

WORC is a regional network of seven grassroots community organizations including Dakota Resource Council in North Dakota, Dakota Rural Action in South Dakota, Idaho Rural Council, Northern Plains Resource Council in Montana, Oregon Rural Action, Powder River Basin Resource Council in Wyoming and Western Colorado Congress. Those groups include 8,750 members and 49 local chapters. WORC helps its member groups succeed by providing training and coordinating issue work. Many of our members are family farmers and ranchers.

There are at least three serious flaws in the Australia trade agreement. First, this agreement threatens family farming and ranching, businesses dependent on agriculture, and rural communities. Second, it gives too much economic power to multi-national corporations. Finally, the negotiation and ratification process is unfair and undemocratic. If passed, this agreement will have disastrous consequences for many farmers, ranchers, small businesses, and rural communities.

The U.S.-Australia Free Trade Agreement is anything but free for America's ranchers and rural communities. In fact, it will cost these communities greatly. This agreement offers no protection for agriculture and the communities and states that rely on agriculture as a major part of their economies.

Australia is already accelerating agricultural trade with the U.S. and currently exports beef, lamb and sheep at rates above its quota, despite tariffs. Reducing and dropping tariffs through a trade agreement with Australia is not necessary to ensure trade between the two countries.

In the case of beef, the 18-year phase out of beef and cattle tariffs will steadily increase imports of beef to the detriment of the U.S. cattle production industry. Under the agreement, Australian beef imported below the Tariff Rate Quotas (TRQ) would not be tariffed, and that TRQ will increase steadily for 18 years. Beef exceeding the TRQ would continue to be tariffed until year 18 when all tariffs and quotas will expire. The result will be the slow demise of the U.S. cattle producer.

Australia has continued to build its beef herds and is a net exporter of beef. Because Australia now produces more beef than it consumes, there is no opportunity for U.S. producers to develop an export market to Australia. The loss of U.S. domestic markets due to increased beef imports will result in lost jobs for ranchers. When ranchers are driven out of business, the communities they support also suffer. This trade agreement in short will outsource ranchers to Australia, eliminating jobs for others who rely on the American rancher for their economy.

We note that as part of the authorization given to the President to negotiate free trade agreements in the Trade Act of 2002, Congress mandated that the special needs of perishable and cyclical agriculture be taken into account and that special rules be negotiated [19 U.S.C. 3802(10)(A)(ix), (x); 3802(10)(B)(i)]. As reflected in the Senate Colloquy between Senators Enzi, Daschle, Grassley and Baucus, cattle and beef are included within the term "perishable and cyclical agriculture" for purposes of the statute 148 Cong. Rec. S4800 (daily ed. May 23, 2002). We are very troubled that there does not appear to be any recognition of the special needs of cattle and beef trade in this U.S.-Australia agreement and certainly no special rules to deal with rapid declines in prices or rapid increases in volumes.

In addition, the "lengthened phase out periods" are not a solution to the problems agriculture faces in this agreement. "Phase outs" do not address the needs of family agricultural producers and only prolong the problems posed in this agreement.

Other sectors of rural economies will also be hurt under this agreement. Most lamb and sheep meat tariffs will end immediately. The remaining lamb and sheep meat tariffs will phase out over four years. This creates even easier access for an Australian product, which has already devastated the U.S. sheep rancher.

Although there will be no changes in the tariff on Australian dairy products that are above the TRQ, there will be an increase in the quota allowed into the U.S. The agreement allows access to dairy products previously excluded from the U.S. market, such as certain cheese, butter, milk, cream, and ice cream products.

Tariffs on wheat and cereal flour mixes will end. Although not currently a large wheat exporter to the US, Australia is developing its durum market. In addition, all Australian wheat is bought, sold, and controlled through the Australian Wheat Board. This structure does not allow for an open, competitive and transparent market system.

This agreement would also intensify the existing problems of concentration within both American and Australian multi-national food suppliers. Many multi-national agri-conglomerates have investments in both countries. For example, Swift and Co. owns Australia's largest meat processor, Australian Meat Holdings. Swift and Co. is also the second largest meat packer and procurer of beef in the U.S.

The U.S.-Australia Free Trade Agreement would amplify the ability of these multi-national conglomerates to drive down prices to farmers and ranchers in both countries. Multi-national corporations are global traders, whose only allegiance is to their profit. They exploit both importing and exporting countries at the cost of beef producers and the consumers. In the case of beef, these corporations are expected to use international shipments of captive supplies, cattle owned or controlled by those companies, to manipulate the prices paid for both Australian and U.S. cattle. Without enforcement of anti-trust laws, ensuring that cattle are bought and sold in an open public manner, companies like Swift and Co. are able to drive beef prices down in both the U.S. and Australia. This results in more and more independent producers forced out of business.

Negotiating trade agreements, like the U.S.-Australia Trade Agreement, largely happens behind closed doors. Very few people participate, but the chosen few essentially lock in entire business sectors. The very people these agreements impact the most, for all practical purposes, have no voice in this process.

In addition, Congress gave away, through the Trade Promotion Authority Act (Fast Track), its constitutional responsibility to advise and consent on all treaties with foreign governments. The result is that our organizations and members have very limited opportunities to influence this harmful treaty and its impacts on our livelihoods and communities.

We believe that American trade policy should strengthen, not weaken, the public health, environment, food sovereignty, working conditions, labor rights, and transparent, competitive market principles of this country and all countries. This trade agreement violates these principles. Furthermore, this trade agreement with Australia will result in lost jobs for Americans. Imports of Australian agricultural products will drive family farmers and ranchers out of business, forcing them to look for jobs outside of agriculture. The rural communities that rely on these farmers and ranchers for their economy will also lose the jobs that are maintained by agriculture.

For all of these reasons, we respectfully request that you reject the Australian Free Trade Agreement.

Sincerely,



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